Center for American Progress

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Current Patterns and Future Opportunities

Mapping Chinese Direct Investment in the U.S. Energy Economy

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Introduction and summary

When China's double-digit economic growth rates first began to affect global oil markets in the early 2000s, the energy sector appeared on track to become a new source of U.S.-China strategic competition, distrust, and potential conflict. On the U.S. side, many observers feared that China's rising oil demands would strain global resource supplies, make it harder and more expensive for the United States to secure its own supplies, and potentially undermine security in the Middle East.[1] On the Chinese side, leaders in Beijing worried that their nation's growing dependence on oil and gas imports would make the Chinese economy more vulnerable to a potential U.S. military blockade, a fear that pushed Chinese leaders to strengthen their own naval capabilities and sign energy supply contracts with rogue nations not subject to U.S. influence—two moves that irritated Washington.[2]

The clean energy technology revolution eased this competitive security dynamic. Once renewable energy facilities are installed, they can keep going regardless of what happens internationally. Thus, renewable energy gives Beijing an avenue to strengthen its energy security without impinging on U.S. interests. Since 2009, the U.S. Departments of Energy and State have been working to help drive this clean energy revolution in China—a nation whose energy policy choices have an unparalleled impact on the global economy. From an energy perspective—and from a climate perspective—it is in the interest of the United States for China's economic growth to occur as efficiently and cleanly as possible. That growth will ideally also create new demand markets for U.S. clean energy products and services.

The Obama administration has made clean energy cooperation a pillar of the U.S.-China diplomatic relationship for two reasons. First, China's move toward a cleaner growth model furthers American national security interests on issues ranging from combatting global climate change to stability in the Middle East. Second, U.S.-China clean energy cooperation creates direct economic benefits for the United States because it helps create new demand markets in China for U.S. clean energy technology, services, and products. The Obama administration has used the U.S.-China Strategic and Economic Dialogue, U.S.-China presidential summits, and other bilateral diplomatic meetings to launch bilateral clean energy projects that develop and commercialize new technology solutions ranging from smart grids to carbon capture, utilization, and storage, or CCUS. Thus far, most of those efforts have focused on giving U.S. companies access to the Chinese market for technology demonstration, commercialization, and sales.

In parallel with the roster of new U.S.-China projects moving forward to serve Chinese energy demand, a new trend of cooperation is also emerging in the U.S. energy market: Some Chinese companies are venturing across the Pacific to seek investment opportunities in the United States and build new energy projects here.[3] When China first joined the global economy in the 1980s, it did so as a low-cost export manufacturer. Consumers in the United States benefitted from access to low-cost goods from China, but some U.S. workers suffered from the loss of manufacturing jobs as factories relocated to China to take advantage of cheap labor costs. Now, Chinese labor costs are rising; export manufacturing is not as profitable as it once was; and Chinese firms are beginning to come to the United States, not for cheap labor—average U.S. wages are still much higher than those in China—but for access to other comparative advantages such as the highly skilled U.S. labor force and a growing U.S. consumer base for clean energy products. Chinese companies are now making direct investments in the U.S. energy economy that support American workers, build new clean energy infrastructure, and, in the case of clean energy projects, lower climate pollution. Many governors and city mayors across the United States view these projects as a boon for economic growth. For example:

- In 2010, Wanxiang America—the U.S. subsidiary of Chinese auto-parts manufacturer Wanxiang Group—invested $12.5 million to build a solar panel manufacturing plant in Rockford, Illinois. When the project was announced, Illinois's then-Gov. Patrick Quinn (D) stated that the Wanxiang project "creates important jobs in the renewable energy sector and supports a business that harnesses the sun's power, undoubtedly the best and most abundant source of renewable energy available."[4] In addition to the generation facility, Wanxiang is also building a solar farm in Rockford. Gov. Quinn described the two Wanxiang projects as "creating hundreds of sustainable, green-collar jobs and providing an economic boost to the entire state."[5]

- In 2012, Xinjiang Goldwind Science and Technology Company—a Chinese wind turbine manufacturer—developed and financed a 20-megawatt wind farm in Shawmut, Montana. Montana's then-Sen. Max Baucus (D) travelled to Beijing in 2010 to help lock in the investment deal. When it was announced, Sen. Baucus stated that he was "pleased to welcome Goldwind and the local tax revenue and jobs this project will bring to Montana."[6]

- In 2012, Chinese renewable energy company Hanergy acquired MiaSolé, a Silicon Valley start-up specializing in high-efficiency thin-film solar panels. Since then, Hanergy has injected new capital into MiaSolé to hire more workers and expand the company's research and development operations in California.[7] MiaSolé CEO John Carrington stated that the Hanergy acquisition gave MiaSolé "a fully optimized capital structure, enabling us to focus on R&D and capacity breakthroughs, and become more competitive by riding on Hanergy's global advantages."[8]

Most of these successful Chinese-invested energy projects are the result of hard work at the state and local government level rather than trickle-down effects from federal government diplomacy. Until 2011, the primary federal government role in foreign direct investment was as a national security watchdog. The Committee on Foreign Investment in the United States, or CFIUS, is a federal interagency committee that screens incoming deals to identify and block foreign investment transactions that could threaten U.S. national security by, for example, putting critical sections of the U.S. electric grid under foreign ownership. When it comes to actually figuring out how to attract investments that do not threaten security, however, the federal government agencies have been much less active. That effort has been primarily a local government story, not a federal one.

In response to the many state and local governments asking for more federal government assistance with investment attraction, the Obama administration launched the SelectUSA program at the U.S. Department of Commerce in 2011 to serve as a federal government one-stop shop for foreign direct investment in the United States.[9] In 2013, the administration allocated funding to support those efforts and to train Department of Commerce foreign commercial service officers working in U.S. embassies around the world to help U.S. enterprises and U.S. regional governments scout and secure new investors from overseas markets.[10] These were big steps in the right direction. SelectUSA is now connecting state and local governments that are aiming to attract new capital with potential foreign investors—including Chinese investors—that are looking for new project opportunities in the United States.[11]

As a next step, the Obama administration should assess sector-specific needs to identify areas where a more targeted approach is needed to maximize investment potential. The energy sector in particular is ripe for a more targeted investment attraction approach. The Obama administration has already identified clean energy investment as a national priority.[12] At the state and local level, many American enterprises, governors, and mayors view foreign direct investors as critical allies in this effort. The problem is that clean energy investments are highly technical, both in terms of the technologies deployed and the policies needed to support particular projects. SelectUSA has a general U.S. energy "industry snapshot" page on its website, but SelectUSA does not have a targeted energy program to match foreign investors with specific U.S. energy investment needs.[13] Many U.S. state and local governments would benefit from that type of targeted investment attraction assistance.

For potential energy investments involving Chinese companies, the Obama administration already has a robust U.S.-China clean energy partnership that the federal government can and should leverage to help state and local governments maximize those direct investment opportunities. To be sure, energy investment attraction programs do not need to be and should not be all China-specific. Most of the work done to assist with one country can also apply to others. But in the energy sector specifically, the United States has a special opportunity to leverage an existing diplomatic track and also grab hold of a rapidly growing trend of outbound Chinese direct investment.

The Center for American Progress has been tracking inbound Chinese energy deals to identify current growth areas and highlight where assistance may be needed to expand that growth in the future. (For more information, see accompanying interactive map)[14] Project surveys done by CAP reveal that there are three actions the United States can and should take in the near term to support the state and local governments working to attract and secure these new energy deals, specifically:

- The Obama administration should establish a clean energy investment attraction initiative under the SelectUSA program to provide targeted support for state- and local-level energy investment needs. That program should be housed in the U.S. Department of Energy in order to best leverage current federal government expertise in this sector.

- SelectUSA should provide evidence-based, sector-specific investment attraction recommendations to help local economic development offices make smart decisions about where and how to direct limited resources for investment attraction activities.

- The Obama administration should make Chinese direct investment in the U.S. energy economy a priority issue in the U.S.-China diplomatic relationship, on par with the projects in the Chinese market. The upcoming presidential summit presents an excellent opportunity to shine a spotlight on these existing projects and create new opportunities.

This report provides an overview of the projects that are already moving forward across the United States and explains why it is crucial for the U.S. federal government to give state and local governments more tools to successfully attract and secure more of these projects.

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