

good impression of the impact of “non-Symposion” scholars on established ways of studying Greek law.

ROBIN OSBORNE  
KING’S COLLEGE

*The Clash of Capitalisms? Chinese Companies in the United States.* By Ji Li.  
[Cambridge University Press, 2018. xiii + 227 pp. Hardback £69.99. ISBN  
978-11-07157-15-6.]

The meteoric rise of the Chinese economy and the loosening of government control has led to a recent surge in investment outflows, catapulting China to the position of the world’s second-largest source of outbound direct investment (ODI). Some estimate that Chinese ODI could reach US\$367.3 billion by 2022 and that China will surpass the US as the world’s largest source of foreign direct investment. However, the surge of Chinese ODI has triggered controversies and debates amongst scholars and policy-makers worldwide, in particular with its recent expansion in developed countries. Some welcome Chinese ODI for its contribution to host-country economies while others regard it as a critical threat to the host country’s institutions and the global order. The extant literature has been unable to settle these two diverging views given its main focus on Chinese investment in developing countries and the lack of data in developed economies. This new book by Professor Ji Li takes a large step towards redressing this deficiency and its arrival is therefore timely and welcome.

Suspicion of Chinese ODI arises from, among other things, two major concerns. The first is that Chinese companies that have thrived in a poor legal and regulatory environment at home might export their domestic problems and trample on the laws of their host countries. The second is that Chinese ODI that is heavily influenced or controlled by the state might threaten host countries’ national security and wreak havoc on the institutions that have enabled free-market capitalism. This book attempts to address these two concerns. For that purpose, it offers a systematic study of how Chinese companies in the US react to its legal and regulatory institutions, and whether state ownership in Chinese companies make a difference in their reactions.

A major contribution made by this book lies in the analytical framework it constructs to assess institutional adaptation (ch. 3). This framework draws on insights from diverse fields and combines institutional with firm-level analysis. It has three components: (1) the legal and regulatory distance between foreign investors’ home and host states; (2) the investor’s desire to conform to the host country’s institutions; and (3) the investor’s ability to make the requisite adaptations.

On the first component, the author correctly spots the inadequacy of the concept of “institutional distance” as defined and used in the existing literature due to its exclusive focus on formal laws. The gaps in formal laws between developed and developing countries might have been narrowed as a result of legal transplants and transnational learning. Their enforcement, however, often still exhibits huge variations. In this analytical framework, the author therefore refines the concept of institutional distance to incorporate both formal legal distance and distance in law enforcement.

On the second component, the desire of a foreign investor to adapt to host country’s legal institutions is judged by two dimensions: investment motive and the

managers' perception of the host-country institutions. Foreign investors driven by long-term commercial considerations typically have a stronger desire to adapt than those motivated by short-term policy considerations; foreign investors holding positive views of their host-country institutions should be more inclined to conform than those holding negative views.

On the third component, the ability of a foreign investor to make the necessary behavioural adjustments is measured by the allocation of corporate decision-making power and its access to and use of local knowledge. Investors that allocate decision-making authority to local managers and rely on local professionals adapt more effectively. By comparison, foreign investors that make such decisions in the home state and refuse local professional services are likely to fail to adapt to host-state institutions. Assessing institutional adaptation is not an easy task. This book makes a beneficial attempt in this regard.

The book also provides scholars with much-needed data on Chinese ODI in the US. In collaboration with the Chinese General Chamber of Commerce, the author conducted three annual surveys of Chinese businesses in the US from 2014 to 2016. The survey of each year covers a good number of firms: 101 in 2014, 122 in 2015 and 141 in 2016, respectively. The survey sample is diverse and representative of Chinese companies of different sectors, locations, corporate structure and ownership types. The data set opens a valuable window onto Chinese ODI in the US, especially firm-level data and Chinese investors' perceptions, considerations and motives that otherwise are unobservable using archival data.

A combination of qualitative and quantitative methods is adopted in this book. It presents both descriptive and statistical analysis of data in a reader-friendly manner. Apart from the annual surveys mentioned above, the author also personally interviewed dozens of individuals with first-hand knowledge about Chinese investments in the US to help formulate the hypotheses for the statistical tests and to supplement the quantitative analyses.

The book contains eight chapters. It starts with an introductory chapter which identifies the research questions and outlines the book. Chapter 2 begins with an overview of the trajectory of Chinese ODI and its recent growth in the US. It goes on to sketch the diverging investment experiences of three Chinese companies, Lenovo, Bank of China and Huawei to illustrate the themes of the author's enquiries. It then describes the surveys and presents summary descriptive data as background for in-depth analysis in the following chapters. Chapter 3 explains the analytical framework formulated in this book and uses this framework to examine Chinese ODI in the US. The focus of ch. 4 is whether state ownership in Chinese investors would affect their adaptation to US legal institutions. In chs. 5, 6 and 7, the author applies the analytical framework to three areas of laws – US tax laws, employment laws (particularly laws against workplace discrimination) and the US regime on national security review of foreign investments (known as the CFIUS review regime) – to explore how Chinese firms react to each. Chapter 8 concludes the book by raising future research questions and reinstating its contributions.

The main findings of the book can be summarised as follows: Chinese companies generally encounter substantial institutional gaps in the US, yet most of them demonstrate both the desire and the ability to cross the gaps. It finds that the majority of Chinese investments are driven by long-term commercial interests instead of domestic policy; their managers held US legal and business institutions in high regard; and many of the Chinese companies have localised decision-making concerning legal compliance matters and heavily relied on US professionals to cope with the host country's institutional setting. As a result, Chinese companies in general adapt

and comply reasonably well with US laws, including its tax and employment laws. An exception to this is the US CFIUS regime. Chinese managers either have little knowledge of it or consider it politicised and non-transparent. Consequently, most Chinese investors have either neglected CFIUS review or taken a more opportunistic approach towards the CFIUS risk. Such reactions eventually led to a lawsuit against the US enforcement agency (*Ralls Corp. v Committee on Foreign Investment in the US*, 758 F.3d 296 (D.C. Cir. 2014)) and its decision altered the legal contours of the CFIUS review process.

In relation to the influence of state ownership, a defining feature of China's state capitalism, the author finds that compared to their private counterparts, Chinese companies with significant state ownership confront larger legal and regulatory distances; they are more likely to consider short-term policy factors although they hold the same positive views of US institutions; and they retain more decision-making authority but they equally rely on local professionals. The mixed findings suggest that there is a measurable connection between significant state ownership and how the Chinese investors react to US legal and institutions. Nonetheless, this connection does not seem strong enough to influence companies' behaviour since chs. 5, 6 and 7 disclose no evidence that Chinese state-owned enterprises act much differently from private companies in coping with US tax laws, employment laws or CFIUS.

This book will appeal to a wide range of readers, from policy-makers to academics who take an interest in the role of China in world's economy. This is probably more so against the background of US-China trade war launched last year and the latest disputes surrounding the Huawei corporation. The book is well structured and easy to follow. The text is clear and lucid in style. Readers will find little difficulty in understanding the data, as it is presented in a reader-friendly way. Apart from its main findings, some interesting discussion in individual chapters (for instance, in relation to state-owned enterprises managers' complicated incentives structure in ch. 4) will help readers deepen their general understanding of Chinese companies, especially Chinese state-owned enterprises.

However, there might be a doubt to what extent this book has effectively addressed the title question, "the clash of capitalisms"? By placing his focus on the selected areas of laws, in particular tax and employment law, the author might just miss the point. As recognised in this book, there is a significant difference between Chinese ODI in developing countries and developed countries. The issues of tax avoidance and employment discrimination seem to be more relevant to Chinese ODI in developing countries where the institutions are normally weak or dysfunctional and therefore leave many loopholes for foreign investors (not just Chinese investors) to exploit. By contrast, legal institutions in developed countries are firmly established and operate equally with respect to all companies. It is hard to conceive how a foreign company that defies local laws can survive in such an environment. Thus, it should not be surprising that the author finds little evidence that Chinese investors (regardless of their ownership) act differently from US companies in dealing with tax and employment issues. The root cause of the clash between China and the US, or the clash between state capitalism and free-market capitalism, lies somewhere else.

DING CHEN  
UNIVERSITY OF SHEFFIELD