Spring 2014

Inward Foreign Direct Investment: Why Congress Blocks Certain Transactions

Cory Millspaugh

University of Colorado Boulder

Follow this and additional works at: https://scholar.colorado.edu/honr_theses

Recommended Citation


https://scholar.colorado.edu/honr_theses/164
Inward Foreign Direct Investment: Why Congress Blocks Certain Transactions

Cory Millspaugh

Political Science Department Honors Thesis
University of Colorado at Boulder

April 5, 2014

Thesis Advisor
Moonhawk Kim || Political Science

Committee Members:
E. Scott Adler || Political Science
Jin-Hyuk Kim || Economics
# Contents

Introduction: .................................................................................................................. 1

Literature Review: .......................................................................................................... 6

National Security: Definition ......................................................................................... 6

  National security: The state agent issue ....................................................................... 7

National Security: Critical infrastructure and natural resources: ................................. 9

National Security: The transfer of technology ............................................................... 10

Economic Protectionism: ................................................................................................. 11

  Economic protectionism: Protecting domestic firms .................................................... 11

  Economic protectionism: Determining protectionism vs. national security ................. 13

Congressional Motivation ................................................................................................. 14

  Congressional Motivation: re-election .......................................................................... 15

  Congressional Motivation: Gaining power in Washington .......................................... 15

  Congressional Motivation: Voting actions and good public policy ......................... 16

Arguments: ...................................................................................................................... 17

Hypotheses: ..................................................................................................................... 19

Methodology: .................................................................................................................. 20

  Positive Case Selection ............................................................................................... 20

  Negative case Selection: ............................................................................................ 21

  Compiling the Data: ................................................................................................. 22

Analysis: ......................................................................................................................... 22

  Positive Case: Fujitsu Ltd. proposed acquisition of Fairchild Semiconductor ............ 22

  Negative Cases: ........................................................................................................ 26

  Solving the Puzzle: .................................................................................................... 27

  Positive Case: China National Offshore Oil Corporation proposed acquisition of Unocal Corporation. 28

  Negative Cases: ........................................................................................................ 31

  Solving the Puzzle: .................................................................................................... 32

Conclusion: ...................................................................................................................... 34

References ....................................................................................................................... 37
Abstract

Previous studies that have looked at why governments block inward FDI transactions and mergers have focused on states being the main actor and individual case studies. It is the aim of this research to look at the actors within the state, in particular the U.S. Congress and multiple cases to discover their role in preventing inward FDI transactions and mergers and why they take such actions. The results of the research show that when a foreign MNC tries to purchase a U.S. firm and faces domestic competition, the likelihood of U.S. Congressional intervention to prevent the deal will increase.

Inward Foreign Direct Investment: Why Congress Blocks Certain Transactions

Introduction:

Following the end of World War II and the subsequent liberalization of the global economy, Foreign Direct Investment (FDI) has been on the rise (Ravenhill, 2008). Many studies have been conducted to research the advantages and disadvantages that FDI has on a country's economy and while some might argue that FDI can have a negative effect, the overwhelming majority of work in this field suggest that FDI brings more advantages than disadvantages (Denisia, 2010). With that said, it is the purpose of this paper to investigate why governments sometimes take actions to block or prevent certain FDI transactions. In particular, this paper will look at the United States Congress and how it has successfully blocked inward FDI transactions and mergers and to investigate why this body of government has taken such actions.

The adoption of the Breton Woods System in 1944 and the subsequent establishment of the World Bank Group, created a framework for regulating international monetary policies and currency exchange rates among the industrialized nations. In addition, the General Agreement on Tariffs and Trade (GATT) was created in 1947 to lower trade barriers that tariffs generate and for the industrialized nations to seek consensus on international trade policies (Dos Santos, Farias, & Cunha, R. 2005). GATT was replaced in 1995 by the creation of the World Trade Organization and it carries on the spirit of GATT.
The policies that were adopted shortly after the end of World War II have led the world to an unprecedented level of economic integration and globalization. Some effects of these policies have led to the easing of trade barriers, reduction in protectionism, and the integration of the world’s markets. With these policies, the world has also seen an unprecedented growth of Multinational Corporations (MNC) (Stopford, 1998).

With the creation of MNCs and their record growth, corporations started to serve more than just the nation that they resided in (Laney, 1991). They started to search the world for opportunities that in the past would have been made difficult due to government regulations or deemed too risky given the volatile currency markets and the difficulties associated with exchanging currencies. With the ease of these restrictions, MNCs started to flourish and in today’s world they have a major impact on the global economy.

There have been many different theories that have tried to explain why MNCs engage in FDI such as the production cycle theory, theory of exchange rates on imperfect capital markets, internalisation theory and the eclectic paradigm theory (Denisia, 2010). For simplicity I will use the eclectic paradigm theory first introduced by J.H. Dunning to explain why firms take these actions and risks. In Dunning’s theory there are three reasons why firms choose to invest abroad: (1) The (net) competitive advantages which firms of one nationality possess over those of another nationality in supplying any particular market or set of markets. These advantages may arise either from the firm’s privileged ownership of, or access to, a set of income-generating assets, or from their ability to co-ordinate these assets with other assets across national boundaries in a way that benefits them relative to their competitors, or potential competitors. (2) The extent to which firms perceive it to be in their best interests to internalize the markets for the generation and/or the use of these assets; and by so doing add value to them. (3) The extent to
which firms choose to locate these value-adding activities outside their national boundaries. (2001).

The United States has been at the forefront and a major player in the modern FDI movement. It has encouraged U.S. firms to invest abroad and likewise has been a target of inward flows of FDI (Laney, 1991; Crystal, 1998, Travalini, 2009). The U.S. or more precisely the U.S. Congress for the most part has been open to inward flows of FDI, but at times has tried to block or prevent inward FDI transactions and mergers. These instances of hostility towards inward FDI transactions are perplexing given the U.S.’s commitment to free and fair trade and to this date there has been no clear answer given for why the U.S. Congress has acted in such a manner.

The U.S. Department of Commerce Defines FDI as: Direct investment implies that a person in one country has a lasting interest in, and a degree of influence over the management of, a business enterprise in another country. For the United States, in accordance with international guidelines, ownership or control of 10 percent or more of an enterprise’s voting securities, or the equivalent, is considered evidence of such a lasting interest or degree of influence over management. Thus, foreign direct investment in the United States is ownership or control, direct or indirect, by one foreign person of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise (U.S. Department of Commerce, 1995).

The U.S. Congress is given the power to regulate FDI by the Commerce Clause of the U.S. Constitution Article 1,Section 8, Clause 3. This article gives Congress the power "To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes." With these powers, Congress first began investigating inward flows of FDI by passing
the Foreign Investment Study Act of 1974. The law was created to: (1) conduct benchmark surveys of all existing foreign direct and portfolio investment in the United States; (2) analyze the effects of foreign investment on the U.S. economy; (3) review our existing reporting requirements that apply to foreign investors; and (4) make recommendations on means for us to keep our information and statistics on foreign investment current. Upon completion of the investigation it was found that “the United States lacked a coherent mechanism to monitor foreign investment (Mostaghel, 2006).” These findings led to the creation of the Committee on Foreign Investment in the United States (CFIUS) by President Gerald Ford through an executive order in 1975 (Exec. Order No. 11,858).

CFIUS was created to monitor inward FDI transactions and to investigate any transactions that could pose a threat to U.S. national security. CFIUS defines national security as “(1) the transaction threatens to impair the national security of the United States and the threat has not been mitigated during or prior to the review; (2) the transaction is a foreign government-controlled transaction; or (3) the transaction would result in control of any critical infrastructure of or within the United States by or on the behalf of any foreign person, if the Committee determines that the transaction could impair national security (Cox, 2008).” CFIUS’s membership includes seven members: Secretary of the Treasury, Secretary of Homeland Security, Secretary of Commerce, Secretary of Defense, Secretary of State, Attorney General of the United States, and the Secretary of Energy. In addition, the President can appoint another head of an executive department if he or she deems it necessary. CFIUS can investigate any inward FDI transaction as defined by the U.S. Department of Commerce. During the investigation CFIUS has the power to approve, deny or mitigate the acquisition resulting in a partial or whole divestiture between the two parties to ensure national security or defer to the
President to make a decision. After an investigation, CFIUS may send a report to the President. If they do not send a report to the President, CFIUS then must submit the report to Congress. In addition, CFIUS must supply a report to Congress on any covered transaction if requested as well as supply an annual report of all covered transactions (Cox, 2008).

CFIUS is an inter-government agency that could be perceived as an extension of the executive branch given that the President has the power to appoint all of its members and the power to block any inward FDI transaction. However, Congress has the power to shape the scope and powers of the committee and over time has passed legislation such as the Exon-Florio Amendment and the Byrd Amendment. Understanding CFIUS and how it works and operates allows us to better understand some instances where the U.S. government has prevented inward FDI transactions and gives us a clear and defined reason why such action was taken. However, CFIUS alone does not tell us the whole story as there have been times when Congress took action before or after CFIUS had conducted an investigation or given a ruling. The majority of academic work that has been done in this field has mainly focused on CFIUS and single case studies without explaining why individual members within the U.S. Congress took actions to prevent the inward FDI transactions.

Finding a balance between protecting national security and keeping the United States commitment of openness towards inward flows of FDI can be tricky. The U.S. is the leader in outward flows of FDI and one way to protect U.S. firms from being denied investments abroad is to be open and allow inward flows of FDI at home. CFIUS has clear and defined boundaries that it uses when determining whether an inward FDI transaction should be allowed. However, Congress has no such boundaries or clearly defined rules. If Congress wants to prevent an inward FDI transaction it can introduce or try to pass legislation that can prolong the proposed
acquisition making it more costly for the foreign buyer, pass a law forbidding foreign ownership in a certain industry, or sometimes the mere threat of Congressional intervention can be enough to scare away foreign buyers. However, this field of study has yet to answer why Congress would take such an action given the abundance of evidence that shows inward flows FDI benefit the national economy. In addition, these actions by Congress can have a negative impact on the national economy if other nations retaliate after a blocked transaction or could lead to a cooling effect for other potential inward FDI transactions. It is the aim of this research to combine individual case studies where the U.S. Congress has successfully discouraged and blocked inward FDI transactions and to discover why Congress has taken such action. In doing this, this research can contribute to the field of knowledge of why governments prevent inward FDIs, why the U.S. government prevents inward FDIs, and lastly why U.S. lawmakers intervene and try to block inward FDIs.

**Literature Review:**

To better understand why governments take actions to block or prevent inward FDI transactions, it is important to lay out the current arguments for why these actions take place. National security has long been the dominant and most vocal argument. However, national security is not always well defined and sometimes has been used as an umbrella term. Protectionism is another possible reason why governments might try to block inward FDIs whether they like to admit it or not. Lastly it is important to look at U.S. congressmen and women for potential motivations that would lead them to want to prevent inward FDI transactions.

**National Security: Definition**
The traditional concept of national security dates back to 1555 with the Peace of Augsburg and is based on the Doctrine of Inviable Sovereignty. At its most basic form, national security is any threat, external or internal, during times of peace, war or a potential war that has the potential to undermine or challenge the survival of the state (Mijalković & Milošević 2011). In more modern time’s national security has come to encompass not only external or internal threats but a wide range of potential threats that include the economic sustainability of a nation. For a nation to prepare for war a nation must have the productive capacity to not only build weapons but to sustain itself during times of war when trade might be limited (Kirshner, 1998).

**National security: The state agent issue**

It goes without question that during times of war, having a hostile foreign MNC operating within a nation would prove disadvantageous. However many nations including the United States have laws that allow them to either nationalize the subsidiaries of a foreign MNC or the power to stop the hostile MNC from operating during these times (Laney, 1991). With that said, the more important issue is with foreign MNC’s prior to the outbreak of a war. Foreign MNC’s might know that relations are deteriorating and that war is possible and could work as an active agent for their nation by leaking, stealing, having prior knowledge or actively trying to gain information from their host country. Another possibility is that the foreign MNC would withhold technology or information from their subsidiaries, give false information and or try to subvert the host country by producing substandard products (Graham & Krugman, 1995). This becomes important when the foreign MNC is producing products used for infrastructure or military applications. This type of situation becomes difficult to manage when relations between friendly nations sour and the two nations become hostile as it is not always possible to know
when this might happen. However, this issue is not as much as a concern as it has been in the past as interstate war has been on the decline (Gleditsch, et al., 2002).

When potential wars are not an issue there are still concerns that foreign MNC’s might acquire firms that specialize in high-tech industries and or other industries that are important to a nation’s national defense sector. In particular a foreign MNC might acquire companies that produce dual-use products. Dual-use, meaning that the product could have civilian and military applications, for example satellite technology. In this case, the fear is that the foreign MNC might move the subsidiaries research and development to their own nation and leave the host nation without the means of producing such technology. This transfer of technology might leave that nation vulnerable if an event arose where that nation needs the technology. This would in turn leave that nation dependent on another nation for that technology, diminishing the ability for a nation to adequately defend itself. That nation might then have to forgo or acquire that technology through costly reinvestment or through purchasing it from another source, which could prove difficult (Graham & Krugman, 1995).

Foreign MNC’s might also acquire high tech firms to try and skirt national security export controls (Graham & Marchick, 2006). If the foreign MNC is directly an agent for a nation by being a state-run company or indirectly by being a private company that supplies its domestic defense contractors, it might seek the transfer of technologies through the purchase of a foreign company. In these instances, the foreign nation might try to skirt the export controls by directly purchasing or investing in a firm of the host nation under the guise of conducting normal business to achieve their goals of acquiring the technology (Parkhe, 1992). If successful, this could lead to a national security threat on the basis that the foreign nation’s military capabilities could improve at an increased rate due to the access of the newly acquired technologies.
National Security: Critical infrastructure and natural resources:

Strategic infrastructure such as energy production, communications, and transportation have long been considered by most nations to be protected industries as they can have a direct impact on national security (Kang, 1997). If a foreign MNC was able to acquire a company deemed as a critical infrastructure company it could sabotage, shut down or withhold services during times of war, diminishing a nation’s defense capability. However, others have argued that this is not a strong argument given that the nation could take over the MNC subsidiaries during times of war (Laney, 1991). During times of peace, one concern has been that if a foreign MNC was to acquire a communications company, the foreign MNC could use “backdoor” technologies to spy on communications within the host country or that the foreign owner would not comply with judicial and law enforcement investigations (Graham & Marchick, 2006; Moran & Oldenski, 2013). A major concern pertaining to energy production and transportation facilities is that foreign owners would not be as concerned as domestic owners when it comes to the security of these facilities and that the hiring and vetting process could compromise security (Moran & Oldenski, 2013).

MNC’s acquiring natural resources or refining facilities has also been a concern. If a foreign MNC were to purchase the rights to natural resources and use them in a fashion that is not in line with the nation’s goals or shut down production in their host nation, it could leave the nation without the means of production (Weimer, 2009). This in turn could leave the nation vulnerable and dependent on another nation for these products or the nation could be forced into costly reinvestment (Graham & Krugman, 1995). Again others argue that this should not be a major concern. If the nation goes to war, natural resources cannot easily be picked up and moved and the host nation can take over the resources (Laney, 1991). During times of peace and in part
due to the globalization of the natural resources market, if a foreign MNC were to shut down production or stop selling to the host nation, the host nation could purchase the same product on the open market for the fair market price (Moran & Oldenski, 2013).

National Security: The transfer of technology

The argument that a MNC could act as a state agent to obtain technology with the intention to skirt export controls has already been covered, in addition to that argument, some have argued that once a foreign MNC has acquired a technology and if the foreign nation is from a nation that has no such export controls, the information might be passed on to its subsidiaries in a nation that the host nation has tried to block from acquiring the technology. Another fear is that foreign MNC’s might purchase a company and relocate the research and development portion to their own country, leaving the host nation reliant on another nation for new technologies. This in turn could give the foreign MNC the power to deny or block a nations companies or defense contractors from accessing new technology (Weimer, 2009; Graham & Marchick, 2006). The resulting loss of access to technology or the possible subsequent dependency on another nation could lead a nation to experience a loss of national power derived from losses in economic power. This could open the host nation to economic dependency and or coercion. Economic dependency undermines the state’s ability to make choices that would benefit them and the host nation could be held captive to another nation’s will. Kirshner wrote: “fostering dependence in order to enhance influence is undertaken by states using economic means to advance political goals (1995).”

There have also been arguments that the transfer of technology should not be as much of a concern. Host nations are vigilant when it comes to national security and most nations have government institutions to safe guard themselves. Also there is ample evidence that foreign
MNC’s do not relocate research and development centers to their own nations and that
technology transfers can be a two way road, with an increased amount of sharing technology and
both nations benefiting. There is also evidence that supports a foreign MNC can and will share
access to new technologies it develops (National Academy of Sciences, 1976; Eden, Levitas, &
Martinez, 1997; Saggi, 2002).

**Economic Protectionism:**

The arguments brought forth by economic protectionism helps to fill some gaps left by
the arguments that national security provides for why governments try to block or prevent inward
FDI investments. Protectionism has been around for a long time and is a reprimand used by
nations to accuse each other of the practice, while those same nations never claim to be a
protectionist themselves.

**Economic Protectionism: Protecting domestic firms**

Traditionally, protectionism has been used by governments to protect domestic industries
against foreign competition by raising trade tariffs, or more specifically, by enacting import
barriers at the behest of domestic firms (Crystal, 1998). In the past, this has worked even though
it can have a negative effect of not allowing for better competition. However, with globalization
and the ease of international restrictions placed on MNCs, MNCs can now move their production
facilities more easily or purchase firms within the host nation. This is true in the case of the
United States. The U.S. while less restrictive than many nations, has at times heeded calls by
domestic firms and has placed trade barriers and tariffs on certain industries and or goods
(Crystal, 1998). However in some instances, MNCs have reacted to such policies by moving
their production facilities or by purchasing firms in the host nation, also known as “Tariff
jumping” (Blonigen & Feenstra, 1997). This can have a beneficial outcome for the host nation as the MNCs are now creating or keeping jobs within the country. However, at the same time, it can have a negative effect on the domestic firms that pushed for such measures, as the foreign MNC no longer has to import their goods and pay the tariffs. In addition, the Foreign MNC is now producing the same products within the host nation and utilizing the same resources. This can exacerbate the problems that the original policies were trying to correct and domestic firms could feel more pressure from the foreign firms rather than less (Reich, 1989).

If trade barriers and tariffs alone cannot stop domestic firms from the threat of foreign competition, then there must be restrictions placed on inward flows of FDI. McCulloch wrote: “For industries in which ownership and internalization advantages are important, “protection” is likely to have little protective effect unless inward FDI is also restricted (1985).” To restrict inward flows of FDI, U.S. firms have lobbied for higher domestic quality standards, pushing for legislation to treat foreign firms that produce within the U.S. to be put under the same trade restrictions as firms who are importers, preventing certain transactions to go through, and to exclude foreign firms from some government programs (Crystal, 1998).

With increasing flows of inward FDI, governments around the world have started to create regulatory bodies to deal with this influx of investment streaming into their country. The United States created CFIUS in 1975, and Russia, China, Germany, Canada, the list could go on have followed suite (Marchick & Slaughter, 2008). This has only perpetuated countries beliefs that inward FDI must be monitored and sometimes restricted.

In David Marchick’s and Matthew Slaughter’s research, which takes a macroeconomics approach to this issue, they found that while many countries have their own reasons for protecting certain industries over others, there are three main driving forces behind the shift in
increased protectionism. (1) The emergence of new source countries and companies for investment. (2) Greater government ownership in multinational firms that are involved in cross-border investment. (3) Strong fiscal and overall economic positions of host countries (2008).

However on the micro level, results have not been so conclusive. Jonathan Crystal conducted a study to discover when U.S. domestic firms might seek protection. The results varied and there was no clear reason why firms that should have pursued regulations against inward FDI sometimes did not take action when it would have benefited them. He summarized his findings by stating, “Firms have a number of often conflicting economic interests with regard to inward FDI; they want protection against foreign competitors, against the possibility of increased restraints on their own investment activity, and against the perceived injuries they sustain from investment restrictions abroad.”

**Economic protectionism: Determining protectionism vs. national security**

Most arguments for protectionism have been made under the umbrella of national security, but other words have been used by governments around the world to describe why protection is essential, such as the need to protect “strategic industries,” “the security of public supply,” “National interest,” or “net benefit.” These terms are sometimes intentionally left vague so that governments will not limit their discretionary power (Marchick & Slaughter, 2008).

Traditionally, world governments have used these terms to protect industries that are seen as vital to the nation’s defense sector. They have included industries such as, energy production, communications, and transportation (Kang, 1997). However, more recently there has been a shift towards more protectionism against inward FDI transactions that would not fall under the traditional national security argument and governments have started to include steel manufacturing, Agriculture, food production, and in the case of France, even gambling
(Marchick & Slaughter, 2008; Moran & Oldenski, 2013). It is sometimes hard to argue that governments are truly trying to protect their nation from a national security threat and not trying to protect an industry from foreign competition. The recent case of pork producer Smithfield being purchased by Shuanghui International highlights this issue. U.S. Senator Debbie Stabenow (D-MI), Chairwomen of the U.S. Senate committee on Agriculture, Nutrition, and Forestry, lead the charge against the proposed deal saying “I firmly believe that economic security is part of our national security, and that it should be considered when our government reviews foreign investment into the United States (2013).” However, two months later and after the deal was successful the Senator said “We still do not know the potential impact on American food security, the transfer of taxpayer-funded innovation to a foreign competitor, or China’s protectionist trade barriers were considered (UPI Business News, 2013).” This case demonstrates the complexities of understanding individual actors and their arguments based on national security. U.S. Senator Debbie Stabenow (D-MI) at first said that she was concerned about national security, but later added that she was concerned that a foreign competitor would gain access to U.S. innovations and that the other country was the protectionist.

**Congressional Motivation**

The arguments brought forth by protectionism and national security help to piece together the puzzle of why governments seek to prevent some inward FDI transactions, but the puzzle is not complete. These arguments mostly look at states as the main actor and do not look at the actors within the state. In a democracy like the United States, there are numerous actors that can play a vital role when it comes to preventing inward FDIs and it is therefore important to look at what motivates these actors to understand why they might take such actions.
Congressional Motivation: re-election

The first and foremost thought in the back of the minds of every congressman or women is being re-elected. If they are not re-elected then their other goals cannot be achieved. To get re-elected congressmen and women adopt a “home style” approach (Fenno, 1978). In this home style approach congressmen and women regularly visit their district and the constituency that has the power to re-elect them. While visiting their constituents they often make two distinct decisions on whom they will visit based upon inclusion or exclusion. Congressman and women use these two different options by including constituents that will most likely vote for them and excluding the voters that he or she knows will most likely not vote by them (Fenno, 1977). The congressman or woman then takes the position of the people that are sure to re-elect him or her.

In addition, to the inclusive group, there is a smaller group within the inclusive group that is considered to be the “primary constituency.” This small group is considered to be the best line of defense in an election and go beyond just votes but also includes financial support. The congressman or woman interacts with the primary constituency differently than they do with people who support them only through voting by being more accessible and spending more time with them (Fenno, 1977).

Congressional Motivation: Gaining power in Washington

Being re-elected has other advantages than just keeping the job. The more re-elections that a congressman or woman can win, the more power they can gain in the House or the Senate through appointments to powerful committees including chairmanships and support within their party. By continuing to be re-elected they are accepted as having seniority (Abram, & Cooper, 1968). This seniority allows for congressman and women to have a better chance of introducing and passing legislation. Passing legislation in Washington that can benefit their district or show
that the congressman or woman has sway in Washington can also help them gain support from their constituents back home and therefore help them not only keep power but improve their power in Washington (Abram, & Cooper, 1968; Fenno, 1977).

The ability to raise money plays a role not only in re-elections but also how well a congressman or woman is able to secure their seat and make further contributions to the party. The more money a congressman or woman has in their “War Chest” the less likely they are to face a high quality challenger (Box-stefiensmeier, 1996; Goodliffe, 2004). In the absence of a high quality challenger, the seat is more likely to be considered safe. This in turn allows the congressman or woman to have more leeway when voting in Washington and therefore more power to support colleagues who can later help them (Fenno, 1977; Kingdon, 1977).

**Congressional Motivation: Voting actions and good public policy**

Most congressmen and women try to introduce or support laws that they will think will be good public policies. This is considered by some as the main driver for citizens to seek higher office in the first place. Citizens want to go to Washington to change Washington for the better or to fix a system they think is broken (Fenno, 1977; Kingdon, 1977). However, this might be an oversimplification of why congressmen and women vote the way they do in the House or the Senate.

When deciding to introduce or support legislation, congressmen and women have three different constraints. First, they have to consider how a proposed law could affect their constituent’s view of them as a representative. Before or after a vote they might have to explain to their constituents why they are supporting the legislation. If they know that their constituents do not support the legislation then they are less likely to draft or support legislation that could have a negative effect on their next election (Fenno, 1977). Secondly, they have to take into
consideration their party affiliation and the leadership within their party. They might have to vote for one law to receive support for another law they want to pass or support. Lastly, they want to introduce or support legislation that they personally feel is good public policy (Kingon, 1977). However, Fenno acknowledges that this last constraint is not always true. The congressman or woman might vote for a policy they personally do not support, but because of the first two constraints they still will support the law (1977).

Arguments:

To piece together the puzzle that is why individual actors within a state would try to prevent inward FDI transactions and mergers with respect to the United States, it is important to look at why U.S. congressmen and women would try to prevent inward FDI transactions and mergers. The United States already has institutions in place that have been given the power to regulate these transactions and mergers, such as CFUIS. To better understand this problem it is important to ask a few questions. Why do some lawmakers try to prevent inward FDI transactions and others not? What is the motivation for these lawmakers to take such actions? Why are some inward FDI transactions and mergers blocked and not others?

The arguments brought forth so far, focus on national security being the most important concern for the reason why governments prevent inward FDI transactions and mergers, followed up by governments trying to protect certain industries that are seen as vital to the nation or protecting domestic producers from facing foreign competition (Laney, 1991; Graham & Krugman, 1995; Kirshner, 1998; Moran & Oldenski, 2013;). However, these arguments focus on the state being the main actor and not the individuals within the state and their possible motives.
In this study, U.S. congressman and woman become the main actors. In the cases that are looked at, congressmen and women are the actors that tried to prevent these inward FDI acquisitions by introducing legislation to prolong the proposed mergers making it more costly for the foreign suitor or by introducing legislation that would make the acquisition illegal. They held congressional committee hearings to investigate the deals and in most cases sought their colleagues support on legislation introduced to the House and the Senate to prevent the deals. But why would an individual or a group of congressmen and women not trust the current institutions and introduce legislation before or after to prevent the foreign acquisition of a U.S. company?

To answer these questions it is important to look at the motivation of the congressman or woman. What benefits do they get from taking such actions? The literature on individual members of congress and there motivations has been studied since the dawn of U.S. modern political science and the foremost conclusion is clear. The main motivation for a U.S. congressman or woman is to get re-elected, followed by gaining power in Washington and making good public policy (Fenno, 1977; Kingdon, 1977). But how does blocking an inward FDI transaction or merger help them get re-elected, gain power, or be considered good public policy?

There is a sentiment in the United States that the general public feels that made in America, by Americans is important to the American people and that is something that lawmakers can capitalize on. Would a voter rather have a neighbor own the factory down the street or a Japanese MNC? That was a question that was raised by the media and the U.S. congress during the late 1970’s to late 1980’s (Kang, 1997). In more recent times this same question has been asked about Middle Eastern MNCs and Chinese MNCs (Edmonson, 2006;
Gobble, 2013). U.S. congressman and woman can use this sentiment to seek gains in political capital if they raise the issue either through congressional committee hearings, introducing legislation, or by campaigning against the proposed deals. They can condemn the proposed deal under the umbrella of national security and sell their proposed legislation or support of legislation to their home districts. Additionally, companies may lobby congressmen and women to block a deal that they feel will hurt their business interests (Crystal, 1998). Sometimes these companies will give financial contributions to the congressman’s or woman’s re-election war chest or threaten to support a challenger in an upcoming election. In addition, bringing up a perceived threat to national security or spearheading legislation that later receives broad support within the House, Senate or both can be a way to show leadership and gain power within the institution. Another possible explanation is that the congressman or woman believes that the proposed acquisition would harm the country in some way and therefore disapprove of the proposed acquisition on the grounds that it is good public policy to do so.

**Hypotheses:**

H1: If the proposed merger is between a foreign suitor seeking to purchase more than a majority stake in a U.S. firm is deemed to pose a risk to U.S. national security, then individuals within the U.S. congress will be more likely to view the proposed merger with more scrutiny and try to prevent the merger by introducing a bill to the House or Senate.

H2: If a U.S. firm is being sought after by a foreign suitor that is seeking more than a majority stake and faces domestic competition and is located within the same district as the
congressman/woman, the congressman/woman is more likely to view the merger with more scrutiny and try to prevent the merger by introducing a bill to the House or the Senate.

H3: If a foreign suitor seeking to purchase a U.S. firm faces domestic competition, then the proposed merger will be more likely to be viewed with scrutiny by congressmen/women and the congressmen/women will try to prevent the merger by the introduction of a bill in the House or the Senate.

**Methodology:**

To discover why individuals within the U.S Congress have taken actions against certain inward FDI mergers, Mills method of differences was used to look at two different positive cases where a foreign MNC sought to purchase fifty percent or more of a U.S. firm, but faced domestic competition from U.S. firms. A fifty percent threshold is used as it would give the foreign firm majority control over the U.S. firm. The negative cases were selected by a foreign firm successfully purchasing fifty percent or more of a U.S. firm and faced no domestic competition. For each positive case, three negative cases were used for comparison. In each group of the cases looked at, type of industry is held constant, while total value of the mergers and the year the mergers took place was held as close as possible.

**Positive Case Selection**

The positive cases were selected by searching for individual case studies within the field of International Political Economy and Law journal reviews that covered CFIUS. I used the country names of possible foreign suitors such as, the United Kingdom, China, United Arab Emirates, Canada and so forth. I chose these countries as they have been prevalent in CFIUS’s annual report to Congress. From there, case studies were looked at to find potential candidates
that received an abnormal amount of scrutiny from Congress. This was cross checked by searching the Lexis Nexis Academic database and reviewing Committee hearings and legislation using the company names of the foreign and U.S. domestic companies involved.

I chose to use case studies to find the potential candidates as there has been no other research done in a quantitative fashion. This could be due in part because CFIUS is usually the main actor and it is rare that Congress intervenes in such matters. This highlights the difficulty of non-bias positive case selection as there are very few cases to select from. With that said, the search was furthermore narrowed down to look for only positive cases were legislation was introduced or passed in the House or the Senate. I chose to look at only the cases where legislation was introduced or passed because this showed a strong amount of scrutiny, a strong determination, and greater overall motivation to prevent an acquisition by a congressman or woman, when compared to just making remarks on the House or Senate floor.

**Negative case Selection:**

Once the positive cases were found and selected, I searched business information databases such as Merger Stat and Mergent online to find three negative cases for each positive case. I used key words for industry types such as oil & gas, semiconductors, and electronics as the databases categorizes companies in such a manner. In addition I tried to narrow the range of dollar amounts by including key words such as millions and billions. Lastly, I limited the range of years to no more than ten years before or after. I chose to the limit the years in this way as I wanted to find negative cases that happened as close as possible to the positive cases.

Once the negative cases were found, I used the Lexis Nexis Academic database to search for potential congressional hearings or legislation using the company names of the foreign and U.S. domestic companies involved. The search was narrowed by looking for potential
Congressional Committee hearings or legislation by limiting the time frame to two years before or after the deal had gone through. I chose two years as I believe it is adequate time for Congress to act if they were to act against a possible acquisition. In truth, the time frame searched was generous as all proposed acquisitions and actions by Congress for the positive cases happened well within this time frame. Using the same time frame, I then used Lexis Nexis Academic database as well as Google’s generic search engine to search nationwide and local newspapers such as the Washington Post, The Wall Street Journal, Chicago Tribune, Los Angeles times, The New York Times, to look for stories that covered the acquisitions. I used key terms such as bought, acquired, proposed deal, and combined them with the company names of the foreign and U.S. domestic companies involved.

**Compiling the Data:**

After the positive and negative cases were selected, I compiled the data into an excel spreadsheet. I separated the two positive cases and added the negative cases below their respective positive case. The independent variables that were used were industry, deal amount in dollars, year, outcome (whither the deal was successful or withdrawn), complete take over or percentage amount of company sought or acquired, main opposition leader coming from the House or Senate and the state or district they represented or none if there was no opposition, and lastly, whether the deal faced U.S. domestic competition in a pass or fail manner.

**Analysis:**

**Positive Case: Fujitsu Ltd. proposed acquisition of Fairchild Semiconductor**

Fujitsu limited was originally founded in 1923 as the Fuji Electric Co., Ltd. as a joint venture between Furukawa Electric Company and Germany’s Siemens AG. The company first
started manufacturing generators and electric motors. In 1924 they entered the telecommunications industry importing and selling telephones and “step-by-step” automatic switching systems. In the 1940’s they started domestic production of telecommunications equipment. In the 1950’s Fujitsu entered the computing industry. From then on Fujitsu has primarily focused on telecommunications and computing industries. Today, Fujitsu is the world’s third largest information technology service provider (History of Fujitsu, 2014).

In 1986, Fujitsu microelectronics, a subsidiary of Fujitsu Ltd with headquarters in San Diego, CA proposed a deal to acquire an 80% stake in Fairchild Semiconductor from its parent company, French owned Schlumberger Ltd. for a reported $200 Million in 1986 dollars (Black, 1986; Walters, 1987).

Fairchild Semiconductor was founded in 1957 and was located in the Silicon Valley, CA. In 1979 the company was purchased by Schlumberger Ltd. for an undisclosed sum. The company specialized in the manufacturing and production of microchips, semiconductors, RAM computing memory and computing technology that was used in supercomputers and high-performance systems (Black, 1986). In 1987, Schlumberger was looking to divest its interest in the company as the company was losing millions of dollars every year and in 1987 was looking at a loss of $95 million (Walter, 1987). Fujitsu was at the forefront of a multiplicity of companies foreign and domestic that was competing to purchase Fairchild Semiconductor from Schlumberger. However, after it became apparent that Fujitsu was the leading bidder and was in talks to finalize a deal, the Reagan administration started to oppose the merger with the U.S. Commerce Secretary Malcolm Baldridge and Defense Secretary Caspar Weinberger leading the charge, soon after the House and Senate got involved. However, there was a problem. In 1987 there was no clear legal way for the President or for Congress to prevent the deal. “There were
no legal avenues open to the government to oppose it. These were political reasons,” said W. T. McCormick, manager of public relations at Schlumberger's New York office (Walters, 1987).

In 1987 numerous committee hearings were held in the House and the Senate to investigate the proposed merger including the House Committee on Banking, Finance and Urban Affairs, Senate Committee on Commerce, Science, and Transportation, and the Senate Committee on Finance to name a few (United States. 100th Congress. House, 1987; United States. 100th Congress. Senate, 1987). The committees hearings were held to review and gain support for legislation that was to be introduced to the House and Senate. H.R. 4242 was introduced by Rep Bryant (D-TX). The legislation “Requires registration of an investment by a foreign person if the investment results in acquisition, ownership, or control by the foreign person of a cumulative interest of: (1) five percent or more in a U.S. person or in other property in the United States; (2) $10,000 or more in a bank deposit; or (3) $10,000 or more in U.S. securities. Prohibits a foreign person from making such an investment unless the foreign person first registers the investment with the Secretary of Commerce (1986).” The bill did not get past the House Banking, Finance, and Urban Affair and subsequently died. However, some of the ideas were used in the Omnibus Foreign Trade and Competitiveness Act passed in 1988 (H.R. 4848). The year after Senator Wilson (R-CA) introduced and passed S.R. 164 with a 93-0 vote in favor of adopting. The resolution “Expresses the sense of the Senate that: (1) the President should take appropriate actions under the Trade Act of 1974 to remedy and prevent further violation of the U.S.-Japan agreement on semiconductors by Japan, to induce compliance, to compensate the United States for the harm suffered because of non-compliance by Japan, and to prevent further injury to the United States; (2) such actions should serve to increase international semiconductor trade and help enforce commitments and achieve the objectives of the agreement;
(3) such actions should penalize those who have acted inconsistently with the agreement; and (4) such actions may be directed at products which contain semiconductors (1987).” The U.S.-Japan Agreement on Semiconductors was an agreement between both nations that Japan would agree to limit its exports of semiconductors to the United States. This agreement however did not limit Japan from buying U.S. domestic companies (Johnson, 1991).

During the same time that these bills were being introduced, Sen. Exon (D-NE) and Rep. Florio (D-NJ) were drafting an amendment and seeking support during congressional hearings that would give the President the power to block any foreign acquisition. The amendment was added on to H.R. 4848 also known as the Omnibus Foreign Trade and Competitiveness Act, but the amendment would not be passed until after the deal had already been withdrawn.

The uproar that came from Congress over the proposed deal ultimately led to both Fujitsu and Fairchild walking away from the proposed plan. The U.S. office of France-based Schlumberger said "the rising political controversy in the United States concerning the venture made it unlikely that the sale of Fairchild could be completed within a reasonable time (Walters, 1987)."

In September of 1987 Schlumberger sold Fairchild Semiconductor to the U.S. domestic firm National Semiconductor. National Semiconductor’s CEO Charles E. Sporck who used to work for Fairchild lobbied for congress to prevent the merger, saying in one Senate hearing “The only way to stop unfair competition and save the U.S. semiconductor industry was to beat Japan over the head with a baseball bat until it agreed to fair trade practices” and “Protectionism beats extinction any day (Walters & Rempel, 1987).” National Semiconductor was able to acquire Fairchild for only $122 million, well below the $200 million Fujitsu was offering. The deal also
made National Semiconductor the third largest semiconductor manufacturer in the U.S. and the sixth largest in the world (Winter, 1987).

**Negative Cases:**

In 1985 French state-owned Thomson-CSF purchased Mostek Semiconductor from its U.S. parent company United Technologies. Mostek was a U.S. domestic firm that manufactured and produced high volume RAM computing memory, microchips, and semiconductors. United sold Mostek because like Fairchild the company was losing money. Thomson-CSF dealt mostly within the electronics and electrical industries and acquired Mostek for $71 million (New York Times, 1985).

In 1993, Japanese owned Fujitsu ltd. purchased Ross Technology inc. from its U.S. parent company Cypress Semiconductor for $23 million. Ross Technology inc. was a U.S. domestic firm that manufactured and produced cutting edge SPARC microprocessors and semiconductors. Cypress Semiconductor had fallen on hard times and was divesting to try and help the company turn a profit. Cypress CEO T.J. Rodgers said “My patriotism doesn't include trying to eliminate free-market transactions when I think it's a win-win situation (Weber, 1993).”

In 1995, South Korean owned Hyundai Corporation purchased NCR Microelectronics from its U.S. parent company AT&T for $300 million. NCR Microelectronics was a U.S. domestic manufacturer of semiconductors, microchips and computer storage systems. The acquisition was one of the largest single FDI transactions that any South Korean company had made in the U.S. (Smith, 1994; Pollack, 1995)

In all three of the negative cases, no domestic challengers were found and there was no backlash by the U.S. Congress, evident by no bills being introduced to prevent the deals. All
three deals were featured in the national press, however little to no fanfare or scrutiny was given to any of these deals.

**Solving the Puzzle:**

Table 1

<table>
<thead>
<tr>
<th>Faced Domestic Competition</th>
<th>Unsuccessful</th>
<th>Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fujitsu vs. Fairchild Semiconductor</td>
<td></td>
<td>Thomson-CSF vs. Mostek Semiconductor</td>
</tr>
<tr>
<td>Did not face Domestic competition</td>
<td></td>
<td>Fujitsu vs. Ross Technology Inc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hyundai Corp. vs. AT&amp;T Corp.</td>
</tr>
</tbody>
</table>

In the case of Fujitsu Ltd. trying purchase Fairchild Semiconductor, the bills that were introduced or later passed by the House and Senate were concerned with national security. The Committee hearings also included concerns of national security but also raised the issues of fair trade and how U.S. domestic firms faced competition from foreign competitors.

In the case of the first hypothesis, all cases looked at send a mixed message. It is true that the positive case brought up national security as a concern and it is likely because of this concern the proposed acquisition received scrutiny. However, all three of the negative cases received no such scrutiny. In addition, if national security was the major concern, then why didn’t the U.S. Congress oppose French owned Schlumberger’s original purchase of Fairchild, use their hardware for defense products, or not force them to divest once the company become important to national security? Moreover, why didn’t the three negative cases warrant the same amount of scrutiny? With that in mind, H1 is therefore rejected.

In the case of the second hypothesis, the positive case sends another mixed message. President Reagan’s administration was the first to raise concerns over the deal and the President
was the governor of the state before he was elected. (This is added because it is possible that he still had strong connections within the state and congressional members that represent the state)

In addition, S.R. 164 was introduced and written by a Senator from California. However, Sen. Exon (D-NE) and Rep. Florio (D-NJ) who helped lead the charge against the deal and added an amendment in H.R. 4848 did not represent California. In addition, Rep Bryant (D-TX) who introduced H.R. 4242 did not represent California. Therefore, H2 is not necessarily rejected but cannot be confirmed in its current design as there were many congressional representatives that came from different states and districts introducing legislation to prevent the deal.

In the case of the third hypothesis, both the positive and the negative cases support H3. The positive case did face competition from a U.S. domestic firm and received substantial scrutiny from the U.S. Congress. The companies’ representatives commented that the deal was withdrawn due to scrutiny from the U.S. Congress. The negative cases received no such scrutiny even though the buyer was a foreign company and were within the same industry. In addition a U.S. domestic firm that lobbied for the blocking of the acquisition latter went on to buy the U.S. firm at a reduced cost.

**Positive Case: China National Offshore Oil Corporation proposed acquisition of Unocal Corporation**

China National Offshore Oil Corporation (CNOOC) a state owned company of the People’s Republic of China was founded in 1982. CNOOC is the third largest oil company in China. Like its name, CNOOC mostly focuses on the exploration, development, and production of natural gas and oil fields in an offshore environment (CNOOC Ltd., 2014). In 2005, CNOOC proposed to purchase Unocal Corp. for the sum of $18.5 billion (Baker, 2005).
Unocal Corporation is an acronym for Union Oil Company of California. It was founded in 1980 and headquartered in Santa Paula, CA. The headquarters were later moved to El Segundo, CA. Unocal was the created by the merger of three Southern California oil companies. The company covered almost the full spectrum of oil and gas services including exploration, development, production, refining, transportation, distribution, and marketing. However, by 2005 the company was much smaller after selling its mind-west refining business to Venezuelan state owned Petroleos de Venezuela, S.A. In the same year it also sold its western refining business and service stations to U.S. domestic firm Tosco Cooperation. From then on the company mainly focused on oil and gas exploration and transportation in North America and Asia. However, it still held on to 1.754 Billion barrels of proven reserves and managed the production of 410,670 barrels of oil a day (Fundinguniverse, 2014).

In early 2005, the executives of Unocal had decided they wanted to sell the company and started looking for a buyer (Davidson, 2005). The first proposed bid came from the U.S. domestic firm Chevron Corporation, later followed by a bid from CNOOC. As both sides fought to outmatch each other it became clear that CNOOC was willing to pay more money and the final amount agreed on was $18.5 billion, much higher than Chevron’s bid of $16 billion plus. Once news got out that CNOOC was the likely winner and both parties had plans to approve the deal, Congress intervened (Douglas, 2005).

In June of 2005, H.R. 344 was introduced to the House by Rep. Pombo (R-CA) and passed the house with a vote of 398-15 in favor for approval. The bill follows as “Resolved, That it is the sense of the House of Representatives that (1) the Chinese state-owned China National Offshore Oil Corporation, through control of Unocal Corporation obtained by the proposed acquisition, merger, or takeover of Unocal Corporation, could take action that would threaten to
impair the national security of the United States; and (2) if Unocal Corporation enters into an agreement of acquisition, merger, or takeover of Unocal Corporation by the China National Offshore Oil Corporation, the President should initiate immediately a thorough review of the proposed acquisition, merger, or takeover (U.S. 109th Congress). A day after H.Amdt.431 was added to H.R. 3058 by Rep. Kilpatrick (D-MI). The amendment read “None of the funds made available in this Act to the Department of the Treasury may be used to recommend approval of the sale of Unocal Corporation to CNOOC Ltd. of China (U.S. 109th Congress).” A month later S.R. 1412 was introduced to the Committee on the Judiciary by Sen. Dorgan (D-ND). The resolution read “(1) Oil and natural gas resources are strategic assets critical to national security and the Nation's economic prosperity. (2) The National Security Strategy of the United States approved by President George W. Bush on September 17, 2002, concludes that the People's Republic of China remains strongly committed to national one-party rule by the Communist Party. (3) On June 23, 2005, the China National Offshore Oil Corporation Limited (CNOOC), announced its intent to acquire Unocal Corporation, in the face of a competing bid for Unocal Corporation from Chevron Corporation. (4) The People's Republic of China owns approximately 70 percent of CNOOC. (5) A significant portion of the CNOOC acquisition is to be financed and heavily subsidized by banks owned by the People's Republic of China. (6) Unocal Corporation is based in the United States, and has approximately 1,750,000,000 barrels of oil equivalent, with its core operating areas in Southeast Asia, Alaska, Canada, and the lower 48 States. (7) A CNOOC acquisition of Unocal Corporation would result in the strategic assets of Unocal Corporation being preferentially allocated to China by the Chinese Government. (8) A Chinese Government acquisition of Unocal Corporation would weaken the ability of the United States to influence the oil and gas supplies of the Nation through companies that must adhere to United
States laws. (9) As a de facto matter, the Chinese Government would not allow the United States Government or United States investors to acquire a controlling interest in a Chinese energy company (U.S. 109th Congress).” CNOOC shortly after dropped its bid and in August Chevron purchased Unocal for $17.9 billion (Baker, 2005).

Negative Cases:

In 1998, Dutch & United Kingdom owned Shell Transport & Trading PLC a subsidiary Royal Dutch Shell purchased the U.S. domestic firm Tejas Gas Corp based out of Houston, TX for $1.45 billion. Royal Dutch Shell is one of the largest oil companies in the world and provides most if not all of the possible services related to the oil and gas industry. Tejas Gas Corp was “One of the largest owners and operators of intrastate gas pipelines, processing plants, and storage facilities in Texas, Oklahoma, and Louisiana (Oil & Gas Journal, 1997).”

In 2002, Dutch & United Kingdom owned Royal Dutch Shell purchased U.S. domestic firm Pennzoil Quaker State Co. for $1.8 billion. Royal Dutch Shell is one of the largest oil companies in the world and provides most if not all of the possible services related to the oil and gas industry. Pennzoil Quaker State Co. was the “biggest producer of motor oil, including the Pennzoil and Quaker State brands. It has more than 2,150 Jiffy Lube oil change service stations across the country (Esterbrook, 2002).”

In 2007, Italian owned ENI Petroleum Co. Inc. purchased U.S. domestic firm Dominion Exploration & Production Inc. from its parent company, U.S. owned Dominion Resources for $4.76 billion. Eni Petroleum Co. Inc. is Italy’s largest industrial company and like Royal Dutch Shell provide most is not all possible services related to oil with operations in 79 countries (ENI, 2014). Dominion Exploration & Production Inc. primarily worked in oil and gas
production and exploration in an offshore environment, with production in the Gulf of Mexico (Sampson, 2007).

In all three of the negative cases, no domestic challengers were found and there was no uproar by the U.S. Congress. This is evident by no bills being introduced to prevent the deals. All three deals were featured in the national press, and details were given about the mergers, but no information or hints were given that there was opposition to the mergers before or after.

**Solving the Puzzle:**

Table 2

<table>
<thead>
<tr>
<th>Faced Domestic Competition</th>
<th>Unsuccessful</th>
<th>Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not face Domestic competition</td>
<td>CNOOC vs. Unocal Corp.</td>
<td>Shell Transport &amp; Trading PLC vs. Tejas Gas Corp Royal Dutch Shell vs. Pennzoil Quaker State Co. ENI Petroleum Co., Inc. vs. Dominion Exploration &amp; Production, Inc.</td>
</tr>
</tbody>
</table>

In the positive case of CNOOC trying to purchase Unocal, the bills introduced or passed made national security the foremost concern. However, economics arguments were made by U.S. representatives on the grounds that China was seeking to control oil assets and that if allowed China would use the resources for themselves and not sell the oil on the world market (S.R. 1412, 2005). Another argument was made on the grounds of economic and political concerns, “With all due respect to the Chinese Foreign Ministry, it is not a normal commercial exchange when one of the parties to a deal is owned and operated by a totalitarian communist government that does not answer to the rules of the market (U.S. 109th Congress. House. Committee on Armed Services, 2005).” This makes for an interesting argument given that oil is considered to
be a fungible commodity and that since there are so many producers in the world that saturate the world market, the U.S. would still be able to purchase oil and gas for fair market price on the world market. Lastly, while the bidding process was taking place, there was an unprecedented amount lobbying from both sides and it was known that some of the representatives that were against the merger had received financial contributions from Chevron. “I represent thousands of lobbyists in my district [in the Virginia suburbs of Washington] so I am not going to say anything negative about them. But I read that Chevron spent millions of dollars lobbying on this issue and, thus, saved themselves a lot of money in the purchase of the company (Guevara, 2005)."

In the case of the first hypothesis, I once again received mixed findings. In both bills from the House and Senate, the arguments brought against CNOOC from acquiring Unocal were national security concerns. In the committee hearings that were looked at, national security and economic concerns were prevalent. However, the three negative cases looked at go against the logic that the United States must save and protect this industry from being purchased by foreign MNCs. It is for this reason that H1 will be rejected.

In the case of the second hypothesis, the positive case does not support H2. Unocal is based out of California, however only one of the three representatives that introduced legislation were from California. Rep. Pombo (R-CA) represents the 11th congressional district and Unocal was headquartered in El Segundo, which resides in the 36th congressional district. It is for this reason the H2 is rejected.

In the case of the third hypothesis, both the positive and the negative cases support H3. CNOOC faced unprecedented Congressional scrutiny with one bill and one amendment blocking the acquisition in the house and a third introduced to a committee in the Senate. In addition,
Chevron is the third largest oil and gas company in the United States and was able to gain broad support within Congress by its lobbying efforts. This is evident by the roll call vote count and the numerous committee hearings held to investigate the matter. It is for this reason that H3 is accepted.

Conclusion:

The current literature in this field of study has looked at the state as the main actor and this approach has been used to explain why governments block or prevent inward FDI transactions and mergers. It is the findings of this research that individual members and or groups of members within a state can be studied as the main actors within a state that can prevent inward FDI transactions and mergers. Using the U.S. Congress and its representatives to explain why these actors take such actions is only one way to test this method. In the future other states representatives’ could be looked at.

The arguments provided by the national security field of thought, at the State level seem to provide some answers for why governments block inward FDI transactions and mergers. However, when looked at through the lens of individual representatives being the main actors, this research cannot fully support national security being the main concern driving their motivations or actions. The legislation introduced or passed for the positive cases does support this argument. However, the negative cases create a contradiction. Why were the positive cases blocked and not the negative cases?

There is one exception within the positive cases that needs to be pointed out. In the case of CNOOC attempted acquisition of Unocal the dollar amount was much higher than that of all the negative cases. This is due to very few deals reaching this amount of money. But again, why
should the dollar amount matter if an industry such as oil and gas is paramount to national security. If this was the case, the argument could be made that no foreign MNC should be allowed to acquire a U.S. domestic firm within this industry. Lastly, while all of the legislation raised national security concerns, it is apparent that economic concerns were also raised and free trade and market openness was often married with national security concerns.

The arguments that the protectionist field of thought brought forward were not confirmed by H2. U.S. Representatives that did not represent the state in which the U.S. company was for sale, introduced legislation to prevent the mergers. This makes the issue more complicated even if a congressman or woman who represented the district supported the prevention of an acquisition. Why would a congressman or woman who represents another state or district be motivated to prevent the deal if the deal had little to no economic consequences for the state or district they represented? This problem most likely comes from the argument made in H2, as it is conceivable that lobbyist will seek representatives that have the power to introduce and pass the needed legislation to prevent the acquisition and not necessarily seek a representative within their district or state. Furthermore, this could be explained by representatives that are from a different district or state having a financial incentive to assist lobbyist who are willing to contribute to their re-election war chest.

The question of individual congressman and woman being motivated to prevent a foreign MNC from acquiring a domestic firm cannot be definitively explained by this research. It is impossible to get into the minds of these representatives to truly know why they were motivated and took such action. It is for this reason that the research can only look at what the data shows and attempt to interpret the motives. It is clear in both positive cases that lobbying was taking place. However, I cannot prove with the current data that congressmen and women received
financial support from these lobby groups. In addition, I cannot prove what they think is good public policy or bad public policy. I can only draw the conclusion that when a domestic firm had foreign competition they lobbied lawmakers and won. Future research could delve deeper into financial contributions and look to see if the congressman or woman received financial contributions before, during or after the transaction or merger was completed or denied.

It is the conclusion of this research, in the case of the United States and the U.S. congress, that when a foreign MNC tries to purchase a domestic firm and faced a domestic competitor, congressmen and women were more likely to intervene and try to pass legislation to prevent the acquisition. Both the positive and negative cases support this argument. However, the research does have its shortcomings. It is hard to make a definitive conclusion based upon two positive and six negative cases and it is true that within the U.S. there have been few cases were Congress has intervened. However future studies could look to other states to build upon this data and or other known cases not covered in this research. With that said, the research has shown that there is a likely possibility that there is a relationship between a foreign firm purchasing a domestic company and when facing a domestic competitor, individual representatives within the state will try to intervene.
References


