

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

POSTED
8/1/13

2013 JUL 31 A 6 17

In re Application of

KDAY Licensing, LLC, Assignor)
and)
RBC License LLC, Assignee)
)
)
)
For Consent to the Assignment of)
License of)
KDAY(FM), Redondo Beach, CA)
)

File No. BALH-20130408ACL
Facility ID No. 10100

RECEIVED

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JUL 29 2013

Federal Communications Commission
Office of the Secretary

To: Office of the Secretary
Attn: Chief, Audio Division

SECOND SUPPLEMENT TO PETITION TO DENY

Brett Hamilton (“Hamilton”), by his attorneys, submits a second supplement to his Petition to Deny the assignment of KDAY(FM), FCC File No. BALH-20130408ACL. In support, Hamilton respectfully submits the following:

Hamilton in his May 13, 2013 Petition raised the issue that the assignment to RBC License LLC (“RBC”) was suspect because of the relationship of a number of the principals of Phoenix Satellite Television, Inc. (“Phoenix”), to the Chinese government. As revealed in the RBC application, Phoenix is an owner in RBC. Hamilton argued in his Petition that the Commission should demand that RBC identify the source of its funding and the extent to which any funding is being supplied by foreign entities. Hamilton pointed out that it is unlikely that RBC or its controlling principal has sufficient assets to fund the purchase price - in excess of Nineteen Million Dollars. Furthermore, the source of the funding is a necessary factor in allowing the Commission to evaluate the application pursuant to Section 310 of the

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Communications Act. *See also* Fox Television Stations, Inc., 10 FCC Rcd 8452 (1995) (Fox I), and Fox Television Stations, Inc., 11 FCC Rcd 5714 (1995) (Fox II).

Relatively recent newspaper articles demonstrate an increasing U.S. concern with respect to Chinese investment and acquisition in U.S. entities. Attachment A relates how China based UC Mobile was entering the U.S. market. The article states that the U.S. government is not entirely keen on having Chinese investment in the telecom space. The article further relates that the U.S. is concerned regarding potential national security implications.

Attachment B is an article from the Financial Times relating the successful efforts of the U.S. to thwart the expansion into U.S. markets of Huawei, a Chinese telecom equipment manufacturer.

The New York Times has reported that the China Investment Corporation, the Chinese government's 300 billion dollar investment fund, now owns stock in some of the best-known American brands, including Apple, Coca-Cola, Johnson & Johnson, Motorola and Visa (*See* Attachment C).

In that same article the following was noted:

“Since United States politicians in both parties have been nervous about China’s growing financial reach and have been particularly wary that China might seek political influence in the West commensurate with its corporate stakes.”

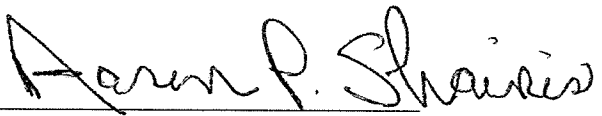
Clearly, the instant transaction should be closely scrutinized since media ownership is a means to exert political influence. Thus, questions must be answered before the Commission can fulfill its statutory obligation that grant of the instant application is in the public interest.

In this regard, the American public is understandably wary of China investment and thus public interest concerns must be considered. *See* Attachments D and E.

Predicated on the foregoing, Hamilton urges the Commission withhold any action on the pending application unless the issues Hamilton has raised in his Petition as supplemented are answered.

Respectfully submitted,

BRETT HAMILTON

By: 
Aaron P. Shainis
His Counsel

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July 29, 2013

ATTACHMENT A

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China Mobile Internet Co To Invest In U.S.

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China-based UC Mobile is coming to the U.S. in what may very well be the first China telecom related business to invest in the U.S.

The company's CEO, Yu Yongfu, told reporters in Beijing on Wednesday that the company was entering the North American market at some point in the first half of the year. Their main office would be in the U.S.

UC Mobile is the world's biggest provider of mobile phone browsers by user numbers.

"The U.S. market is definitely different from the emerging markets. Though we are confident about our technology, we still face tough challenges in areas such as product design – different countries have different tastes," Yu said at a news briefing in Beijing.

A few Chinese telecom and internet companies have made attempts to expand overseas. Search engine giant Baidu (BIDU) and mobile security supplier NetQin Mobile (NQ) have already invested heavily outside China. Chinese mobile internet companies are still in the initial stages of entering overseas markets and have yet to become global companies in the same league as Google or Baidu.

Moreover, the U.S. government is not entirely keen on having Chinese investment in the telecom space. UC Mobile's play on the wireless sector is sort of an 'end around' —it's not exactly telecommunications, but it is a telecommunication service. UC Mobile's product runs on mobile phones.

Many aspects of the future global telecom and technology markets are now being shaped by Chinese business and government interests. The momentum they are gaining and the way they are applying their advantages are transforming global markets, propelling Chinese telecom and technology



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Kenneth Rapoza
 Contributor
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I've written about Brazil pre-Lula and post-Lula and spent the last five years covering all aspects of the country for Dow Jones, Wall Street Journal and Barron's. Meanwhile, for an undetermined amount of time, and with a little help from my friends, I will be parachuting into Russia, India and China. (I figure if Anderson Cooper can parachute, I can parachute.)

The author is a Forbes contributor. The opinions expressed are those of the writer.

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ventures toward the leading edge of technology development, manufacturing, and standards setting, according to a report from the U.S. China Economic and Security Review Commission, published in January 2011. If current trends continue, China will effectively become the principal market driver in many sectors, including telecom, on the basis of consumption, production, and innovation. This greater potential role for China has generated concerns regarding corresponding potential national security implications of manufacturing and investment by China's telecommunications companies. Signals intelligence is a significant source of Chinese intelligence collection, and there is growing public concern over the impacts of cyber espionage incidents that appear to originate in China. Industry players rejected a bid by Chinese firm Huawei to acquire Nortel in 2008 because of business intel concerns.

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China Communications Products In The US

Product	Company	What it is used for
ZTE-EV Modem/ UBS	ZTE Corporation	Connects wireless
ZTE Smartphones		
3G & 4G	ZTE USA	Wireless handsets
Application software for mobile devices	Tech Faith	CDMA operating software
Base station equipment	Huawei	high speed data downlinks
WiMax wireless patents	Huawei/Nokia	standards control
E583 Modem	Huawei	3G to WiFi
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Source: U.S.-China Economic and Security Review Commission Staff Report, January 2011, information current as of November 2010.

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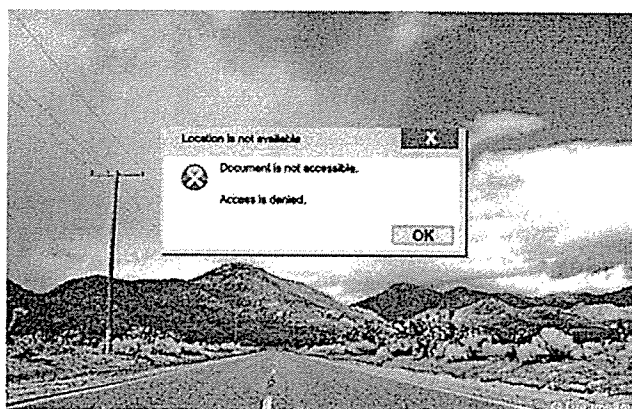
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April 7, 2011 10:01 pm

China and the US: Access denied

By Kathrin Hille, Stephanie Kirchgaessner and Paul Taylor

The thwarting of telecoms equipment maker Huawei's American ambitions exposes the deepening distrust between the two superpowers



Closed off. Huawei's failed attempts to enter the US have prompted Ren Zhengfei, chief executive, to develop a new strategy for a market that served as his original role model

In December 1997, Ren Zhengfei and his management team gathered by the fireplace in a Silicon Valley hotel to discuss their recent meetings with a clutch of US technology firms. While their American counterparts headed home for Christmas, the boss of Huawei, the Chinese telecommunications equipment maker, and his team remained at work, analysing what they had seen and heard. In Mr Ren's vision for global expansion, the US was to be the role model.

"We must respect them, learn from them, critically carry on [their work]," he concluded in an article praising companies such as IBM and Bell Labs for their innovative power, speed of movement and scale. Ever since, his company has paid up to 3 per cent of its revenue each year to consultancies including IBM, Accenture and Hay Group to model its management systems on US multinationals. "This has helped us develop a common language with customers all over the world," says a Huawei board member.

But 14 years on, its love affair with America is on the rocks. While the lessons from Silicon Valley have helped the Chinese company storm markets in Africa, the Middle East, Latin America and Europe – and elevated it to the global number two slot – it has hit a brick wall in the US. In spite of \$28bn in global revenues, \$4.4bn in operating profit and a world market share of 14.2 per cent last year, it has yet to win a single network contract with a leading telecoms carrier in the US.

Huawei's frustrated attempts to make serious inroads in the US add up to more than just a corporate saga. They reveal deepening mutual distrust between China and America. In the US, there is growing frustration and alarm in the intelligence community and in Congress at its companies' dependence on China for critical components in highly sensitive industries. There are also concerns that US groups are placed at a disadvantage by hidden financial support from Beijing for their rivals. China, for its part, suspects that America is seeking to contain its rise on all fronts, including economic. ✓

The extent of Huawei's problems became apparent last year when the company tried to raise its stake in the US market, and each attempt ended in failure. In October, it appeared close to winning a multibillion-dollar network infrastructure contract from Sprint Nextel, the third-largest carrier in the US. Though the administration of Barack Obama lacked a formal mechanism to prevent the deal, such was its concern that Gary Locke, the commerce secretary since named ambassador to Beijing, telephoned Sprint's chief executive. In the event, Sprint chose Samsung. ✓

Last year, Huawei also lost out to Nokia Siemens Networks in a bid for Motorola's wireless assets, and failed to win a bid for 2wire, an internet software firm that went to Pace of the UK instead. People familiar with both failures say that concerns about the risk of regulatory delays played a role in each. ✓

Last month, Huawei was forced to agree to unwind a \$2m acquisition of patents from 3Leaf, an insolvent California-based startup, after the Committee on Foreign Investment in the United States (Cfius), which vets foreign takeovers of US assets, refused approval.

In the Sprint case, Huawei had offered external validation of its equipment through Amerilink, a company set up by William Owens, a former vice-chairman of the joint chiefs of staff, and Kevin Packer, a former Sprint executive. But US officials never believed the group had the necessary technical capability or independence, according to people familiar with the matter. Instead, the attempt to appease government concerns was perceived as a ploy.

"Things have clearly gotten much worse for Huawei," says Mario Mancuso of Fried Frank, a global law firm, and former undersecretary of commerce.

This is in part because of the rocky state of Sino-US relations, including reports of cyberattacks on US companies such as Google in China. Fairly or unfairly, says James Lewis of the Center for Strategic and International Studies in Washington, America will be loath to entrust a Chinese group with access to its communications network if it has reason to suspect doing so would bolster cyberwarfare capabilities.

"Awareness in the national security policy community of threats in the cyber domain has greatly increased," says Mr Mancuso. "So if you believe that the Chinese government is engaging in cyber-intrusion, you'll have a problem with Huawei because Huawei sits smack in the middle of the industry supplying the critical infrastructure."

Huawei sees itself as a victim of a relationship poisoned by distrust and demonisation of China. Bill Plummer, spokesman for Huawei North America, reels off a list of other stress points, including currency disputes, disagreement over Tibet and Taiwan and China's inclination to use information security and innovation policies to shut foreign companies out of the market. "We are always seen through this prism," he complains.

Concern about the expansion of China Inc has hurt other Chinese companies. In 2005, a \$18.5bn bid by state-owned China National Offshore Oil Corporation for Unocal, the US oil company, failed because of fierce political resistance. At the time, a senior official at US-based oil group Chevron, which had offered a counter bid for Unocal, told the Financial Times that the Chinese oil company had an unfair advantage thanks to "free money" from Beijing.

In a recent letter to Mr Obama, senior Republican lawmakers warned about Beijing's "extensive support" for Huawei and ZTE, another Chinese technology group, and that such financial ties "[increase] the risk that the companies feel obliged to follow its instructions". Huawei acknowledges having several credit lines from state banks but acts only as a "bridge" between the banks and customers who need loans to buy its equipment, and says it has received no other significant government support.

In 2008, Huawei retracted a bid with Bain Capital for 3Com, a US technology company, after it became clear the deal would not pass Cfius scrutiny. People familiar with the Cfius process say US concerns about Huawei are based on classified information known to only a handful of officials.

US politicians have long-running complaints about transparency. As a private company, Huawei does not disclose details about its owners. Mr Ren's history in the People's Liberation Army has fed insinuations that the PLA could have either a stake in or special relations with Huawei. He was an officer in the engineering corps from 1974 to 1983, losing his position when the military was downsized. The company refutes the insinuations, saying Mr Ren holds no more than a 1.42 per cent stake and the rest of the company is owned by employees through a holding structure. But that has helped little to dispel doubts in the US.

Excluding China Inc: Selected largest deals by Chinese companies in the US since 2007

Date	Buyers/investors	Target/issuer	Status	Value (\$m)
Sep 2007	Huawei; Bain Capital Private Equity	3Com	Cancelled	2,640
Nov 2009	China Investment Corp	AES Wind Generation	Cancelled	571
Dec 2009	Thayer Lodging Group; Shanghai Jin	Interstate Hotels & Resorts	Completed	321

	Jiang International Hotels			
	Tempo Group; Beijing			
Jul 2010	E-town International Investment and Development	Nexteer Automotive	Completed	450
Nov 2010	China Huaneng Group	InterGen	Completed	1,232
Feb 2011	China Aviation Industry General Aircraft	Cirrus Design Corporation	Announced	210

Source: *Capital IQ*

Observers see a similar lack of transparency in Huawei's recent approach to sensitive transactions in the US. Its "efforts to better engage US authorities have been perceived as self-serving and very limited. The way they approached the 3Leaf deal has been particularly damaging", says Mr Mancuso. Huawei did not inform Cfius of the deal. "That created the impression that they were trying to sneak in," says Mr Mancuso.

The company's executives admit that they were ill advised and that communication strategy needs to change. "There has been the tendency to remain silent, and here in America that can be seen as consent," says Matt Bross, co-president of Huawei North America. He says that from, now on, the company intends to be more vocal in refuting what it sees as unfair allegations.

Huawei also says the process of unwinding its patent deal with 3Leaf could have some benefits for its future in the US. The company has installed a compliance officer in charge of overseeing divestment to meet Cfius demands. "This gives us the chance for the first time to have a continuous dialogue with Cfius," Mr Bross says.

Legal experts in the US stress that such dialogue is necessary to build trust with officials even when no deal is in the pipeline. But Huawei claims it was not given that chance in the past. "If you are Ericsson, you can have that. If you're Huawei, you can't," says Mr Bross.

Huawei also intends to install product security mechanisms to address US criticism. It plans to replicate the "secure cell" structure it uses in the UK, whereby critical software code for network products is compiled by locals and put in escrow. That comes on top of a system where US customers can choose who they want to install Huawei products and who they want to support them.

This is part of the framework for a new offensive in the US. In the past year, Huawei has hired a battalion of senior sales and research staff from competitors to help win business that it has chased in vain for over a decade. For example, Jose Figueroa, former Europe sales chief for Motorola's wireless business, joined in January especially to target AT&T, Verizon, Sprint and T-Mobile, who share more than 90 per cent of the market.

The company is also building up its research and development presence in the US. John Rouse, Nortel's former chief technology officer who joined last July, says that in the past the Huawei's global research facilities would only "augment" R&D done in China; today, the American research base is responsible for "real innovation". His focus is on developing cloud computing technology that will enable carriers to compete with the likes of Google and Amazon.

However, the company believes that its large size will make it increasingly difficult to keep growing at the same pace as it has done to date. It has identified corporate services as a new growth driver. It plans to expand its workforce from 110,000 by another 26,000 this year alone.

Even with this massive push, the task of breaking into the US market remains daunting. Although Huawei's revenues in the US have grown almost 20-fold from \$40m in 2006, at \$772m last year they are still tiny compared with last year's global revenues.

But while it keeps lobbying the top-tier carriers, Huawei has started selling gear for rural networks in the US. Last month, it sold a rural broadband network to Northeast Wireless in Maine, and currently it is in talks with Sprint Rural Alliance, a group of small rural operators that have "roaming" partnerships with Sprint Nextel, for infrastructure in a few midwestern states.

Even in the relatively straightforward Maine transaction, however, the problems Huawei faces in the US remain constant. At a recent congressional hearing, a senator from the state asked law enforcement officials about the deal, and revealed that the FBI had discussed the transaction with Northeast Wireless. The deal was completed and did not in the end prove controversial. But it was one more sign of Huawei's uphill struggle in America.

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February 9, 2010

China Lists \$9.6 Billion in Shares of U.S. Companies

By [DAVID BARBOZA](#) and [KEITH BRADSHER](#)

SHANGHAI — Flush with cash despite the global economic downturn, [China's sovereign wealth fund](#) quietly bought more than \$9 billion worth of shares last year in some of the biggest American corporations, including [Morgan Stanley](#), [Bank of America](#) and [Citigroup](#).

Although most of the stakes were small, the [China Investment Corporation](#), the government's \$300 billion investment fund, now owns stock in some of the best-known American brands, including Apple, [Coca-Cola](#), [Johnson & Johnson](#), [Motorola](#) and Visa.

The [detailed list](#), which contained holdings totaling \$9.6 billion as of Dec. 31, was disclosed Friday in a filing with the [Securities and Exchange Commission](#); it lists stakes only in companies traded in the United States.

The filing offers a glimpse of how China is trying to diversify its more than \$2 trillion in foreign currency holdings with stock, rather than investing almost entirely in [United States Treasury](#) bonds and other debt securities issued by governments and by government-sponsored enterprises like [Fannie Mae](#).

Prime Minister [Wen Jiabao](#) of China and other officials have repeatedly expressed worry about how the country's holdings of [Treasury securities](#) could be hurt by inflation or by mounting United States debt. By buying the securities of international companies, China is trying to spread its fast-growing wealth more widely. It is also seeking to acquire strategic stakes in companies that could feed its hungry economy with a range of commodities.

The China Investment Corporation, already one of the world's largest sovereign funds, was formed in 2007 with about \$200 billion. It now has assets of nearly \$300 billion and, according to state-run news media, is expecting another large injection of funds.

A spokeswoman for the corporation, which is based in Beijing, did not return e-mail messages or phone calls seeking comment. But analysts said the filing showed that the fund had invested only a small portion of its \$300 billion in American stocks, and the fund seemed to be following a cautious strategy to diversify globally after initially having put its biggest investments into shoring up the capital of Chinese banks.

"This is still a relatively small amount compared to the total size of the fund," said Chang Chun, a professor of finance at the China Europe International Business School in Shanghai.

The sovereign wealth fund got off to a rocky start in 2007 and early 2008 by acquiring a \$3 billion nonvoting stake in the American [private equity](#) firm Blackstone and paying \$5 billion more for a 9.9 percent stake in Morgan Stanley.

Shares of both companies plummeted in 2008 during the financial crisis, leading to a storm of criticism directed at the wealth fund. But analysts say the fund performed well in 2009, particularly because it was buying aggressively as the market recovered.

Exactly when the investment corporation bought the shares of various companies was not disclosed in the filing. Its acquisition of nonvoting units of Blackstone and its early stake of preferred shares in Morgan Stanley are not listed in the filing, apparently because they are not traded equities.

The filing indicates that the corporation owns about \$19 million worth of Bank of America stock, close to \$30 million worth of Citigroup shares and about \$333 million worth of shares in Visa, as well as holdings in various index funds.

The fund's largest listed holdings were \$1.7 billion worth of shares in Morgan Stanley and nearly \$650 million worth of shares in BlackRock, the New York money management fund.

The Morgan Stanley stake was acquired last June, when the investment bank issued about \$2.2 billion worth of common shares to help repay the United States government under the Troubled Asset Relief Program. The Chinese fund acquired about \$1.2 billion worth of shares at that time.

Some United States politicians in both parties have been nervous about China's growing financial reach, and have been particularly wary that China might seek political influence in the West commensurate with its corporate stakes. Four years ago, Congress discouraged Cnooc, a state-owned Chinese oil company, from buying the oil company Unocal, which instead merged with Chevron. ✓

Most sovereign wealth funds, with the exception of Norway's, disclose few details about their holdings. But the Chinese fund made its list available for the first time on the S.E.C.'s form 13F, which is filed quarterly by institutional investors and mutual funds in the United States.

Ben Simpfendorfer, an economist at the Royal Bank of Scotland, said the Chinese sovereign wealth fund's decision to disclose its holdings could limit concerns about secrecy in government holdings.

"This should help reassure politicians that Chinese sovereign wealth funds can take minority positions responsibly," he said.

The Chinese fund's holdings outside the United States are substantial and growing. In Canada, it owns a \$3.5 billion stake in Teck Resources, a mining and resources company listed in the United States, and a \$1 million stake in Research In Motion, the maker of BlackBerry mobile phones.

The sovereign wealth fund has also been buying small stakes in Australia's biggest banks and paid \$646 million last autumn for a stake in the Noble Group, a diversified commodities company based in Hong Kong with operations around the world in industries like iron ore mining and sugar mills.

Executives whose companies have accepted investments from the Chinese fund tend to defend it as apolitical.

Richard S. Elman, the founder and chairman of Noble, said last month that executives of the Chinese fund had been businesslike in their approach to the investment.

“They are hugely commercial, and they want results,” he said. “They do not interfere in the day-to-day operations.”

David Barboza reported from Shanghai and Keith Bradsher from Hong Kong.

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ATTACHMENT D

press release
 May 30, 2013, 1:57 p.m. EDT

American Public Wary of Chinese Foreign Direct Investment, New Research Shows



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STRATEGIES

WASHINGTON, May 30, 2013 (BUSINESS WIRE) -- At a time when many other countries are actively seeking Chinese outward foreign direct investment (FDI) and despite record Chinese FDI activity in the U.S. in recent years, the American public continues to view greater U.S.-China economic ties suspiciously, new survey results show. The survey, conducted in mid-May by Hill+Knowlton Strategies, suggested that future deals will have to navigate a potentially hostile public and political landscape. Among the key findings:

- 51 percent of Americans believe China poses the greatest threat to the U.S. economy compared to several other countries and regions.
- 37 percent of the public believes closer ties to China would be harmful to the U.S. economy, compared to 30 percent who believe it would be beneficial for the U.S.
- 34 percent of the American public is not comfortable with any investment by Chinese firms into American companies, regardless of the level of managerial control that would be exercised by the investor firm.
- Concern around Chinese foreign direct investment is consistent across a variety of industries, including oil and gas, coal, tech, manufacturing, infrastructure and real estate.
- A majority of the American public is aware of recent news reports about hackers with ties to the Chinese military engaging in cyber espionage against the U.S., and strong majorities are comfortable with placing certain restrictions on Chinese investment to address these cyber-theft concerns.

As countries across the globe continue to pursue full recovery from recession, many are engaging in coordinated efforts to attract Chinese investment and deepen ties with China. Meanwhile, Chinese firms are actively pursuing outward FDI opportunities across the globe, including the United States.

"We're seeing countries like the UK and Canada basically say to China, 'Come here. We want your business,'" said Ron Hutcheson, H+K Strategies senior vice president and head of the firm's Washington, D.C., corporate advisory practice. "In contrast, the U.S. is sending a mixed message that reflects significant public suspicion toward China."

"The new poll numbers are not surprising," said Nancy McLernon, president and CEO of the Organization for International Investment (OFII), a business association representing global companies. "Chinese investment provides some unique challenges. However, there are enormous stakes involved in getting the policy on this right. In fact, most governors are out there pounding the pavement for Chinese investment. It is imperative policymakers in Washington not slam the door on job-creating investment based on knee-jerk reactions. Our missteps in this area will be other countries' gains."

Global companies investing in the U.S. have insourced more than 5 million jobs with an annual payroll of \$408 billion, according to OFII. (Learn more about the economic impact of foreign direct investment in the U.S.)

"We have seen growing distrust toward companies in general in recent years, and that distrust is especially acute for companies with Chinese investors," said Robert Ludke, H+K Strategies senior vice president and head of the firm's Governance+Sustainability practice.

"As a result, the burden is on Chinese investors to be transparent and publicly communicate the benefits of their investment if they are to enjoy a license to operate in the U.S."

Research+Data Insights, which is part of Hill+Knowlton Strategies, conducted the online survey May 15-17, 2013, among a representative sample of 1,174 U.S. adults. The survey has a margin of error of +/- 2.9 percentage points at the 95 percent confidence interval. More

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information on the survey findings can be found at hkstrategies.com/Chinese_Investment_Issues.

About Hill+Knowlton Strategies

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July 10, 2013	1:23 PM EDT	USD BREAKING						
New York	London	Tokyo	DOW	-28.03	NASDAQ	+5.03	S&P 500	-2.43
Open	Closed	Closed	15,272.31	-0.18%	3,509.30	+0.14%	1,649.89	-0.15%

The Organization for International Investment is a business association in Washington, D.C., representing the U.S. operations of many of the world's leading global companies, which insource millions of American jobs. OFII advocates for fair, non-discriminatory treatment of foreign-based companies and works to promote policies that will encourage them to establish U.S. operations, increase American employment, and boost U.S. economic growth. <http://cts.businesswire.com/ct/CT?id=bwnnews&sty=20130530006349r1&sid=cmtx4&distro=nx>

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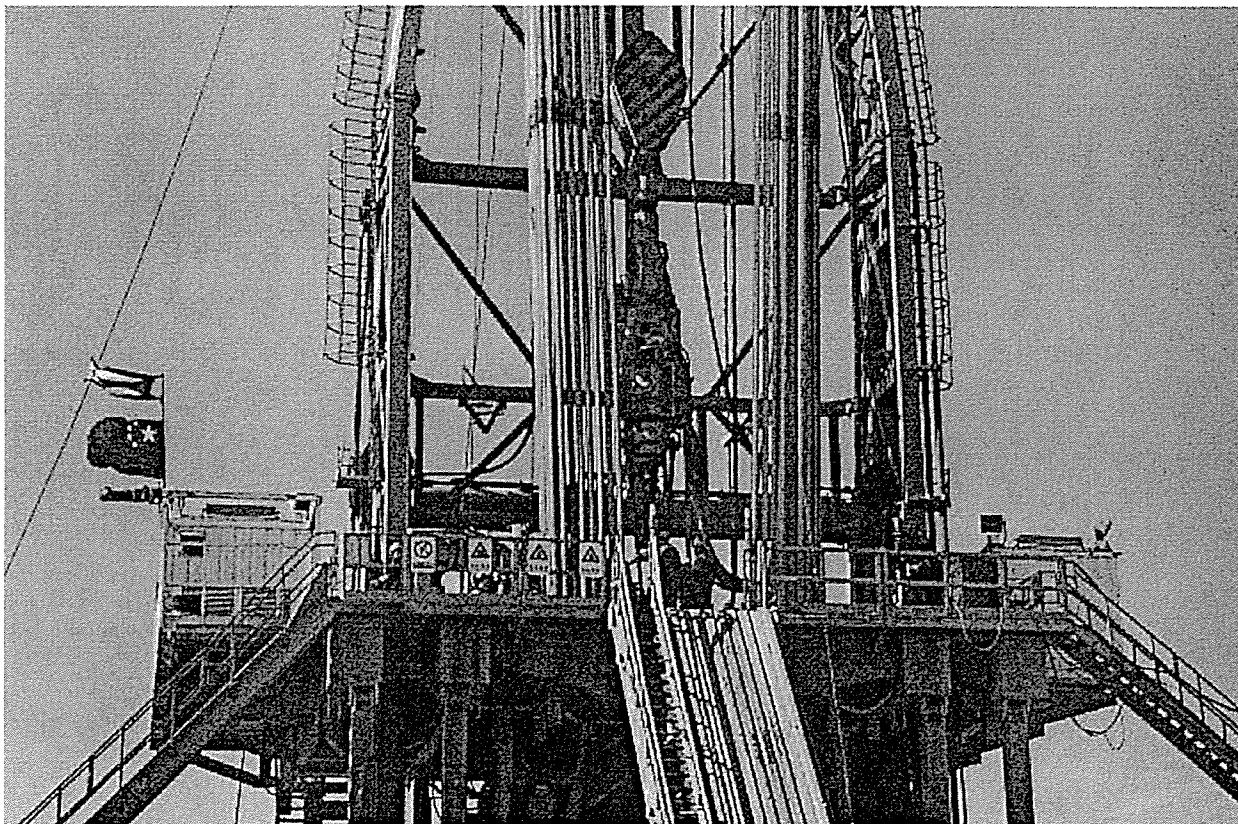
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China is buying the world, or so the rumor goes. To satisfy its endless need for natural resources, Chinese companies have spent billions of dollars buying up mines, oil rigs, and other resource assets mostly in Africa. When it comes to the United States, however, Chinese investors are less welcome.

U.S. citizens are generally skeptical; they fear the transfer of American know-how and technology and the offshoring of entire companies to China, which entails the loss of American jobs.

A recent survey, conducted in mid-May by the Washington-based Hill+Knowlton Strategies (H&K Strategies) company, found that many U.S. citizens believe that no country poses as much of an economic threat to the United States than China.

About one-third of survey respondents are not at ease when it comes to Chinese investments in the United States. Unease with Chinese investments does not center on one particular industry, but many, including infrastructure development, the energy industry, manufacturing, and real estate. ✓

"We have seen growing distrust toward companies in general in recent years, and that distrust is especially acute for companies with Chinese investors," says Robert Ludke, senior vice president at H&K Strategies.

U.S. Security Sector Alarmed

"China's aggressive, unfettered pursuit and transfer of manufacturing capabilities, raw materials, key technologies and intellectual property, equity investment in, or acquisition of, US companies exposes our defense industrial base to unacceptable risk," testified Dean G. Popp, former Army acquisition executive, during the May 9 U.S.-China Economic and Security Review Commission hearing.

Popp suggested that actions by the U.S. Committee on Foreign Investment in the United States (CFIUS) harmed U.S. security because of its "ineffective and flawed" practices.

Explaining his assessment of CFIUS, he pointed to a recent sale of A 123 Systems, a bankrupt former U.S. Department of Defense contractor, to the Wanxiang Group Corp., a Chinese automotive company that has ties to the Chinese Communist Party.

Despite objections by the U.S. Army and other federal agencies, as well as a congressional inquiry, CFIUS concentrated only on economic benefits and ignored the U.S. security issue completely.

"China is not a free trade state. Trade with China is different. ... We should not be fooled by the duality that, to the West, Chinese firms present themselves as capitalist free trade entities," Popp stated.

How Chinese Investment Affects US Competition

There are "three areas in which Chinese investment may undermine U.S. competitiveness and economic opportunities," testified Elizabeth J. Drake, partner of law firm Stewart and Stewart, during the U.S.-China Commission hearing.

The first factor is price competition. The Chinese regime supports investments made by its companies in foreign countries. Money for these investments is drawn from an investment fund with a very low interest rate. This arrangement is not available to companies competing with the Chinese firms, which borrow at market rates. No U.S. law exists to protect a U.S. company facing such competition.

In addition, by operating from inside the United States, the acquired companies can escape the anti-dumping duties or countervailing remedies. Such remedies are used only against foreign-based companies. Chinese companies also can buy their raw materials from firms in China at a disadvantage to U.S. suppliers.

Lastly, Chinese companies will transfer equipment and technology to China once they have acquired a company, which has been proven in many instances. ✓

For example, Magnaquench, once the only U.S. manufacturer of magnets used in motors, MRIs, and wind turbines, was sold to a Chinese state-owned enterprise (SOE) in 1995. As soon as a five-year moratorium for keeping production in the United States had elapsed, the equipment was moved to China. By 2007, there were 130 companies producing the product in China and none in the United States. ✓

Three Drivers of Chinese Investment

Andrew Szamosszegi, principal of Capital Trade Inc., testified before the commission that the Chinese state has no other choice than to invest in the United States, given the significant trade deficit between the two countries.

"[T]he United States must import capital and ... China has trillions of dollars that it must recycle into U.S. assets. The Chinese government traditionally invested these dollars in U.S. government debt but several years ago decided to diversify its asset base into other U.S. investments," Szamoszegi stated.

In addition, Chinese companies are increasingly facing more anti-dumping and countervailing duties, and thus losing market share as their products become more expensive. By investing in U.S. domestic industries, the Chinese firm can increase its market share instead of being sanctioned by the World Trade Organization.

Another main driver for Chinese investments is gaining access to American technology and strategic assets, and thus the ability to bring the Chinese know-how up to par with the United States, a process infamously dubbed "reverse engineering."

Reliable Data Paramount for Analyzing Investment Flows

"Analyzing Chinese investment in the U.S. is challenging due to lack of reliable and timely data sources," testified Thilo Hanemann, director at Rhodium Group LLC, at the U.S.-China Commission hearing.

Official data monitors of Chinese investments in the United States are outdated, given that the latest information is from the beginning of 2012. Furthermore, official data often does not provide ownership information.

Neither the Chinese statistical agencies nor the U.S. Bureau of Economic Analysis provides details concerning investments.

In response, the U.S. private sector has established alternate databases with material taken from regulatory filings, media publications, and other merger and acquisition databases. For example, one such database is the China Investment Monitor, developed by the Rhodium Group.

There are many reasons why the U.S. public and many officials are suspicious of China's investments in U.S. companies. Rules and regulations may reduce some of the fears, but can't provide a comprehensive solution. Unless China ultimately mends its ways, such sentiment will fester and grow.

The post Drivers and Dangers of Chinese Investment in the US appeared first on The Epoch Times.

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CERTIFICATE OF SERVICE

I, Malinda Markland, do hereby certify that copies of the foregoing “Second Supplement to Petition to Deny” were sent via First Class U.S. Mail, postage prepaid, this 29th day of July, 2013 to the following:

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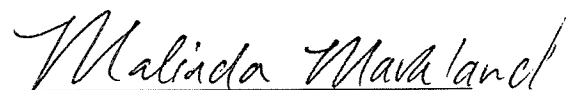
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