New Trends for Chinese Investments in the U.S.

How to Strike a Win-Win Transaction

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Chinese Foreign Direct Investment in U.S.

All States / All Industries / 2000 to Q2 2015
Greenfield & Acquisitions / Any Ownership

Total Deals: 1117
Total Value: $54 Billion

Investment by Industry (in $mil)
- Agriculture & Food: 19 deals / $7,256
- Automotive: 105 deals / $2,270
- Aviation: 16 deals / $736
- Basic Materials: 43 deals / $399
- Consumer Prod. & Serv.: 100 deals / $867
- Electronics: 55 deals / $353
- Energy: 120 deals / $12,353
- Entertainment: 33 deals / $3,216
- Finance & Bus. Services: 62 deals / $1,370
- Health & Biotech: 81 deals / $2,247
- ICT: 177 deals / $9,773
- Ind. Machinery & Equip.: 75 deals / $754
- Metals and Minerals: 32 deals / $1,305
- Real Estate & Hospitality: 110 deals / $10,847
- Transport & Infrastructure: 89 deals / $265

Investment by Type (in $mil)
- Greenfield: 707 deals / $6,166
- Acquisitions: 410 deals / $47,844

Investment by Ownership (in $mil)
- Government: 305 deals / $19,476
- Private: 812 deals / $34,534

Source: Rhodium Group, LLC (RHG)
Technology – Next Wave of Chinese Investment in U.S.

Aggregate value, USD million

Source: Bloomberg, Thomson, Rhodium Group; includes all completed M&A transactions by ultimately Chinese owned firms irrespective of the size of the resulting stake
Chinese FDI Transactions in U.S. High-Tech Industries

Source: Rhodium Group, LLC.
Geographic Distribution of Chinese High-Tech FDI in U.S.

Accumulated deal value for 2000–2013, number of transactions

Map showing the distribution of Chinese High-Tech FDI in the U.S. with states colored according to the value of deals in $million and marked with the number of transactions.

Source: Rhodium Group, LLC.
Types of Investors

• Private investors
  – Chinese backed funds
  – Companies of private sectors

• State-owned investors

Number of deals and deal value in $US (millions)

Source: Rhodium Group, LLC.
Strike Win-Win Transactions

• On a deal-by-deal basis, understand the motives of investments:
  – Improving efficiency of global operation
    ➢ Gain new technology
    ➢ Pursue talents
    ➢ Learn international management practices and global regulatory environment
    ➢ Better access to US capital
  – Accessing U.S. markets
  – Acquiring strategic and higher margin assets
  – Diversifying businesses
Improving Efficiency of Global Operation

• Didi Kuai’s strategic alliance with Lyft
  – Invested $100 million in Lyft’s latest round of $530 million
  – share knowledge and resources to further product and technology development and explore cross-platform and cross-regional opportunities
  – Lyft will hail a Didi car for U.S. visitors in China and Didi will pull up a Lyft ride for Chinese visitors in the U.S.
  – Partnership gives Lyft a boost against Uber and gives Didi a foothold in the US market where an increasing number of Chinese travelers visit each year
Accessing U.S. Market by Innovative Chinese Companies

- Hengrui has established R&D site in the US
- Hengrui Pharmaceutical (Shanghai) exclusively licenses preclinical antibody drug developed *de novo* to Incyte Pharmaceuticals for $25 mil upfront and $770 milestone
- Hengrui retained China rights and Incyte acquired all ex-China rights
  - *ChinaBio Today*, the deal “is indicative of China's ability to truly innovate”
  - *Sina*, “A milestone transition in the Chinese pharmaceutical industry – from imitator to innovator”
How To Structure Such a Premium Deal?

• Exclusive vs. non-exclusive
  – Exclusive conditioned on performance
  – Sublicensable?
  – Stepwise expansion of field of use

• Exclusivity
  – Territorial divide
  – Subject matter divide
How To Structure Such a Premium Deal?

• Control of IP
  – Which party controls patent or trademark prosecution
  – Which party gets the first right to enforce IP
  – How to define improvement IP
  – Who controls improvement IP
Gaining New Technology and Talents

- **Lenovo** – acquired cutting edge technology, attractive technology team, and international management team from IBM’s PC unit.

- **GCL-Poly** - established R&D center in Washington state to boost in-house research capability to develop better solar photovoltaic technology. Plans to open another R&D facility in SV.

- **Huawei** - R&D center in SV employs 600 people, focus on developing enterprise solutions, such as telepresence and cloud computing.

- **Baidu** - artificial intelligence lab hired Google’s ex-artificial intelligence chief and focus on AI and voice recognition.
Common Pitfalls and Misunderstandings

• Handshake deals are infrequent.
• Transactions are much more document-intensive, more precise, and longer in length in US than those in China, which means they take longer to prepare and negotiate.
• Settle key rights at the term sheet stage, not drafting stage.
• Chinese investors often do not do as much due diligence as they should
• They may require tough and unrealistic representations and warranties and other terms
• Corporate governance and housekeeping (e.g. board approval, record keeping) are more important in the US.
Common Pitfalls and Misunderstandings (Con’t)

• Learn what’s market in SV or wherever you are investing
• Tranche or milestone investment
• “At will” employment v. term employment
• Non-compete covenant in California
• Tax issues for non-US investors investing in LLCs
Gaining New Technology and Talents

• Chinese companies setting up R&D center in Silicon Valley
  – How to handle joint inventions between the US Sub and Chinese parents?
    • Foreign filing license
    • Export control
Joined Inventions by US Nationals and Foreign Nationals

- Filing the application first in US would violate Chinese law.
- Filing the application first in China would violate US law.
- Article 20 of Chinese Patent Law: an invention or utility model completed in China is allowed to be filed in a foreign country only after it is determined upon examination that the invention or utility model does not need to be kept secret.
- 35 U.S.C. 184 US Patent Law: requires foreign filing license if one were to file outside of US FIRST for inventions MADE in US.
Joined Inventions by US Nationals and Foreign Nationals

• What constitutes “MADE in US”?
  – No good definition
  – Proposed: “all or majority of conception, and all or majority of reduction to practice”
  – Exercise a abundance of caution:
    ➢ Simultaneous filing in both countries problematic
    ➢ Seek foreign filing license in US and file first in China (e.g., a PCT with SIPO) may be a better approach
    ➢ Inventions made by US inventors outside of US not subject to foreign filing license under 35 U.S.C 184
Case Study – Lesson To Be Learned

- Chinese company inventors collaborated with US university professor
- Professor partly conceived the idea, invention reduced to practice partly in US and partly in China by company inventors
- Chinese company initiated patent filing in China
  - Possibly violated US foreign filing license requirement, depending on the construction of “invention MADE in the US”
  - Possibly violated US export control law, depending on the subject matter
- Chinese company requested expedited prosecution and prompt early publication of the patent application within 12 months from the filing date
  - Created self-inflicted prior art, and foreclosed the chance of abandoning this case and refile a new case
  - Subsequent filing within 12 month must claim priority to the first case which is tainted with the issue of lacking foreign filing license from the US

US inventor visited China
Conceived invention
Invention reduced to practice partly in US, partly in China

Published <1 yr
Joined Inventions by US Nationals and Foreign Nationals

• The foreign filing license from the Commissioner for Patents also would authorize the export of technical data and other subject matter relating to preparation and prosecution of a foreign patent application.

• Technology and product developed by US nationals in collaboration with foreign nationals, regardless where the technology was made, may be subject to export control:
  – Largely dependent on classification of the underlying subject matter by the Department of Commerce.
  – Other state departments may be involved depending on subject matter.
Happy Investing

But

Be Mindful of Legal Pitfalls