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Bay Area's China connection

Sean Randolph and Niels Erich

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Perceptions of China can differ depending on where you sit. Washington tends to see China as a threat, or at least a problem. There are reasons for this that can't be lightly dismissed. States and cities, on the other hand, see China as an opportunity, with governors and mayors making pilgrimages to bring home Chinese trade and investment. Far from debates on security and strategy (and from political posturing), communities are forging practical ties with China based on mutual interest and opportunity.

The Bay Area is playing a large role in this process, and it is uniquely positioned to benefit. Its connection to China dates back to the arrival of the first Chinese immigrants during the Gold Rush. Since then, it has hosted the largest Chinese community in the nation. This is a relationship fueled by entrepreneurs, from the gold prospectors, fishermen, laundry owners and railroad workers of the 1850s to today's graduates of Bay Area universities who have stayed to become investors and lead technology companies or have returned home to launch businesses.

Trade has bound China and the United States together for two decades as unprecedented investment in Chinese manufacturing has generated competitively priced exports and more than \$3 trillion in foreign exchange reserves. Though trade is still growing, it is Chinese investment, however, that is changing the U.S.-China relationship and with it, China's connection to communities across the nation.

In a major shift, investment is now moving in both directions. And though still relatively small, it is expected to grow rapidly. According to the Rhodium Group, at the end of last year, China sent more investment to the United States than it received. California attracts more technology deals than any other state; 35 percent are in the Bay Area, where Chinese companies are investing in hardware, software, gaming, battery technology, solar technology and biotech.

Both sides benefit: Chinese investors are accessing U.S. markets and technologies, and U.S. companies get capital and access to markets in China. The Asia Society has documented growing investment from China since 2000: Technology deals have surpassed \$1 billion each year since 2010 and are poised to accelerate in 2014. Most of these investments are by private companies, are small (under \$500 million) and focus on other private firms, either through joint ventures or minority stakes in companies with non-sensitive technology.

Investment is also going into greenfield projects - that is, projects unconstrained by any previous work. Telecommunications company Huawei employs 600 at its facility in San Jose. China's largest electronic retailer, Suning, has a research facility on the Peninsula focused on e-commerce, and China's largest search company, Baidu, has an Institute for Deep Learning in Cupertino. With support from China's sovereign wealth fund, venture firm West Summit Capital has 13 portfolio companies in the area.

Property investments include large projects, such as Chinese developer Zarsion's partnership in the \$1.5 billion Brooklyn Basin project in Oakland and residential developer Vanke's partnership in the \$620 million Lumina project in San Francisco. Another developer is investing in a tower on long-vacant land in the Financial District. Individuals also are investing through the federal Immigrant Investor Program in hotels, in housing in San Francisco's Hunters Point and in call centers and nursing homes in Oakland.

While corporate investors look for markets, technology and returns, individual investors are seeking security and green cards. Both are looking for an open door.

Cities, states and business groups are swinging that door wide. In the Bay Area, the Bay Area Council has offices in Shanghai, Hangzhou, Nanjing and Beijing and operates California's new trade office in China; San Francisco and San Jose connect through China SF and China Silicon Valley. Increasingly, Chinese and California companies are using these facilities as a bridge in both directions.

As the world's leader in technology and innovation, the Bay Area has assets that align with China's need to address a host of looming challenges. An increasingly mature economy, China needs to globalize and send its capital abroad. As this happens, the Bay Area is a

natural counterpart. We are not alone on this field, as cities and states across the nation and around the world awaken to the opportunity that Chinese investment presents. But we occupy an enviable position.

As leaders in Washington debate strategy and policy, practical ties are being formed that provide depth and balance. In addition to the business and jobs that result, leaders on both sides should welcome this as an important contribution to an increasingly complex and important relationship.

*Sean Randolph, president of the Bay Area Council Economic Institute, and Niels Erich, an international business consultant, are co-authors of the Institute's new report *Ties That Bind on Bay Area-China economic ties* (www.bayareaeconomy.org). To comment, submit your letter to the editor via our online form at www.sfgate.com/submissions/#1*

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