Private Data, Not Private Firms: The Real Issues in Chinese Investment

By Derek Scissors

January 2018

Key Points

- The main development in 2017 for China’s investment around the world was the curbing of private Chinese investment in the US and the expansion of state-owned enterprises’ investment in Europe. There were signs late in the year that Beijing could allow more private spending in 2018.

- The United States, at least, may not be interested. American skepticism grew first due to a wave of attempted Chinese technology acquisitions and most recently with the possibility of Americans’ personal data being held by Chinese companies. Formal US restrictions are pending.

- The Belt and Road Initiative consists primarily of Chinese construction projects rather than investment. These continue to be substantial, but there was no sign of intensified activity in 2017, and the extreme dollar figures some associate with Belt and Road are currently unreasonable.

China’s investment around the world in 2017 was dominated by talk of restrictions applied by the central government and host governments, such as the United States. The obvious implication, supported by misleading official statistics, was that China’s global spending had plunged. This is wrong. The best available evidence indicates Chinese investment overseas climbed modestly in 2017, after a path-breaking 2016.

The China Global Investment Tracker (CGIT) from the American Enterprise Institute is the only fully public record of China’s outbound investment and construction.1 Rather than merely asserting totals, the CGIT lists all 2,700 transactions. The CGIT shows investment rising almost 9 percent in 2017. This heavily depended on the $43 billion acquisition of Swiss agro-tech giant Syngenta, without which investment would have dropped more than 16 percent. For perspective, the 2017 total without Syngenta would still be the second-highest on record.

It is true that the top line is more bullish than what is below it. The number of transactions fell, as did investment volume in many countries and sectors. But the numbers make clear that the over-arching story is not decline but change to very large transactions by state-owned enterprises (SOEs) and new sectors of emphasis, such as logistics. Such purchases lead to a banner 2017 for Britain and Singapore, as examples.

Chinese investment is often conflated with its overseas construction of rail lines, ports, and so forth. While construction activity is valuable, it does not bring ownership as investment does. Construction contracts are smaller on average,
but there have been more $100 million construction contracts since 2005 than $100 million investments. Last year alone, the People’s Republic of China (PRC) signed construction deals worth $100 million or more with almost 60 countries. This is the core of the much-discussed Belt and Road Initiative (BRI). By sector, the most activity occurred in transportation.

Construction under the BRI should be similar in 2018. The main questions for this year are whether Beijing will allow private firms to invest more aggressively and how far Washington will go in blocking Chinese acquisitions. By the end of 2017, private Chinese investment began to pick up again. It will not be allowed to return to the 2016 frenzy but will probably grow this year, helping offset any decline in state spending.

The downside risk for Chinese spending is in the Committee on Foreign Investment in the United States (CFIUS). CFIUS has refused to approve a number of Chinese transactions in a timely manner. Along with PRC restrictions, this undermined 2017 Chinese spending in the US, which fell by half to below $25 billion. A bipartisan bill to extend CFIUS’ authority is being watched globally. Just as important, CFIUS has stalled Chinese acquisitions involving customer data. This embodies a difficult trade-off: the evident benefits of foreign investment versus the lack of rule of law in the PRC. Chinese spending here is positive for our economy. But Chinese firms cannot be trusted to obey American laws.

**CGIT vs. MOFCOM**

The CGIT includes all verified investment and construction transactions worth $100 million or more from 2005 through 2017. This features more than 1,300 investments worth more than $1 trillion in total. Although the construction data set is incomplete, it includes almost 1,400 projects totaling more than $700 billion. The CGIT also lists well over 200 troubled transactions worth a combined $350 billion in which investment or construction was impaired after commercial agreements were struck. Not tracked are loans, bonds, and other uses of foreign exchange that do not involve ownership or services in the host country. (The CGIT is reviewed and updated every six months.)

<table>
<thead>
<tr>
<th>Year</th>
<th>CGIT</th>
<th>Ministry of Commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>10.2</td>
<td>12.3</td>
</tr>
<tr>
<td>2006</td>
<td>19.8</td>
<td>21.2</td>
</tr>
<tr>
<td>2007</td>
<td>29.9</td>
<td>26.5</td>
</tr>
<tr>
<td>2008</td>
<td>54.7</td>
<td>55.9</td>
</tr>
<tr>
<td>2009</td>
<td>58.1</td>
<td>56.5</td>
</tr>
<tr>
<td>2010</td>
<td>65.5</td>
<td>68.8</td>
</tr>
<tr>
<td>2011</td>
<td>68.8</td>
<td>74.7</td>
</tr>
<tr>
<td>2012</td>
<td>80.3</td>
<td>87.8</td>
</tr>
<tr>
<td>2013</td>
<td>83.8</td>
<td>92.7</td>
</tr>
<tr>
<td>2014</td>
<td>104.3</td>
<td>107.2</td>
</tr>
<tr>
<td>2015</td>
<td>113.2</td>
<td>121.4</td>
</tr>
<tr>
<td>2016</td>
<td>170.4</td>
<td>181.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,044</strong></td>
<td><strong>1,037</strong></td>
</tr>
</tbody>
</table>

* The CGIT is subject to revision each update. The 2017 Ministry of Commerce figure is extrapolated from the first 11 months and includes only a minor amount for Syngenta. Numbers may not add due to rounding.


Through 2015, CGIT figures were a good match for those published by the Chinese Ministry of Commerce (MOFCOM), with the annual gap capped at 10 percent for more than a decade (see Table 1). For 2016, MOFCOM initially announced a figure of $170.1 billion. It then made an unannounced revision to $181.2 billion. This revision was on top of the standard appearance of “financial investment” in annual totals many months after the year’s end and the inclusion of a fixed, monthly figure for reinvestment, which has no apparent basis.

For 2017, MOFCOM is advertising a steep investment drop, fitting its incessant claims that “irrational” spending has been controlled. The ministry does not disclose individual transactions...
as CGIT does. But monthly figures and direct
communication indicate the bulk of the value
of the Syngenta deal was never counted, on grounds
it was financed outside the PRC. This is unlikely
and, in any case, leaves Chinese statistics in the
dubious position of excluding the country’s biggest
(by far) foreign acquisition. It is always possible
to argue for some deals to be placed a year earlier
or later, but MOFCOM’s 2017 total is unreasonably
small. If true Chinese investment fell this year, it
was not a steep decline.

There are also problems beyond MOFCOM’s
control. It is national policy, not chosen by the
ministry, to treat Hong Kong as an external cus-
toms port. Hong Kong is then assigned more than
half of Chinese outward investment. Funds flow
through Hong Kong on their way to their final
destination, but the ministry is required to stop
following them in Hong Kong. Consequently, its
bilateral figures (e.g., China-Germany) are often
much too low. The CGIT follows money to the
ture recipient, generating more accurate bilateral
numbers.

Also affecting country totals is intense pressure
to show the BRI is a success. PRC construction
activity in BRI countries is heavy, but finding high
investment interest requires imagination. Using a
government list of 70 BRI partners, the combined
investment they received from China in 2014–17 was
only slightly ahead of what the US received and trails
the US plus Australia by a good margin. Finally,
MOFCOM has always used odd sectors. “Leasing
and business services” is the top in drawing funds,
which appears to be a way to deny the importance
of energy investment. CGIT sector labels evolve
with patterns of spending and building.

China’s Global Footprint

The CGIT’s far superior bilateral figures make
clear that neither the BRI nor Hong Kong draws
the bulk of Chinese money. The top 10 recipients
feature wealthy economies, plus Brazil and Russia,
which are middle income but rich in resources
(see Map 1). While the US easily leads in terms of
total investment attracted, the American figure is
not impressive compared with the Australian
figure, for example, after adjusting for population
or economic size. Once a darling for PRC compa-
ies, Canada has been largely ignored since 2013
and has been pushed down the list.
In 2017 alone, Switzerland was the top recipient of Chinese funds and now appears in the top five overall. This is misleading because it is an exaggeration to locate the entire value of the Syngenta acquisition there. It is not feasible to assign discrete values to assets in each country where large multinationals operate. Another example is the $14 billion acquisition of London-based Logicor by one of the PRC’s sovereign funds, which helped Britain see the second-most Chinese investment in 2017, although some Logicor assets are in continental Europe. The US was third in 2017 at over $24 billion, a 54 percent drop. Given its tiny population, Singapore had an exceptional year at $13 billion.

Investment involves ownership, partial or full. Yet China may own little in the way of local assets while signing contracts worth billions. These are construction projects for coal plants, schools, and more. While investment is more valuable dollar for dollar, construction can provide substantial benefits and is a vital part of the PRC’s economic relations with many nations. Even closing on $750 billion, the value of construction contracts captured by the CGIT is too low. Early years were underreported, and new projects trickle in slowly, leaving the 2017 list as yet incomplete. The number of projects worth $1 billion or more does fit over time with official Chinese reports.

The PRC’s construction activity looks nothing like its investment. No rich countries are in the top 10 construction list (see Map 2), while seven are BRI members (versus two in the investment top 10). Casual observers talk of BRI investment, for example the ever-rising figure boasted for the China-Pakistan economic corridor. They should say construction and engineering. The PRC is not looking to own $60 billion worth of Pakistan; it is building there. In 2017 alone, Argentina saw the most Chinese construction activity, followed by a bunched pack that included Australia due to Chinese acquisition of local mainstay John Holland.

There is another important difference between investment and construction: The role of private Chinese companies in investment has become considerable over time while SOEs such as Power Construction Corp continue to utterly dominate construction. These have a proven engineering record in difficult settings and are massively aided by concessionary financing from state-controlled banks. It should not be any surprise if many Chi-
Chinese projects are money losers; if they are perceived to support the PRC’s foreign policy goals, they are initiated on that basis.

Investment and construction should generally not be combined, but doing so can be useful in order to see the scope and diversity of the PRC’s global activity. With investment concentrated in developed economies and construction in developing countries, Chinese companies have a presence in every corner of the globe, including places and activities that better-known multinationals avoid. There has been a sustained and successful effort to both internationalize and diversify (see Map 3). Just as an illustration, 20 countries have received at least $20 billion in Chinese investment or seen $20 billion in construction since 2005.

That energy is the most popular sector for PRC investment and construction over the past 13 years will surprise no one. Among energy subsectors, oil draws the most investment, by itself on par with metals, which has been languid for years. In construction, coal and hydro plants lead energy, but here transportation is a fast-moving second. In 2017 alone, transport and energy accounted for four-fifths of construction value. Technology receives a great deal of attention but accounted for only 5 percent of completed investment since
Table 2. Sector Patterns, 2005-17 ($ Billion)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment</th>
<th>Construction</th>
<th>Troubled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and Power</td>
<td>354.8</td>
<td>308.4</td>
<td>117.6</td>
</tr>
<tr>
<td>Transport</td>
<td>95.1</td>
<td>230.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Metals</td>
<td>123.9</td>
<td>32.4</td>
<td>74.9</td>
</tr>
<tr>
<td>Real Estate</td>
<td>97.7</td>
<td>70.0</td>
<td>19.1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>79.5</td>
<td>16.7</td>
<td>10.9</td>
</tr>
<tr>
<td>Finance</td>
<td>75.2</td>
<td>–</td>
<td>36.5</td>
</tr>
<tr>
<td>Technology</td>
<td>51.1</td>
<td>15.6</td>
<td>27.7</td>
</tr>
<tr>
<td>Tourism</td>
<td>36.3</td>
<td>6.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Entertainment</td>
<td>38.8</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Logistics</td>
<td>33.0</td>
<td>4.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>11.7</td>
<td>14.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Other*</td>
<td>47.8</td>
<td>33.7</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,044</strong></td>
<td><strong>734.3</strong></td>
<td><strong>347.9</strong></td>
</tr>
</tbody>
</table>

*Health care is the leading sector in other investment; utilities leads in other construction. Numbers may not add due to rounding.

2005 and only 2 percent in 2017. Two large logistics acquisitions in 2017 elevated the status of that sector (see Table 2).

**Beijing May Green-Light More Spending**

The January 2017 CGIT update incorrectly forecasted retrenchment, and many observers still cite official statistics to say it happened. There were important areas of retrenchment, but total investment was bolstered by multiple large SOE acquisitions such as Ping An’s stake in HSBC. This enabled China to maintain its global visibility while rolling back spending by private companies in sectors such as entertainment. For 2018, Beijing probably believes it has made its point, and now-chastened private investors will feel less pressure. This should support investment in the 2016–17 range, to be reported by Beijing as an increase. It is hard to see annual volumes rising further, but $1 trillion over the next six years is feasible.

The main reason Beijing will be more relaxed lies in the same indicator that caused it to belatedly crack down: foreign exchange reserves. The quasi-crisis of early 2016 has been stabilized by formal capital controls and informal but unsubtle events such as the disappearance of globally visible CEOs. Net foreign exchange outflows all but vanished over the course of 2017. The threat is certainly still present but has been blunted for now.

This does not mean a return to the 2016 free-for-all. Chinese authorities have become reluctant to allow capital outflow in the form of large-scale property purchases, particularly hotels. This and other sector-based curbs will be retained. The central government’s emphasis on BRI will effectively limit Chinese investment, as BRI country markets are not as appealing and incentives to push investment there will bear little fruit.

A key variable is the spending signal to private Chinese firms. The 2016 trajectory of private investment was sharply altered from a rising share of a rising total to an enforced pullback (see Table 3). This year, a moderate pickup is most likely. Given the hostility of some foreign partners to SOEs, private companies can be better able to acquire desirable foreign assets, and it would therefore harm the PRC’s economic progress to sideline
Table 3. The Private Share of Investment Since 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>9.4%</td>
</tr>
<tr>
<td>2011</td>
<td>11.8%</td>
</tr>
<tr>
<td>2012</td>
<td>14.1%</td>
</tr>
<tr>
<td>2013</td>
<td>29.9%</td>
</tr>
<tr>
<td>2014</td>
<td>27.7%</td>
</tr>
<tr>
<td>2015</td>
<td>31.6%</td>
</tr>
<tr>
<td>2016</td>
<td>46.4%</td>
</tr>
<tr>
<td>2017</td>
<td>36.2%</td>
</tr>
</tbody>
</table>

Note: The private share was tiny before 2010. Numbers may not add up due to rounding.

them for long. The $80 billion in private investment in 2016 remains a bit excessive, but $70 billion is achievable.

For construction, another $100–$110 billion in PRC projects is likely in 2018. This remains notable, but a major upswing did not appear to occur in 2017, despite BRI, and there is little economic reason for one this year. A shrinking labor force means China no longer needs to send workers overseas. Foreign exchange may no longer be tightly constrained, but Beijing still cannot afford to be profligate, especially since large construction projects in developing economies (e.g., hydroelectric plants) generally do not offer good prospects for profit. It will still be possible to talk up large figures for BRI simply by expanding the number of participant countries.

There is a new data problem on the construction side: SOE engineering majors have become more opaque recently after years of improvement. Reporting failure in a BRI partner may no longer be politically acceptable even when setbacks are inevitable in building new infrastructure in difficult environments. Of course long rail lines risk extended delays, and grand urban plans can fall short of sales pitches. When noncommercial factors impair a commercial agreement, this qualifies as a “troubled” transaction. PRC construction companies typically face $6–$8 billion worth in impairment annually, for example, as with a long-delayed elevated expressway in Bangladesh.

Because it involves ownership, investment gets into a lot more trouble than construction, to the tune of $20 billion in lost opportunities annually despite the commercial partners wanting to proceed. Beijing has belatedly unraveled deals it does not like, and local or international security confrontations have undermined transactions. Multiyear operating losses also qualify.

The main source of trouble is host governments either inhibiting or outright blocking transactions. A basic issue affecting many PRC partners is reciprocity, or rather its lack. At the most dramatic level, Beijing would never allow purchase of a Chinese company of Syngenta’s size, much less one in a field such as agro-tech. Dozens of small Chinese acquisitions can have the same effect as one huge bid, occurring as they do while multinationals increasingly complain the PRC is not open to foreign competition.

The long-standing perception that China likes competition only in other markets is reinforced by the ebbing of greenfield investment in favor of acquisitions. The PRC averaged $175 billion in spending in 2016–17, yet greenfield spending is starkly unimpressive at barely $20 billion annually. The turn to large SOE acquisitions also caused the raw number of greenfield transactions to fall in 2017. Acquisitions carry fear of loss of competitiveness and technology and possible relocation of jobs back to China. Greenfield investment avoids all these problems, but the PRC is engaged in less of it.

A second concern of host governments was spotlighted in 2017: a Chinese presence, including investment or construction spending, bringing undue social and political influence. Developing countries have fretted over this for years, even while pining for Chinese funds. The scope of the challenge has expanded with accusations of graft in Australia, which has had a large PRC presence but also a seemingly strong civil society. As with reciprocity, this does not impede specific deals, rather it creates an environment of greater suspicion.

Another objection focuses on specific transactions: the loss of advanced technology. A new development is European concern. (The US is discussed in the next section.) The EU does not worry about
use of dual-use technology in the South China Sea; it worries that the PRC will use acquisitions to climb the manufacturing ladder at the expense of European firms and workers. This has melded with standing reciprocity complaints and new questions about China’s intent in courting east Europe. Brussels and the member capitals have, of course, not made any decisions, but they are now interested in a joint international position on this particular Chinese challenge.

For the moment, the top two recipients of the PRC’s investment by volume remain by far the top two in terms of trouble. The US is actively inhibiting Chinese companies while Australia is more trying to avoid being drowned by them. Other countries seeing $10 billion or more in impaired transactions are present due to older events (see Table 4). It can take time for a transaction to sputter, so there will eventually be more of them for 2017 and perhaps earlier, adding to the tally.

Washington’s Stop Sign Is Bright Red

In July 2017, this section was titled “Decision Time in the US.” The decision appears to have been made. The plunge in PRC spending in the US in 2017 was due primarily to Beijing’s curbing of Chinese private firms’ mad rush in 2016 (which was replaced by SOEs heading for Europe). But what Beijing took away last year, it could conceivably give back in 2018. It is now Washington making clear there will be no new surge, through (in)action by CFIUS and potential reform of that body, where both could have wide-ranging effects.

Deciding how to handle Chinese firms requires identifying them correctly. The biggest PRC acquisition in the US in 2017 was routed through Ireland. It was still Chinese. Perhaps the most controversial deal saw Lattice Semiconductor briefly try to pretend it was being bought by a US company—also Chinese. The best way for CFIUS and American policymakers to determine control of a firm is to trace the money being used. Layers of subsidiaries and shell companies mean any other method of determining control can be gamed. Ultimately Chinese money guarantees influence, no matter the company’s name or location of its headquarters.

<table>
<thead>
<tr>
<th>Country</th>
<th>Troubled Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>65.4</td>
</tr>
<tr>
<td>Australia</td>
<td>59.1</td>
</tr>
<tr>
<td>Iran</td>
<td>25.2</td>
</tr>
<tr>
<td>Germany</td>
<td>15.4</td>
</tr>
<tr>
<td>Libya</td>
<td>12.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Subtotal for Top 6</strong></td>
<td><strong>189.3</strong></td>
</tr>
<tr>
<td><strong>Total for All Countries</strong></td>
<td><strong>347.9</strong></td>
</tr>
</tbody>
</table>

Numbers may not add up due to rounding.

For 2018, US policy choices must sort old and new risks. An old risk misunderstood by some is from SOEs versus private firms. While SOEs account for most of China’s global investment, their US share is below 40 percent. More important, there is no difference in the control the Communist Party can exercise over private firms and SOEs. There is no rule of law in the PRC, no court or media through which private Chinese firms can resist party orders to ignore US law or steal technology. Private Chinese companies receive less in the way of subsidies but are as beholden to the party for their survival as SOEs are. There is no justification to treat them differently with regard to national security.

Another old issue is reciprocity. It has of course long been true that the Chinese market is less open than the American market, but calls for applying reciprocity in investment offer little. The US does not want to close off the same sectors the PRC does, nor would it have any value for Beijing to promise to open already massively overcrowded industries such as steel. Further, if the PRC’s response to demands for reciprocity was somehow positive, the Trump administration has little interest in making it easier for American companies to invest in China.

New issues pertain more directly to investment review. Legislation was introduced in 2017 that
effectively sidesteps CFIUS for the sake of screening for net economic benefits.\textsuperscript{17} This would be a mistake. Foreign investment, including Chinese, benefits Americans economically through job preservation or creation among other positive impacts. Pretending otherwise looks mostly like a way to slow and politicize the investment process in order to reduce competition. Legislation of this kind should be rejected.

Another bill deserves serious consideration. Originally conceived in the office of Sen. John Cornyn (R-TX), it is now bipartisan and bicameral.\textsuperscript{18} It expands CFIUS’ responsibilities substantially, perhaps excessively, but properly focuses on national security. It is not in America’s interest to allow national security threats from China to inhibit investment from dozens of good partner countries. Nonetheless, the PRC’s singular effort to acquire advanced technology is increasingly global, sophisticated, and intense. America’s best response can be extensively debated,\textsuperscript{19} but a strong response is necessary, supported by greater resources. Moreover, action is already overdue, so pledges of future improvements are inadequate.

The challenge of managing Chinese risks without harming the national security review process has obscured a separate but pressing matter. It is difficult to find Chinese acquisitions that CFIUS should have halted but did not. It is all too easy to find PRC entities simply breaking American law with no apparent consequences. The obvious example is theft of intellectual property (IP), where loss estimates can run in the hundreds of billions of dollars, yet not a single Chinese firm has been sanctioned.\textsuperscript{20} (This may change in 2018 under Section 301.) PRC companies shown to have received stolen IP should not be allowed to invest or trade in the US.

Data theft has joined IP theft as a China risk. A number of Chinese companies are now legitimately interested in acquiring US counterparts that hold personal data for thousands or more Americans. The danger comes if the party later wants these data. In that case, it does not matter whether Chinese firms wish to cooperate with the party; they have no option. This logic lies behind CFIUS’ refusal to approve a high-profile bid by an Alibaba unit for MoneyGram.\textsuperscript{21} While the outcome was right, the process was not. The US needs a clear and durable policy stance to protect personal data, not stalling by CFIUS until the companies “figure it out.”

Because the rule of law does not apply in China, Chinese firms cannot be trusted with personal data. PRC entities should be sanctioned for involvement with IP theft. As before, American dual-use and military technology must be protected against a sharpening threat. At the same time, a large amount of Chinese investment is not itself objectionable and benefits the US economically. The last point has been, properly, the core of American policy toward foreign investment. The US now must find a way to incorporate China-specific restrictions without harming ourselves or our longtime investment partners. Because the PRC is a global economic player, global cooperation is a logical next step. But first the US must be wise in our own choices.

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Notes

5. This of course can be addressed by simply adding Australia to the BRI. For now at least a reasonable government list can be found at Belt and Road Portal, https://en.gndw.gov.cn/info/iList.jsp?cat_id=10076.


11. There is a technical problem in classifying many investments in developing countries. The deal will be represented as a Chinese participant joining an existing project, but the project will turn out to be very little on the ground. The CGIT methodology is to be cautious and decline to label these as greenfield. A more liberal approach could change the greenfield totals but would not change the trend of sharply declining investment in 2016–17.


15. If Chinese firms can be ordered to violate American antitrust law, they can certainly be ordered to steal valuable technology. See Alison Frankel, “DOJ Bucks China, Urges SCOTUS to Hear Case Against Vitamin Cartel,” Reuters, November 17, 2017, https://www.reuters.com/article/legal-us-otec-chinese/doj-bucks-china-urges-scotus-to-hear-case-against-vitamin-cartel-idUSKBN1DH2HA.


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