China buys the world

With the western world getting in a frenzy about the ascent of China, I suppose it was only a matter of time before we started to see "China taking over the world" stories. In the '80s it was Japan; in the '90s it was the US, and now is China's turn. Funny how predictable the media are.

Last week, the "China takes over the world" story got serious, with the highly respected international publication, *The Economist*, blaring "Buying up the world: the coming wave of Chinese takeovers". Coinciding with Chinese muscularity last week at the G20 in Seoul and in the APEC meetings in Yokohama, the scene has been set for the story to run and run.

At the same time, the equally respected *Financial Times* ran a full page story on Mainland Chinese property investors swarming like locusts over the world's property markets, from London, New York and Paris, to Singapore, Kuala Lumpur and of course Hong Kong. Of course, the data on Hong Kong is compelling, where Mainland investors appear to account for 35% of all property purchases over HK$8 million. Sydney also has some significant numbers, with Mainland buyers apparently accounting for 20% of luxury purchases, while in Tokyo, they now account for a sizeable 10% of HK$8 million-plus purchases.

But before we all start hyperventilating, what drives the story elsewhere? One leading property company's research estimates that purchases in London by Mainland buyers jumped almost 40% between 2009 and 2010 – from 0.85% to 1.15% of the market; in

New York they tripled – from 0.25% to 0.75%. Paris is similarly giddying – up 50%, from 0.33% to 0.5%.

Such shock, horror stories are perhaps inevitable. China is now estimated to have about 475,000 people with assets of more than US$1 million – which gives China the world's fourth-largest population of High Net Worth Individuals. Combine this with the world's sudden discovery that China is rather big and populated by rather a large number of people, and the xenophobic instincts almost irresistibly kick in as the country's companies begin to engage meaningfully with the global economy after half a century of relative isolation and introspection.

The xenophobic angst about China's corporate takeover of the world has rather deeper roots than the past few weeks. After all, it was as long ago as 2005 that the oil company CNOOC was forced to withdraw a bid for California's Unocal in the face of political scaremongering in the US. And the wounds are still smarting from the metals group Chinalco's failure last year to buy Rio Tinto in Australia after a ruckus among shareholders and Australian politicians.

Of course, there is no question that Mainland companies, as they have grown larger and begun to take a serious interest in reengaging with global markets, have begun to make their presence felt as global predators. Chinese anxiety about access to – and the rising cost of – so many of the natural resources at the heart of their manufacturing sector has obviously been a further driver for Chinese predatory interest (though in fact only 14 of the 99 foreign deals sealed in the first half of this year focused on natural resources). Combine a decline since 2008 in the price tag for a number of large international groups with a steady rise in the buying power of the RMB, and there are further strong motives for Chinese companies to buy international assets.

But again, before everyone starts hyperventilating about China's takeover of the global economy, some perspective is needed. China this year has mounted takeovers worth about US$140 billion according to *Dealogic* – up 3% from last year. But this amounts to just 7% of global M&A volume, lagging both US and UK companies. And only 30% of these takeovers were outside China itself.

And before everyone begins cold sweats over the power of Chinese companies, remember that only 5 of the *Fortune 500*'s top 100 companies are Chinese. As the breathless *Economist* article noted, under the headline "Being eaten by the dragon", Britain at its height as a global power (in 1914) accounted for 45% of the world's foreign investment, while the US accounted for 50% at its peak in 1967 – while China (including Hong Kong and Macau) at present accounts for a less-than intimidating 6%.

Clearly it is not this number alone that so troubles the *Economist* – nor the inevitable insinuation that China's predatory rampage has only just begun – but the nature of China's companies, (so many of them government-linked) and the focus of their ambitions (targeting natural resources companies). They complain about the "opacity of power" in Mainland companies, a tendency to overpay and failure to integrate purchases.

Having myself been "victim" of two international takeovers by US companies in the frothy late '90s (the most notable being Chase's purchase in 1998 of Robert Fleming, the UK investment bank that controlled Hong Kong's Jardine Fleming), I believe it is a brave and disingenuous critic who targets such complaints at a Mainland company. Both involved colossal overpayment, huge naivety over the nature of what was being acquired, and a wholesale failure to integrate the acquired company. The Chinese may do no better, but it is hard to imagine they could do worse.

Clearly this incipient China-bashing has its counterpart in the diplomatic realm. Only a decade ago, I commonly listened to US and European complaints about how China refused to contribute meaningfully to discussions on global economic challenges, or multilateral initiatives – how it was "free-riding" in international policy debates. Today, the complaints are that China is over-reaching itself, and being unduly assertive.

Was it not Napoleon Bonaparte who 200 years ago said "Let China sleep, for when China wakes, it will shake the world"? China has indeed woken, and after many dormant decades its companies are now beginning to feel their way in the world economy – as sellers, as buyers, as investors, and as acquirers of foreign companies. So be it. They are now our competitors, and we must get used to it. US companies have been doing it for the past century. Japanese companies had a flurry in the 1980s. The impact of China's companies may be grossly – and sensationally – exaggerated at present, but they are set to grow over time, and must be taken seriously. Stirring racist and xenophobic rhetoric does no justice to the formidable strengths of many Chinese companies, nor does it do justice to the ferociously competitive US, German, Japanese – even British – companies that will continue to fare well in competition with them.

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