Chinese Imperialism – Buying the Best & Bullying the Rest

Chinese predatory acquisitions of foreign companies have raised many eyebrows before as well but Post-Coronavirus seems to have become a matter of life and death. Covid-19 Pandemic has caused severe loss of companies' valuation. FTSE 100 lost its gains of eight years in a month. The Guardian notes that the Dow Jones industrial average fell faster than the 1929 Wall Street Crash in a 3 week time. Circuit breakers, used to suspend trading to prevent shares falling, had to be invoked four times out of a total of five times since this system was introduced in 1980.

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Mohamed El-Erian, chief economic adviser at the insurance giant Allianz. "I've never seen an economic stop on this scale, certainly never in big countries and all at once.". India and other Asian countries are no exception to this phenomenon either. HDFC Shares plummeted by a whopping 40% within two months after the Covid-19 financial meltdown, making this an attractive buy for a hunter investor.

In contrast to the bloodbath on Western bourses, the Shanghai stock benchmark is 'nearing its highest level in almost two years' noted by Fortune. Chinese state and private companies are reported to place large mandates for acquiring foreign companies. In order to protect their assets from the Chinese onslaught, European Union issued new guidelines to cautiously screen foreign Investment in critical sectors such as healthcare, Energy, Finance, and defense.

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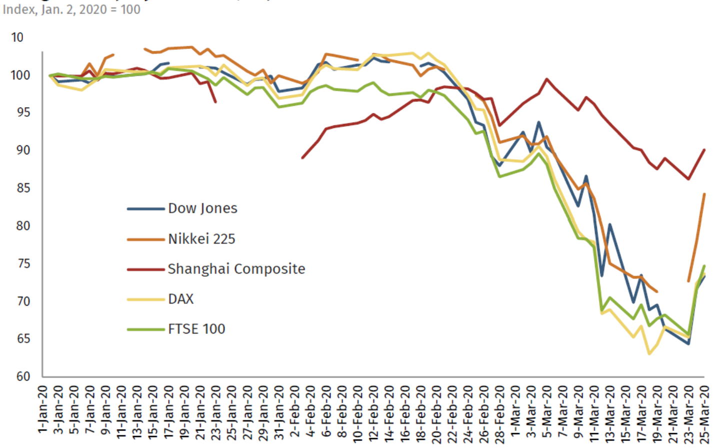
Germany's Industry Minister Peter Altmaier said "Make no mistake, we're determined to stand by our companies and protect jobs". Chinese European partners in the 'Belt & Road Initiative' namely Italy and Spain have tightened their protectionist provisions to safeguard their assets too. And so has India.

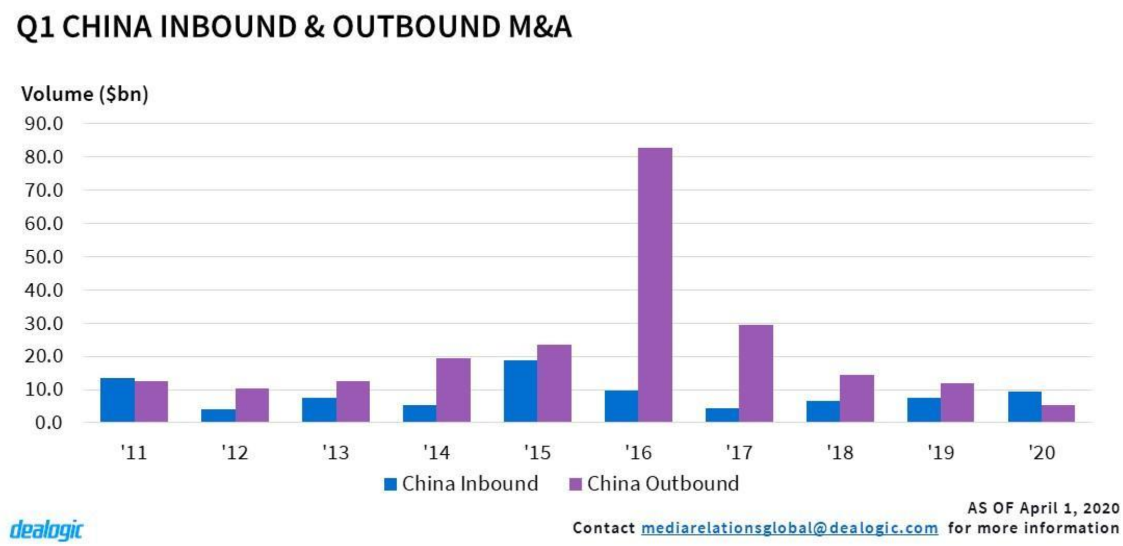
FIGURE 2
Change in Company Valuations, Major Indices
Index, Jan. 2, 2020 = 100



Source: Rhodium Group, Bloomberg. *Data last updated on 25 March 2020.

China, with their fat wallet and aggressive acquisition intent of foreign assets, are making many countries very worried about their strategic assets. Oaklins, a mid-market M&A advisory, reported that the Chinese companies closed 18 outbound M&A deals in Q4 2019 and 7 deals in Q1 2020, including US$804 million buys from Steigenberger Hotels, after the first coronavirus case was reported in the Chinese media on 17th November.

Dealogic database indicates that Chinese outbound M&A activities have significantly outstripped inbound M&A by a significant margin in the last 10 years.



Looking at the historical M&A records, Chinese outbound M&A shot up by more than 1000% ($ 1.6 Bill to $ 18.2 Bill) in a matter of three years during pre-financial crisis time. A few important events including the Chinese acceding to WTO and the Dotcom bubble bust were the trigger under the overarching strategy change in the way the Chinese approached foreign assets.

Chinese approach named "Yinjin Lai" (Pull-in) which largely denotes JV with foreign firms, get into licensing arrangements, etc. gave way to "Zou Chuku" (Swarm Out) strategy to aggressively go after hi-tech, R&D oriented, natural resources, physical assets kind of buyouts as HBR chronicled.

Chinese shopping spree after the 2008-09 financial crisis is worth looking at to get an insight into their possible strategy in 2020. Chinese investments in the entire EU were less than what they invested in India, Nigeria, as Financial Times chronicles, in 2010 which shot up from Euro 6 Billion to Euro 27 Billion within 2 years as reported by Deutsche Bank. Heritage Foundation, a US-based Think Tank, states that there was a structural shift of focus in targeting acquisitions from the resource-rich African and Latin American companies to knowledge companies like United Biscuits, Weetabix, Diva Bordeaux, luxury yacht maker Sunseeker International across Europe.

As per Deutsche Bank reports, China invested most heavily in Italy with $ 7 Billion in a small period of time after the 2008-9 crisis. Top 10 outbound M&A deals from the Chinese are worth $ 122 billion done in 2007-2014 timeframe which includes Syngenta, Nanyang Bank, Rio Tinto, Part of Morgan Stanley and Standard Bank, etc.

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Chinese have made significant investments in India too such as Paytm, Ola, Byju's, Makemytrip, etc. Chinese have invested $6 billion in Indian tech start-ups, as reported by Gateway House, and 18 out of 30 unicorns in India are Chinese-funded between 2001-2020. Adoption of Tiktok in India with 200 million subscribers overtakes Youtube. Alibaba and Tencent are challenging the incumbents' Facebook and Amazon. Chinese smartphones like Oppo, Xiaomi are already having more than 70% market share amongst smartphones.

Chinese strategy for the Indian market was very different from India's neighbors e.g. Sri Lanka and Pakistan where they were investing in physical assets e.g. Roads, Ports, etc.

I would like to present some statistics to compare the economic health of China with those who are shutting the doors to protect themselves.

1. $ 860 foreign exchange reserve collectively of top 5 countries in EU (the UK included) compared to $ 3 Trillion Forex reserve of China (Data from Q1 2020) with RMB under 2% of the currency composition of global forex reserve
2. Most of Western and Southern (Except Spain) Europe has shown 2% GDP growth or less in the last 5 years compared to 7% GDP growth (+/- 50 basis points) of China
3. GDP growth per capita in China is above 6% compared to 1%-2% for Western Europe and the US as per World Bank 2018 report
4. The inflation index in China is under 3% compared to the inflation ranging .7% - 2% in different countries in Western Europe and the US as reported by World Bank 2018-19
5. PMI composite for China is way better than the same for Western Europe and the US

In addition to the above, I studied some other parameters like Capital investment to GDP ratio, Inflation (CPI), Interest rate, Unemployment rate, Trade balance, etc. and I must admit that Chinese economic heft and fiscal soundness is unquestionable if the statistics are to be believed.

In line with the general impression, the Chinese have demonstrated a well-oiled "command & control" mechanism to make the most of the global markets over the years. While the above details present the economic assets' picture, the Chinese have been working in parallel to fortify their global onslaught from different directions. Covid-19, whether an accident or an intent, would only accelerate the Chinese plans to unfold in the next couple of years. I believe that the Chinese would do the following alongside asset acquisition

1. ***Multi-lateral Institutions' Polarisation Strategy and the soft lines of bi-partisanship to be hard-lined***

2. ***Pointed 'Event & Theme' diplomacy to take the mantle of global leadership, edging out the US***
3. ***Propaganda War in the media***
4. ***Secularization of Chinese Capital in the form of aid, loan, and complex capital structures***
5. ***Global rollout of the Chinese version of technology solutions with one-way data traffic***
6. ***Aggressive Belt-Road Initiative (Signature project of Chinese President Xi Jinping) despite a large number of BRI projects crawling in limbo***
7. ***Aggressive posturing towards integrating Hong Kong & Taiwan with Mainland***
8. ***The huge impetus to Space Program***
9. ***Present an alternate, more efficient Governance Model***

China has had a grand, long-term vision to be the global leader. The market economy within the framework of Chinese communism, as architected by Deng Xiaoping, has done wonders for China and has worked as an ideal foundation for aspirational China under President Xi Jinping. Unity of purpose has been exemplary from Mao Zedong to current CCP chairman Xi Jinping. China has not been shy of using the tools western democracies have an aversion for. Post Covid-19, parts of western media have portrayed China as the punching bag, accusing it of its irresponsible role and nasty behavior from the genesis to the management of the pandemic, and other related consequences.

With the cost in tens of trillions USD and monumental realignment of global production & economic systems which means a significant lag after the restart of the global economy, the world stares at a situation where most macho & mighty are languishing. The real question is about the new model & set of tools to deploy to accelerate sustainable growth, and as an aspirational developing country that India is, how to deal with a resourceful, ruthless, and no-holds-barred operator that China is.

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