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CHINA INVESTMENT FLOWS REVERSING?

Sometimes you can get too much of a good thing. Chinese money for instance, both corporate and individual, was once welcomed with open arms as the inflows were expected to boost economic activity. Recent developments, however, suggest that the open arms increasingly have become crossed on a growing backlash against China investments.

Part of the fear, which is one of the issues behind the ongoing US-China "Trade" dispute, appears to be strategic competition – the concern that China is acquiring foreign intellectual property, which will help Chinese companies leapfrog their Western competitors and eventually put them out of business. These concerns have led the US to expand the oversight of the Committee on Foreign Investment in the US (CFIUS), to include joint venture agreements and even minority stakes. CFIUS previously could only block foreign transactions acquiring a majority stake in US-entities and deemed a threat to national security.

The US also passed the Export Control Reform Act (ECRA) in August 2018, which not only potentially restricts the export of goods, but also covers technology licensing agreements and even potentially employment contracts. A review of existing licensing agreements is currently ongoing and due to be completed by May, but could result in more stringent rules on Chinese firms licensing US intellectual property. Across the Atlantic, Europe has also taken a similar stance with the launch of a new EU framework for screening foreign direct investments, an initiative that was drawn up in response to the growing threat of Chinese firms seeking to acquire European technology.
Individual Chinese private wealth is also facing a similar backlash, as Chinese investors are blamed for pushing up property prices in places like Vancouver and Auckland. Last August, New Zealand Prime Minister Jacinda Ardern followed through on her campaign promise to stem the rise in housing prices by banning non-resident foreigners from buying homes. Chinese private investors are arguably easy targets to point the finger at even though the statistics do not appear to show that foreign investors make up a large proportion of total residential sales in New Zealand.

Besides the less hospitable welcome for Chinese investors, changes in China's domestic capital control policies are also making it more difficult for institutions and individuals to make overseas investments. The overseas acquisition spree led by the likes of private conglomerates Anbang, Dalian Wanda and HNA have been nipped in the bud, with the government stepping in amidst concerns that these debt-fueled acquisitions of trophy assets would not only cause broader systemic risks, but that the large capital outflows were also putting pressure on the RMB. These conglomerates have since embarked on a major debt-reduction plan through the divestment of these foreign assets.

The Chinese government also appears to be increasing its scrutiny of its wealthy nationals parking funds overseas. From September last year, China started to exchange financial information with over 100 countries under the Common Reporting Standard, in a sign the authorities are stepping up its anti-tax evasion enforcement. Chinese actress Fan Bingbing, reportedly the highest paid China movie star, was the first big name to be shamed publicly, and she was reportedly ordered to pay US$129 million in unpaid taxes and fines or face criminal sanctions.

All these factors suggest that the recent slowing of capital coming out from China will likely continue for the foreseeable future. This is also because there is a greater need for the capital onshore. The Chinese government will likely continue to channel more funds to develop domestic capabilities, in an attempt to reduce reliance on foreign technology.

GREATER BAY AREA

One such possible investment could be to develop the Greater Bay Area. A new paper announced in mid-February introduced the concept of a Guangdong-Hong Kong-Macao Greater Bay Area, making it the third such major integrated region in China after the Beijing-Tianjin-Hebei Region and the Yangtze River Economic Belt. If successful, the Greater Bay Area would be the fourth largest bay area in the world, after New York, San Francisco and Tokyo.

The unique aspect about the Greater Bay Area is that it includes two special administrative regions – Hong Kong & Macao, together with nine mainland Chinese cities. Each city has a specific positioning, Hong Kong will be the center for international finance and trade; Macao, the tourism capital and center for business with Portuguese-speaking countries; Shenzhen, where many of China's technology companies are headquartered and the leading

Chinese city in terms of international patent applications, will be the international innovation hub; and Guangzhou will be the international industry service center, coordinating the manufacturing in the surrounding areas.

While the plan looks good on paper, the devil is in the details and will lie in the implementation, with the biggest issue arguably being how to integrate the two autonomous regions with the mainland cities.

5G ROLLOUT

A more immediate initiative is the impending 5G rollout. Touted as achieving speeds 100 times faster than the existing 4G network, 5G has the potential to be a general-purpose transforming technology, enabling the internet of things (IoT) and making smart cities, smart factories and self-driving vehicles possible. The Xintong Institute estimates that 5G could trigger RMB11.7 trillion in economic value-added output over 2020-2025, and would create over 3 million jobs. China has seen how the US benefited from the first mover advantage with the launch of 4G networks, triggering the invention of innovative new applications in Silicon Valley. As such, China sees being the first country to rollout 5G across the country as a key enabler for it to potentially claim the lead in IoT.

The situation is dynamic, but these developments suggest that the tides could be turning and foreign investors may want to pay more attention to what is happening onshore in China.

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