China puts brakes on foreign financial acquisition
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At the start of this year, Chinese investors were at the top of a list of saviours for western financial institutions hungry for cash to see them through the global credit crisis.

But, after a string of high-profile overseas acquisitions last year that seemed to herald the arrival of Chinese financial institutions on the world stage, Beijing has turned cautious and has yet to approve any big offshore investment by the sector this year.

A $10bn plan by China Development Bank to buy Germany's Dresdner Bank from insurer Allianz was abandoned last Sunday. Beijing refused to approve the deal in time and a competing bid from German rival Commerzbank was accepted instead.

That is the second time this year that CDB - a state-owned lender trying to transform itself from a piggy bank for pet government projects into a commercial, publicly-listed bank – has had its aggressive overseas expansion plans blocked by political opposition.

When Citigroup went looking for investors for its giant recapitalisation in January, CDB initially offered to provide $5bn as the anchor investor, but the deal fell through when the government refused to approve it.

Adding to the uncertainty, a number of draft regulations are circulating in Beijing that would tighten oversight and clarify approval procedures for offshore investments by state-run Chinese financial institutions.

"Everyone in China agrees it is desirable in the long-term for Chinese corporations, regardless of the industry, to expand to a global platform,"said Qu Hongbin, chief China economist for HSBC. "But not all of the offshore deals done in the financial sector look very smart in retrospect and that's why we're seeing a more cautious approach from a regulatory point of view."

Almost every high-profile Chinese purchase of an overseas financial institution made last year is now deeply in the red.

That includes China Investment Corp's stake in US private equity firm Blackstone, which has lost 42 per cent of its paper value; CIC's investment in Morgan Stanley, which is down 16 per cent; and CDB's investment in Barclays Bank, which has dropped more than 50 per cent.

Ping An Insurance's investment in Belgo-French insurer Fortis has also lost about half its value since it took a stake last November and Industrial and Commercial Bank of China's purchase of 20 per cent of South Africa's Standard Bank has dropped about 23 per cent.

CIC and China Life Insurance both made relatively small investments in Visa's initial public offering earlier this year and have seen those investments rise significantly.

Chinese officials are keen to avoid the perception that the country's foreign exchange reserves of almost $2,000bn make it a source of "dumb money" for western institutions looking for bailouts. Regulators and bankers have carefully studied Japan's experience in the 1980s, when the country's corporations went on a buying spree in the west, over-extending themselves.

"The Japanese lesson is a good and painful one for Beijing, which is trying not to make similar mistakes," Mr Qu said.

The top management of Citic Securities, China's largest securities broker, had studied the Japanese experience closely but it still did not prepare them for their close shave with the demise of Wall Street stalwart Bear Stearns. Citic Securities announced in November that it planned to buy about 6 per cent of Bear Stearns for about $ 1bn in a complicated deal that would have seen Bear take a stake of Citic at a later date. Chinese regulatory approval was

delayed as the two sides later tried to renegotiate terms and Citic narrowly avoided a huge embarrassment when Bear Stearns collapsed and was bought by its rival, JPMorgan.

That experience worried senior leaders and is the main reason why talks with Lehman Brothers about a potential Citic Securities investment have not progressed further.

But the more cautious approach from the government does not mean all deals are off indefinitely.

"My sense is that it will be easier to secure approvals for outbound deals in sectors such as asset management or insurance, where China hasn't been so badly burned," said one Hong Kong-based lawyer for a foreign firm.

Major Chinese offshore financial investments

Date	Acquirer	Target	Stake (%)	Investment value ($bn)	Paper loss based on share price change ($bn)
May 2007	China Investment Corp	Blackstone (US)	10.0	3.0	1.3
Dec 2007	China Investment Corp	Morgan Stanley (US)	9.9	5.0	0.8
Jul 2007	CDB	Barclays (UK)	3.1	2.7	1.3
Oct 2007	Minsheng Bank	UCBH (US)	4.9	0.1	0.1
Oct 2007	ICBC	Standard Bank (South Africa)	20.0	5.5	1.3
Nov 2007	Ping An	Fortis (Belgium/Netherlands)	4.2	2.6	1.3

Fonte: Financial Times, London, September 5 2008, Companies & Markets, p. 15.