Leaders

China buys up the world

And the world should stay open for business

IN THEORY, the ownership of a business in a capitalist economy is irrelevant. In practice, it is often controversial. From Japanese firms' wave of purchases in America in the 1980s and Vodafone's takeover of Germany's Mannesmann in 2000 to the more recent antics of private-equity firms, acquisitions have often prompted bouts of national angst.

Such concerns are likely to intensify over the next few years, for China's state-owned firms are on a shopping spree. Chinese buyers-mostly opaque, often run by the Communist Party and sometimes driven by politics as well as profit—have accounted for a tenth of cross-border deals by value this year, bidding for everything from American gas and Brazilian electricity grids to a Swedish car company, Volvo.

There is, understandably, rising opposition to this trend. The notion that capitalists should allow communists to buy their companies is, some argue, taking economic liberalism to an absurd extreme. But that is just what they should do, for the spread of Chinese capital should bring benefits to its recipients, and the world as a whole.

Why China is different

Not so long ago, government-controlled companies were regarded as half-formed creatures destined for full privatisation. But a combination of factors-huge savings in the emerging world, oil wealth and a loss of confidence in the free-market model-has led to a resurgence of state capitalism. About a fifth of global stockmarket value now sits in such firms, more than twice the level ten years ago.

The rich world has tolerated the rise of mercantilist economies before: think of South Korea's state-led development or Singapore's state-controlled firms, which are active acquirers abroad. Yet China is different. It is already the world's second-biggest economy, and in time is likely to overtake America. Its firms are giants that until now have been inward-looking but are starting to use their vast resources abroad.

Chinese firms own just 6% of global investment in international business. Historically, top dogs have had a far bigger share than that. Both Britain and America peaked with a share of about 50%, in 1914 and 1967 respectively. China's natural rise could be turbocharged by its vast pool of savings. Today this is largely invested in rich countries' government bonds; tomorrow it could be used to buy companies and protect China against rich countries' devaluations and possible defaults.

Chinese firms are going global for the usual reasons: to acquire raw materials, get technical know-how and gain access to foreign markets. But they are under the guidance of a state that many countries consider a strategic competitor, not an ally. As our briefing explains (see pages 81-83), it often appoints executives, directs deals and finances them through state banks. Once bought, natural-resource firms can become captive suppliers of the Middle Kingdom. Some believe China Inc can be more sinister than that: for example, America thinks that Chinese telecoms-equipment firms pose a threat to its national security.

Private companies have played a big part in delivering the benefits of globalisation. They span the planet, allocating resources as they see fit and competing to win customers. The idea that an opaque government might come to dominate global capitalism is unappealing. Resources would be allocated by officials, not the market. Politics, not profit, might drive decisions. Such concerns are being voiced with increasing fervour. Australia and Canada, once open markets for takeovers, are creating hurdles for China's state-backed firms, particularly in natural resources, and it is easy to see other countries becoming less welcoming too.

That would be a mistake. China is miles away from posing this kind of threat: most of its firms are only just finding their feet abroad. Even in natural resources, where it has been most active in dealmaking, it is not close to controlling enough supply to rig the market for most commodities.

Nor is China's system as monolithic as foreigners often assume. State companies compete at home and their decision-making is consensual rather than dictatorial. When abroad they may have mixed motives, and some sectors—defence and strategic infrastructure, for instance-are too sensitive to allow them in. But such areas are relatively few.

What if Chinese state-owned companies run their acquisitions for politics, not profit? So long as other firms could satisfy consumers' needs, it would not matter. Chinese companies could safely be allowed to own energy firms, for instance, in a competitive market where customers could turn to other suppliers. And if Chinese firms throw subsidised capital around the world, that's fine. America and Europe could use the money. The danger that cheap Chinese capital might undermine rivals can be better dealt with by beefing up competition law than by keeping investment out.

Not all Chinese companies are state-directed. Some are largely independent and mainly interested in profits. Often these firms are making the running abroad. Take Volvo's new owner, Geely. Volvo should now be able to sell more cars in China; without the deal its future was bleak.

Show a little confidence

Chinese firms can bring new energy and capital to flagging companies around the world; but influence will not just flow one way. To succeed abroad, Chinese companies will have to adapt. That means hiring local managers, investing in local research and placating local concerns-for example by listing subsidiaries locally. Indian and Brazilian firms have an advantage abroad thanks to their private-sector DNA and more open cultures. That has not been lost on Chinese managers.

China's advance may bring benefits beyond the narrowly commercial. As it invests in the global economy, so its interests will become increasingly aligned with the rest of the world's; and as that happens its enthusiasm for international co-operation may grow. To reject China's advances would thus be a disservice to future generations, as well as a deeply pessimistic statement about capitalism's confidence in itself.

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