No longer a deluge but still a flood – Chinese OFDI in 2017

“The reports of my death are greatly exaggerated”, Mark Twain is supposed to have quipped, reacting to some *fake news*. That appears also to be the case for the Outbound Foreign Direct Investment of Chinese companies.

This summer, two topics have filled the silly season in the tourism industry: *Overtourism* was one, the new name given around the globe to what used to be called *high season*. The other topic concentrated on the trouble the biggest investors from China for tourism, hospitality, entertainment and transportation found themselves in.

It is true that already since the beginning of 2017, the rules for OFDI from China were streamlined and that in recent weeks specific new restrictions on “irrational” Chinese foreign investments in sports clubs, real estate and entertainment were published, with investment in pornography and unauthorised military technology unsurprisingly banned outright. Chinese firms will also no longer be allowed to invest in conflict zones and countries that do not have diplomatic ties with the People’s Republic of China.

HNA Group becoming the biggest shareholder of Deutsche Bank and the fact that many European football clubs were among the trophies bought by Chinese investors guaranteed that the news about such “irrational” acquisitions did not stay confined to the business pages of newspapers in Europe.

For the tourism and hospitality industry however it was especially significant that the four companies and their leaders singled out by the Chinese regulators for closer scrutiny are all investing in our part of the business world: Chen Feng, the chairman of HNA, owner of Swissport, a 25% stake of the Hilton group and shares in Virgin Australia, Azul Brazilian Airlines and TAP Portugal as well as NH Hoteles, is rumoured to have lost the support of the central government. For Wu Xiaohui, the boss of China’s Anbang Insurance Group, which famously bought the Waldorf Astoria in New York in 2014, this is more than a rumour: He has been under house arrest since June and his company was ordered to sell off all overseas investments. Dalian Wanda’s CEO Wang Jianlin as well had to shelf for the time being his plan to become the new Disney and Fosun’s CEO Guo Guangchang, invested in ClubMed and Cirque du Soleil, had to eat humble pie (Kreide fressen) when he declared last month on Fosun’s official WeChat account that "The recent scrutiny on overseas investments and financial irregularities are necessary, timely and can eradicate a lot of irrational investments."

However, HNA in the last few weeks bought 82.5% of Frankfurt-Hahn airport and acquired a stake in Rio de Janeiro’s airport. It is also still bidding to take over the airport in Belgrade, all without any interference from the Chinese government. Indeed, a closer look at the figures reveals that it is premature to declare Chinese OFDI dead: compared to the almost 140 billion US$ overseas investments in the first half of 2016, the 45 billion US$ for the same period in 2017 look but a trifle. Nevertheless 45 billion US$ is a much bigger amount for the first half of a year than the about 30 billion US$ in the respective periods of the years 2015 and 2014 and the even smaller numbers in earlier years.

Chinese billionaire investors may have been strongly reminded that they should avoid that “foreigners will see us as ‘silly people with a lot of money’”, as Guo Guangcheng wrote on WeChat. The “silly” idea of Anbang to buy the dept-ridden HSH Nordbank is probably off the table, but Chinese companies will not stop to buy themselves into global market shares and new technology, regardless of whether we talk about Fiat Chrysler or about Accor.



Source: The Economist, July 1st, 2017 p. 48