Global economy

How China is buying up the world

STEPHEN SHAVER/AFP

$8.7bn

Germany and China signed deals worth this much last week, covering cars, such as Mercedes, pictured, machinery and energy

Huge foreign reserves give emerging superpower ever tighter grip in business

Tom Bawden and Kevin Shalvey

As China's vice-premier Li Keqiang flies out of Britain today after a nine-day shopping trip to Europe, the man tipped to become the emerging superpower's next prime minister will probably reflect that the latest phase in his country's quest for global dominance is going nicely to plan.

Li's procurement extravaganza will end with a low-carbon flavour in Watford today as Vince Cable gives the 150-strong Chinese delegation a tour of a sustainable housing community.

This will bring to a close a four-day visit to Britain, on a trip which has also taken in Germany and Spain and resulted in more than $20bn (£13bn) of orders for luxury European items, from wine and olive oil to Mercedes cars.

With the data yesterday showing China's foreign exchange reserves jumped by a record $199bn in the final three months of 2010 to an all-time high of $2.85tn, these shopping excursions are set to become bigger and more frequent.

There is nothing new in China buying the assets and debts of countries and companies around the world with the huge foreign currency reserves it accumulates by producing cheap goods that the rest of the world wants to buy.

But the speed with which these reserves has grown as China's economic juggernaut consistently outpaces every other economy is enabling it to exert an ever tighter grip on global business, finance and, in turn, politics.

Attractive

Gerard Lyons, chief economist and group head of global research at Standard Chartered, said: "The last decade could be characterised by the three words 'made in China'. In this next decade, it will be 'owned by China'."

China kicked off its foreign ownership phase about 10 years ago when it started buying US treasury bonds. These transactions, which involved China exchanging huge amounts of yuan for US dollars, kept the Chinese currency artificially low, ensuring its exports remained attractive.

The value of US treasury bonds owned by China soared from $59.5bn to $906.8bn in the 10 years to October 2010, to account for 21% of the American government's entire outstanding debt and more than a third of China's foreign currency reserves.

Around the middle of the last decade, China began turning its attention to securing the natural resources it would need to cater for its huge and growing population and manufacturing base, snapping up commodities such as iron ore, gold and platinum that it needs as raw materials, as well as land to grow food and timber. Most of these deals were struck in Africa.

In 2008, China branched out further, investing in struggling US banks such as Citigroup and the now defunct Bear Stearns and, last year, it upped investment in European government bonds.

China has made public commitments to buy debt issued by Greece and Portugal, despite America's Pimco, the largest buyer of sovereign debt, declaring the euro countries "a danger zone". Furthermore, China, which already owns 13% of Spanish government debt, has pledged to buy another €6bn worth this year as it seeks to diversify holdings away from US dollar-denominated assets.

Diversification

Analysts say it makes good financial sense to have a diversified investment portfolio, while keeping the euro and eurozone economies strong. Europe consumes 16% of China's exports.

If the currency disbanded, or some members were forced to leave the eurozone and adopt weaker sovereign currencies, they would be less able to afford to buy Chinese goods, while their own products would become relatively more attractive as exports, undermining China's competitive advantage.

In the latest phase of its global development, China is furiously sourcing luxury goods for its fast-growing middle class and sophisticated technology to take its manufacturing upmarket.

"In the last 18 months China has moved into a new phase where it has started getting quite vocal about the global economy and is really staking a claim to being a superpower," said Kathleen Brooks, research director at online foreign exchange trading company Forex.com. She dates China's change in attitude to the moment when its foreign currency reserves breached the $2tn mark in July 2009.

But experts say China's growing prosperity represents a great opportunity as well as a threat. With China due to rubber stamp its 12th five-year plan this year – with the stated aim of using its financial clout to move upmarket – there are huge opportunities for developed economies such as Britain to boost exports of good quality products. Rolls-Royce cars reported record sales for 2010, with a substantial contribution from China and Britain struck £2.6bn of deals with the country this week.

With China accounting for 3% of Britain's exports, many question whether David Cameron has sufficient ambition, arguing that failure to capitalise on the opportunities provided by China and other emerging economies could accelerate Britain's descent in the world's economic league table.

$1bn

China struck a $1.08bn deal to fund a Texas oil firm's drilling and completion. Grangemouth, above, is part of a £2.6bn deal signed between the UK and China

£275m

China with Qatar Holding helped save Songbird Estates, the construction manager behind Canary Wharf

$7.5bn

Last week, Spain agreed to an export deal that is expected to include olive oil, ham and wine

Strategy

It's not just about oil; Beijing needs to invest cash

Those watching China's mammoth shopping spree in recent years might have concluded that it is all about oil or other natural resources.

At first glance, the deal to save the Grangemouth refinery fits perfectly into this narrative. As the world's second largest economy continues to boom, its hunger for resources has far outstripped its ability to produce them. From Sudan to Iran and from Australia to Afghanistan, it has sought new supplies not just of oil and coal but of copper, rubber and crops. Factories producing goods for the world need something with which to make them.

"In the 1990s, oil was the first energy source in which China started becoming a net importer. Then, as time went on, gas was imported, too. In the last year it's become a net importer of coal," said Zhou Xizhou, associate director of global energy consultancy IHS CERA.

But take another look at PetroChina's new joint venture with Ineos, Grangemouth's owner, and it appears rather more complicated. The refinery is a long way from the Pearl River Delta's manufacturing heartlands and it seems unlikely the Chinese plan to ship the stuff home. Si Bingjun, general manager of PetroChina International London, said the company's strategy was to build a broader business platform in Europe.

As Zhou points out, even China's energy acquisitions have been driven not just by direct demand but by its broader economic development: specifically, by the changes at state-owned companies that began to raise large sums of money through share offerings.

"If you look at all the national companies in China, they are sitting on a lot of cash. So is the government. They need to find a way to invest that money for potentially higher returns," he said. "The prices for many oil products are regulated in China, but European refineries follow market prices."

While energy commodities have dominated Chinese purchases, they are certainly not the only acquisitions. In the last few years, Chinese firms have invested in Swedish car companies and British menswear retailers; in Spanish olive oil as well as Venezuelan crude oil. And if state-owned companies boast the biggest wallets, private enterprise seems just as keen to get its hands on assets overseas- drawn by the prospect of profits rather than diktat from above.

Of course, there are other strategic advantages for China in such deals. It is keen to shore up the faltering European economy – the EU is its largest trade partner – and deflect pressure to allow the yuan to appreciate.

But its purchases owe much to market forces as well as a political blueprint. Zhou pointed out that recent energy deals also reflect the keenness of producing countries to sell. That dynamic was underlined by the global economic crisis, when China snapped up tens of billions of dollars worth of assets. "If you look at Australia, that's basically how it kept its economy afloat," he added. **Tania Branigan**