The globalisation of China’s financial capital: How China’s growing financial clout is affecting the global political economy

Francis Schortgen

Department of Political Science,
University of Mount Union,
Chapman Hall 452,
1972 Clark Avenue,
Alliance, OH, USA
Fax: (330) 823-3363
E-mail: schortf@mountunion.edu

Abstract: This paper aims to critically evaluate the significance of the unfolding globalisation of Chinese financial capital, for both China and the world. Specifically, it will juxtapose a general assessment of Chinese motivations and objectives to preconceptions of and reactions to China’s financial globalisation. To date, efforts to understand the dynamics behind and implications of China’s financial globalisation remain significantly burdened by misperceptions and misrepresentations. This paper argues that while China’s economic and financial globalisation is seen as ushering in a new global dynamic, it need not (and should not) necessarily come at the expense of possible cooperation and coordination.

Keywords: business; China; emerging markets; financial capital; distribution of wealth and power; emerging markets; globalisation; competition; cooperation.


Biographical notes: Francis Schortgen is an Assistant Professor of Political Science and International Studies at Mount Union College. He received his PhD in Political Science from Miami University, focusing his research on Chinese political economy issues and trends. Prior to returning to academia in 2004, he worked as a Business Consultant in Seoul, South Korea, for 2.5 years, outlining market entry strategies and conducting market assessment studies for major multinational companies. He also holds an MBA from the National University of Singapore and an MA in Asia-Pacific Studies from the University of San Francisco’s Center for the Pacific Rim.
It’s one of the few players in the world, besides the Saudis, who is sitting on a lot of cash and can help save the international financial system

*Victor Shih*

Author of “Factions and Finance in China”

1 Introduction

The closing years of the first decade of the 21st century will unquestionably be remembered as a critical juncture in the history of global economic and financial pre-eminence of the West. Basking in the apparently “unabashed victory of economic and political liberalism” (Fukuyama, 1989), a distinctive belief in the possibility of extending the ‘American Century’ began to take hold in the early 21st century (Hachigian and Sutphen, 2008; Hughes, 2005). Yet, just as the perception of a political ideology endpoint would eventually be negated by the spectre of radical Islam, so too would a succession of global economic and financial developments, starting in late 2007, begin to cast a large shadow on the economic prognostication of the ‘End of History’ claim (Fukuyama, 1989), the expected convergence to the comparative advantages and strengths of Anglo-Saxon-style capitalism as means of achieving economic success, as well as on the continuing relevance and appeal of the ‘Washington Consensus’.

Just as the current economic and financial crisis has begun to call into question, the ability of the USA to sustain its status as the superpower of the global financial system, discussions about the manifestations and implications of Chinese financial ascendance have become an increasingly ubiquitous reality in political economy circles. With the accelerating internationalisation of China’s political economy sphere and rising financial clout coinciding with the current economic and financial crisis, the China discourse has assumed renewed importance. A prominent and widespread view asserts that China’s coming of age augurs in a new international system structure. China’s rise, according to many scholars and policy makers, is bound to be destabilising, unpeaceful and fuelled by counter-hegemonic impulses. The China discourse increasingly plays out between critics, who raise alarm over Beijing’s geopolitical and geostrategic ambitions and expanding global reach, and proponents, who argue the peaceful nature and commercial/economic ambitions of China’s expanding internationalisation. Of late, and especially owing to the contemporary global economic dynamics, China’s expanding financial clout has become a subject of rapidly growing controversy. In this paper, I offer a contextual assessment of the prevailing framing of China’s rise, focusing in particular on the globalisation of China’s financial capital.

The fundamental premise of the paper is that the globalisation of Chinese financial capital – defined to include aggregate manifestations of overseas equity and portfolio investments – is not merely the result of enhanced economic liberalisation and marketisation of China’s political economy space following decades of economic reform and restructuring. Rather, it also presents fundamental opportunities for substantive integration of China in the established international economic and financial system as well as for enhanced multilateral coordination and cooperation. Of course, China’s determination and willingness to capitalise on its nascent financial power cannot easily be decoupled from concerns over broader geopolitical and geostrategic calculations,
but a more deeply contextual approach helps to elucidate both challenges and opportunities that derive from this nascent dynamic.

The premise of the paper is developed in four sections. In Section 1, I outline a broad conceptual/theoretical framework for assessing the globalisation of China’s nascent financial power. Section 2 provides a broad contextual perspective to China’s economic and financial ascendance, emphasising general manifestations of an expanding globalisation process of financial capital. Section 3 offers a critical assessment of this trend, evaluating its perceived and actual motives and implications, including weighing the (dis)advantages behind China’s flexing its financial muscle overseas and contrasting concern over competition with potential for cooperation. The final section offers some concluding thoughts.

Overall, I aim to articulate the need for moving beyond conventional framing of the China discourse, particularly as it pertains to the globalisation of Chinese capital, to ensure avenues of potential cooperation not be marginalised by excessive fears of competition. Judging by the overall historical record and the rise and fall of great powers, accumulation of wealth begets power and ambitions for enhanced influence in the international system. China is hardly an exception to this rule. I posit that, obvious broader geopolitical or geostrategic motivations notwithstanding, the reality of deep interdependence between China and the global economy – fostered over the last three decades of re-engagement with the international community – suggests that the Chinese government has a vested interest in sustaining, if not strengthening, rather than overtly challenging the established international economic and financial system.

2 Conceptual framework

In early 2008, a front-page Wall Street Journal article, commenting on Wall Street’s growing reliance on foreign investments to shore up the balance sheets of troubled banks, noted,

“So far, the foreign investment in Wall Street firms has not provoked a political backlash in the USA. Politicians may be aware that the alternative to foreign investment in the banking system could be painful. The issue of selling chunks of Wall Street to Middle Eastern and Asian investors has not figured much in political campaign rhetoric…” (Enrich et al., 2008)

Since then, sovereign wealth funds (SWFs) have increasingly come under stricter scrutiny (Bahagat, 2008; Drezner, 2008). China has begun to draw particular attention in recent years, as outward portfolio investments have witnessed a noticeable uptake in popularity since 2006 (as will be shown here). At the same time, reactions to this trend appear oftentimes to be defined by political rationalisation, based on particular and narrow vested interests, than by tangible analysis. Not restricted to Chinese capital investments (Seznec, 2008), China, however, may represent a new ‘perfect’ enemy for the USA in a post-Cold War environment, which could explain at times highly emotional reactions to Chinese overseas business and financial expansion. In the words of Liu Jianchao, a spokesman of the Chinese Ministry of Foreign Affairs,

“We demand the US side abandon its Cold War thinking and stop its gratuitous criticism of China … I think everyone is weary of this kind of farce, and it should end.” (Dombey, 2008)
The conceptual framework (Figure 1) is meant to infuse the analysis of the globalisation of Chinese capital with a requisite degree of contextualisation, so as to ensure objective evaluation of the motivations behind as well as challenges and opportunities presented by China’s nascent outward portfolio investments. The proposed analytical construct incorporates three major conceptual levels. The situational level lays out the essential pillars for an effective contextualisation of the underlying trend. The ‘temporal’ variable puts the globalisation of Chinese capital in a broader contemporary historical context, drawing attention to critical junctures in the post-1978 development of China’s political economy space and assessing China’s financial muscle flexing against the general sequencing and timing of economic and business internationalisation. Second, the ‘institutional’ variable helps to shed light on the ownership and control structures of the various investment vehicles spearheading China’s emerging clout in the realm of international finance and banking. Third, the ‘interactional’ variable serves as a critical analytical lens for the breadth and depth of receptiveness or resistance to the growing influence of Chinese capital (Ekiert and Hanson, 2003).

Figure 1  The globalisation of Chinese capital – a framework for analysis

The assessment level, meanwhile, combines three major dimensions informing the perception of and reaction to the globalisation of Chinese capital, namely, political, economic and military/security concerns. The convergence of a host of contemporary circumstances and developments related to the rise of China and the global economy, combined with prevailing public (mis)perceptions and (lack of) understanding of China, have led to political or security issues dominating the contemporary China discourse, at the expense of economic considerations. Moreover, this dynamic merely reinforces the tendency to view China primarily as a ‘strategic competitor’ rather than a ‘strategic partner’ and emphasising the threat or danger of competition over the potential for cooperation.

Finally, the political economy environment level highlights two defining trends that are impacting the contemporary international political economy space. The first is a gradual, yet inevitable, shift in the global distribution of wealth and power away from the West and towards the East. Indeed, the global economic recession and financial dislocation trends, beginning in late 2007, are not merely of crucial relevance and importance given their near-term effect on national economies and their contagion-like
spread around the world, raising the spectre of global economic dislocations reminiscent of the Great Depression of the 1930s, and the laying bare of deep structural weaknesses of the global financial system. Rather, they also offer a clear window on the defining trend in the 21st century; that is, a gradual, inevitable and inexorable shift in the global distribution of wealth and power from the West to the East (Mahbubani, 2008; Prestowitz, 2005; Zakaria, 2008).

As this dynamic will continue to unfold, it is also more likely to cast doubt on the sustainability of Western global economic and financial hegemony, potentially even inviting a fundamental reassessment of the conventional, post-World War II understanding of hegemonic stability and raising the possibility of hegemonic transition. The basic premise of hegemonic stability theory stipulates that, for there to be stability in the global economy, “there has to be a stabiliser, one stabiliser” (Kindleberger, 1973, p.305). Since the post-WWI era, the USA has near-universally been regarded as that stabiliser.

The rise of China to ‘great power’ status, meanwhile, has prompted concerns (mostly among structural realists) of a decidedly counter-hegemonic challenge to the USA. Occurring at the time of perceptions of relative economic decline of the West, however, China’s rise appears to have merely reinforced the belief in a counter-hegemonic challenge and the potential onset of a hegemonic transition (Mearsheimer, 2006; Zheng, 2005; Levy, 2008; Gilpin, 1987; Koehane, 1984).

A tangible and solid analytical reference point this conceptual model outlined earlier constitutes a valuable initial step towards a more highly contextual understanding and interpretation of the unfolding internationalisation process of China’s political economy in the 21st century, in general, and the nascent, yet expanding, global reach of China’s financial capital, in particular.

3 China as the new kid on the global finance block

Throughout history, major players have seen their political, military, economic and cultural fortunes rise and fall, with the requisite implications for accumulation or relative withering away of wealth and power (Chua, 2007; Kennedy, 1987). Concerted efforts at economic reform and restructuring, beginning with the ‘Open Door’ policy in 1979 and sustained over time, set the stage for a dramatic reversal of China’s economic fortunes. From an underdeveloped economic space in the late 1970s – the result of mismanagement of economic development beginning with the disastrous Great Leap Forward and compounded by the socio-economic dislocation of the Great Proletarian Cultural Revolution – China engineered a successful economic take-off with the decision to shift the emphasis from “politics in command” to “economics in command” in the post-Mao era.

Key manifestations of China’s dramatic expansion of global reach and influence over the years include a near-stratospheric rise of the country’s trade balance with much of the West (and especially so, with the USA), an equally strong expansion of its foreign currency reserves, and large holdings of US Treasury securities.

China’s trade balance with the USA went from a paltry US$ 6 million surplus in 1985 to a staggering US$ 246 billion by year-end 2008 (Figure 2(A)). Between 2000 and 2008, China’s trade surplus grew by nearly 200%. Over that same period, its foreign currency reserves grew from US$ 165 billion to US$ 1.9 trillion (Figure 2(B)).
China’s commitment to internationalisation is increasingly defined by an outward orientation complementing the long-time focus of nurturing inward internationalisation. The unfolding outward internationalisation bestows a distinguishing feature on the dynamics of economic development and reform of China’s political economy as well as on international business competition in the 21st century. The phenomenal economic growth record of post-Maoist China has over the years nurtured the rising expectation of China inevitably coming to exert a powerful influence effect on the world economy, possibly even significantly reshaping the economic and political rules of global business competition.

The rapidly accelerating and deepening global economic and financial reach of China is expressed in the powers of the seller, buyer, investor and donor, and innovator (Lampton, 2008, pp.96–110). Whereas the seller power has been widely recognised (fuelled as it is by the perception of an abundant supply of ‘cheap’ labour), the buyer and investor powers are the dynamic forces that are gradually gaining greater appreciation. Indeed, they represent the most visible and immediate manifestations of the shifting distribution in relative wealth and power in the world today.
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The nascent growth of Chinese outward investments relative to inflows from abroad over the 1999–2006 period is a rather clear indication of the impending tectonic shift in the relative distribution of global wealth and power (Sheth and Sisodia, 2006). In addition to China’s outward Foreign Direct Investment (FDI) flows, which grew 632% between 1999 and 2006, portfolio investments are rapidly emerging as a popular capital investment position as well (Table 1), attesting to China’s nascent global financial influence and power (Fung et al., 2007).

Table 1 China’s international investment positions

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>%</th>
<th>2005</th>
<th>%</th>
<th>2006</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct investment abroad</td>
<td>52.7</td>
<td>5.7</td>
<td>64.5</td>
<td>5.3</td>
<td>82.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>92.0</td>
<td>9.9</td>
<td>116.7</td>
<td>9.6</td>
<td>229.2</td>
<td>14.1</td>
</tr>
<tr>
<td>Other investment*</td>
<td>166.6</td>
<td>17.9</td>
<td>215.7</td>
<td>17.6</td>
<td>242.0</td>
<td>14.9</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>618.6</td>
<td>66.5</td>
<td>825.7</td>
<td>67.5</td>
<td>1,072.9</td>
<td>66.0</td>
</tr>
<tr>
<td>Total</td>
<td>929.9</td>
<td>100</td>
<td>1,222.6</td>
<td>100</td>
<td>1,626.6</td>
<td>100</td>
</tr>
</tbody>
</table>

*Other investment includes trade credits, loans, and currency deposits.

Source: State Administration of Foreign Exchange, Hang Seng Bank

By June 2008, China’s total holdings of US securities stood at just over $1.2 trillion, or 11.67% of total world holdings. This marks a nearly 31% increase in Chinese holdings from June 2007. This expanding accumulation of financial wealth and power, in turn, has been instrumental in fuelling the gradual uptake in both outward FDI as well as portfolio investments by Chinese financial and non-financial business enterprises in recent years.

The globalisation of Chinese capital is particularly well captured by a newfound vitality of China’s financial institutions, notably the major state banks. In The Coming Collapse of China, Chang (2001, pp.122–165) raised serious concerns over the solvency and viability of Chinese banks. Critics have especially pointed to the large number of problem or non-performing loans weighing down the balance sheets of Chinese banks. There is no doubt that the Chinese banking sector will have a long way to go to address lingering flaws and inefficiencies. Yet, at the same time, gradual reform and restructuring efforts in recent years have seen substantial advances and improvements in China’s financial and banking sector and have largely confounded excessively pessimistic predictions for the future of Chinese banks.

Indeed, in a stunning confounding of predictions of collapse due to inherent structural weaknesses and widespread insolvency, the recent reversal of fortunes of some of China’s major state-owned banks represents a dramatic shift in centre of gravity of global banking, with the year 2007 being an especially critical juncture for Western financial dominance (Larsen and Briscoe, 2009). In that year, Industrial & Commercial bank of China (ICBC), Bank of China (BOC) and China Construction Bank (CCB) broke into the ranks of the top 20 financial institutions in the world for the first time, at third, sixth and seventh position, respectively, based on market capitalisation. Over the next two years, Chinese financial institutions made further gains, with ICBC, CCB and BOC capturing the top three spots in 2009, with the Bank of Communications and China Merchants’ Bank acceding to the 10th and 12th ranks, respectively, as well (Figure 3).
Substituting shareholding structure for exclusive state ownership has been a key factor in engineering a more commercial orientation for China’s major state-owned banks. The state, however, still retains a majority ownership share in the so-called ‘Big Four’ – the BOC, CCB, ICBC and the Agricultural Bank of China. While the restructuring efforts have not eliminated issues-areas of immediate concern, the financial health of these banks has improved markedly between 2004 and 2006. Concurrently, foreign institutional investors have taken note of that and, in a true vote of confidence, channelled substantial investments into those banks. Coupled with successful overseas Initial Public Offerings (IPOs), institutions such as ICBC, BOC and CCB have seen their fortunes rise to unprecedented levels, while resulting in a discomforting reversal of fortunes for many established Western banking powerhouses.

As China’s major banks are searching for opportunities to invest much of the newly accumulated capital, such moves have more often than not generated politicised fears, concerns and regulatory foot-dragging – most notably so in advanced industrial economies. On the one hand, Chinese banks have of late begun to extend a rescue line to established global financial players reeling under the adverse effect of the sub-prime mortgage crisis emanating from the USA. Citigroup executives reportedly had been in contact with, and secured an initial agreement with, China Development Bank for a US$2 billion cash injection. Similarly, both BOC and ICBC had apparently been approached separately about assisting in the rescue of the UK’s beleaguered Northern Rock through acquisitions of minority stakes (Reuters, 2007).

Apart from overseas investments by its major state banks, China has also begun to use alternative investment vehicles to demonstrate its nascent financial clout and to
capitalise on the prospects of financial globalisation (Stulz, 2005). Among the most visible is the China Investment Corporation (CIC), an SWF tasked with investing $200 billion of China’s current foreign exchange reserves (estimated at roughly $2 trillion). Since its inception in September 2007, a string of high-profile investment decisions have propelled CIC into the international spotlight, drawing considerable attention, scrutiny and suspicion to Chinese capital investments vehicles (USCESRC, 2008, pp.43–68).

CIC’s far-reaching mandate, which incorporates goals of several central government agencies, support for outward internationalisation of Chinese enterprises and an integral role in China’s capital control system, is bound to cast substantial doubt on the purported exclusively economic objectives of such investments. As noted in the 2008 US-China Economic and Security Review Commission report,

“China appears far less likely than other nations to manage its sovereign wealth funds without regard to the political influence that it can gain by offering such sizable investments.” (USCESRC, 2008, p.43)

Such investments may be an attempt to gain “control of important sectors of the world’s free market economies” and could carry substantive national security risks “due to extensive involvement of the central government, which has a history of making strategic acquisitions to enable it to obtain advanced US technology in such areas as automobiles, telecommunications, and aerospace.” (USCESRC, 2008, p.45)

Depending on the broader geopolitical situational factors prevailing at any given time, allaying concerns over direct portfolio and equity investments linked to foreign governments can prove to be an uphill battle at best (Lavelle, 2008). As an alternative strategy, SWFs have begun to commit to a more indirect investment approach to drop off the radar of regulatory authorities and stave off much of the seemingly inevitable political backlash. China’s CIC, for example, announced in February 2008 its plan to invest up to $30 billion of its ballooning foreign exchange reserves with international fund managers as a means of bypassing transparency and accountability concerns.

China’s SWF, however, is not the only major source of recent Chinese portfolio investments into major international financial institutions (Table 2). While such investment flows may speak to the continued overall attractiveness of US assets, they nonetheless also attest to the rising attuning of the Beijing leadership to alternative forms of projecting power and influence within the general confines of the established international order and in light of contemporary developments in the global economy.

Table 2 Chinese overseas portfolio investments

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Source</th>
<th>USD billion</th>
<th>% Stake</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Bank</td>
<td>ICBC</td>
<td>5.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>China Investment Corporation</td>
<td>5.0</td>
<td>9.9</td>
</tr>
<tr>
<td>The Blackstone Group</td>
<td>China Investment Corporation</td>
<td>3.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>China Development Bank</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Bear Stearns</td>
<td>Citic Securities</td>
<td>1.0</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: Dealogic; Financial Times (2007)
Meanwhile, the fears, concerns and scepticism greeting China’s global economic ascendancy and nascent financial clout share a striking resemblance to the mindset that befell the West in the 1980s when Japan was widely perceived to be bent on challenging the predominance of the West (Emmott, 1993; Prestowitz, 1988). The Japan discourse was limited to the economic realm given that, from the perspective of geo-strategic alignment during the Cold War, Japan was clearly deeply embedded in the ‘Western’ camp and did not harbour broader geostrategic ambitions to challenge the hegemonic power of the USA. For ideological reasons dating back to the Cold War, and given its unmistakable ambitions to recapture what it sees as its rightful and dominant position in the world, China’s rise has come to be scrutinised through the dual lens of geostrategic considerations and global economic implications.

If recent trends are any indication, geostrategic considerations will in all likelihood continue to define much of the China discourse in the West. The widespread perception that China’s rise constitutes a credible counter-hegemonic challenge to the USA and that China is allegedly committed to reshaping the international order (Li, 2008; Mosher, 2000) seemingly provides the necessary political rationalisation (Peerenboom, 2008; Wang, 2008). Unfortunately, such a framing concept runs the risk of assessing the manifestations and implications of the relative shift in the global distribution of wealth and power solely from a zero-sum threat and competition perspective (i.e., maximisation of economic competitiveness and geopolitical ambitions), when the real focus ought to lie with seeking avenues to sustain economic power and influence, all the while accommodating the ambitions of emerging powers and transforming new challenges into opportunities, so as to strive for a mutually beneficial outcome, or optimisation of economic competitiveness and geopolitical ambitions.

In the following section, I aim to offer a set of initial thoughts to steer the assessment of motivations and implications behind China’s globalisation of financial capital in a more contextual, yet critical, direction.

### 4 Competition or cooperation?

In light of the growing ability and willingness of emerging market players to satisfy the capital raising needs of financial power houses like JP Morgan, Citigroup, Merrill Lynch, and so many others burdened with billion-dollar losses from the US subprime mortgage crisis, and considering the rapidly increasing visibility of the relative shift in the global distribution of wealth and power, accentuated even further by the fall-out of the economic and financial woes plaguing the global economy and calling into question the future of neoliberal capitalist model, inward foreign direct and portfolio investments, especially those of Chinese origin, are bound to be subjected to tighter scrutiny in the months and years ahead.

Indeed, the globalisation push of Chinese enterprises and the increasingly multifaceted and omni-directional activities of Chinese capital investment vehicles lie at the very heart of contemporary interpretations of China’s global designs and ambitions. In this context, two profoundly different perspectives have arisen. On the one hand, the globalisation of China’s political economy space is viewed as the latest manifestation of an ever-stronger re-alignment with global economic forces. The second perspective, meanwhile, views this trend as indicative of Beijing’s broader geo-political ambitions, including the possibility of a radical and comprehensive power transition in the
international system. Both perspectives, however, are wrong, for neither adequately captures the inherent complexities or the underlying significance of the globalisation of China’s financial capital.

Moreover, reactions to Chinese capital investment activities are further complicated by lingering misperceptions of China in the 21st century generally and a pronounced lack of appreciation of far-reaching transformation of China’s domestic political economy space over the course of 30 years of economic reforms and restructuring. For better or worse, there remains a strong temptation to assess China’s rise through the ideological lens of socialism/communism, even as reform deepening (shenhua gaige) and increased marketisation and liberalisation led to an irrevocable hollowing-out of prior socialist–communist ideological superstructures (Wang, 2002). Whether based on calculating geo-political rationalisation or influenced by ideological rigidity and unwillingness to acknowledge the possibility of a socialist/communist system possibly having turned into an incubator for capitalist dynamics rivalling those of established free market economies, this will be a defining reality in the international political economy system in the 21st century. The reality, as Jim Cramer, a former hedge fund manager and best-selling author succinctly notes, is that “The Chinese Communists are just such great capitalists. They are just unbelievable capitalists masquerading as Communists”.

As previously noted, ascertaining the global designs and ambitions driving the globalisation of Chinese financial capital go beyond a simple threat vs. opportunity perspective. Assessments are complicated by the fact that economic/commercial objectives and broader geostrategic ambitions are not necessarily mutually exclusive. In other words, the Chinese government may well employ financial capital, directly through government agencies and investment companies such as CIC or indirectly through policy loans channelled to business enterprises pursuing overseas investments or Merger and Acquisition (M&A) activities, to secure national and strategic objectives in addition to taking advantage of the country’s deepening integration and interdependence with the global economy to meet economic and commercial targets.

The motivations for China’s state banks’ internationalisation are of a combined political and commercial nature. On the one hand, Chinese authorities recognise the need for state banks to drastically improve on the operational front. The competitive benchmarking and enhancement of operational efficiency as well as diversification of financial service offerings that is more likely to be gained through overseas expansion will be a particularly good fit with the growing service needs and demands of joint-stock companies and private enterprises that are rapidly growing into a critical component of China’s marketising and privatising political economy.

On the other hand, China’s state banks have also begun to focus more on minority acquisitions so as to mitigate excessive political fears or regulatory scrutiny, while simultaneously pursuing specific commercial goals through less obvious means. As Zhou Xiaochuan, the governor of the People’s Bank of China, acknowledged, the Chinese government is actively encouraging qualified financial institutions

“to establish overseas operations, and explore equity investment in overseas financial institutions through merger and acquisition, in order to provide enterprises with convenient financial services in their overseas investment and operation.” (PBOC, 2007)

An illustrative case in point is ICBC’s October 2007 acquisition of a 20% stake in South Africa’s Standard Bank is directly in line with strategic business and broad
political-economy interests. With this move, China will be able to leverage both Standard Bank’s extensive knowledge and expertise in resource financing and commodities trading – areas of critical interest to the Chinese government – as well as its African regional network and hence support a wide range of charm offensive operations on the African continent (Kurlantzick, 2007; Timewell, 2007).

From the Chinese perspective, financial investments by domestic qualified institutional investors have been aimed primarily at improving the rate of Return On Investments (ROI) and diversifying the investment portfolio as part of a general risk-management strategy. Two of the most notable developments in this area include the invitation extended by China’s National Social Security Fund (NSSF) on 28 April 2006, through “Tentative Provisions for the Administration of Overseas Investments by the National Social Security Fund”, to qualified institutional investors to apply for managing substantial pools of capital from the national social security funds, and the setting up of CIC in September 2007.

The former is ostensibly undertaken primarily with domestic political considerations in mind. The ideological bankruptcy of the political system that followed demise of the Communist moral and political order in the former Soviet Union and its Eastern European satellite states in the 1990s has left the Chinese Communist Party with nothing but the ‘economic’ mandate of heaven. To meet its foremost economic and social development goal, the creation of a ‘well-off’ society (xiaogang shehui) by 2020, the Chinese government has committed itself to providing an environment that proves conducive for and actively encourages further economic and financial liberalisation, marketisation and internationalisation, with the aim of mitigating as best as possible the likely challenges and demands on the China’s political, social and economic systems.

Meanwhile, SWFs have deep financial pockets that are increasingly coveted by global financial players who find themselves strapped for cash as a result of the sub-prime mortgage crisis that emanated from the USA and has since blown significant holes in the balance sheets of many a global financial player. The resulting influence effect enjoyed by such funds, including China’s CIC, may well be the product of rising consumption levels in advanced industrial economies that have allowed many developing countries to amass huge foreign exchange reserves, a portion of which they are now looking to invest overseas with the aim of securing higher ROIs.

Moreover, rising Chinese overseas financial investments may also simply constitute attempts by the Chinese government to capitalise on its strengthened integration with the global economy and take advantage of investment opportunities offered by global capital markets (Kimmitt, 2008). Keeping in line with the contemporary reality and dynamics of the global economic space, a more deeply contextual analysis of the unfolding trend will caution against overgeneralisation and summary conclusions based on incomplete understanding of the complexities of contemporary China. China’s ascendance and the gradual globalisation of economic and financial clout do not a priori imply an inevitable and comprehensive power transition or repudiation of the established international order. In fact, there is no credible indication or historical precedent to suggest that China aims to be a revisionist power in the international system (Zhang, 2004). In fact, China sees its national interests best served by cooperation rather than rivalry with the USA and recognises that “trade and economic integration provide a surer path to economic prosperity and peace” (Mahbubani, 2005, p.108).

Finally, a further contextual explanation for the globalisation of Chinese financial capital can be gleaned from the conditions prevailing in the broader global economic
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arena. Owing to the degree of contemporary global economic interdependence, the Chinese government has a critical stake in the continued stability, if not actual strengthening of the current global financial system, especially in light of recent developments. At the same time, however, by virtue of being ever more deeply plugged into the global economy, Chinese financial institutions can hardly be faulted for shrewdly acting on the opportunities that developments in overseas markets present in terms of global expansion and investment diversification.

Despite hyped-up concerns that China may be flexing its financial muscle to bring about a favourable recalibration of the international order, its financial clout is far from being so globally encompassing. Nor, for that matter, have China’s overseas portfolio investments proved immune to the global financial contagion effect in recent months.

As reported by Chinese sources,

“CIC’s holdings of Blackstone and Morgan Stanley stakes have dropped respectively 42% and 16% in value. China Development Bank’s investment in Barclays Bank is suffering even higher losses of more than 50%. A similar situation applies to Ping An Insurance’s investment in Fortis and Industrial, and to the purchase by Commercial Bank of China (ICBC) of a 20% stake in the Standard Bank of South Africa.” (China.org, 2008)

Ironically, however, the timing of China’s accumulating financial clout, despite the current crisis befalling the global financial order, may prove to be an auspicious one. Politicised fears, concerns, and at times regulatory foot-dragging by Western authorities concerning approval of Chinese portfolio investments, the Chinese government has repeatedly communicated its intention to being a “responsible stakeholder” and skilfully communicating its commitment to operating as a status quo rather than a revisionist power. As the effects of the subprime mortgage began to ripple through the global financial system, Chinese banks began to be seen, however gradually or reluctantly, as potential white knights for the global economy. This development was a double blessing in disguise. On the one hand, it constituted, however temporary and imperfectly it may prove to be, a significant discrediting factor to the arguments presented by vested interests bent on indiscriminate vilification of the global ambitions of Chinese financial capital. Through major capital investments, Chinese banks began to extend a rescue line to established global financial players reeling under the adverse effect of the sub-prime mortgage crisis emanating from the USA. Citigroup executives reportedly had been in contact with, and secured an initial agreement with, China Development Bank for a US$ 2 billion cash injection. Similarly, both BOC and ICBC had apparently been approached separately about assisting in the rescue of the UK’s beleaguered Northern Rock through acquisitions of minority stakes (Reuters, 2007).

At the same time, it also provided the Chinese government with a major bargaining chip that the Chinese government intended to (and did in at least one major instance) capitalise on by blocking previously negotiated agreements for Chinese capital injection in foreign lenders or by holding out the possibility of quid pro quo arrangements. The latter emerged as a particularly attractive means to overcome perceived double-standards applied to Chinese financial institutions – extending recognition to these institutions as they express commitment to support established global financial powerhouses in times of acute crisis, on the one hand, and then calling into question their ‘independent’ pursuit of overseas investment opportunities. An illustrative example of such a quid pro quo consideration included Chinese authorities hinting at possibly raising the current 25% limit on investment stakes in Chinese banks in exchange for
removing purportedly discriminatory roadblocks to Chinese banks’ plans to establish a more global presence (Kwok, 2007). Such a move would be especially welcome news to foreign banks vying to expand their position in the Chinese banking sector.

5 Conclusion

“We will get a huge shift of ownership of assets, from being Western-owned to being increasingly owned by investors from developing countries. That is the very long-run view.”

Jeremy Siegel, The Wharton School

The history of the world is a continuous process of power cycles and shifting distributions of wealth and power. Indeed, the historical record suggests that countries that accept this reality generally succeed in retaining and refocusing much of weight and influence in the global economy. Stubborn unwillingness to accommodate emerging powers and relative shifts in wealth and power, however, can be self-defeating, if not in the short-run then certainly over the medium- to long-term.

Substantive doubts and reservations concerning the broader motives behind specific investment decisions – both financial and non-financial – are unlikely to dissipate as China’s economic and financial influence continues to increase. As a matter of fact, this very dynamic has prompted a peculiar China fantasy that is to a large extent influenced by “geopolitics, animosity perceptions and other ‘non-rational’ considerations” (Shenkar, 2006, p.21). In contrast to the perceived challenge posed by a ‘new model of capitalism’ (created by Japanese banking and governmental policies) employed by Japanese companies in their overseas activities in the 1970s–1980s, resistance to Chinese accumulation of economic and financial weight derives in large measure from the incredulity that a socialist/communist political and economic environment could mount a credible and aggressive wave of internationalisation, embrace the capitalist and profit-oriented mindset in many (if not all of ) its facets, and ostensibly (re)shape global economic dynamics and business competition.

It should be noted that not all the doubts and concerns raised in the context of the nascent and rapidly accelerating internationalisation of Chinese capital – both in the form of FDI as well as portfolio investments – are necessarily ill-placed or represent ‘bogus fears’ (The Economist, 2005). By the same token, however, the temptation of accepting suspicions raised against Chinese overseas expansion and investment plans at face value, without context-sensitive analysis ought to be cautioned against to an equal measure (Schortgen, 2008, 2009).

Indeed, efforts to obstruct China’s capitalising on new-found economic and financial power and influence may merely breed more determined competition and competitive dislocation whereas accommodation can foster more cooperation and coordination amid a healthy competitive environment. If anything, recent headlines such as “Asia to the rescue” and “Can China Save the Global Economy” help to buttress the need for accepting the relative shift in power/wealth and resist the temptation to block China’s ambitions and influence on narrowly conceived, ideologically driven and emotion-laden grounds. The West ought not to focus on how to retain its economic competitiveness and hegemonic influence as an end in and of itself, but rather needs to consider its overall ability to adjust to a changing global-economic and geopolitical reality, ought to display
a general flexibility to accommodate new powers, and should make efforts to adjust to the distinct possibility of relative decline in economic/financial power and influence. Arguably, the most constructive way to transform China into a ‘responsible stakeholder’ lies in cultivating an environment that enables the internalisation of ‘principles, rules and norms embedded in the world economy, which define ‘correct’ and ‘acceptable’ economic behaviour of the state’ (Zhang, 2003, p.699). Emphasising the potential for cooperation, coordination, even amid strategic competition, and acknowledging and accepting the relative shift in the global distribution of wealth and power is a necessary means to that end.

References


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The globalisation of China’s financial capital


Notes

1 For a detailed discussion of the analytical utility of thinking in terms of temporal, institutional and interactional context (or ‘space’), see Ekiert and Hanson (2003).

2 For a more detailed discussion of the various perceptions governing China’s rise, see Mearsheimer (2006), Zheng (2005) and Levy (2008) The theory of hegemonic stability, meanwhile, has over the years also attracted critical re-appraisal. In Gilpin (1987) the author comments, “The theory of hegemonic stability (at least in its more crude forms) has tended to overemphasise the role of the state and of political factors in the existence and operation of the international market economy. It has underemphasised the importance of motivating ideologies and domestic factors, of social forces and technological developments, and of the market itself in determining outcomes.” Moreover, in Koehane (1984), the author challenges the assumption of hegemony always being necessary or sufficient to ensure cooperation and coordination between states.

3 In a compelling study, René Stulz argues that the prospects for unfettered globalisation of finance remain limited by what he terms the “twin agency problems” – interests of corporate insiders and rulers of sovereign states vs. those of outside investors. See Stulz (2005).

4 For a more balanced and even-handed evaluation, see Peerenboom (2008) and Wang (2008).

5 Guo Shuqing, chairman of China Construction Bank, once voiced frustration over perceived discriminatory practices, remarking “We have applied to set up branches in the USA, but we have been subject to unequal treatment” See Kwok (2007).