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China Shying Away From Foreign Investment

MoneyNews

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SHANGHAI -- China is doing an about-face with foreign investments.

According to the Washington Post, "since the mid-1990s, China has aggressively courted foreign investment, crediting capital from abroad with helping it become a world economic power. In recent months, however, the Chinese government, saying it needs to protect homegrown companies from unfair competition, has thrown a multitude of new regulations at foreign firms seeking to do business in China."

[Editor's Note: [Forget China. This is Asia's Newest Tiger](#)]

A mood of self-questioning has swept over China, said Barry Naughton in an interview with the newspaper.

Naughton, an economist at the University of California at San Diego opined that the new regulations are a response to the government's fears of a "loss of economic sovereignty."

In July, the Chinese government placed restrictions on the purchase of real estate by foreign individuals and institutions. The following month it put a moratorium on foreign acquisitions of brokerages and limited the competitiveness of foreign-funded retail companies.

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Three months later in November, the government issued new guidelines for cross-border mergers and acquisitions.

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The new regulations affect a variety of sectors such as real estate, retailing, shipbuilding, banking and insurance, and some economist say they're only temporary measures to control growth. But others have said the new regulations are indicative of China's growing economic nationalism or perhaps even protectionism.

But the ramifications of the new regulations are already apparent. The Organization for Economic Cooperation and Development, for example, complained that the new regulations were so vague that they "may have a serious unintended discouraging effect on investments."

In addition, several U.S. companies have already reassessed their plans in China. Companies like eBay and Warner Bros. International Cinemas have already closed up their businesses in China or announced their plans to do so.

Some economists, the article states, say fears about Chinese nationalism and protectionism are overblown.

One source even pointed out that the U.S. has similar concerns about its own economic security. The U. S., he said, limits technology transfers to China and restricts foreign purchases in defense industries.

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