NEW YORK TIMES

"China's New Limits on Money Outflows Hit a Would-Be Paradise"

3/24/2017

In a new development, the *New York Times* reports in a March 2017 article that China's intensifying its efforts to limit capital outflow from the country, a move that is directly impacting Forest City.

Chinese officials are scrambling to keep money in its borders. China spent $1 trillion shoring up its currency since 2014 as big companies and regular investors shifted their money out of the country over worries about slowing economic growth and the prospect of better returns elsewhere. In response, China has put new limits on the ways Chinese can invest and use their credit cards abroad.

The limits now appear to be hitting Chinese efforts to buy real estate globally. In December, China's currency foreign-exchange regulator said it would take a harder look at how some were buying property, among other investments. On Friday, the overseas arm of UnionPay, the state-owned firm that dominates bank card payment processing in China, said it would prohibit the use of its cards for cross-border property acquisitions.
The moves could hit a large group: The Chinese invested $33 billion in overseas commercial and residential property deals last year, according to Jones Lang LaSalle, a real estate services firm.

Building homes in overseas markets like Hong Kong, Malaysia, Australia or New York City and marketing them to investment-minded buyers back home has become a cottage industry for China's larger property developers, who also promote the strategy as a way to help export China's industrial overcapacity.

"It is a major problem for some developers that have megaprojects overseas, as it appears they sell, and were intended to sell, mainly to Chinese investors rather than local buyers," said Nigel Stevenson, an analyst at GMT Research in Hong Kong. "Anecdotally it does seem much harder for Chinese buyers to transfer money offshore to pay for properties," he added.

Country Garden, the Chinese developer building Forest City in Malaysia, has also been affected. In a Chinese-language statement sent this month to the

Reuters news agency and reviewed by The *New York Times*, Country Garden said it decided to temporarily close its international property sales centers in mainland China for repositioning and upgrading "in order to better meet the existing foreign exchange policies and regulations."

A Country Garden spokeswoman said the closure of the sales centers was "not a knee-jerk reaction" to the policy and reflected a shift to selling internationally.

Forest City bills itself as "a dream paradise for all mankind." A promotional video for the project highlights a special duty-free shopping zone and its proximity to Singapore, and includes video of tropical fish and sea turtles swimming in turquoise waters.

It is also surrounded by freighters. Just to the west of Forest City is Malaysia's Tanjung Pelepas container port, which is busier than the ports of Los Angeles or New York. Across the water in Singapore lies an industrial district. The four artificial islands of the Forest City site cover nearly eight square miles.

Like many other Chinese developers, Country Garden has borrowed money from overseas, which could leave it vulnerable to any weakening in the Chinese currency and to higher interest rates in the United States. For companies, a weaker currency makes paying back debt more expensive. More than half of Country Garden's $12.8 billion in debt is denominated in American or Hong Kong dollars, though the company said on Wednesday that its overall cost of borrowing had declined.

In domestic Malaysian politics, Forest City has also become something of a political lightning rod.

The country's former prime minister, Mahathir Mohamad, has taken to his blog repeatedly to criticize the project — and the administration of current Prime Minister Najib Razak — for allegedly selling land, residency and other benefits to relatively affluent mainland Chinese and bringing little economic benefit to locals in return. Mr. Najib has rejected these criticisms, saying Malaysia is merely taking a page from Dubai's playbook by building giant projects to attract outside investors.

In a blog entry March 13, Mr. Mahathir said he recently visited Forest City for the first time.

He noted the impressive landscaping, including the large swimming pool and "beautiful" beach. But he renewed his criticism, saying the project is the equivalent of selling off land to foreigners.

"Indeed, Malaysia is very generous," he wrote. "Anyone can stay here."

Source:
https://www.nytimes.com/2017/03/24/business/china-money-outflows-country-garden.html