GlobalResearch
Center for Research on Globalization

Chinese puzzle makes blue-blood Rothschilds see red

By [Paul Betts]
Global Research, January 25, 2009
[Financial Times] 22 January 2009

Region: [Asia]
Theme: [Global Economy]

In September, the Compagnie Financière Edmond de Rothschild and the Bank of China announced a novel strategic alliance. They lyrically described it as "a little ray of sunshine" amid the global financial storm.

The Chinese bank, the world's fifth largest, signed a deal to buy a 20 per cent stake in the family held Paris-based Rothschild asset management and private banking business. The French government applauded a deal that appeared to mark a breakthrough. It also seemed a sign of a tangible improvement in Franco-Chinese relations after the summer row over the pro-Dalai Lama demonstrations when the Olympic flame passed through Paris.

For the first time, the Bank of China was taking a stake in a eurozone financial institution as part of its efforts to develop the necessary expertise and products to serve its 130m depositors. For the Rothschilds, it was not only a vote of confidence in their banking savoir faire but offered one of Europe's oldest and most aristocratic banking houses an opportunity to expand in the Chinese market.

Yet nearly four months on, the deal has not been consummated as it awaits official clearance from the China Banking Regulatory Commission. Indeed, the original agreement between the Chinese bank and Rothschild expired at the end of December, although the two parties have extended the closing deadline to the end of March. The Rothschilds are not only puzzled by the seemingly endless delay in securing the CBRC's rubber stamp, but are starting to become irritated.

Neither can Bank of China be too happy. It has seen its two European investors – UBS and Royal Bank of Scotland – sell their stakes in the government-controlled Chinese bank, and its international reputation risks taking another knock by raising questions over the reliability of the bank's signature.

It was the Chinese bank that appears to have insisted in taking a direct stake in the Compagnie Financière to underpin its banking alliance with the Rothschilds. Indeed, Benjamin de Rothschild, the French bank's controlling shareholder, was not keen to see his stake diluted too heavily and persuaded Quebec's Caisse de Dépôt et Placement to sell its 10 per cent stake in the Compagnie Financière. Even more puzzling was the warm welcome given by the Chinese banking regulator to Rothschild managers when they visited China before Christmas. The regulator apparently told them he considered the accord exemplary. But he has not formally approved it.

The Rothschilds are perplexed. Their French bank is solid and profitable and has managed to weather the financial squalls better than most. The Chinese authorities have undoubtedly become wary of investing in western banking groups given the stock market meltdown. But the €236m ($304m) consideration for the Rothschild stake is hardly going to break Bank of China.

The explanation presumably can only be political. Since the deal was announced, Franco-Chinese relations have slumped, especially after President Nicolas Sarkozy's meeting last month with the Dalai Lama in Poland. They are so bad that Chinese premier Wen Jiabao will avoid France during his grand European tour next week. But why pick on the Rothschilds? Surely there are far bigger French fish to bait such as state energy behemoths EDF and Areva or the Carrefour hypermarket stores, all with extensive interests in China.

Mr Wen's European visit will also coincide with the 45th anniversary of General de Gaulle's official recognition of the People's Republic of China. The Rothschilds hope this could be a good occasion for the Chinese authorities to give their clearance for the Bank of China deal. But no one is holding their breath in Paris.