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China trade story takes an unexpected turn

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Australia's exports to China have taken a worrying turn, and the problem isn't iron ore.

The big idea in the bilateral economic relationship was that by the time China's demand for Australia's iron ore began to level off, they'd be clamouring to buy container loads of other goods.

China's rapidly growing middle class has high quality food and beverages at the top of their shopping lists. Over the past three years China's Customs Bureau says that the value of food and beverage imports has grown at an average annual rate of 16 per cent.

For Australia it was meant to be a match made in heaven. Food and agribusiness were identified as a national strength in the federal government's Industry Innovation and Competitiveness Agenda, released in October last year.

And with China already buying more of our agricultural output than any other country — $9.4 billion in 2013-14 — it's no wonder optimism prevailed.

But over the past year things haven't gone to script. According to the Bureau of Statistics, the value of our food and beverage exports to China has fallen by 13 per cent.

Iron ore exports are down by less than 10 per cent. It's not just one product that's dragging down the overall numbers.

China's horticulture imports rose 15 per cent. Yet Australia's horticulture exports to China collapsed by 30 per cent.

China's dairy imports rose 2.5 per cent. But Australia's dairy exports to China plunged by 25 per cent. Why the gap?

China's meat imports were stable. Australia's meat exports to China dropped by 10 per cent.

Plainly, we could use some help. Chinese help that is. It's not enough that China's market is expanding rapidly. What we need are Chinese partners on the ground that can get our output on supermarket



shelves in Beijing, Shanghai and elsewhere. Chinese partners can also bring funds for investment so we can produce more to sell.

But when you look at Australia's record in building partnerships with the Chinese in agriculture, the export numbers aren't so difficult to understand.

Data collected by the University of Sydney and KPMG show that between 2007 and 2010 there was not a single instance of Chinese investment in Australia's agribusiness sector worth more than $5 million.

The situation improved in 2011 with China's Bright Foods and COFCO taking stakes in Manassen Foods and Tully Sugar. But by 2013 the level of activity had slumped to just two deals worth a paltry $95m.

The Foreign Investment Review Board (FIRB) says from 2008-09 to 2012-13, Chinese investment in the agriculture, forestry and fisheries sectors accounted for a minuscule 2.8 per cent of total foreign investment approvals.

Now take a look at what's been happening in New Zealand, which has an economy less than an eighth the size of ours. Last year, China's Yili group agreed to spend $NZ400m to build four new dairy processing and packaging facilities. That's in addition to a $NZ212m infant milk formula factory funded by a different Chinese company.

There's no prize for guessing which country's consumers will be reaching into their wallets to buy most of the extra output that New Zealand will be producing.

The good news is that the Chinese are keen to do similar deals here.

Last month the Chengdu-based New Hope Group said it wanted to invest $500m in Australian agriculture over the next three years.

It could find the going tough. The threshold for FIRB approval to buy rural land has been cut from a non-cumulative value of $252m to a cumulative $15m. The government has also said the threshold for investing in agribusinesses will be lowered to $55m.

But here's a mixed message: while the new rules affect investors from countries that have recently signed FTAs with Australia such as South Korea, Japan and China, they don't apply to countries with older FTAs such as the US and Chile. Investors from these countries only need to seek approval if their purchases of rural land or agribusinesses exceed a non-cumulative $1.09bn. That's 73 times the threshold facing Chinese investors for rural land and 20 times for agribusinesses.

Our exports to China are stumbling. Chinese investment is the second leg needed to get them running again.

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