



Why we shouldn't be so worried about China buying the farm

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It must be the least known part of the Australia-China economic relationship.

We all know that China invests in Australia. But get this: the Australian Bureau of Statistics says that there is nearly as much Australian capital in China as there is Chinese capital here, \$29.6 billion compared with \$31.9bn.

This isn't the dodgy data that some worry comes out of the Foreign Investment Review Board. It's right there in the Balance of Payments, an accounting book that all countries keep to record capital flows between home and the rest of the world.

On a per-person basis that means Australians have invested in Chinese assets on a scale more than 50 times greater than the reverse direction.

Leaving aside all the other arguments, such as Chinese investment being low overall -- the ABS also says that the US stock of investment in Australia is more than 20 times larger than the Chinese stock -- we need to get used to the big truth that investment, like trade, is a two-way street.

Take a closer look and things get even more interesting.

There are two ways that Australia and China can acquire each other's assets. The first is through buying a claim to ownership, or equity investment. The second is through lending, or debt investment.

In Australia, it is Chinese equity investment that grabs the headlines, such as when Shandong Ruyi paid \$277 million in 2012 for a majority stake in the Queensland irrigation and cotton farming property, Cubbie Station. China's total equity investment in Australia stands at \$9.9bn.

But ever heard of ANZ's \$568m equity stake in Shanghai Rural Commercial Bank? What about its \$159m stake in Bank of Tianjin? And then there's the \$102m that Commonwealth Bank paid for its chunk of Bank of Hangzhou. It's also the single biggest shareholder of Qilu Bank. In fact, all the major Australian banks have their own direct presence in China. ANZ has a wholly owned Chinese subsidiary bank with nine branches and more than 700 staff.



There are plenty more examples. So many, in fact, that Australia's equity investment in China has hit \$10.7bn.

Even without adjusting for the massive difference in economic and population size, Australia holds ownership claims in China worth more than China holds here.

So the next time panic begins to set in because China is supposedly buying the farm, keep in mind that it's just as true to say that Australia has already bought the bank in China.

Investment can also be sliced and diced into direct investment versus the rest.

Direct investment brings some degree of influence over management. Shandong Ruyi's 80 per cent stake in Cubbie Station meets this criterion. So too does ANZ's 20 per cent holding in Shanghai Rural Commercial Bank.

China's direct investment in Australia stands at \$20.8bn, compared with Australia's \$6.4bn in China. That said, in per-person terms Australia's direct investment still overwhelms by a ratio of 17:1.

Does it matter that a majority of China's capital in Australia (65 per cent) takes the form of direct investment while only a minority (22 per cent) of Australia's capital in China does?

Most economists would say yes. And it's good news for Australia.

That's because it is direct investment that sets out to build deep partnerships and create long-run value. If short-term speculation is the goal, flipping a few shares traded on a stock exchange is a whole lot easier.

Take another look at those voracious Australian banks. Their ownership of Chinese lenders dates back to the mid-2000s. By the end of 2012 ANZ had doubled its money, while CBA had more than tripled its money.

The fact that investment between Australia and China is roughly balanced is unfortunately not a sign of strength. Rather it signals a lost opportunity: capital that could be hard at work in Sydney, Melbourne and Rockhampton is instead languishing in Beijing, Shanghai and Chengdu. Fix that and both Australia and China will reap the benefits.

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