

SE Business
HD **SHIFT OF FOCUS FOR CHINA PROFIT HUNT**
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A broader approach means opportunities

CHINA has benefited immensely over the past three decades from foreign companies coming onshore to invest. Now the world stands to gain from **China's** recent focus on investment outside its borders. In Australia, this will mean not only a much-needed boost to inbound investment but a broader spread of investment across more sectors and an increase in private investment.

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China has a great deal of money to spend, including \$US7 trillion (\$7.5 trillion) in savings (dwarfing Australia's \$US655 **billion**), and has begun shifting some of this cash into hard international assets like infrastructure and mines.

Indeed, **China's** non-financial outbound direct investment amounted to \$US90.2bn in 2013 and is only just short of the \$US117.6bn in foreign direct investment into **China**. Nowhere is this clearer than Australia.

Australia has the world's 13th largest economy but only the 52nd largest population and, therefore, not a large enough domestic savings base to support its required capital. **China** is increasingly being recognised as a new source of funding. Indeed, Australia has been the world's largest recipient of capital investment from **China** over the past eight years. Despite Australia's appeal for **Chinese** investment, it is important to put its current investment flows into Australia into perspective. While **China**, including **Hong Kong**, has had the fastest foreign direct investment growth into Australia since 2007, it still only accounts for 3 per cent of Australia's total foreign direct investment and is the ninth largest investor in Australia overall — so clearly there is room for growth.

While the primary attraction has been **energy** and **mining** to date, HSBC is beginning to see evidence of a shift away from these sectors. **China's** policy focus on **energy** efficiency and green technology is presenting inward investment opportunities for Australia and its neighbours across a broad range of sectors including renewable **energy**, social infrastructure, sustainable business and biotechnology.

For example, HSBC recently advised Beijing Capital Group — a **Chinese** state-owned infrastructure enterprise focused on water treatment and waste management — on its \$NZ950 **million** (\$880m) **purchase** of ASX-listed Transpacific Industries, a waste management business.

This has been the largest **acquisition** by a **Chinese company** in New Zealand. In the same way that there is a diversification in the investment sectors, there is a similar growth in private **company** investment as opposed to state-owned enterprises. On my most recent trip to **China**, I spoke to several private companies looking to invest in Australia and specifically in businesses that produce goods or services that are in high demand in **China**.

The strategy for these **Chinese** businesses is to combine their experience and networks in **China** with the Australian expertise and know how to tap into **China's** growing consumer market. Like Beijing Capital, these companies are seeking to learn from Australian management and replicate Australian skills and experience and apply to companies back in **China**.

The focus among **Chinese** companies to create further value within Australian businesses will be welcome news for the Australian Foreign Investment Review Board. The board acknowledges the importance of foreign investment for Australia and the need for increased education and transparency in the review process and has sent delegations to **China**, for the past two years, to discuss with officials and businesses on the investment processes into Australia.

China's outward direct investment has a long way to go to catch up with its economic clout — **China** accounts for ten per cent of global GDP, but only 2 per cent of global investment. However, momentum is growing. Beijing is encouraging more companies to look outward. Policymakers recently raised the minimum threshold for outward direct investment needing approval to \$US300m for the resources category and \$US100m for non-resources projects and the government is expected to streamline the approvals process.

China's rise as an economic and trading power has been one of the defining economic themes of the past decade, but the internationalisation of the **Chinese** economy is likely to shape the next 10 years in ways we can only guess at today. Although the world has yet to see a truly global brand name from **China**, it is making progress.

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