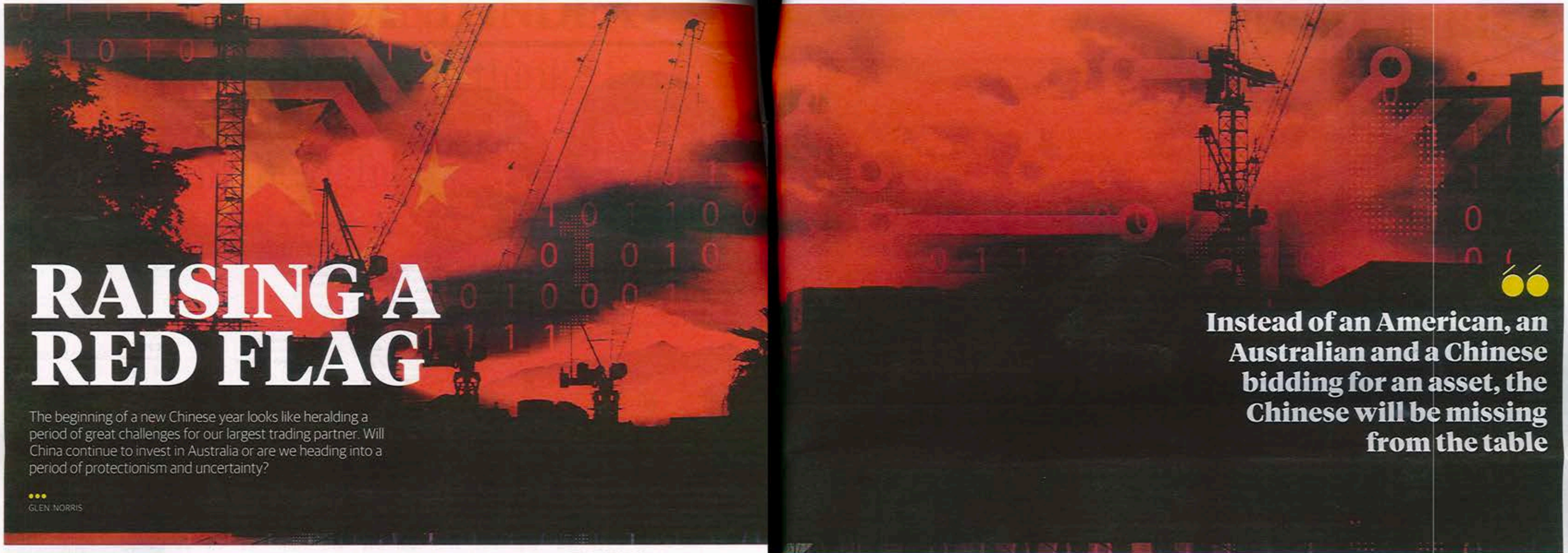

RAISING A RED FLAG

The beginning of a new Chinese year looks like heralding a period of great challenges for our largest trading partner. Will China continue to invest in Australia or are we heading into a period of protectionism and uncertainty?

GLEN NORRIS

Depending on which feng shui grandmaster you listen to, the Chinese Year of the Rooster will either be a period of great prosperity or an economic disaster for our largest trading partner. What is not in dispute is that China is facing deep challenges as it attempts to continue to underwrite global growth.

The International Monetary Fund says China's economy is expected to grow 6.5 per cent in 2017, still a healthy pace but slower than in previous years. There is rising concern the country will struggle to maintain financial stability as the yuan comes under selling pressure and the stockmarket hits more turbulence after a rocky 2016.

The election of Donald Trump as US President has raised fears of a trade war with China and the re-emergence of protectionism. At the same time Beijing is moving to tighten capital outflows to prevent further falls in the yuan and to preserve its foreign reserves.

While Australia remains the second-most favoured destination for Chinese investments, the shifting geopolitical environment adds up to uncertainty about whether those funds will keep flowing. That could mean less investment to sectors traditionally favoured by Chinese investors in Australia such as property, mining and agribusiness.

The situation is also getting trickier for companies in China with red tape, laws and regulations becoming increasingly complex and subject to change. Crown Resorts and baby formula maker Bellamy's were among the Australian companies that came unstuck in China last year.

Asialink Business China Practice director Nick Henderson says Australian companies need to be aware of the changing regulatory environment in China, particularly in relation to cross border e-commerce. Henderson says although the China-Australia Free Trade Agreement is starting to have an impact, there are still many protocols involved in importing goods into the mainland.

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BDO China Advisory Services lead partner Dennis Lin says 2017 is going to be unpredictable for China from a macro point of view. Lin says President Trump's relationship with China will prove interesting especially if the US raises protectionist walls to safeguard its own industries.

He says at the same time China's foreign exchange regulator has signalled that capital outflows overseas for investment will be closely scrutinised to prevent further declines in the yuan, a move that could hit investment in Australia.

"What this means is that instead of an American, an Australian and a Chinese bidding for an asset the Chinese will be missing from the table," Lin says. "It means very clear hurdles and obstacles will need to be cleared (before overseas investments are approved)."

AGRIBUSINESS

BDO'S Dennis Lin says there is likely to be continued strong demand for Australian agricultural products. Queensland's Capilano Honey, Stockyard Beef, and Sirromet Wines are sending more product to meet the tastes of China's rising middle classes.

Chinese investors are also likely to remain interested in our farmland.

But Lin warns that there is a need for greater transparency in relation to Australia's foreign investment rules. Chinese investors were blocked from buying up the sprawling Kidman and Co pastoral lands last year although they did eventually purchase a minor stake as part of a Gina Rinehart consortium. "Chinese investors are finding it difficult to understand the Australian Government's stand in relation to farm land," says Lin.

Asialink's Nick Henderson says that because of concerns about Chinese ownership of agricultural land there is likely to be more consortium deals where mainland investors come in as minority stakeholders. "This appears to be a more palatable arrangement," he says.

The Chinese have been big investors in the Ord River area of Western Australia and are now eyeing opportunities in northern Australia.

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PROPERTY

The Australian property market has been a big beneficiary of Chinese investment over the past few years but tighter capital outflows are likely to have an impact this year. At the same time, Australian banks have become reluctant to lend to Chinese investors, especially in the speculative inner-city apartment market.

Chinese property website Juwai, however, remains bullish, noting that 60 per cent of China's high net worth individuals plan to invest in property overseas over the next three years.

Many investors buy property with the long-term aim of sending their young to study in Australia. Chinese parents have purchased units for their unborn children close to Brisbane's top universities, preparing for the day when their youngsters will study abroad, according to Simon Henry, co-founder of Juwai. Brisbane has been one of the favoured destinations for investors because of its climate, good universities and perceived safety.

The Foreign Investment Review Board said that Chinese invested more than $24 billion in Australian real estate in the 2014-15 financial year, making them the largest source of foreign purchasers.

RESOURCES

Prices of key commodities such as coal and iron ore have been rising on expected demand from China. Analysts predict that whether the rally continues depends on growth prospects for China. Asialink's Henderson says China's One Road One Belt policy, which seeks to develop a new Silk Road linking Asia with Europe, should spur demand for resources, particular energy-related commodities.

"There is a realisation in China that it does not have enough capacity to meet its energy needs," he says.

Brisbane-based Metro Mining, which has a contract to supply millions of tonnes of bauxite to China's Xinfa Group over the next few years, says prices for the raw material to make alumina are likely to rise from the start of the next decade. Metro Mining managing director Simon Finnis says the quality of Chinese domestic bauxite is poor and costs are rising. Forecasts point to an import boom as Chinese output reduces. China's bauxite imports have been forecast to total 147 million tonnes in 2030, up from 56 million tonnes in 2015. Chinese investment in Queensland's mining sector totalled $1.2 billion in 2015, most of that being the takeover of gold and copper producer Pan Aust by Guangdong Rising HK Holding.

RETAIL & SERVICES

Australia's clean and green image has driven demand for our products among Chinese consumers. Chemist Warehouse, Blackmores, Devondale, Nature's Way and Woolworths are Australia's top-selling brands on China's major international e-commerce platform, Tmall Global. But milk powder company Bellamy's mis-steps in the mainland this year are a reminder that China may be a huge market but it is not an easy one to crack.

Gold Coast-based Burlee Australia managing director Richard Friedrichs is selling upmarket Ugg boots in China through a bricks-and-mortar store and online through social media platforms such as Weibo and WeChat. Friedrichs says businesses have to be aware that rules change quite regularly in China. "Customs is one area where they seem to be paying a lot of attention," he says. "There are different regulations for different ports. We send one consignment to Beijing and one to Shanghai and the requirements are different for each city." Friedrichs still has big hopes for China. He knew he was on to a good thing when Chinese starlets and models threw away their high heels in favour of his Ugg boots, which are often encrusted with expensive Swarovski crystals or even snake skin.

TOURISM

Chinese tourists are expected to overtake New Zealand tourists as the number one inbound market this year, with 1.3 million mainland visitors.

With work starting on Star Entertainment's multibillion-dollar Queens Wharf project in Brisbane's CBD, industry leaders say that Queensland is laying the foundation of much needed tourism accommodation and other infrastructure.

Mantra Group chief executive Bob East says that there has never been a better time to be in tourism in Australia. "Politicians, the industry and the general public are all now acknowledging the huge visitor economy contribution to GDP and jobs growth," East says.

Tourism demand in Australia is strong and the outlook is for sustained growth, particularly in the inbound market out of Asia.

Star Entertainment boss Matt Bekier says there is a "global arms race" for the tourism dollar and Australia risks falling behind.

"More Chinese go to Switzerland than Australia," Bekier says. He says that underinvestment in new hotels and resorts means that Queensland has to play catch up.