

There can't be too many people in Australia who don't recognise that the health of the Australian economy is increasingly determined in China. The boom and all-too-predictable bust in the resource sector is the most consequential manifestation of this possibility.

There is now a growing – if somewhat belated – consensus that the undoubted potential benefits of being a reliable and convenient resource exporter were not captured and very unevenly realised. Because the vast majority of “Australia's” resource sector is actually foreign-owned, any government would have had difficulty influencing its behaviour or reining in the manic investment splurge that has contributed to the collapse in resource prices.

Although much of the profits of the boom disappeared overseas, state governments in particular did enjoy a major boost to revenues. However, little thought was given to the long-term strategic use of the economic windfall the boom created. The contrast with Norway and its very different approach to collective investment is an indictment of the short-term, short-sighted nature of policymaking in this country.

Older readers may remember we've been here before. During the 1970 and 1980s, Japan was our principal trade partner and there was an expectation – here and in Japan itself – that the good times would continue to roll. There was also a backlash, in this country and the US, about Japan's growing economic power and its investment strategies.

Although it was Japan's long-term strategic investments in resources that ought to have caused policymakers most concern, it was “trophy” investments in the US and real estate purchases on the Gold Coast that caused the most angst among the general population.

This historical experience is worth keeping in mind as it is being repeated, only this time under a Chinese rather than a Japanese banner. Successive governments have been decidedly uneasy about Chinese investment in resources and agriculture, fearing the same kind of “strategic” investment rationale and thinking that once caused such trepidation about Japan.

Equally significantly, Chinese investment in real estate is also beginning to alarm policymakers and the general electorate alike.

Nothing epitomises the growing policy challenge facing the Australian government more than Joe Hockey's surprising decision to force prominent Chinese business figure Xu Jiayin to sell his A\$39 million Sydney mansion because it contravened foreign investment laws.

Given that many observers think that the Foreign Investment Review Board is normally a somnolent, under-resourced paper tiger whose regulatory reach is patchy, inconsistent and easily avoided, its role in this affair is noteworthy.

While this decision would seem at least partly motivated by the desire to be seen as responding to Sydney's growing real estate bubble, it highlights a number of more fundamental challenges for government. First, is the government's principal constituency the Australian electorate or the "international investment community"?

Real estate agents are – surprise, surprise – bleating about the negative signal this decision sends to would-be investors in China. This argument is easily refuted as specious and self-interested. Productive investment – even in new real estate – ought to be welcomed, but buying existing stock simply drives up its already inflated value and prices locals out of the market.

The dangers of not regulating real estate investment can be seen in London, another global city with similar problems. In London, "Russian oligarchs", as they are politely known, are emblematic of a process that has seen the UK's capital become increasingly disconnected from the rest of the country.

A similar process is at work in Australia, with potentially even more problematic consequences. China's new rich are increasingly looking for a safe place to stash their cash in the event that the Chinese economy or – even more worryingly – the Chinese political system implodes.

Even more problematically, much of this new wealth has questionable origins. It is no coincidence that capital flight from China is gathering pace at precisely the same time that Chinese authorities are involved in a seemingly genuine [attempt](#) to crack down on corruption.

The great Chinese investment conundrum

Written by The Conversation

One direct consequence of China's domestic policy initiatives has been to encourage those who fear being exposed as corrupt to shift their ill-gotten gains offshore. The Chinese government is seeking greater co-operation from the Australian government in identifying and seizing the assets of corrupt officials who have fled to Australia.

If the message this sends to China is that only bona fide productive investment from reputable sources is welcome in Australia, it's hard to see why that's a problem. In a global era, governments around the world have to decide whose interests they serve and use the tools that still remain available to them to actually manage economic and social outcomes.

The consequence of simply leaving things to market forces is not difficult to predict: great powers and economies have always shaped lesser ones, all other things being equal. At a time when voters everywhere are increasingly cynical about politics, the dangers of not acting in the endlessly invoked "national interest" are becoming increasingly clear.

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