
New rules will curb Chinese property development in Australia.Shutterstock

Big Chinese companies have been on an overseas buying spree in recent years, spending more than US$1.6 trillion scooping up businesses, property and "trophy assets" like football clubs. But a directive from the Central Committee of the Chinese Communist Party puts some of this investment in Australia at risk. The directive specifically restricts outbound investments in real estate, hotels, entertainment, and football clubs.

One of the big reasons for the crackdown is how these investments are funded. China's financial system is dominated by banks and bank loans are the major source of corporate funding. But this is also risky - if one of these projects fails it risks the entire banking system.

The changes won't affect large Chinese holdings in the Australian agriculture and metals sector, or personal investments in Australian property. But there will be an impact on the Australian property market - Chinese developers bought 38% of all residential property development sites in Australia last year.

As Chinese investment in the Australian property sector will now be curtailed, we should expect money to be diverted elsewhere - into sectors that are still looked on favourably by the Chinese government. Most notably resources, agriculture, and possibly new energy technologies.

Chinese companies have also been active in the Australian hotel and entertainment industries - Fuwah Group recently purchased the Park Hyatt in Melbourne (among others), and Dalian Wanda bought the Hoyts cinema chain.

Over the past few years, Chinese companies have splashed out on many prominent properties -

China Investment Corporation bought several office buildings in Sydney and Brisbane, and Aqualand purchased waterfront property in Sydney. Dalian Wanda currently has billion dollar developments underway in Sydney and the Gold Coast.

The motivations for these large investments in Australia and elsewhere are mixed. Earning a profit and other commercial goals are undoubtedly behind some of the moves, but others are strategically important for China - such as investing in agricultural land. But we shouldn't overlook that many of these investments are "trophy assets", and are about bringing prestige to the companies themselves.

Why is China cracking down?

In China, according to People's Bank of China's data, bank lending constitutes the vast majority of total financing. Therefore, it is more than likely the bulk of these recent overseas purchases by Chinese companies is bankrolled by Chinese banks. This compares to countries like Australia, where bond markets and sharemarkets play a larger role in financing big projects and investments.

The reliance on bank loans adds risk to the financial system. Should these projects fail, or the Chinese companies be unable to repay their debts, it could destabilise the entire banking system. And as Chinese banks remain state-controlled entities, the state has effective power to direct bank lending.

The Chinese government's directive doesn't just restrict investment in real estate, hotels, entertainment and football. It also encourages investment in other areas - new energy, technology, resources and agriculture. The stated purpose is to ensure that investment aligns with China's national interest and to set up procedures for monitoring and supervision of the investments.

The Chinese banking regulator, the China Banking Regulatory Commission has also started investigating five huge conglomerates - Anbang, Dalian Wanda, HNA, Fosun, and Zhejiang Rossoneri Investment which have been very active overseas. The Chinese banking regulator has asked major banks to provide details of the borrowing position of these companies and the risk associated with their loans.

On paper, all five conglomerates are apparently predominantly privately owned, with the possible exception of Zhejiang Rossoner Investment which was only incorporated in June 2016. Although directly or indirectly, the Chinese government will have some stake and it is hard to trace the ownership structure of large Chinese companies.

What comes next?

There will definitely be an impact as Chinese investment dollars move away from property and prohibited other sectors. This investment currently constitutes a large proportion of Australian property development.

However, it also remains to be seen how else the Chinese government will try to achieve the “national interest”. Whether through regulatory control or through its direct control of the Chinese banking system, the Chinese government might try to influence or direct the operations of the overseas assets of these conglomerates.

The Australian government has previously shown nervousness about enterprises in areas of national “strategic” importance, passing into the hands of Chinese businesses with connections to the Chinese government, with some acquisitions being blocked by the Foreign Investment Review Board. Increased Chinese interest is only likely to provoke increased Australian apprehension.

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