

# SUPER KEY TO CUTTING RELIANCE ON FOREIGN INVESTMENT

*Superannuation savings could replace Chinese investments in the resources sector*

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IF Australians are seriously concerned about the level of Chinese investment in our resources sector — and all indications suggest that they are — we need to consider ways of lifting domestic investment to act as a replacement.

Because we don't have significant personal savings that individuals can plough into the stock market, overseas capital has long been seen as the only mechanism by which resource companies can facilitate their exploration and mining.

But there is another way. Australia has a comparative advantage when it comes to superannuation savings, which, if

directed at small and mid-sized resource companies, could act as a substitute for overseas investment, namely from China.

Realism dictates that if Australians want to maintain living standards we need strong economic growth. The best way to achieve that is if our resources sector continues to rake in mining royalties and company taxes. Calls to stifle Chinese investment can only be answered if alternative investment sources can be found.

When former prime minister Paul Keating decided to legislate for compulsory superannuation in 1992, he put Australia in a globally unique position. With more than \$1 trillion now invested in superannuation, our forced savings for retirement are some of the highest in the world.

According to the AFG Global Funds Management Index, Australians have more money invested in managed funds (per capita) than any other developed country.

If superannuation funds could be encouraged to invest in more than just blue-chip mining companies (read BHP and Rio Tinto) when turning to the resources sector, we wouldn't need to be so reliant on investment by Chinese state-owned enterprises or any other foreign investment.

Large overseas investment in

Australian enterprises has been going on for many years now, boosting national living standards in the process. Initially, as a young nation, we received high levels of overseas investment from countries such as Britain and the US. In the 1960s, Japanese investment was controversial, but it continued Australia's strong economic growth nonetheless.

Controversial or not, foreign investment last century helped Australia develop.

With China on a seemingly inexorable path towards becoming the world's dominant superpower, it is looking at strategic investments in resource sectors around the world to ensure it can meet its future energy needs.

As was the case with Japan, Chinese enterprises interested in Australian resources companies are state-owned. But unlike Japan, China is not a democracy, making investment by state-owned enterprises all the more controversial. It gives rabble-raising politicians an opportunity to stir people's emotions, putting pressure on the government to restrict such investments. Just last week, opposition frontbencher Barnaby Joyce said: "I don't want to have cantankerous issues in a new unipolar world controlled out of Beijing. I have got a problem with state-owned investments."

That feeling is only likely to become more prevalent the more China looks to invest in Australian companies. LimeStreet Capital, using data from the Australian Bureau of Agriculture and Resource Economics, has estimated that there is approximately \$85 billion (\$92bn) in uncommitted resource-related projects in Australia. At the moment, foreign investment looks like being the exclusive source of funding for most of these projects.

Given that superannuation investing should include the long-term strategic allocation of funds,

tapping into resource companies that offer the greatest leverage to demand from emerging economies such as China represents sound investing.

It would also fulfil a national interest criterion by helping Australia stave off state-owned foreign investment without compromising economic growth, making such investments something the Future Fund might also consider.

When state-owned enterprises choose to invest, they are able to take a long-term view that individuals and companies often can't, because of the short-term com-

mercial imperatives that dictate their decision-making. But the superannuation industry needs to be different. When people start their working lives they have a 40-year horizon on the investments their super funds are getting into. This naturally lends itself to long-term investing in emerging resource enterprises.

Unfortunately, increasing competition in the superannuation sector means some funds are more concerned about the next quarterly statement members receive than quality long-term investments, which might take time to record a strong return.

Such short-term thinking is not only to the detriment of those investing in superannuation but hurts the national interest, if it means investments in the resources sector are left to overseas enterprises.

Politicians on both sides are concerned about the level of state-owned investment coming out of China. And why not. Handing over control of large slabs of our resources sector to overseas interests when domestic funding sources are available is disappointing.

Ways need to be found to encourage fund managers to turn their attention to one of the most important growth sectors in the economy.



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The resources sector needs to continue raking in royalties