



## The China factor in Australian and global equity markets

1. At the end of 2014 China's holdings of equity securities abroad stood at \$US161.3 billion.<sup>1</sup> This was up from zero in 2004 but compares with \$US6.7 trillion for the US.<sup>2</sup>

2. China's holdings of equity securities abroad are equal to 1.6 percent of its GDP.<sup>3</sup> This compares with 38.6 percent for the US.

3. Quota-based schemes currently limit Chinese investment in equity and debt securities abroad.<sup>4</sup> If outbound investments were liberalised and China's holdings of equity securities as a proportion of GDP rose to US levels, this implies their value would reach \$US8.6 trillion in 2030, an increase of more than 50 times current levels.<sup>5</sup>

4. Chinese investment in Australian equity securities stands at \$17.1 billion, 3.9 percent of the total from overseas.<sup>6</sup> This was up from \$54 million and 0.01 percent in 2010, but compares with \$198.5 billion and 43.3 percent for the US.

5. There are more than 2100 companies listed on the Australian Stock Exchange (ASX). Just 23 are from China and they are predominantly micro- to small-capitalisation stocks.<sup>7</sup>

6. Chinese companies cite various reasons for seeking an ASX listing:

Capital raising – Australian investors increasingly want an exposure to China.<sup>8</sup>

Prestige – the quality signal that comes with an ASX listing opens access to credit markets and boosts their reputation with customers and suppliers.<sup>9</sup>

Speed – listing on the ASX can take four months, compared with four years on the Shanghai Stock Exchange.<sup>10</sup>

Flexibility – the ASX does not set a minimum percentage of shares that must be in public hands. This compares with free float requirements for exchanges in Hong Kong and Singapore of around 25 percent.<sup>11</sup>

7. The quality of Chinese companies seeking an ASX listing poses a challenge for Australian regulators. Eight of the 23 Chinese companies listed on the ASX are currently suspended.<sup>12</sup>

<sup>1</sup> Source – State Administration of Foreign Exchange (SAFE), <http://www.safe.gov.cn/wps/portal/english/Data/Investment>

<sup>2</sup> Source – US Department of Commerce, <http://www.bea.gov/newsreleases/international/intinv/intinvnewsrelease.htm>

<sup>3</sup> Source – World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

<sup>4</sup> Source – Fraser, J. 2015, <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Speeches/2015/RMB%20Dialogue/Downloads/PDF/John-Fraser-Opening-Address-2015RMB-Dialogue.ashx>

<sup>5</sup> Source – the forecast for Chinese GDP in \$US in 2030 is from US Department of Agriculture, <http://www.ers.usda.gov/data-products/international-macro-economic-data-set.aspx>

<sup>6</sup> Source – Australian Bureau of Statistics (ABS), <http://www.abs.gov.au/ausstats/abs@.nsf/mf/5352.0>. Note – the figure for China is from 2013. The 2014 data release by the ABS does not include a figure for China's holdings of equity securities. The data for the US is from 2014.

<sup>7</sup> Source – Williams, T. 2015, Red flags? The experience of Chinese companies listed on the ASX. <http://www.thechinastory.org/2015/12/red-flags-chinese-companies-and-the-australian-securities-exchange/>

<sup>8</sup> Source – Loussikian, K. 2015, <http://www.theaustralian.com.au/business/markets/chinese-firms-seek-asx-listings-in-turbulent-times/story-e6frg916-1227437467748>

<sup>9</sup> Source – Loussikian, K. 2015, <http://www.theaustralian.com.au/business/markets/chinese-firms-seek-asx-listings-in-turbulent-times/story-e6frg916-1227437467748>

<sup>10</sup> Source – Lynch, J. 2015, <http://www.theage.com.au/business/markets/chinese-companies-look-to-list-on-asx-20150807-giu6hn.html>

<sup>11</sup> Source – Steward, E. 2015, <http://www.abc.net.au/news/2015-02-12/chinese-companies-to-list-on-asx/6088408>

<sup>12</sup> Source – Williams, T (2015), Red flags? The experience of Chinese companies listed on the ASX.