

Should We Restrict Foreign Investment in Land?

Every few years New Zealand has a debate about land sales to foreigners. The last time was 2003: the *Sunday-Star Times* carried articles headlined 'New Zealand for sale', and 'Land ownership strikes a nerve'. The government of the day introduced tighter rules for sales of 'iconic' land.

Currently a Save the Farms lobby group is calling for a fresh public debate. This is not unhealthy: foreign ownership, including in land, is an important topic. How should we think about the issues?

Start with some basic economic perspectives.

First, New Zealand has a freely floating currency. A foreigner wanting to acquire a New Zealand asset has to buy New Zealand dollars. The New Zealand dollar seller will be paid in foreign currency, which will logically be used to acquire some other overseas asset (maybe a farm). The country's net asset position is unchanged.

Second, for a given balance of payments position, more restrictive rules on purchases by foreigners of some class of asset (say land) will automatically mean greater foreign ownership of some other assets (eg businesses). Are there sound grounds for biasing overseas investment in this way?

The factual position is that farmland sales approved since 2005 amount to 0.6% of total farmland and foreign investment in agriculture is just 1.6% of total foreign investment.

The benefits of foreign investment are well understood. It augments the supply of domestic capital available for investment and often brings with it managerial expertise, technology and links to markets. Foreign investors employ New Zealanders and pay taxes.

All these benefits may apply to overseas investment in farmland. In an era of globalisation, any country that restricts capital movements pays an economic penalty.

It is not as though New Zealand has a particularly liberal foreign investment regime. The OECD has noted that New Zealand's restrictions are above member country averages in most sectors. Screening requirements in New Zealand are some of the highest among OECD countries.

The Save the Farms lobby appears misinformed on some issues. A spokesman has suggested other countries restrict foreign ownership of land. But many, including Germany, France, the United Kingdom, Portugal, the Netherlands and Belgium, have no restrictions at all – they treat foreigners on the same basis as nationals.

Some countries restrict trade in agricultural products too, but it makes no sense for New Zealand to adopt their policies.

The spokesman also said that “once land is gone it's gone.” This is also incorrect. Some years ago a New Zealand company owned Land's End and John O'Groats in the United Kingdom: iconic sites par excellence. Then it sold them to an English buyer.

Likewise Carter Holt Harvey, with forest land interests, was majority owned by US company International Paper. Then Graeme Hart bought it back (and has purchased land in many other countries).

You can't physically take land away, nor can you force any owner to sell to foreigners.

Another aspect of globalisation is New Zealand investment in agriculture abroad. Fonterra and individual dairy farmers are investing in farms in China, India, Brazil and other countries. New Zealand Farming Systems owned farms in Uruguay (now being onsold to Singaporean interests).

Should other countries ban such New Zealand investment?

Some of the recent debate surrounds possible Chinese investment in the failed Crafar dairy farms and sales of farms owned by South Canterbury Finance.

These were poor owners of valuable assets – scarce capital was wasted. A competitive sale process open to those who value them most is the best mechanism for allocating resources to their most productive uses.

In all this, the perspective of farm owners needs to be considered. If foreign investors are excluded, farmers wishing to sell may see their assets significantly devalued. As prime minister John Key has noted, this could push some highly indebted dairy farmers into negative equity positions.

If overseas investment rules are made more restrictive, in the pursuit of non-economic goals that the public are perceived to demand, there is an arguable case that landowners should be compensated for their losses by the government acting on behalf of the public.

Obviously there is a case for ensuring appropriate public access to places such as beaches, but this is a matter for regulation, not ownership.

So what is the bottom line?

The economic arguments for a liberal overseas investment regime, including for land, are strong in today's global economy. There have always been limitations on sales of land with special heritage or environmental value, and these seem reasonable.

Nevertheless, New Zealand governments are entirely at liberty to impose tighter restrictions for non-economic reasons. If they do, however, the community should understand that they come at an economic cost.

New Zealand cannot make a practice of adopting policies that are not in its best economic interests and hope to close income gaps with Australia and other more prosperous countries.

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