THE UNIVERSITY OF SYDNEY

Demystifying Chinese investment in Australia

April 2023

KPMG

About our reports

KPMG and The University of Sydney formed a strategic relationship to research and publish insights on Chinese investments. Our first report was launched in September 2011 and this is the nineteenth Demystifying Chinese Investment report in our series. This report examines Chinese investment in Australia for the calendar year 2022.

The catalyst for our report series was the lack of detailed factual information about the nature and distribution of China's outbound direct investment (ODI) in Australia. Without this information, there is misinformation and speculation. Our reports seek to set the record straight and debunk the myths associated with Chinese investment in this country.

Access previous Demystifying Chinese investment in Australia **reports**

Methodology

The dataset is compiled jointly by KPMG and The University of Sydney Business School and covers investments into Australia made by corporates (not individuals) from the People's Republic of China through mergers and acquisitions (M&A), joint ventures (JV) projects, and greenfield projects. 'Real estate' referred to in this report does not include residential apartment and private home sales.

The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles in Hong Kong, Singapore, and other locations. The data, however, does not include portfolio investments, such as the purchase of stocks and bonds, which do not result in foreign management, ownership or legal control.

Our database includes direct investments recognised in the year in which parties enter into legally binding contracts and, if necessary, receive mandatory Foreign Investment Review Board (FIRB) and Chinese Government investment approvals. In certain instances, final completion and financial settlement may occur in a later year.

For consistency, the geographic distribution is based on the location of the head office of the Australian invested company and not on the physical location of the actual investment project. Completed deals which are valued below US$5 million are not included in our analysis, as such deals consistently lack detailed, reliable information.

Unless otherwise stated, the data referred to throughout this report is sourced from the KPMG/University of Sydney database, and our previously published reports.[1] The University of Sydney and KPMG team obtains raw data on China's outbound direct investment (ODI) from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. Our sources include commercial databases, corporate information, and official Australian and Chinese sources including the Australian Bureau of Statistics, FIRB, and Ministry of Commerce (MOFCOM) of the People's Republic of China.

Our data is regularly updated and continually revised when new information becomes available. In line with international practice, we traditionally record deals using US$ as the base currency. However, since 2015 our reports have used AU$ for detailed analysis.

We believe that the KPMG/University of Sydney dataset contains the most detailed and up-to-date information on Chinese ODI in Australia.

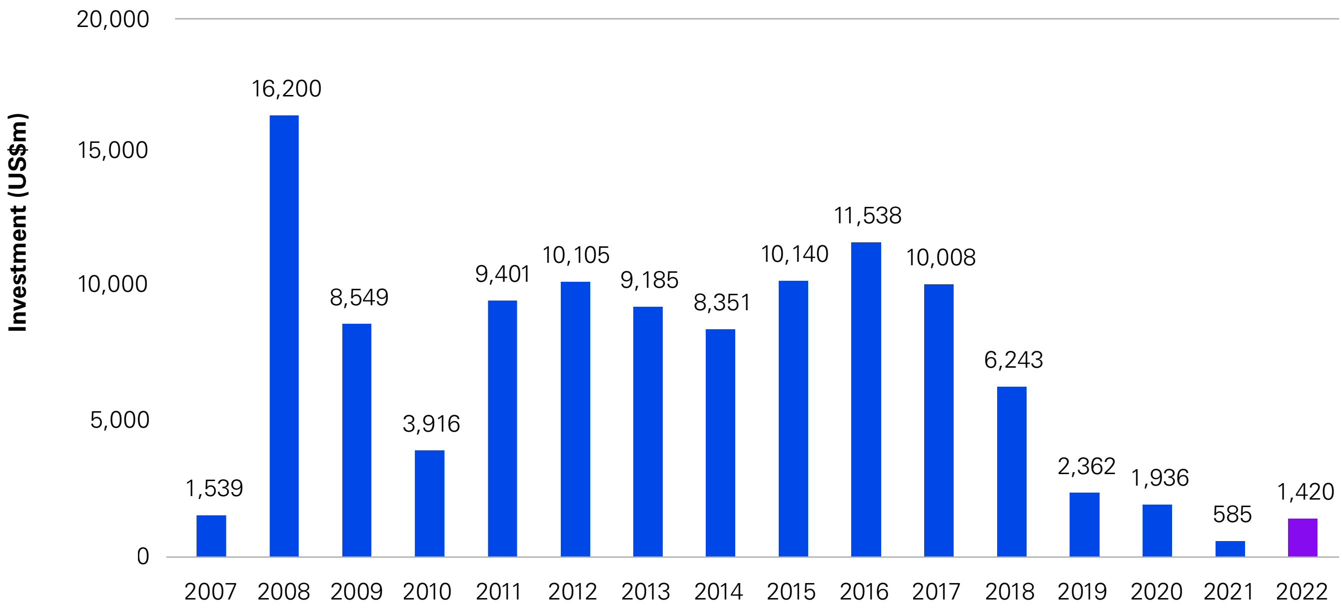
1 Includes Australia & China Future Partnership, September 2011; The Growing Tide: China ODI in Australia, November 2011; Demystifying Chinese Investment, August 2012; The Energy Imperative: Australia-China Opportunities, 25 September 2012; Demystifying Chinese Investment in Australia, March 2013; Demystifying Chinese Investment in Australian Agribusiness, October 2013; Demystifying Chinese Investment in Australia, March 2014; Demystifying SOE Investment, August 2014; Chinese Investors in Australia Survey, November 2014; Demystifying Chinese Investment in Australia, May 2015 Update; Demystifying Chinese Investment in Australia, April 2016; Demystifying Chinese Investment in Australia, May 2017; Demystifying Chinese Investment in Australian Healthcare, January 2018; Demystifying Chinese Investment in Australia, June 2018; Demystifying Chinese Investment in Australia, April 2019; Demystifying Chinese Investment in Australia, June 2020; Demystifying Chinese Investment in Australia, July 2021; Demystifying Chinese Investment in Australia, April 2022.

Chinese investment in Australia in 2022

In 2022, Chinese investment in Australia increased by 142.7 percent, from US$0.6 billion in 2021 to US$1.4 billion. In Australian dollar terms, the increase is 170.2 percent from AU$0.8 billion to AU$2.1 billion. We recorded 11 completed transactions in 2022, same as the number of transactions in 2021.

Between 2007 and 2022, an accumulated total of US$111.5 billion was invested by Chinese companies in Australia. 2022 is an improvement on 2021 but remains the second lowest year of Chinese investment since 2007 and shows a continuing trough in the cycle.

CHINESE ODI INTO AUSTRALIA 2007–2022 BY VALUE (US$M)



Source: KPMG/Sydney University database

Note: Prior year annual figures are updated with the latest information as new information becomes available and as required.

Selected major Chinese investments in Australia in 2022

TARGET NAME	ACQUIRER NAME	INDUSTRY SECTOR	STATE	FINAL VALUE (AU$m)
Western Range JV	Baowu Steel Group	Mining	WA	**1,077**
Prospect Lithium Zimbabwe (Pvt) Ltd	Zhejiang Huayou Cobalt Co., Ltd.	Mining	WA	**529**
NQM Gold 2 Pty Ltd	Shandong Yulong Gold Co., Ltd.	Mining	QLD	**193**

Source: KPMG/Sydney University database

By industry

Mining accounted for 86 percent of the total Chinese investment inflows for 2022. Four deals totalling AU$1.8 billion comprised of one project in iron ore, one project in gold, and two projects in lithium mining. Renewable energy accounted for 12 percent (AU$259.3 million) of the overall volume. Chinese investment in commercial real estate continued to drop from AU$208 million in 2021 to AU$14 million in 2022. We identified only two completed transactions of Chinese investment in commercial real estate.[2] Obtaining financing and regulatory approvals from China for overseas real estate investment remains difficult. Relatively lower investment returns from the Australian market given increasing costs of land, financing and construction (during and after COVID) is also slowing down investment in commercial real estate.

By ownership

Investment from the state-owned sector increased, from AU$0.2 billion in 2021 to AU$1.5 billion in 2022, across four deals in mining, renewable energy and commercial real estate. SOE investment accounted for 70 percent of the total investment volume. Private Chinese companies accounted for 30 percent of the total investment undertaken in 2022. Compared with 2021, the investment value by private enterprises remained unchanged at AU$0.6 billion in 2022, across seven deals in mining, renewable energy, commercial real estate, and high tech sectors.

By state

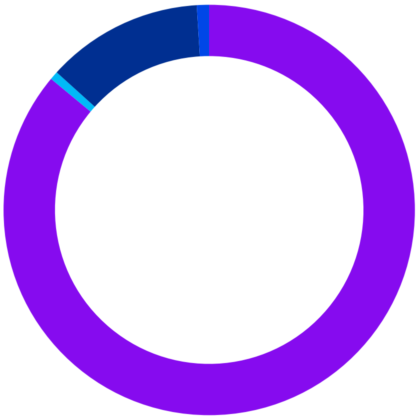
WA received the largest amount of Chinese investment with AU$1.6 billion in total. This is followed by NSW with 13 percent (AU$264 million), QLD with 9 percent (AU$193 million), and SA with 1 percent (AU$20.8 million). VIC accounted for only 0.4 percent of the total Chinese investment in Australia.

By deal size

The average deal size in 2022 is AU$191 million, more than double the average deal size in 2021 (AU$71 million). There were two deals above AU$500 million, two between AU$100 million and AU$200 million and six deals under AU$25 million, totaling AU$66.3 million.

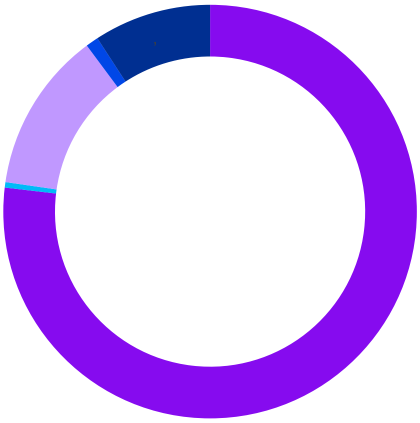
2 The 'commercial real estate' referred to in this report does not include residential apartment and private home sales. It covers completed investment in commercial properties or land by business entity from the People's Republic of China.

CHINESE INVESTMENT BY INDUSTRY IN 2022 (% OF TOTAL VALUE)



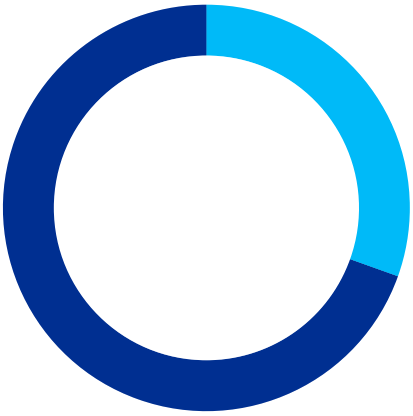
Commercial Real Estate	1%
High Tech	1%
Renewable Energy	12%
Mining	86%

CHINESE INVESTMENT BY STATE IN 2022 (% OF TOTAL VALUE)



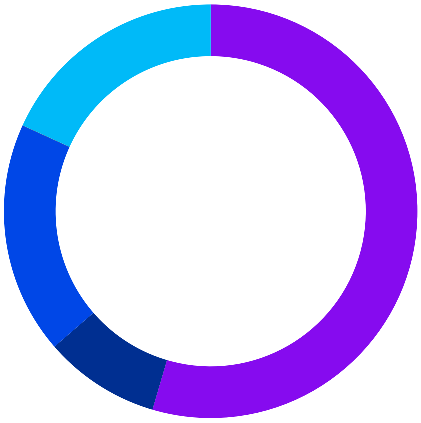
VIC	0.4%
SA	1.0%
QLD	9.2%
NSW	12.5%
WA	76.9%

CHINESE INVESTMENT IN AUSTRALIA BY OWNERSHIP IN 2022 (% OF TOTAL VALUE)



Private	30%
SOE	70%

CHINESE INVESTMENT BY DEAL SIZE IN 2022 (% OF TOTAL DEAL NUMBER)



AU$500m and above	18%
AU$200m–100m	18%
AU$100m–25m	9%
AU$25m–5m	55%

Source: KPMG/Sydney University database

Global context 2022

The UNCTAD 2023 Global Investment Trends Monitor published in January 2023 notes that 'the multitude of crises on the global stage – the war in Ukraine, food and energy prices, financial turmoil and debt pressures – inevitably affected global foreign direct investment (FDI) in 2022' and that 'new investment project numbers, including greenfield announcements, international project finance (IPF) deals, and cross-border mergers and acquisitions (M&As), all shifted in reverse after Q1'.

The annual figures for 2022 will only be published mid-year in the World Investment Report 2023. https://unctad.org/publication/global-investment-trends-monitor-no-44

China's official statistics for Chinese outward direct investment in 2022 show a 2.8 percent lift to US$116.9 billion reflecting a continuing gradual recovery from the lows of 2019-2020, but at a level that is still below 2018.

CHINESE NON-FINANCIAL ODI 2018–2022 (US$b)

	US$b	CHANGE IN %
2018	120.5	0.3
2019	110.6	-8.2
2020	110.2	-0.4
2021	113.6	3.2
2022	116.9	2.8

Source: Statistical Communiqué of the People's Republic of China on the 2019 to 2023 National Economic and Social Development, various years.
http://www.stats.gov.cn/english/PressRelease/201902/t20190228_1651335.html

Industry sector analysis

The National Bureau of Statistics' ranking of ODI by industries in 2022 shows that deals in the Leasing and Business service sectors were in the top position with 33.2 percent of total annual ODI, followed by Manufacturing with 18.5 percent, and Wholesale and Retail with 18.1 percent. The strongest growth from 2021 is recorded for Wholesale and Retail (19.5 percent), Manufacturing (17.4 percent), and Construction (14.9 percent). The steepest decline is observed in Production and Supply of Electricity, Heat, Power, Gas and Water (down 28 percent), Information Transmission, Software and Information Technology Services (down 27.1 percent), Agriculture, Forestry, Animal Husbandry and Fishery (down 26.5 percent), and Transport, Storage and Post (down 10.6 percent). Mining occupies a small share with 4.3 percent of total ODI and an increase of 0.6 percent in 2022.

Global distribution of Chinese ODI

The most detailed source for the global distribution of China's outbound direct investment (ODI) in 2022 is the American Enterprise Institute's (AEI) China Global Investment Tracker (CGIT) (https://www.aei.org/china-global-investment-tracker/) which tracks large investment above US$95 million. Despite this threshold and differing measurement methodologies applied, the CGIT breakdown by countries provides the best available indication of destinations being targeted by China.

The most obvious trend in the flow of large Chinese investment projects is the shift toward countries in the Middle East, Latin America, and Asia, which are associated with the Belt and Road Initiative (BRI) and which account for two-thirds (68 percent) of the total ODI volume captured by CGIT. At the same time, Chinese ODI into North America and Europe has rebounded. https://www.aei.org/research-products/report/2023-zero-covid-ends-and-chinese-investment-returns/

Source: Derek Scissors, Chinese Investments in the US — Handout https://www.aei.org/multimedia/chinese-investments-us-handout/

TOP DESTINATION COUNTRIES OF CHINESE ODI IN 2022 (US$b)

1	Saudi Arabia	$5.55 billion
2	Indonesia	$3.91 billion
3	Hungary	$3.75 billion
4	USA	$3.19 billion
5	Germany	$2.68 billion
6	Singapore	$2.50 billion
7	Brazil	$2.06 billion
8	Malaysia	$1.57 billion
9	Zimbabwe	$1.43 billion
10	Argentina	$1.34 billion
11	France	$1.0 billion
12	Australia	$0.76 billion

Total: $41.94 billion

Source: CGIT https://www.aei.org/china-global-investment-tracker/

REGIONAL DISTRIBUTION OF GLOBAL CHINESE ODI IN 2022 (US$b)

1	East Asia	$10.86 billion
2	Europe	$9.56 billion
3	Arab Middle East	$6.79 billion
4	South America	$5.33 billion
5	USA	$3.19 billion
6	Sub-Sahara	$2.97 billion
7	West Asia	$1.53 billion
8	Canada, Mexico	$0.95 billion

Source: China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker/

MAJOR RECIPIENT COUNTRIES OF CHINESE ODI FROM 2005-2022 (US$b)

1	USA	$193.05 billion
2	Australia	$104.35 billion
3	United Kingdom	$99.87 billion
4	Brazil	$66.09 billion
5	Switzerland	$61.21 billion
6	Canada	$58.52 billion
7	Germany	$53.51 billion
8	Indonesia	$35.23 billion
9	Russian Federation	$34.86 billion

Source: China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker/

Historically, Australia remains the second largest recipient country behind the United States. In recent years, Europe, South America and East Asia (including Southeast Asia) are the top regional recipients of Chinese ODI.

Looking forward

As we recover from COVID and the Australia-China bilateral relationship stabilises, some Chinese investors may start to explore investment opportunities in Australia again. Based on the strong economic and trade ties between the two countries, many sectors in Australia, such as mining and renewable energies, offer appealing opportunities for Chinese investors, who still consider Australia a comparatively secure and stable investment destination among developed nations.

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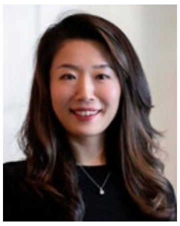

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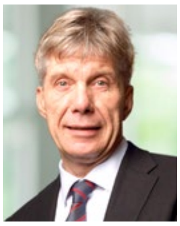

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