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Demystifying Chinese Investment in Australia

Chinese Investors in Australia
Survey 2014

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About our reports



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KPMG and The University of Sydney China Studies Centre have formed a strategic relationship to publish research and insights on doing business with Chinese investors. Our first report was published in September 2011, with *Chinese Investors in Australia Survey* representing the ninth report in our series.

Despite strong public interest, little detailed factual information has been previously available about the actual nature and distribution of China's outbound direct investment (ODI) in Australia. This specialist report continues our comprehensive reporting of China's ODI into Australia.

The dataset is compiled by a joint University of Sydney and KPMG team and covers investments into Australia made by entities from the People's Republic of China through M&A, joint venture and greenfield projects. The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles based in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments, such as the purchase of stocks and bonds, which does not result in foreign management, ownership, or legal control.

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

For consistency, the geographic distribution is based on the location of the Chinese invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information. Unless otherwise indicated, the data referred to throughout this report is sourced from KPMG/University of Sydney database, and our previously published reports.¹

The University of Sydney and KPMG team obtains raw data on China's ODI from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. In line with international practice, we record deals using USD as the base currency.

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



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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 update), Demystifying SOE Investment in Australia: A report prepared for the Business Council of Australia

About this survey

The Chinese Investors in Australia Survey is the first comprehensive poll of the experiences and views of Chinese investors in Australia. The survey provides insights into the perceptions of the Australian investment climate by Chinese investors and the key challenges they feel they face in Australia.

The Chinese Investors in Australia Survey was conducted by KPMG and the University of Sydney with senior executives from 51 Chinese-invested companies located in Australia in May 2014. These companies operate in a broad range of sectors including mining, gas, agribusiness, real estate, finance, infrastructure and engineering.

The survey questions covered topical issues relating to experience, perceptions and confidence of Chinese companies investing in Australia.

The detailed demography of the survey respondents and responses can be found in the Appendix.

The University of Sydney Business School acknowledges the generous support of Dr William Chiu, for the *Australia Chinese Chamber of Commerce and Industries Researcher in Australia China Business*. This post-doctoral research position has enabled Dr Wei Li to plan and co-author this survey for the Business School.



Introduction

Until 2012 Australia was the largest recipient of Chinese Outbound Direct Investment (ODI), but dropped to second place behind the United States in 2013. Australia was able to rely on its natural resources endowments and various other comparative advantages including geography. The slow down of investment in the Australian resources sector exposed Australia to more global competition for diversifying Chinese investment.

Chinese investors maintain strong interest in Australia, but their investments are increasingly flowing into more diversified and labour intensive sectors of the Australian economy. Compared with investment in resources, investments in these sectors require deeper integration in Australia's regulatory, corporate and social environment.

China's President Xi Jinping, in his speech at the APEC Forum in Beijing stated that accumulated Chinese outbound investment had reached USD660 billion in 2013 and will reach USD1.25 trillion over the next decade¹. Given that Chinese total ODI in 2013 had reached USD108 billion, the figure of USD1.25 trillion does not represent a huge increase over the ten year period, but it indicates a long term commitment to outbound investment and trade that will perpetuate China's role as Australia's most important trade partner and increasingly important investment partner.

Our survey finds Chinese investors are acutely aware they are not fully integrated into Australia's public and private sector landscape, and that this lack of integration impacts their business performance. Support in integrating Chinese investors in the Australian business environment will be a competitive advantage for Australia.

Our survey also reveals that Chinese investors are using Australia as a stepping stone in their globalisation process. Integration into Australia's mature and regulated agribusiness, advanced manufacturing, real estate and services sectors will further help Chinese investors build global value chains and brand reputation. Integration into Australia's regulatory and social environment will help Chinese investors build global corporate governance skills for domestic and international application which is a clear objective arising from the Third Plenum reforms.

1. Jamil Anderlin, China foresees outbound investment of \$1.25tn in a decade, Financial Times, 9 November 2014, <http://www.ft.com/intl/cms/s/0/806fe102-67de-11e4-acc0-00144feabdc0.html#axzz3lkQSIDA4>

Survey results

Despite investing over USD60 billion directly into Australia in the period between 2007 and 2013, Chinese companies are still relatively new investors in Australia, which is a mature and highly regulated developed economy fundamentally different to their home market and other developing countries. As such, their level of experience is still quite low relative to American, British, Japanese and Korean investors who have at least a 20 to 30 year head start.

However Chinese companies are learning from past experiences and gradually adapting their approach to suit local market conditions. They are also increasingly concerned about their reputation.

The results of this survey highlight the current perceptions and aspiration of a broad representation of Chinese investors, which in many cases are consistent with other foreign investors.

Chinese investors in Australia are profit driven

Chinese investors see their investment and integration in the Australian market as an important step in their globalisation strategy. Respondents overwhelmingly indicated their investments in Australia are driven by commercial factors.

Chinese investors have a hierarchy of motivations which are clearly reflected in the survey responses. Profitability is by far the most important motivation for investment, followed by the need to secure access to resources. This

secondary motivation is industry specific however.

In third place is globalisation, reflecting a cluster of sub-motivations revolving around access to global markets and building international brand names.

The respondents ranked acquiring international management know-how as fourth which may be somewhat interesting. Acquiring or projecting technologies or export to the Australian market are notably low on the priority list for all industries.

In terms of industries, making profits is the top consideration and we draw attention to the major sectors of the past (mining) and future (infrastructure).

Chinese mining investments are often perceived to be chiefly driven by the need to secure resources. Our survey shows that making profits, access to global markets and links with other Chinese investors are ranked as more important factors when making investment decisions.

For infrastructure, Chinese investors see their investment strategically as building up a business reputation for the purpose of gaining access to the global market. Links with other Chinese companies and building up an international brand name are more important than making profits.

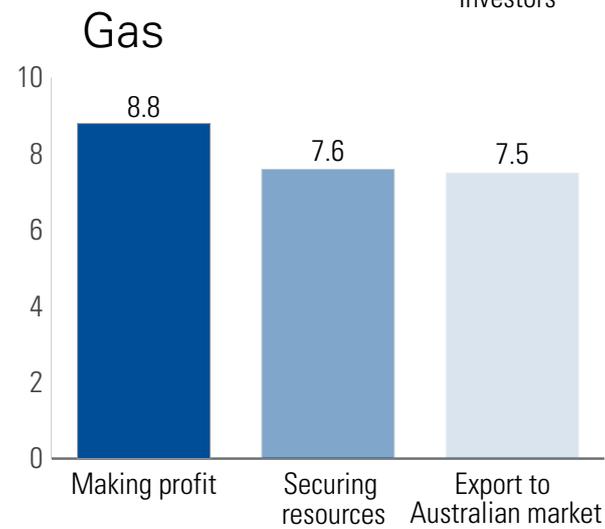
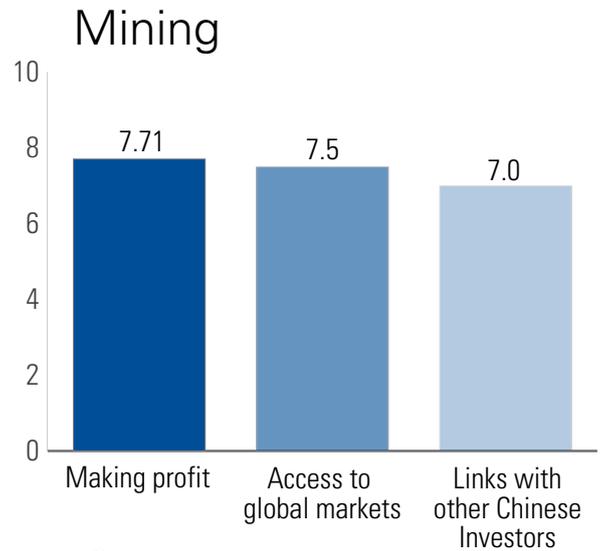
Australia's favourable business environment and government support

Chinese investors generally feel welcome in Australia and Australia is seen as a safer environment for investment than many other countries.

The strongest level of support is perceived to come from state and local governments. Australian business leaders are also seen as supportive.

Respondents stated that they see the new Federal Government as more supportive than its predecessor.

Chinese investors' motivations, by industry, for investing in Australia



(importance on a scale of 0 to 10; 0 = not important; 10 = very important)

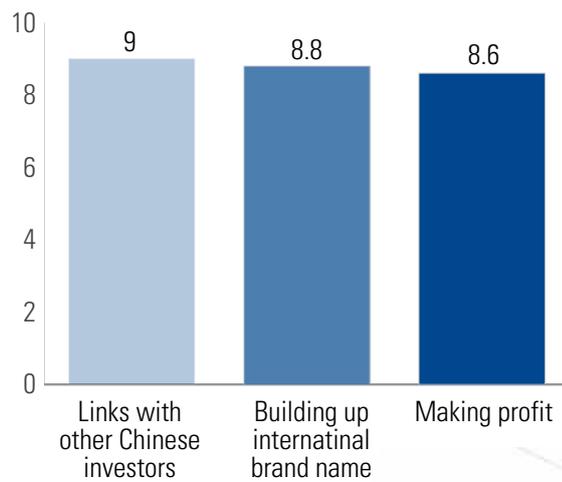
Chinese investors' motivations, by industry, for investing in Australia



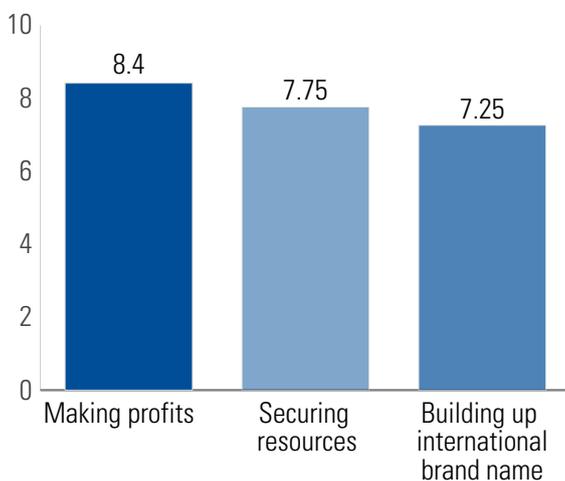
Agribusiness



Infrastructure



Finance



(importance on a scale of 0 to 10; 0 = not important; 10 = very important)



Key challenges

While Australia has the advantage of political stability, a favourable business environment and government support, the survey identified the key challenges faced by Chinese investors in Australia:

1. Costs of doing business in Australia

Chinese investors have an understanding of comparative costs and see Australia in third position behind the US and Canada as more cost effective locations.

Chinese investors estimate that in Australia overall business costs are 30 percent higher than in the US.

2. Infrastructure bottleneck

Chinese investors feel that Australia's physical infrastructure is constraining their operations.

3. Institutional integration

The institutional integration poses challenges to Chinese investors when it comes to working with local governments, trade

unions and local communities. Chinese investors need to adapt to the Australian legal and regulatory context by learning to work with formal and informal stakeholders, including local planning authorities, environmental protection bodies, trade unions and community representatives.

4. Negative media coverage

Chinese investors feel that Australian media are not supportive. Only 16 percent of respondents agreed that Australian media were supportive towards Chinese investment.

5. Entry and approval process

Chinese investors recognise that the foreign investment approval process has become easier and faster. However there remain concerns relating to discrimination and unequal treatment. Chinese investors feel that investors from other countries are more welcome and enjoy better terms and conditions. Chinese investors feel that investment approval should be decided on the basis of commercial criteria rather than ownership.





Chinese investors are aware of the need to better communicate with their local staff and unions as well as with local media and social organisations.

Integrating with the 'Australian way'

Chinese investors are aware of the need to better communicate with their local staff and unions as well as with local media and social organisations.

Relations with trade unions are seen as more difficult to manage than relations with Australian management or board members. Fifty percent of respondents acknowledged that they found dealing with unions difficult as opposed to one third of respondents having problems with Australian managers or board members.

Information about Australia

Chinese investors feel that information about investing and operating in Australia is lacking not only in Australia, but within China for their corporate headquarters.

Chinese investors spend on average six months doing research on specific projects. Their primary source of information is to use due diligence services by professional service providers.

Site visits to Australia and contacts with local governments are the next most important ways to obtain project information.

SOEs versus POEs

We looked at the similarities and differences of perceptions by representatives of State-Owned Enterprises (SOEs) and privately owned enterprises (POEs). We received 31 responses from Chinese SOEs and 20 responses from POEs. Of the 31 Chinese SOE managers who completed the surveys,

21 represented central SOEs and 10 were from provincial SOEs.

Overall, the experience and perceptions of Chinese SOEs and POEs are similar.

However, we found three instances where Chinese SOEs differed from POEs in their experience of investing in Australia:

- Compared with Chinese SOEs, Chinese POEs executives find it easier to work with Australian executives.
- Compared with Chinese SOEs, Chinese POEs executive have a stronger preference for having majority control.
- Chinese SOEs ranked 'protecting Australia's natural environment' as their top concern, while POEs prioritised 'communicate strategy and performance to Australian analysts and media' and 'working with local employees and trade unions' as their main concerns.

Performance needs to improve, but a positive outlook

Chinese investors perceive they are doing less well than expected and do not expect a quick turn-around to a more profitable performance. However their overall evaluation of the Australian market is positive. Respondents state that their long-term positive evaluation of the Australian market is shared by their headquarters in China.

A strong majority of Chinese investors see benefits in a Free Trade Agreement (FTA).

Conclusion

The survey shows that Chinese investors share many common aspirations and views about investing in Australia but recognise they have to do better with local integration activities.

Chinese investors are in most respects similar to other international investors. They are commercially motivated, their investments have to be profitable and their operations have to be locally integrated. This applies to State-Owned Enterprises as well as to private sector investors.

Chinese investors are optimistic about the future of their business prospects in Australia. They see investment in Australia as part of their globalisation strategies and not as an isolated market. What they learn in Australia, they will apply to other markets and vice versa.

They feel that they are welcome in Australia and that Australia is a safe place to invest. However, they are concerned about negative media coverage. Australian governments and business leaders are seen as supportive, but the investment approval process is seen as intrusive and costly while recent improvements are acknowledged. Chinese investors feel their operations are constrained by Australia's physical infrastructure.

The survey reveals a clear awareness of lessons that need to be learned. Relations with Australian board members, management and trade unions are not as good as they could be. Chinese investors feel that they are not yet fully integrated in Australia's corporate environment, but we also see that the take-up of professional services and other support mechanisms is increasing. This bodes well for further integration.

The perceived lack of information about the Australian business environment is of concern because it is mirrored by a similar perception in Australia that too little is known about the Chinese market. This is an area that should be addressed as a priority at different levels – corporate and government – because Chinese investments in Australia will open doors to global markets for Australian business partners.

Appendix

Detailed responses to Chinese investor survey questions

Motivation for investing in Australia

1. When you make investment decisions in Australia, how important are the following points? Scale from 0 to 10)

#	Answer	Average score
1	Making profit	8.25
2	Securing resources	7.39
3	Access to global market	6.52
4	Acquiring new technologies	5.17
5	Introducing own technology to international market	5.68
6	Building up international brand name	6.53
7	Availability of finance	5.25
8	Stock market listing	4.94
9	Gaining experience for operating in other markets	6.19
10	Links with other Chinese investors	6.54
11	Export to Australian market	5.46
12	Acquiring management know-how	6.50

Favourable business environment and government support

2. The new Federal Government is more supportive of Chinese investment than the previous Government.

Answer	%
Strongly Disagree	0%
Disagree	0%
Neutral	39%
Agree	48%
Strongly Agree	13%
Total Responses	100%

Favourable business environment and government support

3. State Governments are supportive of Chinese investment.

Answer	%
Strongly Disagree	0%
Disagree	6%
Neutral	16%
Agree	72%
Strongly Agree	6%
Total Responses	100%

Appendix (cont)

Favourable business environment and government support

4. *Local government councils are supportive of Chinese investment.*

Answer	%
Strongly Disagree	2%
Disagree	7%
Neutral	22%
Agree	70%
Strongly Agree	0%
Total Responses	100%

Favourable business environment and government support

5. *Australian business leaders are supportive towards Chinese investment.*

Answer	%
Strongly Disagree	0%
Disagree	6%
Neutral	35%
Agree	55%
Strongly Agree	4%
Total Responses	100%

Favourable business environment and government support

6. *Australia is a safer economic environment for Chinese direct investment than many other countries.*

Answer	%
Strongly Disagree	0%
Disagree	10%
Neutral	27%
Agree	55%
Strongly Agree	8%
Total Responses	100%

Favourable business environment and government support

7. *Chinese investors feel welcome to invest in Australia.*

Answer	%
Strongly Disagree	2%
Disagree	15%
Neutral	31%
Agree	48%
Strongly Agree	4%
Total Responses	100%

Key challenges

8. In your opinion, what is the level of overall business costs in the following countries? (Scale from 0 to 100)

#	Answer	Average score
1	Australia	75.63
2	Canada	61.47
3	USA	56.95

Key challenges

9. Australian infrastructure is constraining Chinese investment.

Answer	%
Strongly Disagree	0%
Disagree	8%
Neutral	30%
Agree	44%
Strongly Agree	18%
Total Responses	100%

Key challenges

10. Australian media are supportive towards Chinese.

Answer	%
Strongly Disagree	8%
Disagree	34%
Neutral	42%
Agree	16%
Strongly Agree	0%
Total Responses	100%

Key challenges

11. Investment approvals for Chinese State-Owned companies should be decided on commercial merits not on ownership.

Answer	%
Strongly Disagree	0%
Disagree	7%
Neutral	26%
Agree	33%
Strongly Agree	35%
Total Responses	100%

Appendix (cont)

Key challenges

12. *Chinese investors should enjoy the same treatment as investors from the US and New Zealand.*

Answer	%
Strongly Disagree	4%
Disagree	2%
Neutral	2%
Agree	29%
Strongly Agree	63%
Total Responses	100%

Key challenges

13. *Australia is more welcoming to investors from other countries than to Chinese investors.*

Answer	%
Strongly Disagree	0%
Disagree	22%
Neutral	28%
Agree	37%
Strongly Agree	13%
Total Responses	100%

Key challenges

14. *Approval of foreign investment projects is getting faster and easier for Chinese investors.*

Answer	%
Strongly Disagree	2%
Disagree	17%
Neutral	39%
Agree	39%
Strongly Agree	2%
Total Responses	100%

Integration: working with Australians

15. From your experience of investing in Australia, how important are the following points? (Scale from 0 to 10)

#	Answer	Average score
1	Working with local employees and trade unions	7.46
2	Protecting Australia's natural environment	7.51
3	Communicating strategy and performance to Australian analysts and media	6.92
4	Being a good Australian corporate citizen	6.08

Integration: working with Australians

16. Chinese executives find it easy to work with Australian executives.

Answer	%
Strongly Disagree	4%
Disagree	24%
Neutral	34%
Agree	32%
Strongly Agree	6%
Total Responses	100%

Integration: working with Australians

17. Chinese investors find it difficult to work with trade unions.

Answer	%
Strongly Disagree	0%
Disagree	2%
Neutral	45%
Agree	39%
Strongly Agree	14%
Total Responses	100%

Integration: working with Australians

18. Chinese and Australian Board members find it difficult to understand each other.

Answer	%
Strongly Disagree	0%
Disagree	14%
Neutral	54%
Agree	28%
Strongly Agree	4%
Total Responses	100%

Appendix (cont)

Integration: working with Australians

19. *Takeovers are easier to manage than Joint Ventures.*

Answer	%
Strongly Disagree	2%
Disagree	12%
Neutral	31%
Agree	45%
Strongly Agree	10%
Total Responses	100%

Integration: working with Australians

20. *Chinese investors prefer having majority control.*

Answer	%
Strongly Disagree	2%
Disagree	8%
Neutral	12%
Agree	58%
Strongly Agree	20%
Total Responses	100%

Information about Australia

21. *For your investment in Australia, how important were the following steps before making your investment in Australia? (Scale from 0 to 10)*

#	Answer	Average score
1	Visits to Australia	7.15
2	Comprehensive Due Diligence with Australian advisors	8.16
3	Completed research in China	7.42
4	Communication with Australian State and Federal Governments	7.12

Information about Australia

22. *Australia's business services (legal, accounting, consultants) provide good value for money.*

Answer	%
Strongly Disagree	0%
Disagree	20%
Neutral	44%
Agree	34%
Strongly Agree	2%
Total Responses	100%

Information about Australia

23. My head office colleagues feel they need more information about Australia.

Answer	%
Strongly Disagree	0%
Disagree	0%
Neutral	10%
Agree	65%
Strongly Agree	24%
Total Responses	100%

Performance and outlook

24. Over the past 3 years, our revenue / turnover has:

Answer	%
Shrunk a lot	9%
Shrunk	34%
Remained the same	25%
Grown	25%
Grown a lot	7%
Total Responses	100%

Performance and outlook

25. Compared to last year, this year's profitability was:

Answer	%
Much worse	0%
Worse	36%
About the same	44%
Better	16%
Much better	4%
Total Responses	100%

Performance and outlook

26. Over the coming year, I expect our revenue / turnover will:

Answer	%
Shrink a lot	7%
Shrink	51%
Remain the same	13%
Grow	29%
Grow a lot	0%
Total Responses	100%

Appendix (cont)

Performance and outlook

27. Compared to this year, I expect that next year's profitability will be:

Answer	%
Strongly Disagree	2%
Disagree	8%
Neutral	29%
Agree	57%
Strongly Agree	4%
Total Responses	100%

Performance and outlook

28. My head office colleagues feel optimistic about our investment in Australia.

Answer	%
Strongly Disagree	4%
Disagree	4%
Neutral	27%
Agree	56%
Strongly Agree	8%
Total Responses	100%

Performance and outlook

29. I am very optimistic about our business prospects in Australia for the next year.

Answer	%
Strongly Disagree	2%
Disagree	6%
Neutral	29%
Agree	54%
Strongly Agree	8%
Total Responses	100%

Performance and outlook

30. Over the coming year, we are planning to diversify our investment into other areas.

Answer	%
Strongly Disagree	4%
Disagree	17%
Neutral	34%
Agree	34%
Strongly Agree	11%
Total Responses	100%

Performance and outlook

31. *Chinese investors in Australia would benefit from a Free Trade Agreement between Australia and China.*

Answer	%
Strongly Disagree	0%
Disagree	0%
Neutral	16%
Agree	58%
Strongly Agree	26%
Total Responses	100%

Demographic

32. *To what broad industry sector does the majority of your investment belong? Multiple industries by some respondents.*

Industry	Number of responses
Mining	21
Real estate	14
Agribusiness	6
Infrastructure and engineering	6
Oil and gas	5
Finance	5
Grid	3
Transport and logistics	2
Wholesale	1
Renewable energy	1
Other	3

Demographic

33. *In which Australian state or territory is your business registered?*

#	Answer	%
1	ACT	0%
2	NSW	56%
3	VIC	2%
4	QLD	27%
5	SA	0%
6	WA	16%
7	TAS	0%
8	NT	0%

Appendix (cont)

Demographic

34. *We have been operating in the Australian market for:*

Average value = 8 years

Demographic

35. *How many months did your company spend preparing your investment in Australia?*

Average value = 6.2 month

Demographic

36. *What is the total number of employees in your Australian companies?*

#	Answer	%
1	0-50	79%
2	50-100	4%
3	100-500	15%
4	Above 500	2%
	Total	100%

Demographic

37. *What size is your total investment in Australia?*

#	Answer	%
1	0-25 million AUD	24%
2	25-100 million AUD	20%
3	100-500 million AUD	24%
4	500-1000 million AUD	9%
5	Above 1000 million AUD	24%
	Total	100%



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