

Media Release

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China Wake Up Call for Australia Business

The increasing significance of Chinese private sector investment, a heightened appetite by China to develop and finance Australian resources and infrastructure projects, and Chinese banks choosing Australia as a platform for global expansion are among the opportunities identified by new research into the future of reciprocal trade between Australia and China.

“In the future it will be difficult, if not impossible to have a strong global or domestic business without a strong China business relationship. The cost to Australia of a failure to develop an effective China strategy could include a loss of new capital inflows, new markets and new technology, but most importantly, traditionally captive business,” says Jason Chang, Head of KPMG’s Australia-China Practice.

“China’s economic development plans are progressing at a remarkable pace, driving the country on a global quest for acquiring resources and expertise well outside the historical focus on raw materials and commodities. This creates exceptional opportunities for greater engagement between Australia and China and underscores the importance of having a comprehensive strategy for managing Australia’s economic relationship with China,” he added.

Australia & China: Future Partnerships is the first result of a strategic cooperation between KPMG Australia and the University of Sydney China Studies Centre to create unique business intelligence reports for doing business with China.

The report provides insights into the long-term demographic and social forces reshaping China and Australia. It delivers a detailed analysis of the implications of China’s 12th Five-Year-Plan for Australian-Chinese economic cooperation. It identifies the drivers of future alliances and importantly, focuses on explicit opportunities for stronger engagement in the priority areas of infrastructure, banking, and energy and natural resources.

Key findings include:

- Regulatory restrictions on overseas investments by Chinese companies are likely to be relaxed in the future. This will be a dramatic game changer. One potential change is that government approval will no longer be required for resource-related investments of less than or equal to A\$300 million and for non-resource related investments of less than or equal to A\$100 million. Given that more than 80 percent of announced Chinese deals in Australia are within the A\$300 million limit, this change alone would shift the landscape.
- China wants to develop and finance Australian resources and infrastructure. In line with China’s demand for energy and natural resources, Chinese companies are most concerned about infrastructure for coal and iron ore.
- China is already working closely with Australian partners, including in syndicated loans, with an interest in the funding and joint development of resources infrastructure. China is prepared to consider long-term and close institutional cooperation with Australia, even at a multilateral level.

- China is beginning to place more emphasis on Chinese private corporate investment in Australia. With this comes an increased emphasis on market mechanisms and risk diversification. This is already transforming the engagement between Australia and China.
- There is potential for China, Japan and Australia to fully develop the respective advantages of their resources industries and agree on the structure of collaboration. This could lead to the three countries creating an Eastern Resources Commodities Trading Centre in their time zone with links to the key global trading hubs of London and New York, to form a new 24-hour resources commodities trading centre. There are already initiatives forming in this regard.
- Australia is currently a target country for Chinese banks' drive to head abroad. Chinese banks see Australia as a platform for helping them expand globally, including acquisition of experience, skills and capabilities.

To achieve a clear China strategy, Australian businesses must assess what China will look like over the next five-to-ten years and what its impact will be on Australian domestic markets. A five-to-ten year execution plan should include investment and marketing strategies and a means of ensuring that the business has the right skill sets and advisers to capitalise on and realise the China opportunity. Australian businesses should also seek opportunities to collaborate with Chinese companies, not just in the Chinese domestic market but importantly, in markets outside China.

Australia's geographic position carries obvious advantages for enhanced cooperation with China, such as relatively short transport distances to China and a time difference of only two to three hours, the shortest with any western economy, says Hans Hendrichske, Professor of Chinese Political Economy with the China Studies Centre at the University of Sydney.

"For China, the most effective strategy for entering the Australian capital market is to rely on resources companies to establish two-way investment relations," Professor Hendrichske says.

Allowing shareholders of Chinese resources companies to benefit from the participation of Chinese resources companies in the Australian capital market for mining and infrastructure will be useful for building an interactive Australian-Chinese resources investment platform. This will also help to secure broad public support and lay a sound political foundation, according to Professor Hendrichske.

"The establishment of a system of mutual investment cannot be one-way. While the degree of engagement may differ between partners, policies and standards must be consistent on both sides for such a system of mutual investment to withstand any potential political storm," he says.

Sector Highlights

Demographics

- Australia will continue to evolve as a haven for investment and a service-based retreat for China's growing middle class.
- A key opportunity for Australia is to gain a better grasp on how young Australian Chinese contribute to our domestic economy. Will the large number of Chinese students graduating from Australian universities open doors to China's inland markets? Will Australian regional centres and inland cities reconfigure urban environments to attract Chinese businesses and investors, including university-educated professionals who arrived as students?

Infrastructure

- China's toll roads, water and waste treatment plants, airports, ports, and hydro, wind and nuclear power plants are opening to foreign investment. Increased access is also being provided in previously restricted areas such as hospitals and the overall healthcare system.
- China wants to participate in Australian infrastructure construction and financing. China's preference for entering the Australian market is to have Chinese companies funding Australian infrastructure companies or Australia-based joint ventures between Chinese resources companies and Australian partners.

Infrastructure cont'd

- Refinancing needs in the next 12 to 14 months for Australian infrastructure assets may offer the potential for Chinese capital to play a larger than usual role in a sector. For China, involvement in projects beyond financing – such as the supply of equipment and technological innovations, and customer off-take – would enhance the attractiveness of Australian infrastructure assets.

Banking

- Australia's extensive experience in syndicated lending, transaction banking, fixed-income, currency and commodity products, trade financing, and treasury and capital markets operations creates new revenue streams for both Australian and Chinese financial institutions.
- Wealth management and insurance are areas of opportunity for Australian financial institutions that can offer the product manufacturing capabilities and knowledge to complement the service offerings of Chinese partners.
- Demand for Chinese retail banking products and services will grow as Chinese immigration to Australia rises. This is a market for Australian banks.
- Following the increasing number of Chinese resources and energy enterprises operating in Australia, Chinese banks in Australia are experiencing solid growth in activity and opportunities. In view of the opportunities, Chinese banks not yet operating in Australia are also considering entering the market.
- With increasing privatisation in China, Australian banks will need to consider establishing specialised partnerships for the China market or setting up specialised banks for enterprise finance in second and third tier Chinese cities.

Energy and Natural Resources

- China's investment in Australia's energy and natural resources sector will grow significantly, but its investment focus will increasingly be in the junior to mid-tier companies. KPMG analysis shows that of the 71 deals transacted in the past financial year, 80 percent of these (by volume) were in the junior to mid-tier space. The Chinese private sector is playing an increasingly bigger role in these deals.
- Chinese companies will increasingly seek investment opportunities in Australia's supply chain at multiple levels. For example, acquiring energy assets that can supply mining operations in order to secure future energy supplies.
- Significant opportunities are also emerging for Australia in the clean energy sector as China embarks on a long-term policy commitment to increase the use of clean energy, including nuclear, and reduce pollution.

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About KPMG's China Practice

KPMG's Global China Practice is a network of 34 countries providing high quality, consistent services to China inbound and outbound investors globally. The Global China Practice allows KPMG to maximise opportunities emerging from China's rise as an economic superpower, and provides a sustainable competitive advantage for KPMG around the world.

In Australia, KPMG's dedicated China Practice acts as a priority gateway advising on inbound and outbound investment transactions between Australia and China. KPMG assists its clients to develop truly regional strategies to help mitigate risk, improve performance, create value and most importantly, capitalise and realise the business and investment opportunities arising from China's growth.

About The University of Sydney China Studies Centre

The China Studies Centre was established by the University of Sydney in 2011 as a major initiative of the University's 2011-2015 Strategic Plan. The China Studies Centre represents a commitment by the University to cross-disciplinary research and public education including cooperation with external partners. The Centre's open research and architecture facilitates interaction between Australian researchers working on China, Chinese academics and external partners with specific expertise.

The Centre's China Business Development team works on projects concerned with new and changing markets emerging from China's deepening marketisation and privatisation of public services and state monopolies. These projects anticipate new trends and create new knowledge for Australia China cooperation.

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