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Media Release

New research shows Chinese direct investment into Australia no cause for alarm

Despite an intensity of interest in China's outbound direct investment (ODI) into Australia, the nature and distribution of this investment, especially by State Owned Enterprises (SOEs), is poorly understood. This has given rise to public perception that the investment is government-directed rather than commercially motivated, provoking speculation and unwarranted anxieties about the speed and extent of Chinese direct investment in Australia.

"A more sophisticated understanding of Chinese SOE ownership would be helpful for foreign investment review considerations and government policies," said Doug Ferguson, head of KPMG Australia's China Practice. "The reality is that Chinese SOEs abroad act in many ways like other international corporations."

Demystifying Chinese Investment – the latest report on China's direct investment in Australia by KPMG and the University of Sydney China Studies Centre – provides greater clarity on Chinese ODI into Australia and the behaviours exhibited by the organisations behind the deals.

The report identified four characteristics distinguishing Chinese ODI in Australia from those of other countries – namely, a focus on mining and energy, 'mega-sized' deals, SOE investor dominance, and a preference for investments with listed companies.

Over the last six years (from September 2006 to June 2012) 116 completed deals were recorded by the research partners, totalling USD 45.1 billion invested by Chinese enterprises in Australian businesses. Almost 80 percent of this was directed into mining industries and a further 12 percent into the oil and gas sector. Other industries barely rated in terms of overall ODI volume. Investment diversity has been greatest in New South Wales, where 30 percent of China's investment volume was directed into real estate, agriculture, architecture, renewable energy, finance and other sectors.

The average size of deals was larger in Australia compared to other countries, with 19 of the completed deals having a transaction value of more than USD 500 million, and almost half having a transaction value of over USD 100 million each.

“Larger individual investments are good for Australia as they can provide Australian businesses and projects with more certainty and a longer-term perspective in terms of operational decisions and investment in research and development. A high level of investment is conducive for Chinese participation in infrastructure and transport projects, which are critical to the long-term development of the Australian economy,” said Professor Hans Hendrischke of The University of Sydney’s China Studies Centre.

“Given the focus on mining and energy and the resultant size of transactions in these sectors, it makes sense that SOEs would currently dominate investment in Australia, as they have easier access to finance and established networks accumulated through years of minerals trading with Australian businesses.”

The report also showed that targeted or partner companies of Chinese investors are mostly listed on the Australian Stock Exchange. “There are a number of possible reasons for this, including facilities to raise additional finance for expansion and superior risk screening due to continuous disclosure requirements,” said Professor Hendrischke.

An examination of the ownership structure of the 11 largest Chinese investors and their investments in Australia resulted in three preliminary observations. First, unlike other international investment locations for China, the majority of investment is by long-established central SOE’s with a considerable track record of international activities. Although M&A is the most dominant form of Chinese ODI in Australia, the variety of entry strategies used by large Chinese SOE’s is the second notable point. And third, Chinese SOEs are behaving similarly to other international investors in Australia.

“SOEs are interested in making capital investments to secure high quality, stable supplies of natural resources, technology and new brands and accessing new markets. Increasingly they are recognising the importance of having strong local Australian partners, employees and stakeholder relations,” Doug Ferguson said.

“Commercial pressures have increased significantly on Chinese companies in recent years and investment decisions are driven more by the desire for attractive profit margins than by political considerations. Over the last two decades, SOE reforms in China have been carried out with the aim of transforming them into entities that are viable in a global market economy.”

The report concludes that informed and constructive discussion by business and among policymakers about the nature and extent of China's ODI in Australia is critical for stimulating greater opportunities for engagement between Australian and Chinese organisations, which in turn has an impact on Australian prosperity. Experiences in the USA and Europe show that with growing diversification of Chinese ODI, Chinese investors can become positive contributors to domestic job creation.

Find the full report at www.kpmg.com.au or http://sydney.edu.au

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