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Turning point for Chinese investment into Australia
New research a wake up call for Australia

The latest report into Chinese direct investment by KPMG and The University of Sydney's China Studies Centre - *Demystifying Chinese Investment in Australia, March 2014 Update* – finds Chinese investment in Australia declined by 10% during 2013, against a backdrop of an overall global increase in Chinese outbound investment during the year.

Based on the KPMG/University of Sydney database, total Chinese ODI in Australia in 2013 was USD 9,115 million, reduced from USD 10,105 million in 2012, reflecting a downward investment trend in the mining and energy sector.

"The Chinese investment profile is changing. For the first time in 2013 Chinese investment in Australia was not concentrated in the mining sector. We experienced a shift towards a larger number of smaller to medium sized deals and a larger share of private Chinese investors. But this did not make up the gap in mining investment," said Professor Hans Hendrischke of the University of Sydney Business School.

Australia narrowly lost its mantle in 2013 as the world's top destination for Chinese outbound direct investment (ODI)[1]. In an increasingly competitive international market for attracting Chinese capital, Australia's ranking for accumulated global ODI dropped to second position behind the USA, as did our competitive ranking for the 2013 calendar year, again in favour of the USA. Australia now ranks behind the USA but ahead of Canada, Brazil and Britain[2].

In 2012, Australia and the USA were on par - each with 12% of China's annual global ODI volume. In 2013, the USA attracted 17% while Australia attracted 8% of China's annual total ODI.

"Australia has more work to do to continue to attract Chinese investment from an increasingly competitive global market. The 10% investment value fall from 2012 should serve as a warning that Chinese investment remains volatile," said Doug Ferguson, Head of KPMG Australia's Asia Business Group.

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[1] Based on Heritage Foundation figures for accumulated Chinese investment, 2005-2013; and also year-on-year figures for Chinese investment in Australia 2012 versus 2013 from KPMG/University of Sydney database analysis.
[2] http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map
Chinese Investment Tracker 2014, Dataset 1

“Australia is well placed to remain a priority destination, but we can’t afford to rest on our laurels. Key policy settings such as FIRB, FTA, migration and general policies to reduce Australian domestic operating costs, increase productivity and the speed of project approvals must be delivered and implemented,” he added.

Two very large deals - China State Grid’s acquisition of 19.9% of the publicly listed SP AusNet and 60% of the privately held Jemena business from Singapore Power and CNOOC’s USD 1,930 million investment in BG Group’s Queensland Curtis Island LNG deal accounted for 63 per cent of total Chinese ODI in Australia in 2013. The balance is comprised of a larger number of relatively lower value deals. Overall, the power distribution industry dominated with 40% of the total investment value in 2013, followed by mining (24%), gas (21%), commercial real estate (14%) and agribusiness (1%).

“In 2013 there was a noticeable uplift of investment in the commercial real estate sector with a surprisingly large number of deals - 20 - amounting to a total value of USD 1,290 million,” said Professor Hendrischke. “Meanwhile the downward trend in new mining investment continued, from USD 5,693 million in 2012 to USD 2,133 million in 2013.”

While State Owned Enterprise (SOE) investment continued to dominate 2013 investment by value (84%) due to the State Grid and CNOOC investments, privately owned Chinese companies have increased their investment activity in terms of number of deals (63%), particularly in commercial real estate.

As a result of the State Grid’s acquisition, Victoria for the first time stands out as the top state destination for Chinese direct investment in Australia, attracting nearly half of 2013 Chinese investment. New South Wales attracted more investment compared to 2012, mainly due to an increased volume in commercial real estate investment. Western Australia lost its dominant position, capturing much less Chinese capital than usual as a result of the slow down in new mining investment.

Looking forward, the report’s authors are positive about the future.

“China's Premier publicly stating that the Free Trade Agreement with Australia will be accelerated, and that Chinese companies will invest over USD500 billion internationally over the next five years are very strong indicators of trade and investment growth. Australia has traditionally received around 12% of this share of spending so the size of the prize is very significant,” said Mr Ferguson.

The report’s more specific views on investment outlook include:

Mining and gas
Since 2006, 75% of Chinese direct investment has gone into a relatively small number of extremely large sized deals, mainly mining and gas deals in Western Australia and Queensland. With hindsight, these investments have not all gone according to plan, but Chinese companies are long term investors and are now starting to export large quantities of raw materials from these investment projects to satisfy domestic demand. It remains to be seen whether Chinese companies will continue to invest at 2006-2013 levels into new mining and gas projects. But the authors expect continuing interest in non-ferrous metals (lead, copper, zinc and gold).

Real estate

The impact of Chinese investment in residential real estate investment is already being felt in Australia's capital cities. But it may surprise some to see so much commercial real estate development investment recorded for 2013. The authors expect this to continue in 2014. The demand for real estate will continue to be driven by local Australian needs for apartment style housing, migration (under various visa programs including SIV), students from China (over 150,000), inbound tourism (over 650,000); and developments in the Chinese domestic real estate market.

Agriculture
China is Australia's largest agriculture export market. Australians have long held a very emotional attachment to their agricultural land, which explains why there remains significant public emotion and opinion polarity about foreign ownership and control of Australian land and the food sector more broadly. In the authors' recent report[3], which focused on Chinese investment in the Australian agricultural sector, they established there was great investment interest but very few completed transactions. They conclude that Chinese corporate investors are more interested in food processing and securing high quality, semi processed food exports than in owning and managing large areas of land.

Infrastructure
Chinese companies undoubtedly have the interest, financial capacity as well as the technical and industry experience to deliver on major infrastructure projects including mining, energy and civil infrastructure projects over the next decade. The 2013 State Grid deal is a promising sign of Chinese engagement in the Australian power sector. However it is early days and may not be until 2015-16 before we see strong Australian-Chinese joint venture partners bidding for, winning and successfully managing major civil projects.

Financial services
Indirectly, the financial services sector will grow as Chinese banks and credit card companies capitalise on financing opportunities, migration and tourism and offshore RMB currency services.

The report will be publicly available from Monday 10 March and can be downloaded from this date from kpmg.com.au or http://sydney.edu.au/china_studies_centre

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[3] Demystifying Chinese Investment in Australian Agriculture, October 2013