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Demyystifying Chinese Investment in Australia

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Australian Prime Minister Malcolm Turnbull (L) and Chinese Premier Li Keqiang (R) pose after meeting in the Great Hall of the People in Beijing.

Credit: AP, Mitsuru Tamura.

About our reports

KPMG and The University of Sydney formed a strategic relationship to publish research and insights on doing business with Chinese investors. Our first report was launched in September 2011 and this is the fourteenth *Demystifying Chinese Investment* report in our series. This report examines Chinese investment in Australia for the calendar year 2017 and incorporates the latest *Chinese Investors in Australia Survey*. This special edition provides timely, new insights into the perceptions of the Australian investment climate by Chinese investors as well as the key challenges they feel they face in Australia.

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.

Methodology

The dataset is compiled jointly by KPMG and The University of Sydney Business School and covers investments into Australia made by entities from the People's Republic of China through mergers and acquisitions (M&A), joint ventures (JV) and greenfield projects. Jones Lang LaSalle (JLL) has provided data and analysis on real estate transactions in the 2017 calendar year. '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 USD 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 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 USD as the base currency. However, since 2015 our reports have used AUD 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.

Key findings



Chinese investment in Australia declined by 11% (in USD terms)

in 2017, from USD 11.5 billion (AUD 15.4 billion) to USD 10.3 billion (AUD 13.3 billion).

This annual rate of **decline in new investment** is less than the United States (down 35 percent), EU (down 17 percent) and roughly on par with Canada (down 9 percent).

Chinese global ODI fell

29% in 2017

off historic 2016 levels due to tightened Chinese capital outflow and deal approval regulations.



There were **102 deals** in **2017**, roughly the same as 2016, but **average deal sizes fell** and 76 percent were below AUD 100 million.



Australia remains the **second largest recipient country of accumulated Chinese investment**, after the US, with **USD 99 billion** since 2008.

The gap between Australia and the US has grown considerably in recent years with the US accumulating USD 138 billion in Chinese investment since 2008.



Mining returned to being the **largest sector for Chinese investment** in 2017 attracting AUD 4.6 billion. Total mining investment **increased nearly five-fold from 2016**, driven primarily by a

USD 2.7 billion

(AUD 3.4 billion) coal mining deal.



Commercial real estate remained the second most attractive sector for Chinese investment with

AUD 4.4 billion,

representing **33 percent** of 2017 Chinese ODI but also an annual fall of 22 percent.

Investment in the **healthcare** sector surged

20%

to **AUD 1.6 billion.²**



Food and agribusiness investment fell 8 percent but remained **above AUD 1.0 billion**, driven by one major deal in the animal food products sector.



The total volume and value of **State Owned Enterprises (SOE) investment dropped** for the first time since 2014.

NSW continued to attract the most investment with **42 percent** of the total followed by Victoria (36 percent) and WA (14 percent).

Allegations about Chinese influence

and increasing diplomatic tensions have given Chinese companies the impression that they are less welcome to invest in Australia. Some **35 percent** of the surveyed Chinese companies felt welcome to invest in Australia, a **decline from 52 percent** in 2014.

Private

Chinese company investment grew to

83%

of total deal volume and 60 percent of deal value in 2017.

Our biennial *Chinese Investors in Australia Survey* captures a mood of **cautious optimism as well as apprehension** at the current state of diplomatic relations between Australia and China and negative media coverage in Australia.

² <http://demystifyingchina.com.au/reports/demystifying-chinese-investment-2018.pdf>

Global trends and context for Australia

2017 – A year of decline

Since late 2016, Chinese authorities have increased their regulatory oversight of overseas investments in an effort to ensure that they are not speculative in nature, consider all risks, are in line with the company's core business, and support China's development goals. Under new regulations, Chinese ODI is categorised by the government as either encouraged, restricted or prohibited.

For the first time in a decade, Chinese ODI declined 29 percent in value globally in 2017, according to official Chinese MOFCOM figures.³ This reflects both the impact of tightened regulations in China, a significant and necessary correction from 2016 figures and also changing foreign investment regulations in several recipient countries.

The rate of growth of new Chinese ODI into the United States declined by 35 percent year on year to USD 29 billion in 2017. This reduction could be regarded as a correction from historic record Chinese capital investment in 2016, at USD 46 billion.⁴

The rate of growth of new Chinese ODI into the European Union (EU) declined by 17 percent to EUR 30 billion in 2017.⁵ Similar to the United States, declining investment in the EU may also be regarded as a correction from 2016 which saw a phenomenal 77 percent annual increase from 2015 levels.⁶

However if non-EU member countries are included, the overall value of Chinese ODI into continental Europe rose to record levels in 2017 on the back of the USD 43 billion Syngenta deal in Switzerland.⁷

3 <http://www.mofcom.gov.cn/article/ae/ag/201801/20180102699398.shtml>

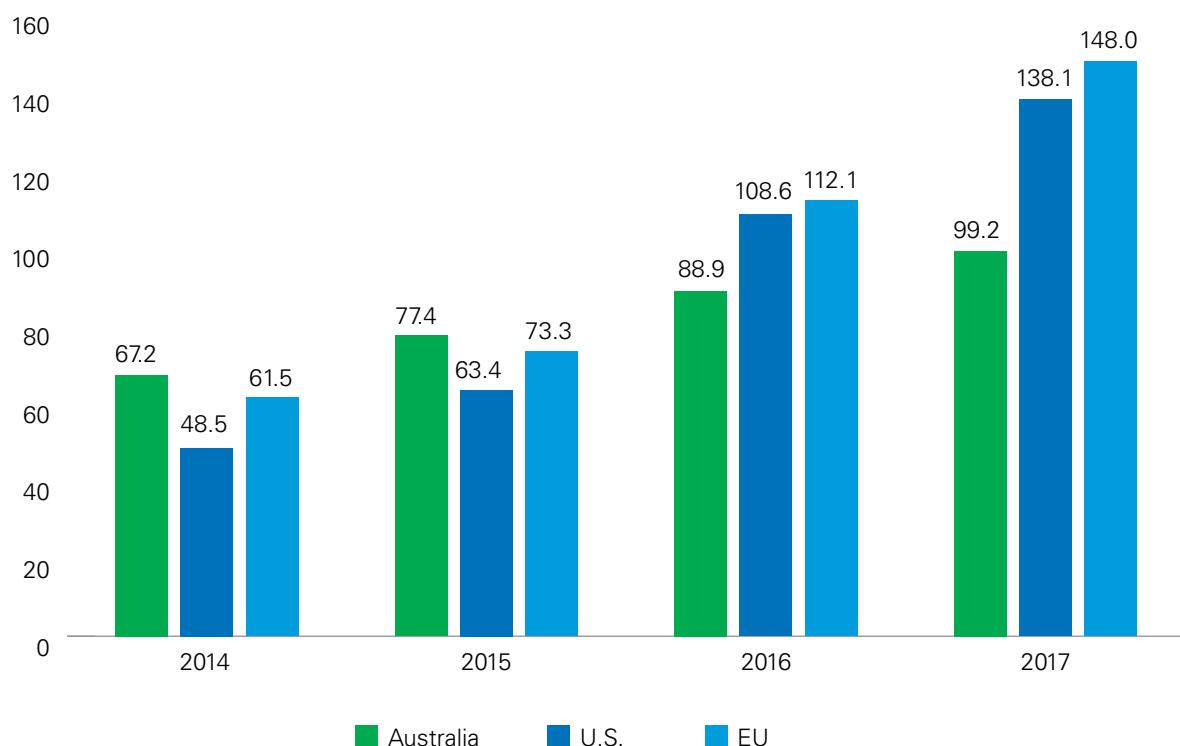
4 <https://rhg.com/research/chinese-fdi-us-2017-double-policy-punch/>

5 <https://www.merics.org/index.php/en/papers-on-china/chinese-fdi-in-europe>

6 <https://www.merics.org/en/papers-on-china/chinese-investment-europe-record-flows-and-growing-imbalances>

7 https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en

Accumulated Chinese investment in Australia, US and EU 2014 – 2017 (USD billion)



Source: Rhodium, Merics⁸

Canada recorded a 9 percent decline in the rate of growth of new Chinese direct investment from CAD 7.5 billion in 2016 to CAD 6.8 billion in 2017.

Record investments by Chinese companies into the US and EU in 2016 and 2017 have seen Australia's relative position decline against international competitors. Australia's accumulated Chinese ODI (USD 99 billion) declined to represent approximately two thirds that of the US (USD 138 billion) at the end of 2017.

Australia has done relatively well by concentrating on its specific competitive advantages. The nature of Chinese

investment in Australia continues to change and diversify, creating new opportunities. Sectors that complement the strengthening of the Chinese economy such as mining, property, healthcare, renewable energy, food and agribusiness have been very active in 2017.

Investment in these sectors align with China's new rules to encourage investments that further the government's strategic objectives including consumer driven demand, clean energy, advanced technology, services, and projects that align with the Belt and Road Initiative.

⁸ <https://rhg.com/research/chinese-fdi-us-2017-double-policy-punch/>,
<https://www.merics.org/en/papers-on-china/chinese-investment-europe-record-flows-and-growing-imbalances>

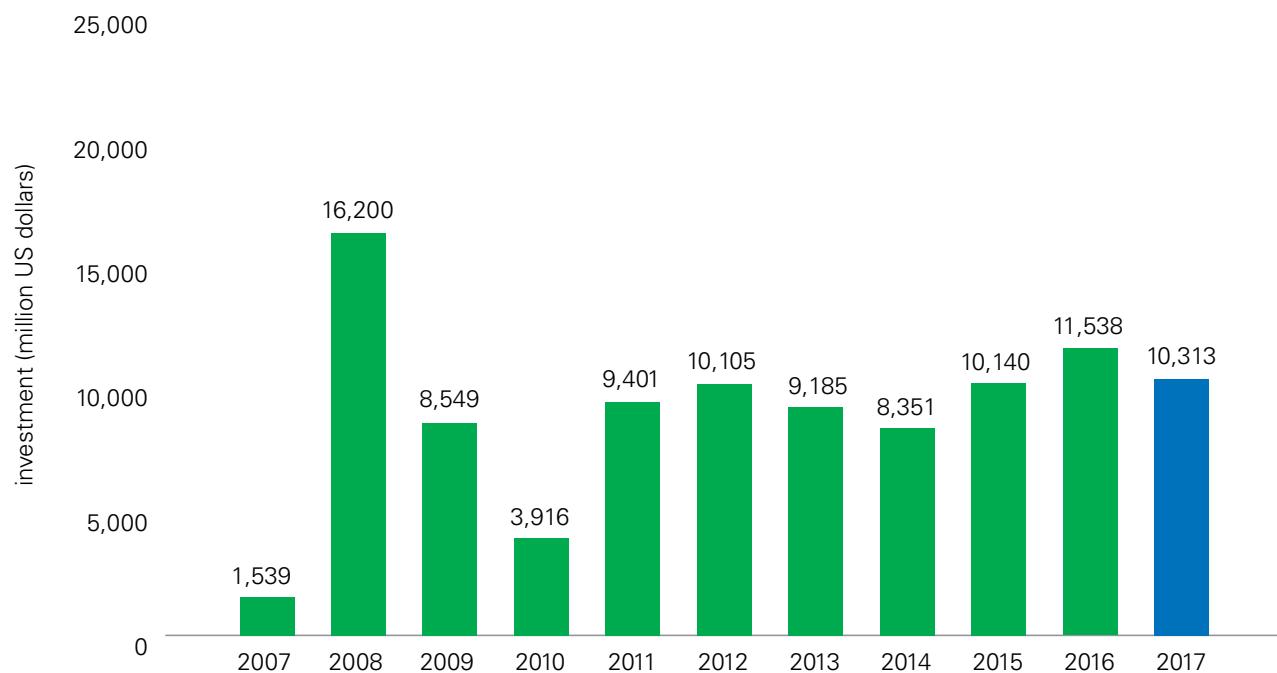
Overview of Chinese investment in Australia

Chinese investment in Australia declined by 11 percent (in USD terms) in 2017, from USD 11.5 billion in 2016 (AUD 15.4 billion) to USD 10.3 billion (AUD 13.3 billion).

This annual result (in USD terms) returns investment to 2015 and 2012 levels which at the time were regarded as strong results but below the mining and gas driven investment peak of 2008.

One hundred and two transactions were completed in 2017, roughly equal to the 2016 deal volume. Sixty five deals were completed by repeat investors (AUD 10.2 billion) and 37 by first time Chinese investors (AUD 3.1 billion).

Chinese ODI into Australia by value 2017 (USD million)



Source: KPMG/Sydney University database

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



The decline in Chinese investment in Australia for 2017 corresponds to the global ODI trend, a correction back from 2016 and potentially reflects the impact of a number of regulatory and diplomatic developments between Australia and China which Chinese investors have commented upon in interviews for the 2018 survey.

Tightened restrictions on capital outflows from China have impacted some large scale and high profile investments in Australia in 2017. Projects with a sound commercial rationale are reported to be getting approvals and proceeding as planned.

Chinese investors confirmed that they consider whether their investment is in a sector that is encouraged or restricted by the Chinese government before pursuing and making investment decisions and applications.

The diplomatic relationship between China and Australia is also a factor. A number of Chinese investors

highlighted that the state of diplomatic relations between governments is a regular topic of conversation among Chinese investors in Australia and with their respective head offices in China.

At the same time, Chinese investors indicated there is growing familiarity with and confidence in the Australian market.

Most sectors experienced an annual fall in investment. The overall 2017 decline was largely driven by an 89 percent fall in new infrastructure investment from AUD 4.3 billion in 2016 to AUD 485 million in 2017.

In addition, we observed reductions in oil & gas (down 84 percent), renewable energy (down 64 percent), commercial real estate (down 22 percent), and food & agribusiness investments (down 8 percent).

Very significant growth was recorded in mining (up 448 percent) for the first time in several years, along with healthcare (up 20 percent), with modest growth in transport, services and manufacturing.

The mining sector grew mostly due to Yancoal's AUD 3.4 billion purchase of Rio Tinto's thermal coal assets. However, even without the Rio Tinto-Yancoal deal, mining investment would have recorded a 43 percent increase in 2017, driven by global demand for lithium, cobalt and other non-ferrous metals.

The trend towards consumption related investment from private Chinese companies has been evident since the end of the mining investment boom in 2013, and continues to drive Chinese investment in Australia. Sectors which cater to China's domestic consumers, such as healthcare, food and agribusiness, remained relatively stable at 12 percent and 8 percent of total Chinese investment respectively.

Private Chinese investors accounted for 83 percent of deal volume (by number) and 60 percent of deal value in 2017, up from 78 percent and 49 percent respectively in 2016.

Selected major Chinese investments in Australia in 2017

Target Name	Acquirer Name	Industry Sector	State	FINAL Value (AUD million)
Coal & Allied Industries Limited	Yancoal Australia Limited	Mining	VIC ¹	3,400 ²
The Real Pet Food Company	New Hope / Temasek	Food and Agribusiness	NSW	1,000 ³
Ansell Sexual Wellness Division	CITIC Capital Partners Limited & Humanwell Healthcare	Healthcare	NSW	800
Automotive Holdings Group Limited	HNA Group	Transport	WA	400
PRP Diagnostic Imaging Pty Ltd (70% stake)	Hengkang Medical Group Co., Ltd.	Healthcare	NSW	337
Hanking Gold Mining Pty Ltd.	Shandong Tianye Real Estate Development Group Co Ltd	Mining	WA	330
Talison Lithium	Tianqi Lithium	Mining	WA	320
Trinity Group	Beijing Enterprises Water Group	Infrastructure	SA	250
G8 Education Limited	China First Capital Group	Education	QLD	245
Darling Downs, Origin Energy	State Grid	Infrastructure	NSW	235
Stockyard Hill Wind Farm from Origin Energy	Goldwind	Renewable Energy	NSW	110

Source: The KPMG/Sydney University database

1. Yancoal's acquisition of Coal & Allied Industries is recorded as an inflow to Victoria due to the Target's headquarters.

The assets acquired by Yancoal are geographically located in NSW.

2. This value includes AUD303m Non-contingent royalty.

3. For reasons of confidentiality we use the published deal value including the non-Chinese equity value in this table.



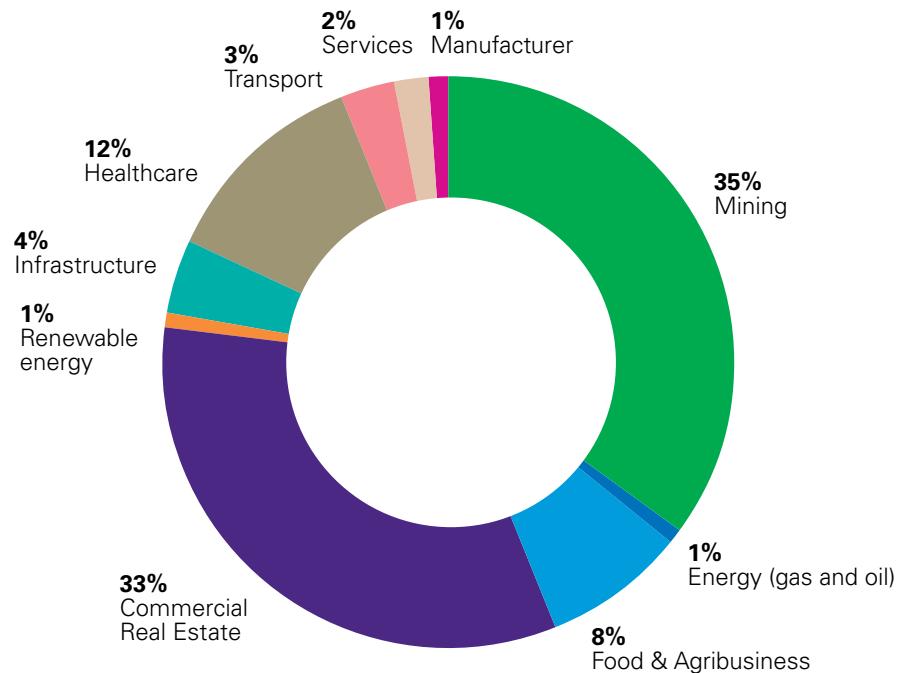
Chinese Investment in Australia by industry

Mining was the most significant sector for Chinese investment in 2017 with 35 percent of total ODI, followed by real estate (33 percent), healthcare (12 percent), food and agribusiness (8 percent), and infrastructure (4 percent).

This underlying composition remained similar to 2016 except for the Yancoal mining mega deal that partially filled the gap left by the fall in new infrastructure investment.

Commercial real estate, healthcare and food & agribusiness continued to attract a large portion of Chinese investment into Australia in 2017. Investment into these three sectors relies predominantly on Chinese domestic demand for tourism-related services, health services and products, and food & agricultural products and services.

Chinese ODI by Industry in 2017 (% of total)



Source: The KPMG/Sydney University database

Chinese investment in Australia by industry

Industry	Value (AUD million)	% of 2017 total	Change in value from 2016 (AUD million)	Change in % from 2016
Mining	4,598	35%	3,759	448%
Commercial Real Estate	4,400	33%	-1,208	-22%
Healthcare	1,630	12%	276	20%
Food & Agribusiness	1,101	8%	-102	-8%
Infrastructure	485	4%	-3,855	-89%
Transport	400	3%	9	2%
Services	270	2%	74	38%
Energy (oil & gas)	184	1%	-965	-84%
Manufacturing	155	1%	155	-
Renewable Energy	124	1%	-218	-64%
Total	13,347	100%	-2,073	-13%

Source: The KPMG/Sydney University database



Twelve mining sector deals were announced in 2017 totalling AUD 4.6 billion, a rise of 448 percent from 2016. This large increase was mostly driven by the AUD 3.4 billion acquisition of Rio Tinto's thermal coal assets by Yancoal. There was however a continuing investment focus on lithium, gold and non-ferrous metals.

Chinese investment has increasingly focused on lithium-related projects, lithium being a primary material in the batteries used for electric vehicles and renewable energy storage.

Talison Lithium, which is 51 percent owned by Tianqi Lithium, invested AUD 320 million to double the capacity of the Greenbushes lithium mine which supplies about 40 percent of the world's lithium. Tianqi Lithium has also invested another AUD 300 million in its lithium hydroxide processing plant in Western Australia, currently under construction.

Other significant lithium investments included Jiangxi Ganfeng and Great Wall Motors taking small stakes in Pilbara Minerals, a new lithium producer.

Yancoal Australia investment

Yancoal Australia was established in Australia in 2004 and undertook several major company acquisitions and projects with a geographic focus on the Hunter Valley coalfields in NSW.

In 2017, Yancoal Australia acquired Rio Tinto's Coal & Allied (Mount Thorley Warkworth and Hunter Valley Operations coal assets) and became Australia's largest thermal coal mining company. It took Yancoal and its advisors over a year to complete due diligence, restructuring and completion of the acquisition, including many rounds of negotiations to receive regulatory approvals.

Glencore raised its bid twice in the final weeks of the competitive process, forcing Yancoal to rapidly coordinate with its major shareholders in China, as well as manage its compliance with regulatory bodies in Shanghai, Hong Kong and the ASX.

This demonstrated an ability to refine bidding strategies and obtain all necessary regulatory approvals quickly.

Soon after the successful acquisition, Yancoal and Glencore announced a 51:49 unincorporated Joint Venture for their joint Hunter Valley Operations (HVO) project.



Yancoal mine.

Source: Image courtesy of Yancoal.



Commercial Real Estate



Analysis by JLL

China remains a key source of capital for global real estate markets. Chinese capital outflows into global real estate markets totalled USD 38.1 billion⁹ in 2017. This is up from the USD 30.7 billion in 2016 and more than double the levels in 2015. The UK was the largest destination for Chinese real estate investment (19 percent), followed by the US (17 percent). While investment into Singapore, Japan, and Indonesia were higher, the proportion of capital allocated to Asia Pacific fell in 2017.

Australia received AUD 4.4 billion in real estate investment or 11.5 percent of China's global real estate ODI.

Selected Chinese real estate investments 2017

Property Name/Address	Chinese Buyer	Asset Class	State	Value (AUD million)
Black Forest Road, Wyndham Vale	Country Garden	Residential	VIC	400
Bakehouse Quarter	Yuhu	Mixed-use	NSW	380
86-88 Christie Street, St Leonards	JQZ	Office	NSW	295
15 Carter Street, Lidcombe	Australia YMCI Pty Ltd	Industrial	NSW	290
Fuji Xerox, 101-107 Waterloo Road	JQZ Eleven	Office	NSW	180
45-61 Waterloo Rd, Macquarie Park	John Holland/CCCC	Residential	NSW	170
Fujitsu House, 15 Blue Street, North Sydney	Aqualand	Office	NSW	169
InterContinental Sydney Double Bay, 33 Cross St, Woollahra	Shanghai United	Hotel	NSW	139
960 Donnybrook Rd	Blueways Group (50%)	Residential	VIC	100

Source: JLL database

Australian real estate is a key destination for Chinese capital. Economic fundamentals are robust, population growth is solid, market transparency is high, and returns are broadly higher relative to comparable markets globally.

⁹ Excludes JV with non-Chinese investors

In 2017, Chinese investment into Australia's real estate markets totalled AUD 4.4 billion¹⁰. While this is below 2016 results, the composition of investment by real estate type is broadly similar. Residential development sector transactions accounted for around 44 percent of the total value, followed by office (30 percent) and mixed-use (9 percent). Robust activity in the residential development sector is reflective of the relatively strong Sydney and Melbourne apartment markets, although price growth in these markets have come under pressure recently, and we may see a decline in residential site acquisitions from Chinese developers.

Commercial (office, industrial, and retail) property transactions have been steady. While investment in commercial property peaked in 2015 (AUD 4.0 billion) this was inflated by CIC's AUD 2.5 billion acquisition of Investa's office portfolio. Excluding this sale, investment in 2015 would have only been AUD 1.5 billion, which is lower than AUD 1.8 billion recorded in 2017.

Despite there being little change to the composition of real estate assets bought, there has been a notable shift in the scale and nature of investments. Investors and developers are becoming more selective in acquisitions, with mandates increasingly geared towards higher quality investment assets and well located sites with less planning risk. There has also been a partial shift away from trophy assets and large scale acquisitions, with investment activity concentrated in the AUD 5 million to AUD 49 million price bracket. Around 63 percent of the total number of transactions occurred in this lower price

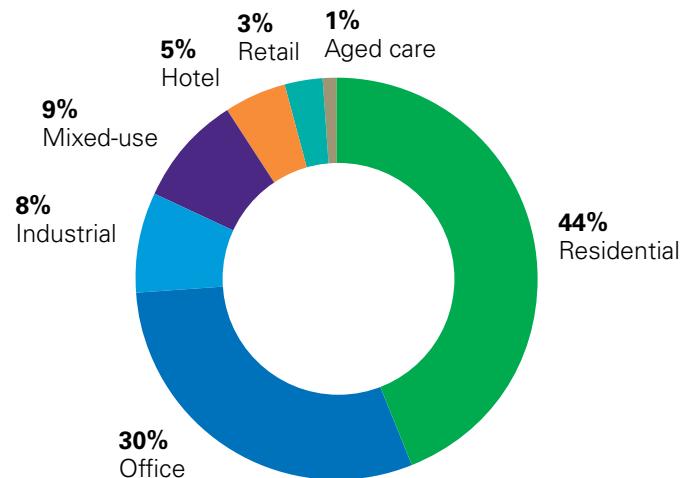
bracket. The next bracket of between AUD 50 million and AUD 99 million accounted for 19 percent of the total number of deals.

This shift is somewhat attributable to the restrictions placed on capital outflow from China. Whilst investors are not necessarily impeded in acquiring Australian real estate, restrictions have altered investment outcomes and changed the relative attractiveness of different property types within the real estate investable universe. The more robust asset selection criteria and the shift towards quality product and sites at the smaller end of the market is reflective of the capital control measures.

Of the 63 real estate deals in 2017, only 18 were made by first time investors, accounting for just 12 percent of total value. Forty five deals were made by repeat investors with a number of investors involved in more than one deal. This demonstrates the value and confidence gained from the local knowledge of firms already invested in the market.

NSW remains a key destination for Chinese capital. NSW accounted for 71 percent of total Chinese real estate acquisitions in 2017 despite contributing just over 30 percent of GDP. Seven of the top 10 sales in 2017 occurred in Sydney, with Sydney a key global financial centre and a gateway into Australia. Sydney is expected to remain a key real estate market for Chinese capital. Economic fundamentals are robust, and Sydney's demographic profile provides a firm foundation for future growth.

Real Estate investment share by sector



¹⁰ Excludes private residential dwelling transactions.

Source: JLL Research, RCA



160 Sussex St, Sydney, acquired by a Chinese investor in 2017.

Source: Image courtesy of JLL



As noted in our March 2018 report *Demystifying Chinese Investment in Australian Healthcare*,¹¹ we have witnessed a surge in healthcare investment by Chinese companies in Australia in recent years with 20 percent growth in 2017.

AUD 1.6 billion was invested in 2017 compared AUD 1.4 billion in 2016. This remains lower than the AUD 2.6 billion invested in 2015 which included two very large transactions for Swisse Wellness and Healthe Care.

Selected major Chinese healthcare investments in Australia (2015 to 2017)

Year	Target	Acquirer	Ownership	Final (AUD millions)	Sector
2015	Swisse Wellness Pty Ltd	Biostime	POE	1380	Health Supplements
2015	Archer Capital's Healthe Care	Luye Medical Group	POE	938	Healthcare Services
2016	Genesis Care	China Resources (Holdings) Co Ltd & Macquarie Capital Group Pty Ltd	SOE	383*	Medical Treatment
2016	Vitaco Holdings Limited	Shanghai Pharmaceuticals Holding Co Ltd & Primavera Capital Fund II L.P	SOE	314	Health supplements
2016	Swisse Wellness Pty Ltd	Biostime International Holdings Limited	POE	311	Health Supplements
2017	Ansell's Sex Wellness Division	Humanwell Healthcare and CITIC Capital	POE/SOE	800	Healthcare products
2017	PRP Diagnostic Imaging Pty Ltd	Hengkang Medical Group	POE	337	Healthcare services
2017	Icon Cancer Care	QIC, Goldman Sachs Private Equity Group & Pagoda Investment	POE	333*	Medical Treatment

Source: KPMG/University of Sydney database

* Note: Chinese equity share

POE: Privately Owned Enterprise

SOE: State Owned Enterprise

Fifty three percent of the investment was concentrated on Australia's health supplement sector, 47 percent in the healthcare services sector, with no major investment as yet in pharmaceuticals, biotechnology or aged care sectors.

NSW attracted 49 percent of Chinese healthcare investment between 2015 and 2017, followed by Victoria (45 percent) and Queensland (6 percent).

Eighty percent of completed deals (by value) were by Chinese private companies from diverse backgrounds, including hospitals, specialised healthcare providers, pharmaceutical companies, construction companies and private equity.

¹¹ <http://demystifyingchina.com.au/reports/demystifying-chinese-investment-2018.pdf>



Deal size for healthcare investments is generally large with three deals over AUD 300 million. The largest two deals were made by consortiums rather than individual bidders.

All investments in this sector in 2017 were made by first time investors into Australia, with the exception of one private investor from Tianjin which made two investments in the 2017 calendar year.

The rise in Chinese healthcare investment reflects Australia's reputation for developing, testing and producing high-end products and services which can be deployed locally and exported. International free trade agreements, combined with progressive domestic Australian initiatives such as the Federal Government's Medical Research and Innovation Strategy and the National Innovation and Science Agenda, are seen favourably by Chinese as improving Australia's comparative advantage in advanced health sector industries.

Chinese healthcare investment is strategically focused on export oriented companies. Despite the high levels of expertise across the healthcare industry, Australia's export capacity is currently underdeveloped. Foreign investment is important to build global partnerships with knowledge of Chinese consumer and regulatory markets and access to international distribution networks.

The tendency to use joint ventures when engaging in large Australian health sector acquisitions has also increased.

Chinese companies have also invested in previously non-exporting companies such as Healthe Care and Genesis Care, with the intention to expand into Chinese domestic markets.

With Australia's continued commitment to a range of medical research areas we expect investment to broaden across all sectors in the coming 3 to 5 years, including aged care and child care.

Chinese investors interested in Australia's healthcare sector include private hospitals and clinics, specialised services such as oncology and radiology, pharmaceutical companies expanding into service provision, real estate companies specialising in health care facilities, private equity investors and potential finance and insurance providers.

By international comparison, Australia has performed well in the health sector market. Chinese investment into the United States in health, pharmaceuticals and biotechnology reached a similar level in the last three years of around AUD 5.6 billion (USD 4.5 billion).



Food & agribusiness

The food & agribusiness sector recorded eight deals in 2017 with a total value of AUD 1.1 billion. This represents an 8 percent decline from 2016.

Apart from the Real Pet Food consortium deal to acquire an animal food business with headquarters in NSW (and manufacturing operations in Queensland), the other food and agribusiness deals were of small size and focused on cattle properties and dairy projects.

Chinese food and agricultural investment in Australia is driven by Chinese upper-middle class food consumption demand, with diets increasingly centred on high protein intake from products such as dairy, beef and seafood.¹²

Investors from China are keen to identify and invest in higher value chain opportunities in Australian to process and export food products and specific high value agricultural products.

From interviews conducted, we learned that Chinese agricultural investors are increasingly aware of the risks of investing into primary farming projects and increasingly recognise the need to work with Australian management and regional communities to build a social license to operate in agribusiness.

There is also a feeling that Chinese investors are occasionally confronted by Australian stakeholders with unrealistic demands for investment and lack of understanding of the commercial pressures that apply to their operations in China.

The FIRB's Register of Foreign Ownership of Agricultural Land reported in June 2017 that following the purchase of the S. Kidman & Co share in 2016, Chinese companies own approximately 2.5 percent of Australian agricultural land which is second only to the United Kingdom with 2.6 percent and ahead of the United States with 0.7 percent of agricultural land.¹³



¹² <http://www.agriculture.gov.au/abares/outlook/Documents/presentations-2018/doug-ferguson.pdf>

¹³ https://cdn.tspace.gov.au/uploads/sites/79/2017/09/Register_of_Foreign_ownership_of_Agricultural_Land_2017.pdf



Dairy cattle waiting for milking on an Australian farm.



Infrastructure

After the two major port infrastructure acquisitions in 2016, there were two smaller infrastructure projects recorded for 2017 by State Grid and the Hong Kong listed Beijing Enterprises Water Group, both with existing operations in Australia.

We continue to see strong interest from Chinese infrastructure players seeking project opportunities in Australia. Many Chinese investors in this sector have accumulated many years of experience in other developing countries and have shifted focus to developed countries. They are planning long-term in the future for Belt and Road Initiative related infrastructure projects.

Chinese investors are keen to partner with local Australian companies to bid for projects together rather than alone. Most are willing to make equity investments into a local companies to gain access to established industry credentials following the example of John Holland and CCCI a few years ago.

In our interviews we learned that the new Critical Infrastructure Centre (CIC) has led to some uncertainty while it establishes its track record, however there were no reports of the CIC negatively impacting project applications.



Renewable energy

Total investment of AUD 124 million was recorded in 2017, representing a 64 percent annual decline and mostly driven by one large transaction – Goldwind's acquisition of Origin's Stockyard Hill wind farm for AUD 110 million.

Renewable energy investment is attracting both established Chinese companies and new entrants with interests in wind, and increasingly solar energy. Chinese companies have built strong local teams and become more experienced and confident in their capabilities to successfully develop and operate renewable energy projects in the Australian market.

There are a number of new potential Chinese investors in this sector who are doing research on Australia's renewable energy market and building important contacts with local governments and industry partners to buy projects and jointly develop new projects.

Chinese investors in this sector shared a key concern about the shortage of skilled and experienced labour for project capabilities in Australia. They found it hard to recruit experienced project managers and key technical engineers in Australia.



Case study: Renewable energy

Goldwind Australia

Established in 2009, Goldwind Australia has around 130 employees within its Sydney and Melbourne offices, and various site offices throughout Australia. Goldwind Australia has successfully delivered several wind and solar projects in Australia, including Gullen Range Wind and Solar Farm and White Rock Wind Farm. The total installed capacity in Australia is currently 360MW with over 1500MW under construction or development.

Since 2012, Goldwind has been following the progress of the Stockyard Hill Wind Farm project in Victoria very closely, before agreeing to purchase it from Origin Energy in May 2017. The Stockyard Hill Wind Farm power purchase agreement is the largest wind farm power purchase agreement in Australia. Goldwind will supply its own wind turbines for the project, as well as construction, operations and maintenance capabilities.

Over 30 people in Goldwind's local Australian team participated in the bidding process for this project. Goldwind's team in China provided technical and financial support during this process. There was a strong focus on risk analysis as all teams worked closely with Australian and Chinese advisors. Goldwind's participation in this project is solid recognition of the development of their wind turbine technology. Goldwind will install new GW3S wind turbines, maximising power generation and offering a very competitive power price to the market.

In our interview, Goldwind recognised that Australia is an attractive market due to stable GDP growth that drives steady power demand as well as the relatively stable policy and financial environment providing certainty for investors. One of the key factors for Goldwind's success in Australia has been its transformation from a sole equipment supplier to wind project owner and manager covering the whole value chain. This rests on Goldwind Australia's ability to combine the strength of the local Australian team with the support and advice from Goldwind head office in China.

*Goldwind Gullen Range Wind Farm.
Source: Image courtesy of Goldwind.*

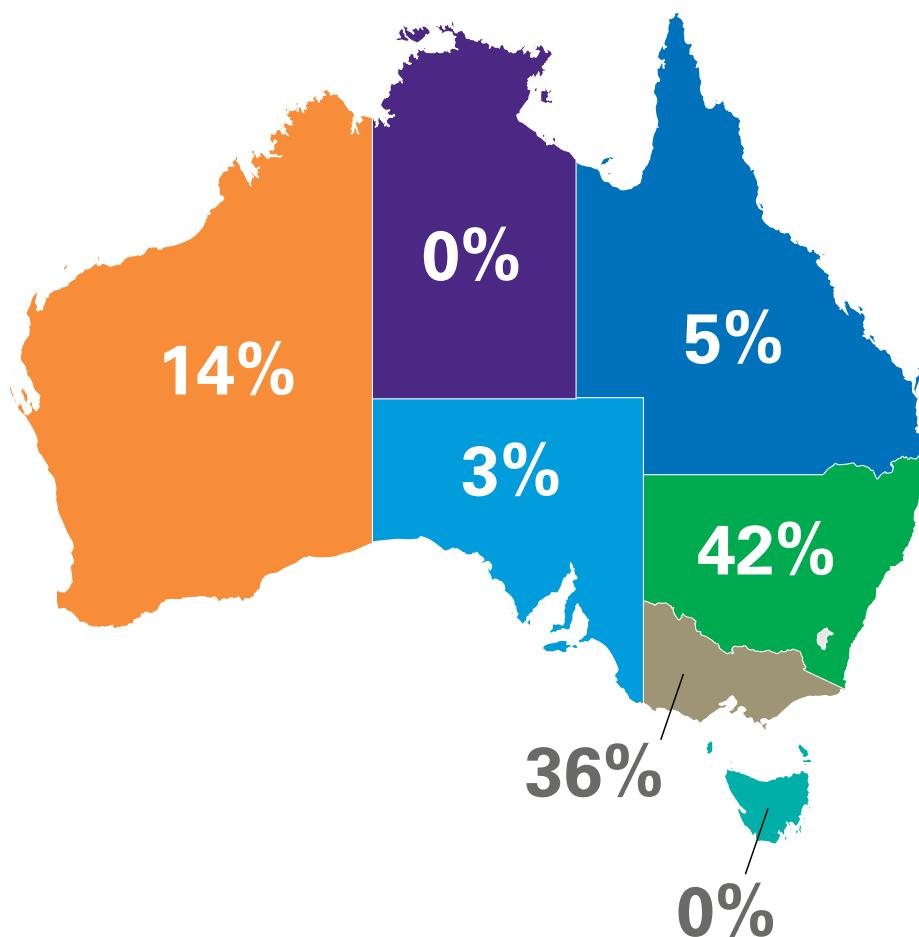
Chinese investment in Australia by geography

Chinese capital was again focused in NSW in 2017 with AUD 5.6 billion or 42 percent of total investment value.

Victoria experienced an uplift from 25 percent of total investment in 2016 to 36 percent in 2017. This was driven by Yancoal's acquisition of Coal & Allied Industries Limited which is recorded as an inflow to Victoria due to the location of Rio Tinto's headquarters in Melbourne. However, the assets acquired in the Yancoal deal reside in NSW. If NSW was attributed with the capital proceeds invested from the Yancoal deal, NSW would account for 68 percent of total Chinese investment in Australia in 2017.

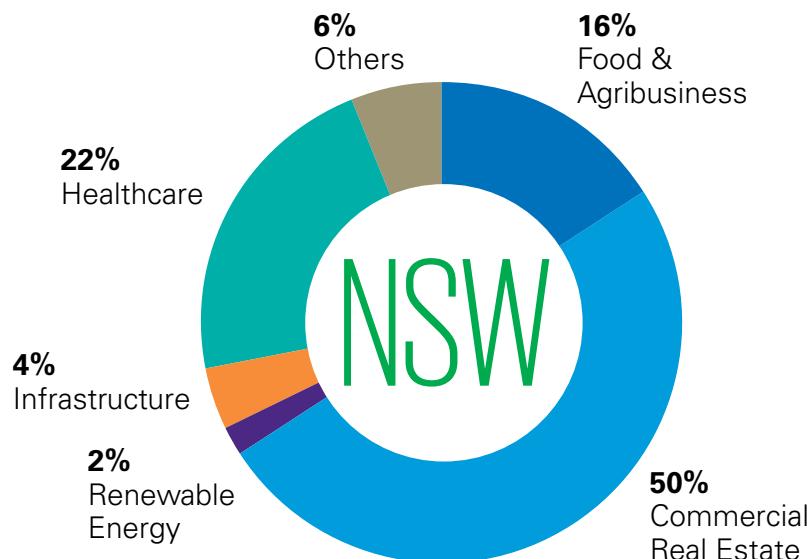
Western Australia (WA) received AUD 1.9 billion in Chinese investment or 14 percent of total inflows. WA benefitted from a major investment in mining companies Talison Lithium and Hanking Gold Mining.

Geographic distribution of Chinese investment in 2017 by state



Source: The KPMG/Sydney University database

New South Wales



Source: The KPMG/Sydney University database

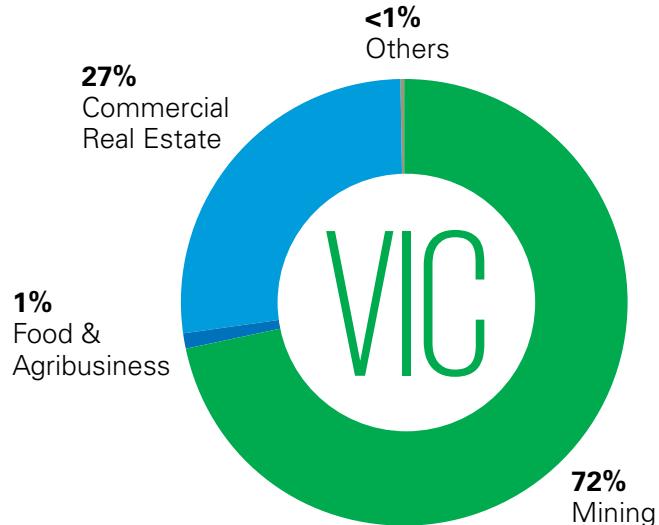
Industry	Transaction Value (AUD million)
Commercial Real Estate	2,806
Healthcare	1,247
Food & Agribusiness	860
Others	343
Infrastructure	235
Renewable Energy	125
Total	5,616

Source: The KPMG/Sydney University database

Victoria

Industry	Transaction Value (AUD million)
Mining	3,400
Commercial Real Estate	1,257
Food & Agribusiness	35
Others	23
Total	4,715

Source: The KPMG/Sydney University database

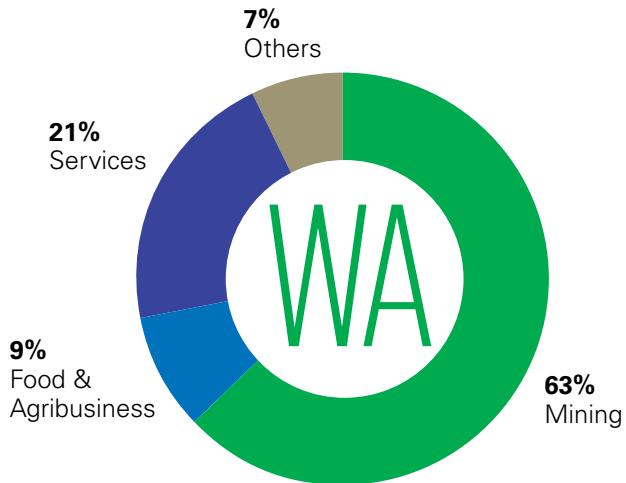


Source: The KPMG/Sydney University database

Western Australia

Industry	Transaction Value (AUD million)
Mining	1,185
Services	400
Agribusiness	170
Others	124
Total	1,879

Source: The KPMG/Sydney University database

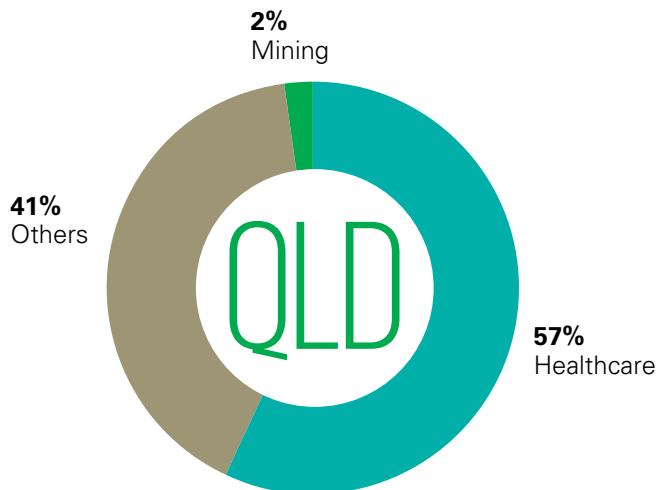


Source: The KPMG/Sydney University database

Queensland

Industry	Transaction Value (AUD million)
Healthcare	383
Mining	13
Others	271
Total	667

Source: The KPMG/Sydney University database

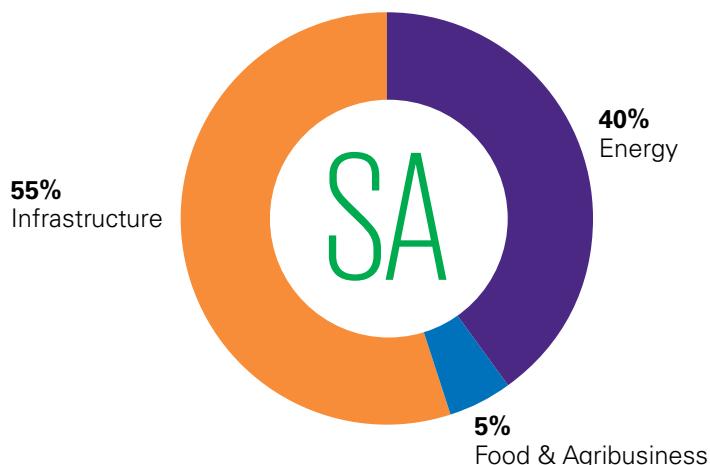


Source: The KPMG/Sydney University database

South Australia

Industry	Transaction Value (AUD million)
Energy	184
Food & Agribusiness	21
Infrastructure	250
Total	455

Source: The KPMG/Sydney University database

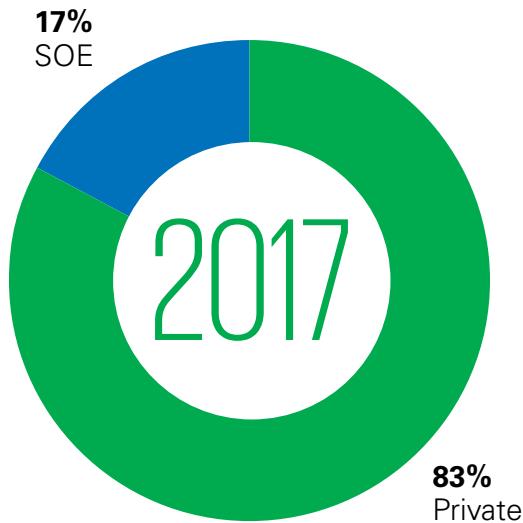


Source: The KPMG/Sydney University database

Chinese investment by ownership

Private investors accounted for 83 percent of the Chinese deal volume and 60 percent of deal value in 2017, up from 78 percent in number and 49 percent in volume in 2016.

Chinese SOE investment dropped in both the number and value of investments for the first time since 2014.



Source: The KPMG/Sydney University database

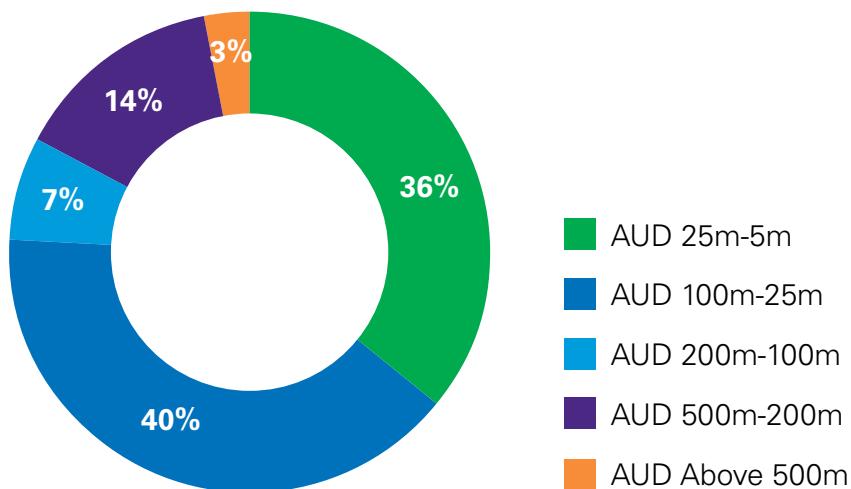
Source: The KPMG/Sydney University database

Chinese investment by deal size

Other than mining, the trend toward smaller deals has continued in 2017 with the average deal value down to AUD 130 million, from AUD 149 million in 2016, while the number of deals has remained constant at just over 100.

Seventy six percent of deals fell below the AUD 100 million mark. This reflects more deals being done in the mid-sized Australian market in food and agriculture, health, technology, services and manufacturing sectors.

Deal sizes for private Chinese investments averaged AUD 96 million and was significantly lower than the average for state-owned Chinese investments of AUD 294 million.



Source: The KPMG/Sydney University database

Size of Deal (AUD)	Number of deals	%	Value	%
AUD 25m-5m	37	36	564	4
AUD 100m-25m	41	40	2311	18
AUD 200m-100m	7	7	1076	8
AUD 500m-200m	14	14	4415	33
AUD Above 500m	3	3	4980	37
Total	102	100	13,347	100

Source: The KPMG/Sydney University database

Special edition: Chinese Investors in Australia Survey



About this survey

The Chinese Investors in Australia Survey is a comprehensive survey 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.

KPMG and The University of Sydney Business School acknowledge the generous support of the late Dr William Chiu, for enabling the first Chinese Investors in Australia Survey in 2014.

The 2018 Chinese Investors in Australia Survey was both survey and interview based and focused on latest sentiments covering 2017 and YTD 2018. KPMG and The University of Sydney Business School surveyed senior executives from 45 Chinese-invested companies located in Australia in April 2018.

These companies operate in a broad range of sectors including real estate, mining, agribusiness, renewable energy, health, and infrastructure. The survey questions covered topical issues relating to experience, perceptions and confidence of Chinese companies investing in Australia. Where appropriate we have compared the survey results to 2014 and interview sentiments to those recorded in 2016.

We would like to thank the Chinese companies who participated in our survey and interviews for the purposes of this report.

Our results are divided in three sections:

- Investment climate
- Operational challenges
- Performance and outlook

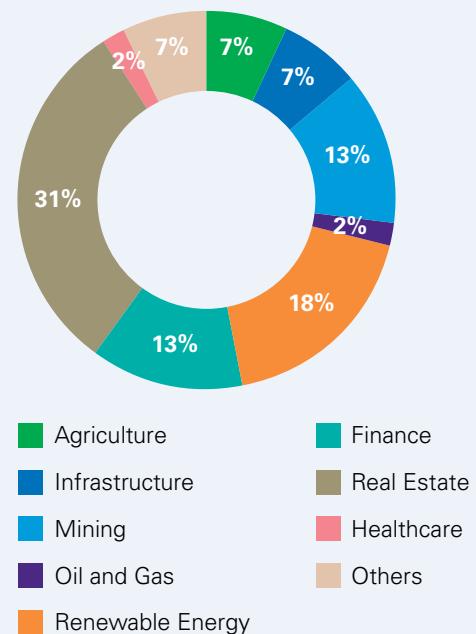
Survey demographic

What size is your total investment in Australia?



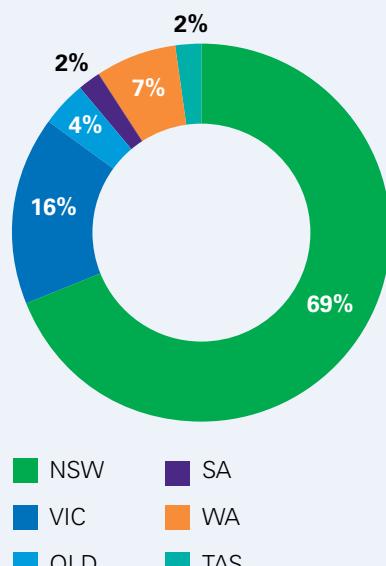
Number of respondents = 44

To what industry does the majority of your investment belong?



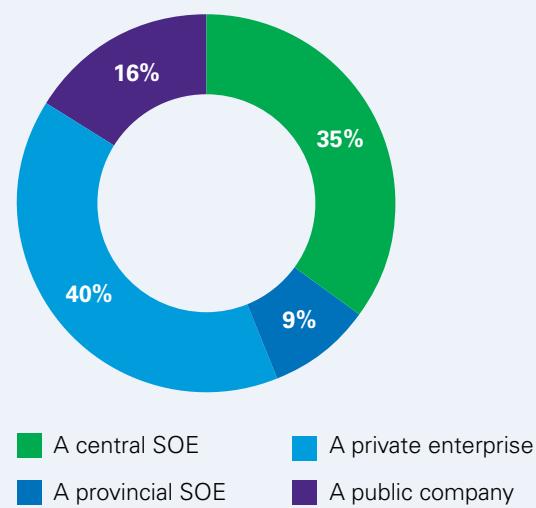
Number of respondents = 45

In which Australian state or territory is your business registered?



Number of respondents = 45

Our Chinese parent company is:



Number of respondents = 43

2017 investment climate

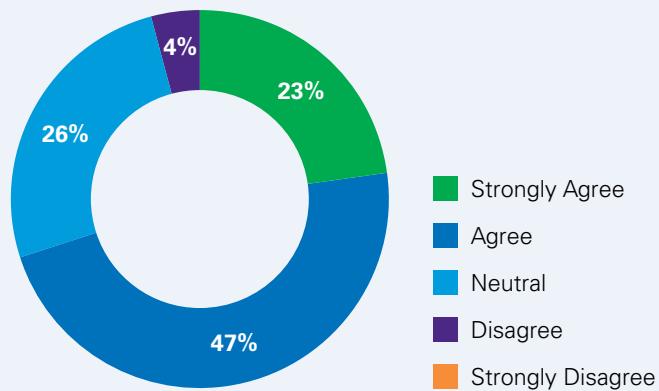
2017 was a year of significant volatility, marked by political debate in Australia about the role of Chinese investment in Australia as well as changes to ODI regulations in China.

This year's survey captures a mood of cautious optimism as well as apprehension. While Chinese investors continue to regard Australia as a safe environment, they are more cautious to invest and feel less welcome than before.

Key findings:

- Allegations about Chinese influence and increasing diplomatic tensions have given Chinese companies the impression that they are less welcome to invest in Australia. Only 35 percent of the surveyed Chinese companies felt welcome to invest in Australia, a decline from 52 percent in 2014.
- Overall, Chinese investors find Australia a safer environment than many other countries. Our interviews confirmed that Australia's rule of law, stable market institutions and comprehensive policies continue to attract Chinese investors. However, Chinese businesses are concerned about political uncertainty and the potential impact on the investment approval process.
- Since November 2016, the Chinese government has increased its scrutiny of capital outflows and now categorises outbound investment into encouraged, restricted, and prohibited transactions. The regulatory changes have impacted new investment in Australia. Over three quarters (77 percent) of respondents stated that Chinese government regulatory change have made it more difficult to invest in Australia.
- The tightening of currency controls has also made it more difficult for Chinese companies to source finance from China. Two thirds (65 percent) of the surveyed Chinese companies found it more difficult to get capital out of China in 2017. Private companies and listed companies are most affected by the capital control restrictions.
- The changes in ODI regulations are not seen by survey respondents as targeted at Australia, rather a correction of speculative or 'irrational' investment globally.

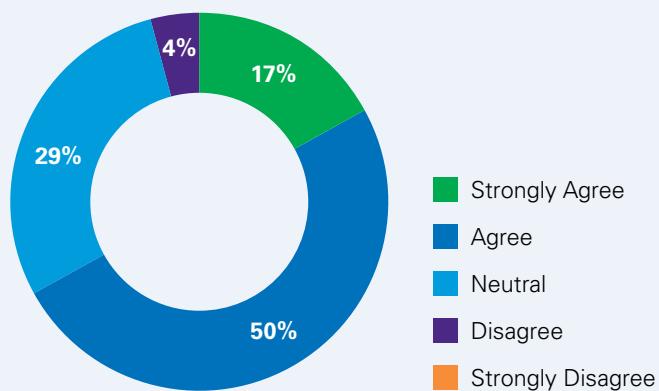
The political debate in Australia in 2017 has made my company more cautious to invest here.



Seventy percent of the surveyed respondents stated that the political debate in 2017 has made Chinese companies more cautious about investing in Australia.

Number of respondents = 47

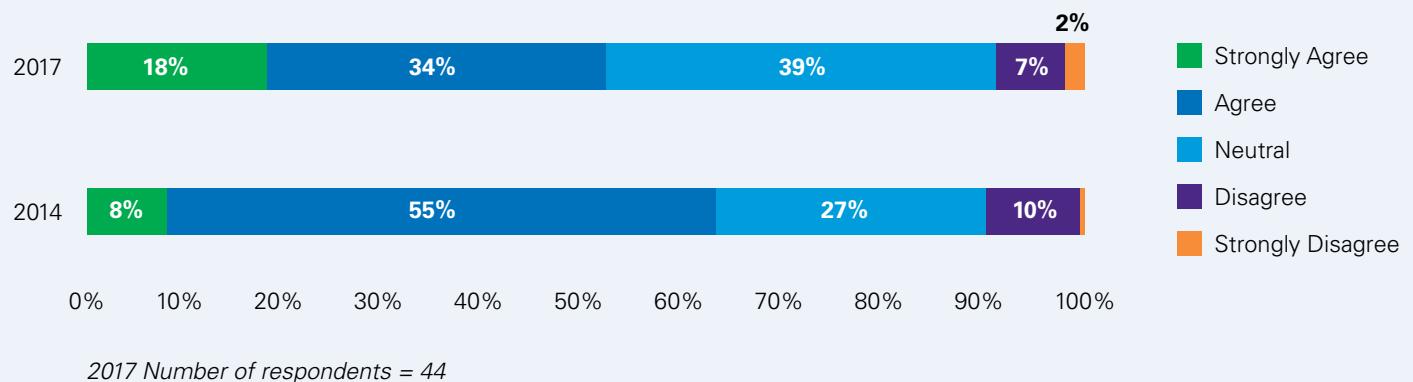
The Australian Federal Government is less supportive of Chinese investment than previously.



Sixty seven percent of the respondents stated that they see the Federal Government as less supportive than previously.

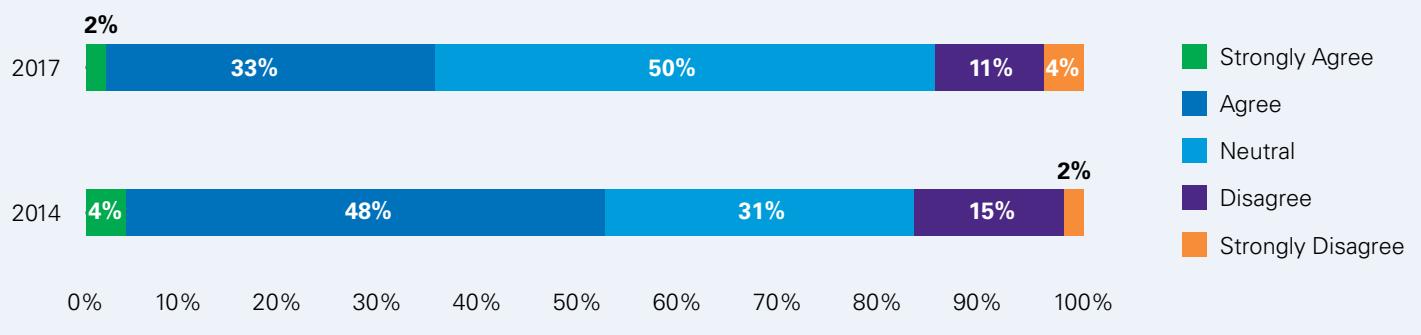
Number of respondents = 48

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



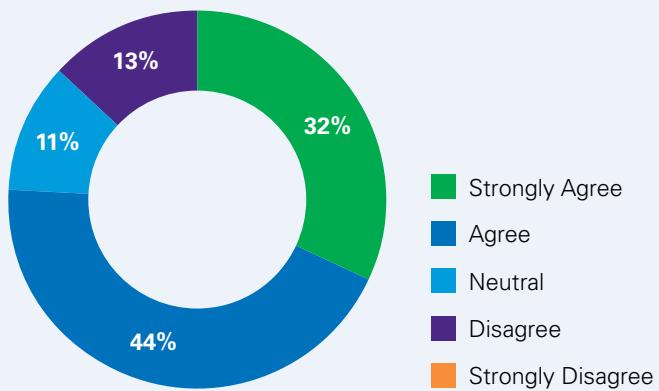
Fifty two percent of respondents regarded Australia's economic environment as safer than many other countries, however this is a drop from 63 percent in 2014.

Chinese investors feel welcome to invest in Australia.



Only one third of Chinese investors surveyed felt welcome to invest in Australia, a drop from 52 percent in 2014.

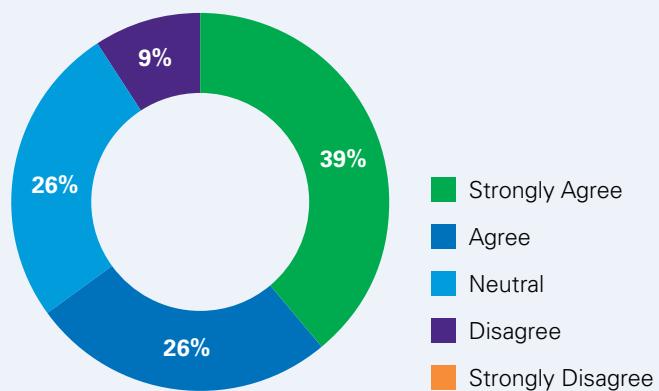
The 2017 changes in Chinese regulations for outbound investment have made it more difficult to invest in Australia.



Seventy seven percent of respondents believe new Chinese regulations have made it more difficult to invest in Australia.

Number of respondents = 47

For my company, it is more difficult to get capital out of China since 2017.



Sixty five percent of respondents stated it is more difficult to get capital out of China.

Number of respondents = 46

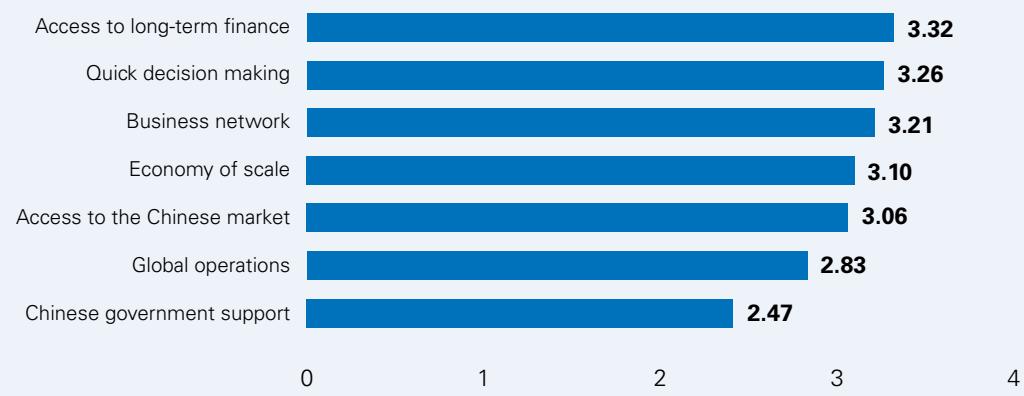
Operational challenges

In this year's survey, we focused on post-investment operational advantages and challenges facing Chinese companies in Australia.

Key findings:

- Chinese investors cited 'quick decision making' as a key competitive advantage to investing and competing in Australia. This may be at odds with the perception of some Australian vendors and advisors.
- Chinese investors place their trust foremost in the Australian business community followed by the state government, local councils and federal government.
- Among the social stakeholders, public media are seen as least supportive. The ratio of respondents agreeing that Australian media were supportive towards Chinese investment dropped from 16 percent in 2014 to 10 percent in 2017.
- Finding qualified staff is seen as the biggest difficulty for Chinese companies. For example, firms in the renewable energy sector regard the lack of qualified workers as a bottleneck for their operations in Australia.
- Australia is seen by Chinese investors as a more expensive country to operate in than the UK, US and Canada.
- Even as Chinese companies become more established in the Australian environment, there remains a trust gap between Chinese owners and Australian management.

What competitive advantages does your company have in Australia?

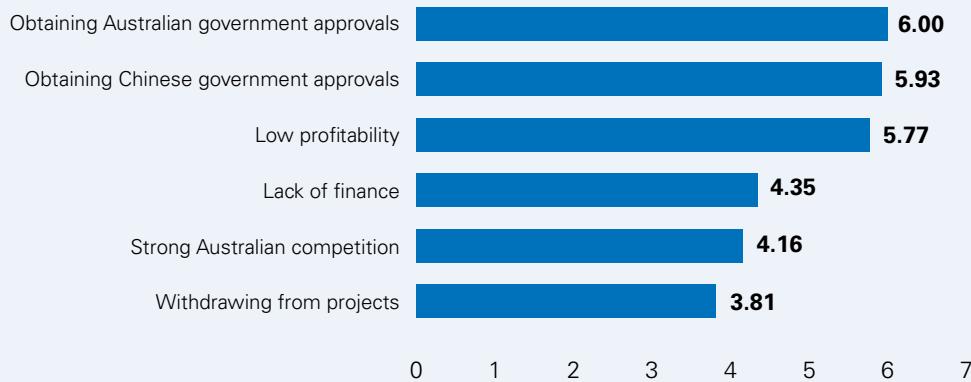


1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Number of respondents = 47

The top three advantages of Chinese firms are long-term finance, fast execution and access to business networks.

Since your investment in Australia, what problems have you faced?

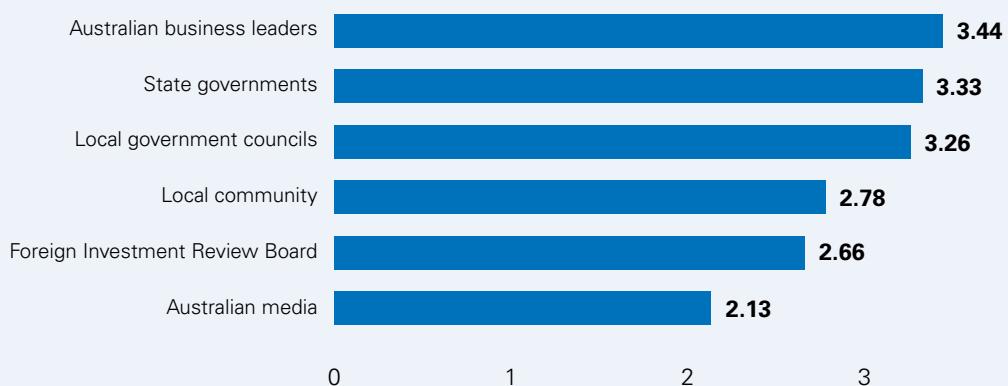


0 = Not Important, 10 = Very Important

Number of respondents = 43

Obtaining Australian and Chinese government approvals are cited as most significant problems faced by Chinese businesses after an investment, followed by low profitability.

The following stakeholders are supportive towards Chinese investors.

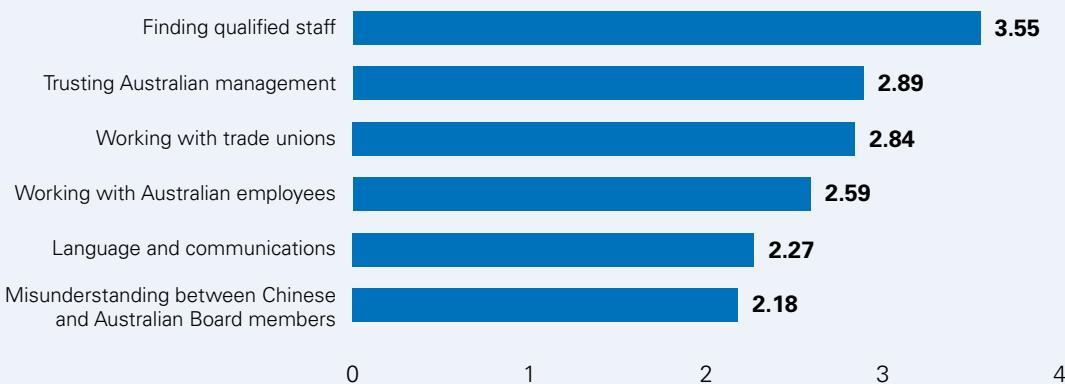


1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Number of respondents = 46

Australian industry leaders are viewed as the most supportive stakeholder group towards Chinese investors, followed by state governments and local councils, local communities and FIRB. Chinese executives again cited the Australian media as the least supportive of their investment.

Since your investment in Australia, have you faced the following difficulties?

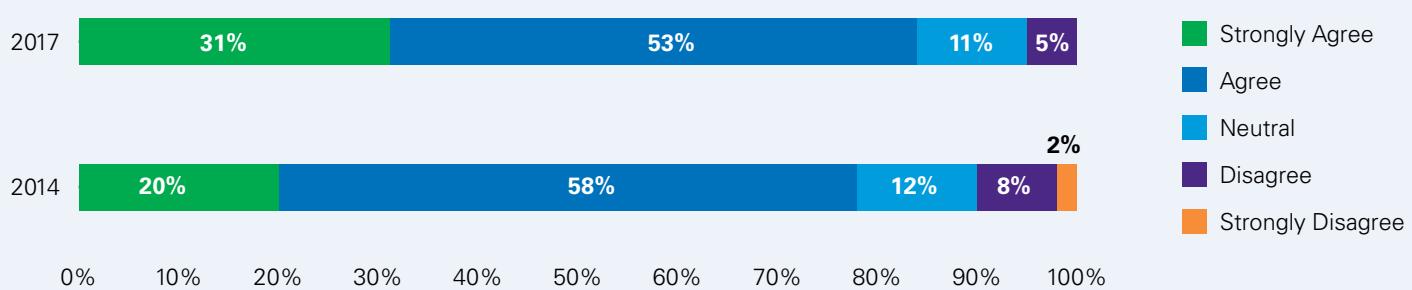


1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Number of respondents = 44

Finding qualified staff is seen as a major difficulty for Chinese companies, followed by trusting Australian management and working with trade unions.

Chinese investors prefer having majority control.



2017 number of respondents = 38

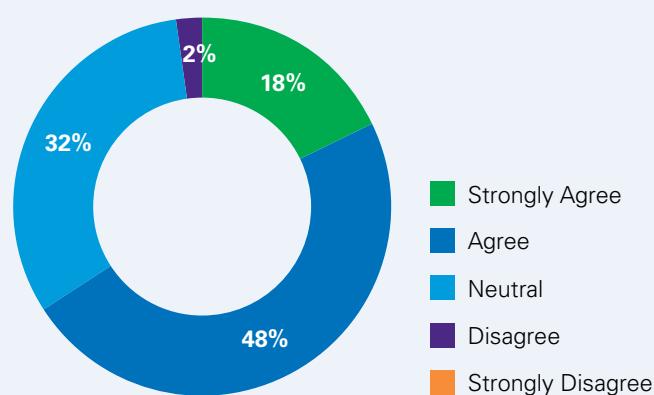
Compared with 2014, the respondents expressed an increased preference for majority control. However, we are seeing more co-investment in recent years.

In your opinion, what is the level of overall business costs in the following countries?



Chinese investors have an understanding of comparative costs and perceive Australia as a less cost effective location than the US, UK and Canada.

Chinese investors in Australia have benefited from the Free Trade Agreement between Australia and China.



Two thirds (66 percent) of Chinese investors state that they have benefited from the China Australia Free Agreement (ChAFTA).

Number of respondents = 44

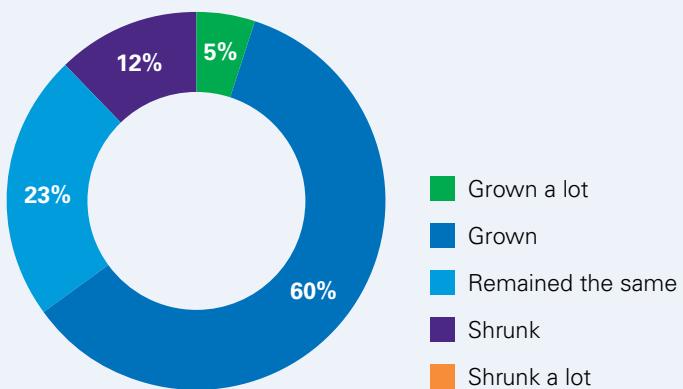
Performance and outlook

The last 3 years have been a good period financially for Chinese investors in Australia.

Two thirds (65 percent) of the respondents reported revenue growth over the last 3 years, double the number (32 percent) in our 2014 survey. This reflects the success of Chinese investors' long-term strategies. Only 13 percent reported a decline in revenue. The renewable energy sector enjoyed especially strong results.

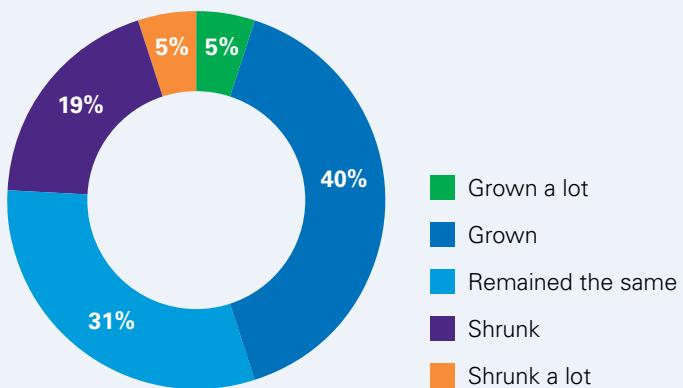
Profitability has improved with 45 percent of respondents reporting that profitability has grown. Such results reflect the strong performance of the Australian economy as well as the increased capability of Chinese firms to manage operational challenges in Australia.

Over the past 3 years, our turnover has:



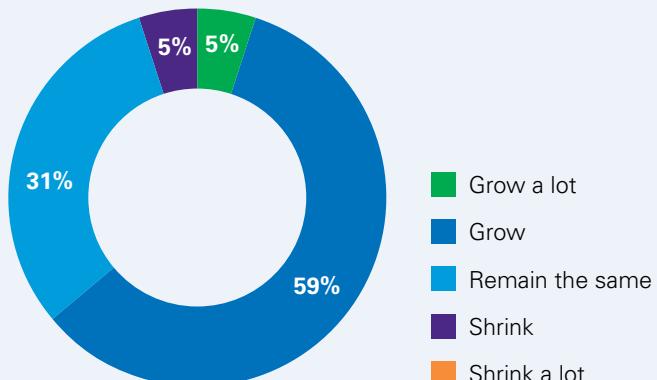
Number of respondents = 40

Over the past 3 years, our profitability has:



Number of respondents = 42

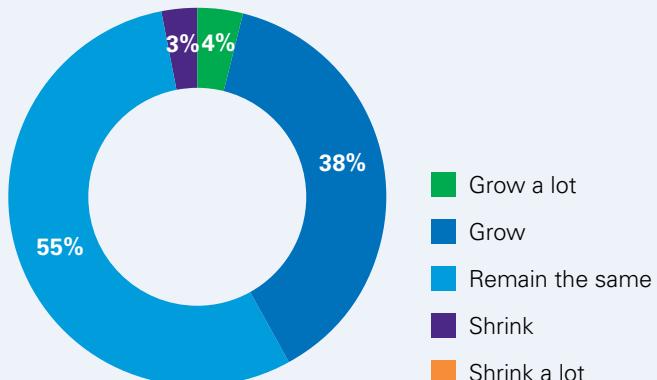
I expect our turnover in 2018 will:



Number of respondents = 42

Sixty five percent of respondents think their turnover will grow in 2018 and 5 percent think their turnover will shrink.

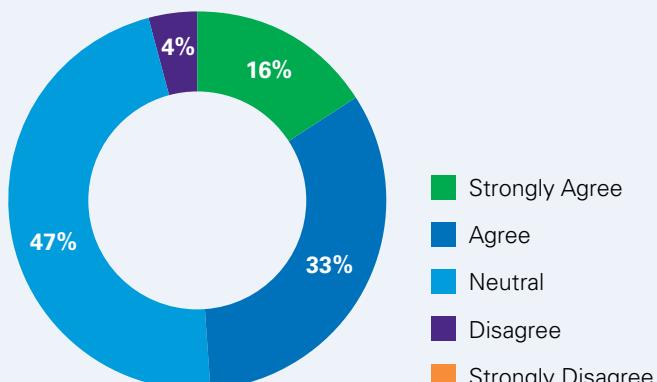
I expect our profitability in 2018 will:



Number of respondents = 40

Forty three percent predict their profitability will grow in 2018, while only 3 percent expect profitability to decline.

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



Number of respondents = 45

Forty nine percent of respondents are optimistic about business prospects in Australia over the next year.

Final word

The numbers don't lie – changing regulatory, political and economic landscapes have impacted new investment flows from China to the world, including Australia, in 2017. Our local survey has revealed sentiment has also shifted, with a higher level of apprehension by Chinese investors towards investing in Australia.

Chinese investment in Australia remains strong at USD 10.3 billion (AUD 13.3 billion) in 2017, despite an 11 percent (in USD terms) year-on-year decline. The pause in historic growth was an international phenomena, with global Chinese overseas direct investment falling by 29 percent during the year.

Importantly, Australia remains globally competitive for attracting Chinese investment – retaining its position as the second largest recipient of accumulated Chinese investment, with just under USD 100 billion since 2008. Chinese investors continue to be drawn to projects in Australia that relate to growing Chinese consumer demand and Chinese government priority initiatives. Australia can be pleased that the fall in the rate of growth of new investment from 2016 levels hasn't been anywhere near as severe as experienced in the US (down 35 percent) and EU (down 17 percent).

2017 was a year of significant volatility, marked by political debate in Australia about the role of Chinese investment in our country, as well as changes to ODI regulations in China. Although the last three years have been a good period financially for Chinese investors in Australia – with 65 percent of respondents reporting revenue growth, and 45 percent profitability growth – 70 percent of respondents stated that the political debate had made Chinese companies more cautious about investing in Australia. And 67 percent see the Federal Government as less supportive than previously. The Australian media was cited as the group least supportive of their investment; with Australian business leaders the most supportive.

The resultant mood shift is clear, with our survey results revealing that confidence in the Australian market as a safe investment destination has declined between 2014 and 2018. While most Chinese investors retained a level of optimism about their Australian investments some investors, especially SOEs, are apprehensive due to diplomatic tensions and the sense of feeling unwelcome. Only 35 percent of surveyed companies felt welcome to invest in Australia – a notable decline from 52 percent in 2014.

Lack of trust in the Australian government and media remains a notable antagonism for Chinese investors, with the 'acquisition' of social licence appearing for the first time as a major challenge in 2017.

Looking Forward

Australia's relationship with China, while experiencing a period of heightened tension, is mature and deeply established in trade and investment and increasingly in society and culture through education, tourism and migration.

Chinese investors are increasingly conscious of the need to acquire assets, knowledge and technology and then leverage their links to the Chinese market for profitable growth, rather than base their investment on the expected growth of the domestic Australian economy alone. They are investing with a long-term focus – and this is positive for Australia.

Australia's long-term economic interests remain linked to China, a market that cannot be underestimated in terms of opportunity or opportunity cost. In addition to the top end of town, we believe that medium sized Australian companies with high quality food and health products, leading technology, services and advanced manufacturing capabilities have an incredible opportunity to grow through trade and investment. Australian SMEs have expressed and demonstrated the appetite and ambition to make this work, but need support from government.

It is important that the Australian Government and business community collaborate to encourage further investment in the right areas. Australia stands to make sustained economic, social and diplomatic gains by nurturing long-term partnerships between Australian companies and Chinese investors.



Kyle Chalmers instructs school children during a visit by South Australian Premier Steven Marshall to a primary school in Shanghai, China.

Credit: DAVID MARIUZ AAP Image

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