THE UNIVERSITY OF SYDNEY

DEMYSTIFYING CHINESE INVESTMENT IN AUSTRALIA

July 2021

KPMG

ISSN 2203-2037

About our reports

KPMG and The University of Sydney formed a strategic relationship to research and publish insights on Chinese investors. Our first report was launched in September 2011 and this is the seventeenth Demystifying Chinese Investment report in our series. This report examines Chinese investment in Australia for the calendar year 2020. It incorporates insights from interviews and a survey with Chinese investors in Australia across a range of sectors into their perceptions of the Australian investment climate as well as the key challenges 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) projects, and greenfield projects. Knight Frank has provided data and analysis on real estate transactions in the 2020 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; *Demystifying Chinese Investment in Australia*, June 2018; *Demystifying Chinese Investment in Australia*, April 2019; *Demystifying Chinese Investment in Australia*, June 2020.

Key findings

Chinese investment deals in Australia are shrinking in value and numbers, and shifting to less sensitive industries.

In 2020 Chinese investment in Australia declined by

18%

to USD 1.9 billion from USD 2.3 billion in 2019.

In Australian dollar terms, the decline is

26.8%

from AUD 3.4 billion to AUD 2.5 billion.

The number of completed deals more than

halved

from 42 in 2019 to 20.

NSW received the largest amount of Chinese investment in 2020 with AUD 1.2 billion or 49 percent of the total.

The dominant target industries are mining, commercial real estate and services.

Chinese investment in Australia is shifting toward medium sized deals in less sensitive industries.

Investment volumes by private investors continued to be higher than those by state-owned enterprises in 2020.

60%

of the surveyed executives continue to view Australia as a safer economic environment for Chinese investors than many other countries.

75%

of the surveyed executives stated that the political environment in 2020 has made Chinese companies more cautious to invest in Australia.

Over half (52 percent) of the surveyed executives stated COVID-19 had **negatively impacted their business revenue.**

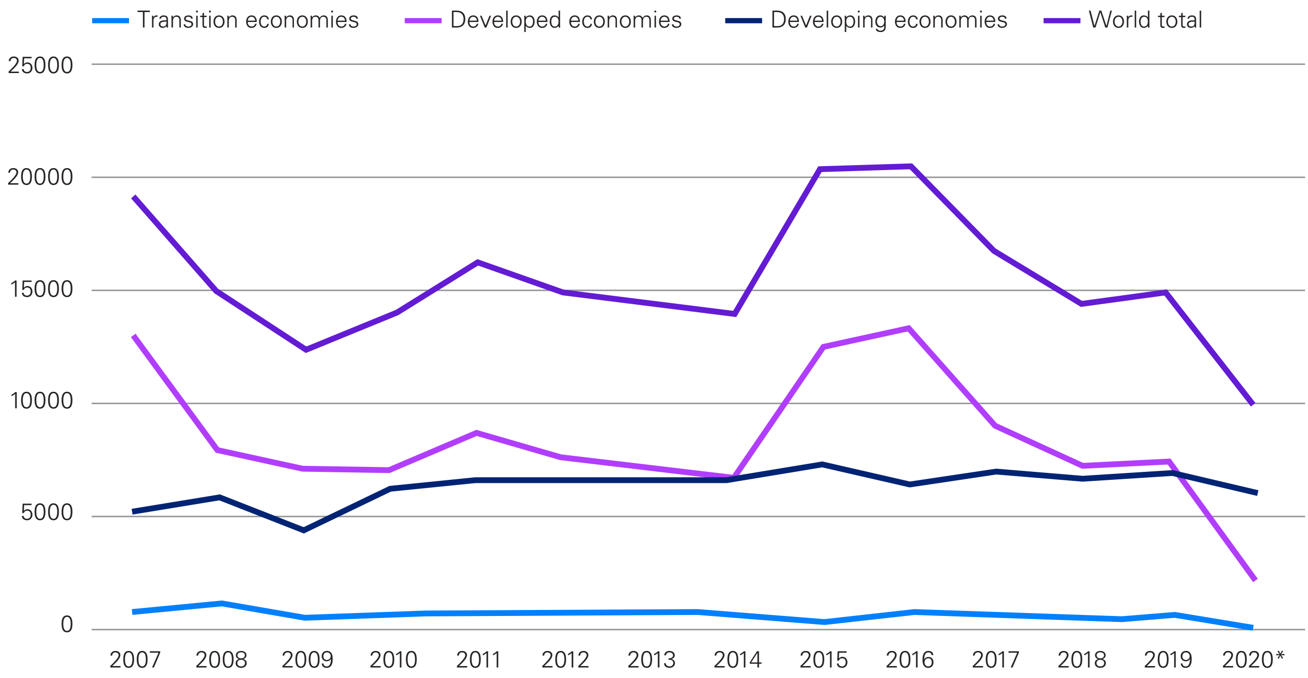
Chinese investors increasingly rely on joint ventures, minority control, and localisation strategies to reduce commercial risk.

Chinese investors continue to see Australian business leaders, local government and state governments as their most supportive stakeholders.

Apart from the impact of the COVID-19 pandemic, the reasons for the decline in Chinese capital inflows are: continued restrictions on capital exports by the Chinese government, deteriorating bilateral diplomatic relations between Australia and China, increased screening regulations and geopolitical instability.

Global context

According to the UNCTAD World Investment Report 2021, global foreign direct investment in 2020 fell by one third to USD 1 trillion from USD 1.5 trillion in 2019. This drop takes the level of global FDI nearly 20 percent lower than the record fall after the Global Financial Crisis in 2009. Developed economies experienced a fall in FDI of 58 percent compared to the 8 percent drop that affected developing economies.[2]



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics)

2. https://unctad.org/system/files/official-document/wir2021_en.pdf

The United States remained the largest recipient country of FDI with USD 156 billion, down 40 percent from USD 261 billion in 2019. China was the second largest host economy with USD 149 billion, up 6 percent from 2019. FDI into Europe fell by 80 percent to a level of USD 73 billion. India became the fifth-largest recipient country of FDI, with USD 64 billion in 2020. Australia's inflow of FDI halved from USD 39 billion in 2019 to USD 20 billion in 2020.

In outbound direct investment (ODI), developed countries reduced their share by 56 percent to USD 347 billion in 2020. ODI from Europe fell by 80 percent while Japan's ODI halved. The United States maintained its level of ODI at USD 93 billion, nearly unchanged from 2019. For China's ODI, UNCTAD registered a 3 percent decline to a volume of USD 133 billion, which made China the world's largest investor in 2020.[3]

According to Chinese official statistics, China's global ODI in 2020 has remained constant following the steep rates of decline in 2018 and 2019. China's Xinhua News Agency reported Chinese global ODI in 2020 reaching USD 110.15 billion, representing a decline of 0.4 percent.[4] Direct investment into countries linked to the Belt and Road Initiative (BRI) increased 18.3 percent to USD 17.8 billion, equivalent to 16.2 percent of China's total ODI.[5]

Among the project-based data sets on Chinese ODI, the American Enterprise Institute's China Global Investment Tracker, which lists only large projects above USD 100 million, recorded a near 30 percent drop from USD 89.1 billion to USD 64.2 billion. Of the world-wide 146 Chinese ODI projects above USD 100 million identified for 2020, the share received by developing countries rose to 72 percent, up from 52 percent in 2019.[6]

For the United States, the latest May 2021 report by Rhodium Group and the National Committee on United States-China Relations registers a slight increase in Chinese investments into the United States from USD 6.3 billion in 2019 to 7.2 billion in 2020.

The report ascribes this resilience to the concentration on a few very large deals, mostly Tencent's USD 3.3 billion purchase of a ten percent share in Universal Music group.[7] This one deal made Entertainment the largest sector for Chinese ODI in the United States in 2020, followed by Consumer Products and Services totalling USD 1.4 billion with three large transactions in nutrition supplements, pet food and refrigerator manufacturing, and Health and Biotech in third place with USD 625 million.[8]

At the same time, the report notes several high-profile Chinese asset divestment, such as the USD 7.2 billion sale of Ingram Micro by HNA, and Wanda's partial sale of their equity in AMC Entertainment. Industry trends in 2020 confirm a shift by Chinese investors toward less sensitive areas, such as Consumer Products and Services, Health and Biotech.

Rhodium Group reported that China's FDI in Europe continued its decline to a 10-year low in 2020. Shrinking M&A activity in EU-27 and the United Kingdom saw a 45 percent decline in completed Chinese ODI to EUR 6.5 billion from EUR 11.7 billion in 2019. The major destinations were Germany (30 percent), the United Kingdom (21 percent), and France (10 percent).[9]

Chinese ODI in Europe was dominated by small and medium-sized transactions spread evenly across sectors. The only large deal above USD 1 billion was GLP's acquisition of Australian-owned Goodman Group's warehouse portfolio in Poland and central Europe.[10]

Infrastructure, ICT and electronics as the top three sectors attracted half (51 percent) of total Chinese ODI. Chinese greenfield investment jumped to its highest level since 2016, at nearly EUR 1.3 billion or 20 percent of total Chinese ODI.

3. https://unctad.org/webflyer/world-investment-report-2021
4. http://cz2.mofcom.gov.cn/article/chinanews/202101/20210103033336.shtml
5. http://cz2.mofcom.gov.cn/article/chinanews/202101/20210103033336.shtml
6. https://www.aei.org/china-global-investment-tracker/
7. https://rhg.com/wp-content/uploads/2021/05/RHG_TWS-2021_Full-Report_Final.pdf
8. https://rhg.com/wp-content/uploads/2021/05/RHG_TWS-2021_Full-Report_Final.pdf
9. https://rhg.com/wp-content/uploads/2021/06/MERICSRhodium-GroupCOFDIUpdate2021.pdf
10. https://www.bakermckenzie.com/-/media/files/insight/publications/2021/04/reassessing-the-landscape-for-chinese-investmentupdated22-april.pdf

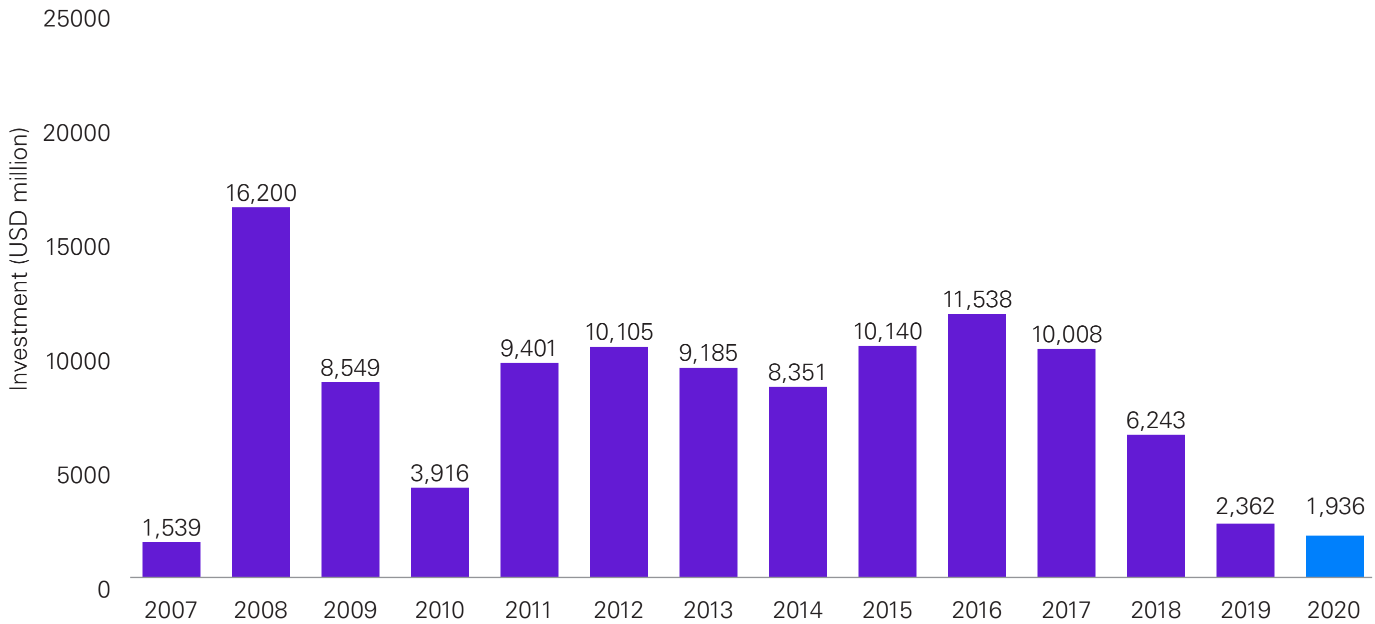
Overview of Chinese investment in Australia in 2020

Chinese investment dropped by 27 percent to the lowest level since 2007 at AUD 2.5 billion.

Chinese investment in Australia declined by 18 percent in 2020, from USD 2.362 billion (AUD 3.4 billion) in 2019 to USD 1.936 billion (AUD 2.5 billion). In Australian dollar terms, the decline is 26.8 percent.

Compared to past years, the downturn of 26.8 percent takes Chinese ODI in Australia back to pre-mining boom investment levels of 2007. This is the cumulative effect of Chinese government restrictions on capital outflow, increasing regulatory screening of Chinese and other foreign investment, deteriorating bilateral diplomatic relations, disruptions to business communication and contact caused by the COVID-19 pandemic. New powers under the national security test appear to signal increased government intervention in foreign investment.[11] Substantial increases to FIRB application fees and penalties for non-compliance suggest a change in philosophy with FIRB taking on a greater watchdog role.[12] Several investment projects, such as Mengniu's proposed acquisition of Lion Dairy & Drinks worth AUD 600 million and China Hydrogen Energy's proposed AUD 70 million acquisition of Alita Resources, were rejected under the new legislation.

Chinese ODI into Australia 2007 – 2020 by value (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

11. https://www.herbertsmithfreehills.com/latest-thinking/major-foreign-investment-reforms-in-australia-what-you-need-to-know
12. https://firb.gov.au/sites/firb.gov.au/files/2021-06/FIRB2019-20AnnualReport.pdf

Selected major Chinese investments in Australia in 2020

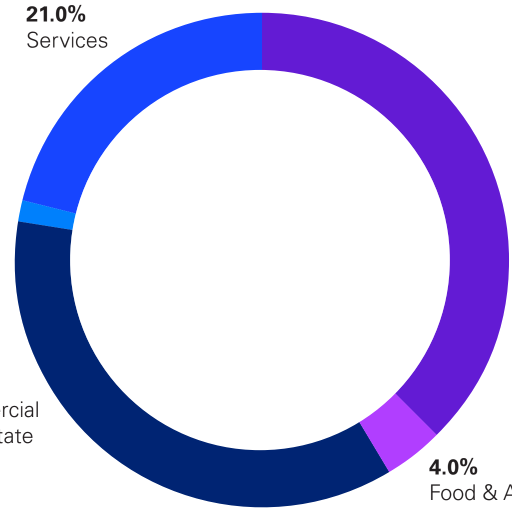
Target Name	Acquirer Name	Industry Sector	State	Value (AUD million)
45 Clarence Street	Peakstone	Commercial Real Estate	NSW	530
Cardinal Resources	Shandong Gold	Mining	WA	395
Afterpay (5%)[13]	Tencent	Service – Fintech	VIC	390
Moolarben Coal Joint Venture (10%)	Yancoal Moolarben	Mining	NSW	300
59 Goulburn Street	Poly Global	Commercial Real Estate	NSW	270
Sheffield Resources	Yansteel	Mining	WA	130
Nzuri Copper	Chengtun Mining	Mining	WA	110
Yunghanns' Yaloak Estate	Guangxi Qiutian Investment	Food & Agribusiness	VIC	60

Source: The KPMG/Sydney University database

13. This transaction is included as both Tencent and Afterpay recognized this investment as a strategic partnership. https://www.afterpaytouch.com/images/01052020-%E2%80%93-Afterpay-welcomes-Tencent-as-a-substantial-shareholder.pdf

Chinese investment in Australia by industry

Chinese ODI by Industry in 2020 (% of total)



Source: The KPMG/Sydney University database

Selected major Chinese investments in Australia in 2020

Industry	Value (AUD million)	% of Total	Value 2019 (AUD million)	Change in % from 2019
Mining	945	38%	208	355%
Commercial Real Estate	907	36%	1,479	-39%
Services	528	21%	195	170%
Food & Agribusiness	101	4%	1,529	-93%
Healthcare	33	1%	0	∞%
Renewable Energy	0	0%	23	-100%
Energy (gas and oil)	0	0%	0	-
Infrastructure	0	0%	0	-
Total	**2,514**	**100%**	**3,433**	**-26.8%**

Source: The KPMG/Sydney University database

Mining

Mining investment in 2020 increased threefold from 2019 and accounted for 37.6 percent of total Chinese investment inflows. Five deals totalling AUD 945.1 million comprised projects in lithium, gold, copper and mineral sands.

Details from China's 14th Five-Year-Plan confirm that restructuring is underway to integrate carbon neutrality into China's overall development plan. Chinese companies are joining global mining companies in shifting to low carbon usage and sustainable energy resources. Chinese outbound mining investment is transitioning away from fossil fuels to renewable energy related minerals, such as copper and lithium.

Australia remains the top raw material supplier for both base metals and new mining materials. Surging demand for iron ore has produced huge profit opportunities for established investors. As some early projects reach the end of their productive life, Chinese mining companies are diversifying into alternative mining projects.

How it all started: The Channar Joint Venture between Sinosteel and Rio Tino

The Channar Joint Venture (Channar) which operated from 1987 to 2020 began as China's largest overseas foreign investment and was the first large-scale mining initiative between China and Australia. It formed the basis of many agreements and investments to follow in the mining and liquid natural gas sectors. A very profitable project, it helped break open the China market for Australian iron ore.

The importance of Channar, both as an iron ore success story and a symbol of Australia China cooperation in the resources field, can be seen from the extension of the joint venture in 2010 and another extension in 2017 before the joint venture closed down in October 2020. In all, more than 290 million tonnes of iron ore have been delivered by the joint venture, considerably more than the originally planned 200 million tonnes.

What are the lessons from the Channar joint venture?

- Channar stands as a testament to the long-standing cooperation between Australia and China. After completion of the Channar joint venture, Sinosteel's long-term partnership with Rio Tinto continues and has had a flow-on effect on investment projects with other Australian and international partners.
- Large investments require political trust. In the 1980s, Sinosteel was concerned about the security of its investment and its supply of iron ore from Australia as the two countries were, in the prevailing Cold War atmosphere, not on friendly terms. The deal was signed after five years of negotiations and two years after Australian Prime Minister Bob Hawke and Chinese General Secretary Hu Yaobang had stood together at the top of Mount Channar.
- After initial concerns, the joint venture model with 60 percent owned by Rio Tinto and 40 percent by Sinosteel proved more successful for the Chinese investors than anticipated. Equal share joint ventures have become an accepted alternative to the majority ownership model for Chinese foreign investments.

Real estate

Analysis by Knight Frank Australia

According to Real Capital Analytics, Chinese cross-border investment in commercial real estate totalled USD 11.8 billion in 2020, up 14 percent on 2019 levels but still down 50 percent compared to 2018. Hong Kong remained the most popular destination for capital from Mainland China, accounting for 47 percent of cross-border investment. Singapore and Malaysia combined accounted for 15 percent. Investment in Central Europe rose significantly underpinned by GLP's AUD 1.7 billion acquisition of a Goodman portfolio of industrial assets in Poland, the Czech Republic, Slovakia, and Hungary.

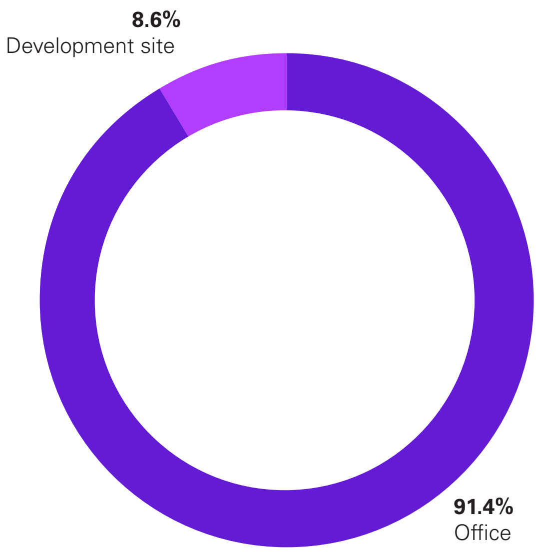
Chinese investment in Australian commercial real estate (including residential development sites) totalled AUD 906.8 million in 2020, down 38.7 percent compared to the previous year. This excludes China Investment Corporation (CIC)'s planned acquisition of a 50 percent stake in Grosvenor Place in the Sydney CBD for AUD 925 million, which was announced in November 2020 and received approval from the FIRB in July 2021.[14] Partly reflecting the uncertainty associated with the COVID-19 pandemic, the number of deals involving Chinese capital fell sharply.

By sector, office property accounted for the overwhelming share of investment (91.4 percent), driven by Peakstone's purchase of 45 Clarence Street for AUD 530 million, and Poly's acquisition of Sydney Plaza for AUD 270 million. Investment in development sites totalled AUD 77.8 million, including Mariners Cove on the Gold Coast and The Lennox in Sydney.

Reflecting the small number of deals and the two large office property deals in Sydney mentioned above, the city accounted for almost all Chinese investment in 2020 (93.5 percent), up from around 50 percent in 2019. Melbourne and the Gold Coast made up the remainder, each accounting for a little over 3 percent of total investment volume.

The ongoing low interest rate environment, coupled with relatively high commercial property yields compared to many major markets globally, makes Australia an attractive destination for offshore capital, including from China. However, the COVID-19 pandemic adds a degree of uncertainty to the outlook. While the Australian economy is recovering from the pandemic at a stronger than anticipated pace, the strength of occupier demand in some property segments remains uncertain given the acceleration of some structural trends such as the increase in remote working and the rise in online shopping. In this environment, investors are placing a greater than usual emphasis on income length and covenant strength when allocating capital.

Real estate investment share by sector



Source: Knight Frank Research, RCA

Top real estate transactions in 2020

Property	Location	Type	Purchaser	AUD million
45 Clarence Street	Sydney	Office	Peakstone	530
Sydney Plaza	Sydney	Office	Poly Global	270
Mariners Cove	Gold Coast	Development site	Ridong Development	28
10 Alvina Street	Melbourne	Development site	Panorama Investment Group	23

Source: Knight Frank Research, RCA

14. https://www.scmp.com/property/international/article/3139978/canberra-gives-go-ahead-china-investment-corporation-buy

Food and agribusiness

Chinese imposed trade sanctions on several sub-sectors of Australian agricultural exports came into force from late 2020 and might stifle new Chinese investment activity in this sector in future.

Three deals were completed in the food and agribusiness sector in 2020 totalling AUD 101 million. Agricultural investment shows a continuation of small deals, including two rural agricultural estates in Victoria.

When China and New Zealand prepared to upgrade their free trade agreement, there was speculation among Chinese investors that New Zealand may draw future investment away from Australia. However, despite lower tariffs for many New Zealand commodities-based exports and reduced compliance costs, Chinese investors continue to see Australia as a good destination for agribusiness investment.

Chinese investors also appreciate the track record of collaboration between Australian and Chinese agribusinesses. Australia is one of the few developed countries with an agricultural cooperation agreement with China dating back to 1984 when the Australia – China Agricultural Cooperation Agreement (ACACA) was signed to enhance cooperation across agricultural industries, develop the trading relationship, and provide a forum for the mutual exchange of scientific information between the two countries.

Renewable energy

Due to COVID-19, projects under construction in 2020 were affected by delays in sea transportation and delivery. Reduced economic activity in 2020 also put downward pressure on prices for renewable energy generated electricity. For example, South Australia recorded some of the lowest electricity prices in Australia.

While we continue to see strong interest in wind and solar projects in Australia, we did not identify any new or completed deals in this sector in 2020. Chinese investors experienced the same delays in regulatory approval as other investors. Some completed wind farm projects were affected by the Australian Energy Market Operator's (AEMO) long regulatory process for grid connection. Other solar farm projects required acquisiton of agricultural land and were affected by FIRB's extended approval process. Processing times of 6 months or more, have impacted investors' operational cash flow and some planned investment has been cancelled. We noticed a shift in interest from large sized solar projects toward smaller projects that are easier for investors to operate.

Services

Chinese investments into the Australian services sector in 2020 totalled AUD 527.5 million and represented one fifth or 21 percent of the total Chinese investment. Three deals were in technical services and one deal in consumer services. The Chinese investors include Sequoia Capital China and Tencent. These regionally and globally operating private equity companies are well-networked and provide access to capital and markets. They acquired minority shares in Australian fintech and high-tech companies to support their global fundraising projects.

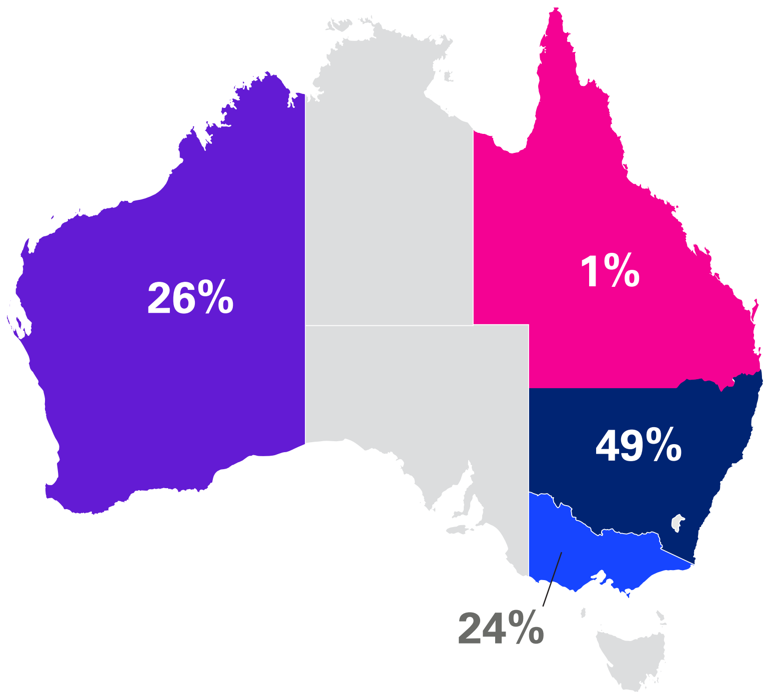
Tencent's investment in Afterpay provides Afterpay with valuable experience and network and the potential to collaborate in geographic expansion.

Chinese investment in Australia by geography

NSW received the largest amount of Chinese investment in 2020 with AUD 1.246 billion or 49 percent of the total, followed by WA with 26 percent and Victoria with 24 percent.

In New South Wales, Chinese investment was concentrated in commercial real estate and mining. In Victoria, services were dominant, and in Western Australia mining remained the focus of interest.

Geographic distribution of Chinese investment in 2020 by state



Source: The KPMG/Sydney University database

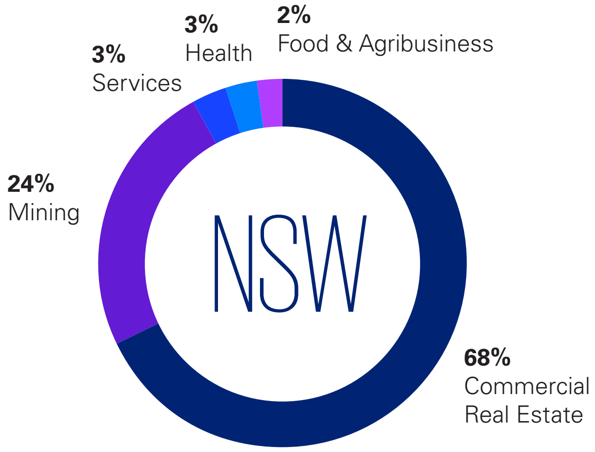
State	Transaction Value (AUD million)	Share
NSW	1,246	49%
WA	645	26%
VIC	595	24%
QLD	28	1%
	2,514	**100%**

Source: The KPMG/Sydney University database

New South Wales

Industry	Transaction Value (AUD million)	Share
Commercial Real Estate	848	68%
Mining	300	24%
Services	44	3%
Health	33	3%
Food & Agribusiness	21	2%
Total	**1,246**	**100%**

Source: The KPMG/Sydney University database

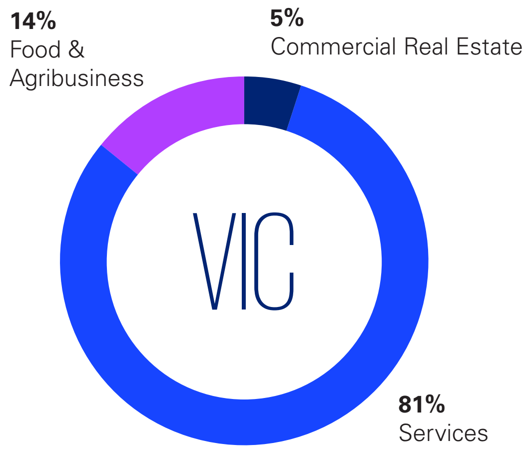


Source: The KPMG/Sydney University database

Victoria

Industry	Transaction Value (AUD million)	Share
Commercial Real Estate	31	5%
Services	484	81%
Food & Agribusiness	80	14%
Total	**595**	**100%**

Source: The KPMG/Sydney University database



Source: The KPMG/Sydney University database

Western Australia

Industry	Transaction Value (AUD million)	Share
Mining	645	100%
Total	**645**	**100%**

Source: The KPMG/Sydney University database

Source: The KPMG/Sydney University database

Queensland

Industry	Transaction Value (AUD million)	Share
Commercial Real Estate	28	100%
Total	**28**	**100%**

Source: The KPMG/Sydney University database

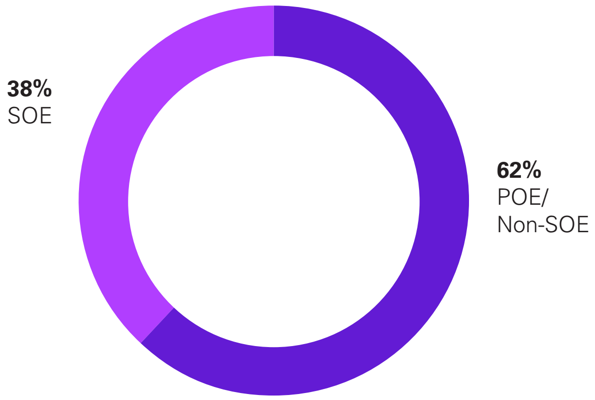
Source: The KPMG/Sydney University database

Chinese investment in Australia by ownership

Privately-owned enterprises account for 62 percent of investment value and 85 percent of deal numbers.

Investment value by privately owned enterprises fell from AUD 2.9 billion in 2019 to AUD 1.55 billion in 2020 across 17 deals. Investment value from the state-owned sector increased, across 3 deals, from AUD 553 million in 2019 to AUD 965 million in 2020.

Private businesses completed more deals in 2020 than state-owned investors. This is consistent with the previous years where our reports show that SOEs tend to make larger deals than private firms based on their larger financial resources and capabilities.



Source: The KPMG/Sydney University database

Ownership	Investment value (AUD million)	%	Number of deals	%
POE/Non-SOE	1,549	62%	17	85%
SOE	965	38%	3	15%
Total	**2,514**	**100%**	**20**	**100%**

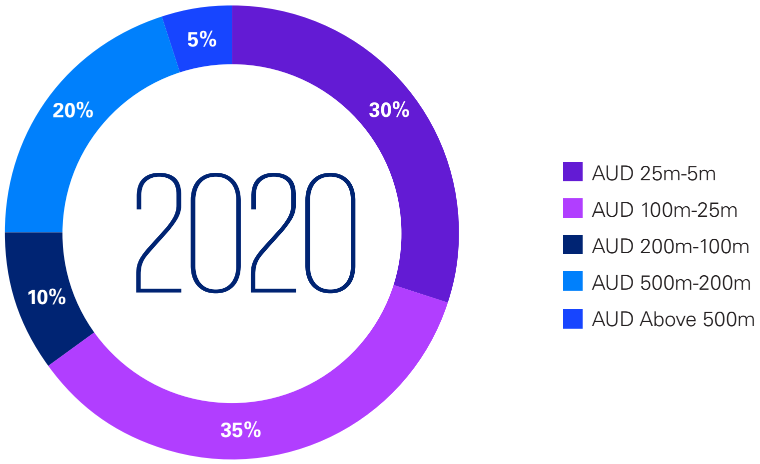
Source: The KPMG/Sydney University database

Chinese investment by deal size

In 2020, there was only one large deal in the AUD 500 million range.

While the number of investment deals halved in 2020, the average deal size has gone up from AUD 83.3 million in 2019 to AUD 126 million in 2020.

Thirty-five percent of deals were above the AUD 100 million mark, compared with 19 percent in 2019. The number of deals below AUD 100 million shrank from 33 in 2019 to 13 in 2020.



Size of Deal	Number of deals	%	Value (AUD million)	%
AUD 25m-5m	6	30%	101	4%
AUD 100m-25m	7	35%	288	11%
AUD 200m-100m	2	10%	240	10%
AUD 500m-200m	4	20%	1,355	54%
AUD Above 500m	1	5%	530	21%
Total	**20**	**100%**	**2,514**	**100%**

Source: The KPMG/Sydney University database

Special edition 2020: 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 key challenges they face in Australia. Where available we have compared the survey results with those recorded in previous years.

Between January and February 2021, the University of Sydney Business School and KPMG team sent an online survey link to senior executives from Chinese companies with investments in Australia. These companies operate in a broad range of sectors including real estate, mining, agribusiness, renewable energy, health, finance and infrastructure. In total, 75 valid responses were received.

In addition, to complement the survey findings, the University of Sydney Business School and KPMG team conducted 24 in-depth interviews with executives of Chinese-invested companies. We interviewed executives of both private and state-owned firms from a range of diverse backgrounds and industries.

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

Our results are divided into three sections:

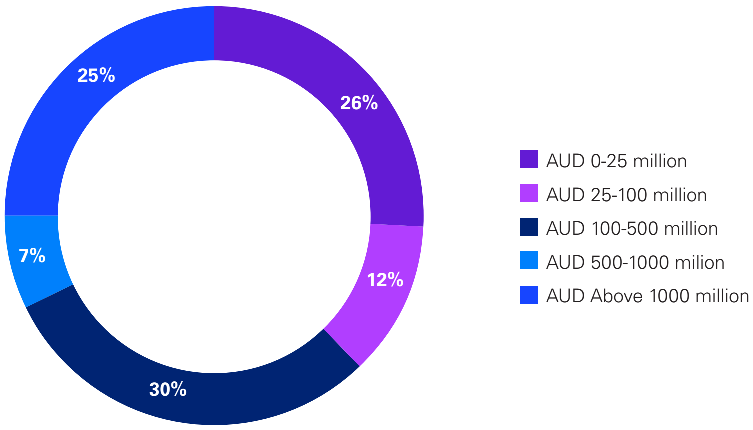
- Investment climate
- Operational challenges
- Performance and outlook

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

Survey demographic

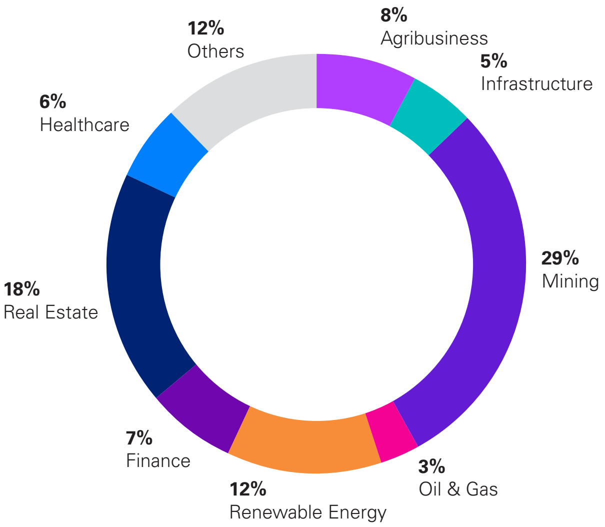
Our survey participants came from a cross section of Chinese companies with investments in Australia with an even spread across investment volumes, industries, states (led by Victoria and New South Wales), and ownership of parent companies including central and local state-owned, private and public ownership.

What size is your total investment in Australia?



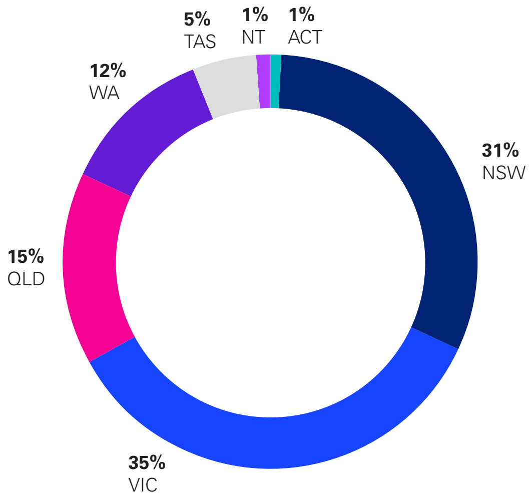
Number of respondents = 75

To what industry does the majority of your investment belong?



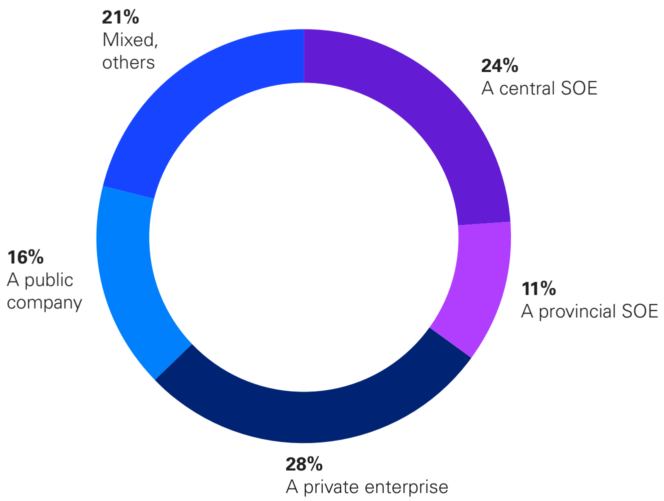
Number of respondents = 75

In which Australian state or territory is your business registered?



Number of respondents = 75

Our Chinese parent company is:



Number of respondents = 75

2020 investment climate

Based on the survey responses, the overall sentiment of Chinese investors in Australia was mixed in 2020. On the one hand, Australia remains a preferred investment destination relative to other countries. Chinese investors are highly confident of the Australian Government's handling of the COVID-19 pandemic. On the other hand, Chinese executives are more concerned about the political environment than before, finding it harder to get investment approvals and moving capital out of China. More respondents respondents do not feel welcome to invest in Australia.

Key findings:

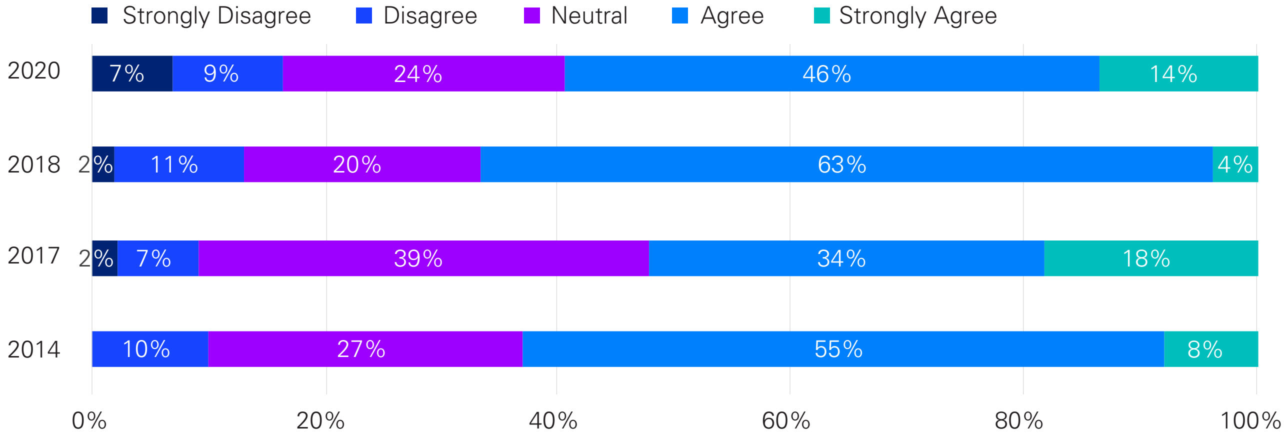
- In the midst of global pandemic and geopolitical uncertainty, sixty percent of the surveyed respondents regarded Australia as a safer economic environment than many other countries.
- Chinese investors are highly confident of the Australian Government's handling of the COVID-19 pandemic. Eighty-five percent of the surveyed executives believed the Australian Federal and State Governments have responded well to COVID-19 related challenges.
- Chinese investors are more concerned about the political environment than before. Seventy-five percent of the surveyed executives stated that the political environment in 2020 has made Chinese companies more cautious to invest in Australia. This is up from the 59 percent who expressed concerns in 2018 and 70 percent in 2017. In the eyes of Chinese investors in Australia, the political mistrust between the Australian and the Chinese governments is mutual.
- Compared to previous years, fewer Chinese companies (28 percent) told us they feel welcome to invest in Australia, and more companies (34 percent) stated they don't feel welcome.
- Chinese government restrictions continue to constrain outbound investment. The capital export controls and investment approval restrictions on overseas investments introduced in 2017 remain in place. Over half (54 percent) of the Chinese investors noted on-going difficulties in transferring investment capital out of China in 2020.

Responses

In the global competition for investment capital, Australia remains relatively well placed due to its institutional stability and long-term economic growth record. Sixty percent of respondents who regard Australia as a safer economic environment than alternative investment destinations mark a decrease from 67 percent in 2018 but an increase from 52 percent in 2017.

According to our interviews, Australia-based Chinese executives continue to appreciate Australia's market potential, stable regulatory environment, ease of doing business, high legal standards, and low health risk as the main factors for their overall positive evaluation.

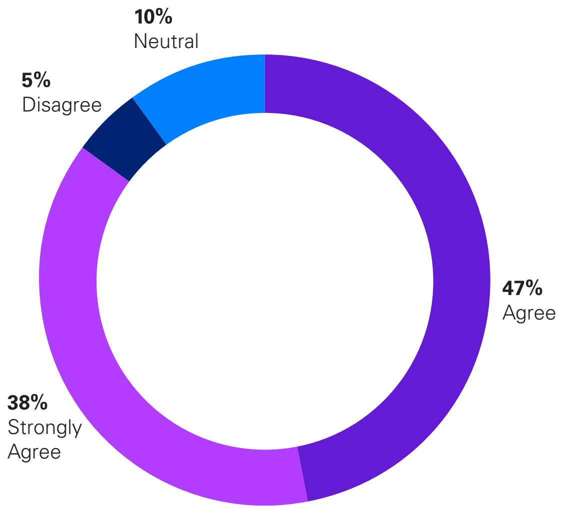
Australia is a safer economic environment for Chinese direct investment than many other countries



2020 Number of respondents = 74

Chinese investors are supportive of the Federal and State Governments' handling of the COVID-19 pandemic with 85 percent of the surveyed executives believing the Australian governments have responded well to the COVID-19 crisis. Most of the Chinese mining companies we interviewed adopted health measures early and were able to reduce the impact of COVID-19 on their mining operations. Australian Federal and State Governments' responses to the COVID-19 pandemic were regarded as much more effective than those seen in South America and North America.

The Australian governments have responded to COVID-19 well



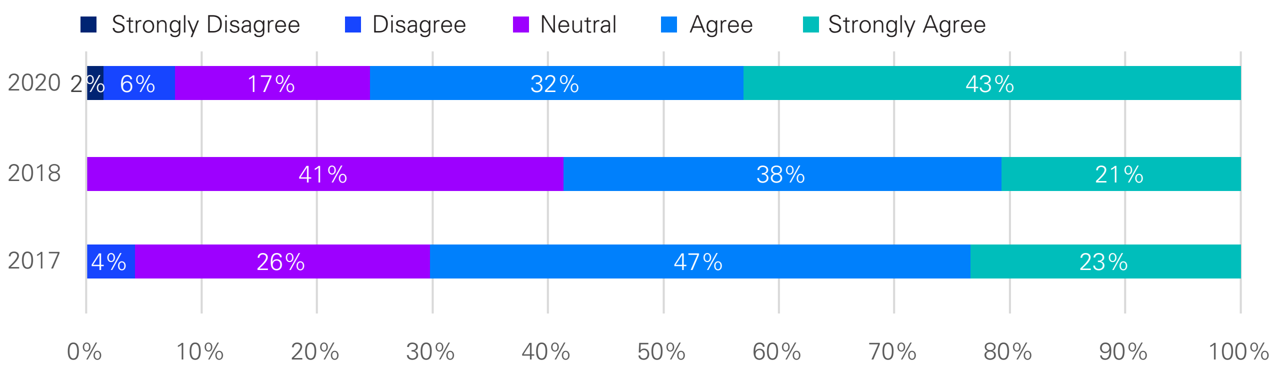
2020 Number of respondents = 73

Chinese investors in Australia are more concerned about the political environment than before for practical reasons such as less willingness by their headquarters to invest in Australia, increased compliance costs and asset security. Three quarters (75 percent) of the surveyed executives stated the political environment in 2020 has made Chinese companies more cautious to invest in Australia, compared with 59 percent in 2018 and 70 percent in 2017. Chinese private investors believe the tense diplomatic situation increased business risks and compliance costs in China and Australia.

Chinese state-owned investors registered increased communication problems between headquarters and subsidiaries, reputational decline for Australian subsidiaries in the headquarters' corporate hierarchy, delays in headquarter approvals, concern about the security of assets and supply chains.

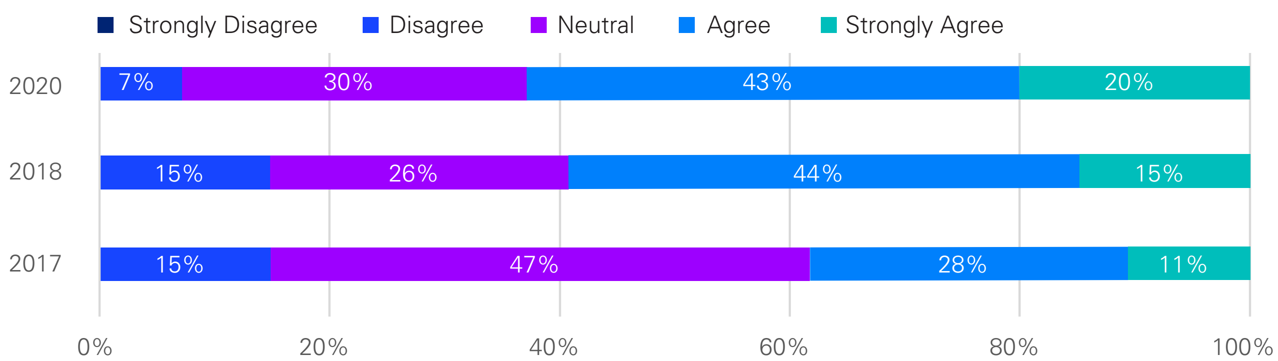
From the business perspective of Chinese investors in Australia, the political mistrust between the Australian and Chinese governments has become mutual. Two thirds (63 percent) of the surveyed executives stated the Chinese government was less supportive of investment in Australia than previously, while three quarters (78 percent) of respondents felt the Australian Federal Government was less supportive of Chinese investment in Australia than previously.

The political debate in Australia in 2020 has made my company more cautious to invest



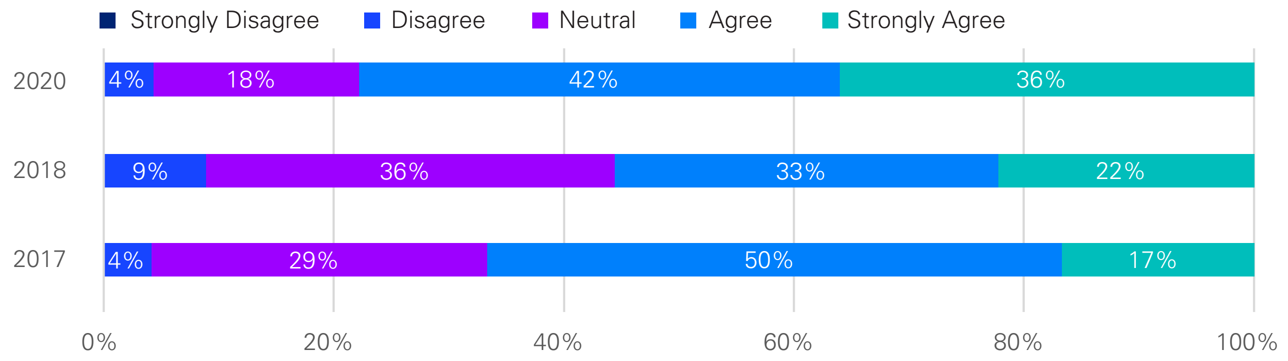
2020 number of respondents = 65

The Chinese government is less supportive of investment in Australia than previously



2020 number of respondents = 70

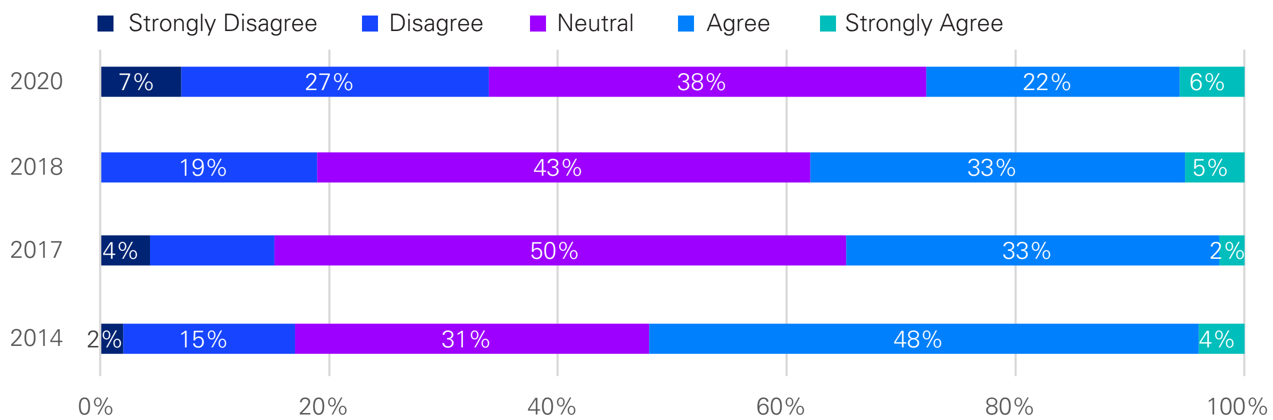
The Australian Federal Government is less supportive of Chinese investment than previously



2020 Number of respondents = 69

Compared to previous years, fewer Chinese companies (28 percent) told us they felt welcome to invest in Australia, while more companies (34 percent) don't feel welcome.

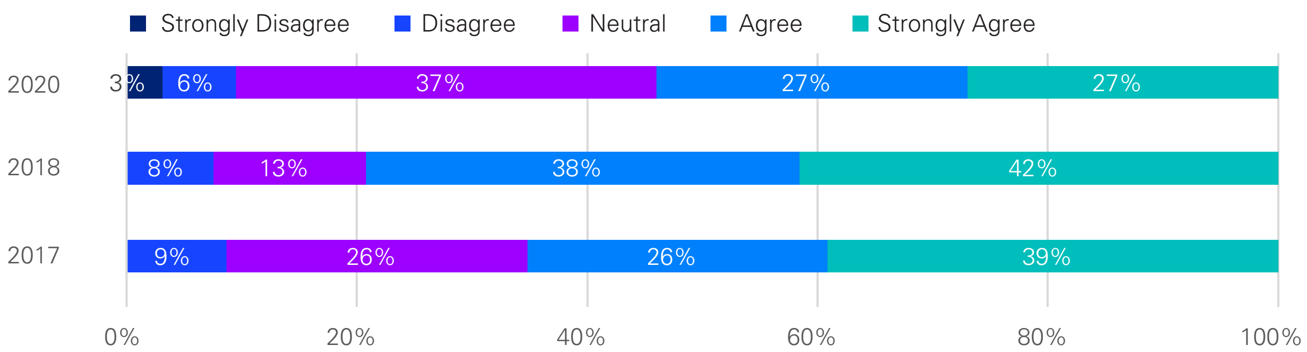
Chinese investors feel welcome to invest in Australia



2020 Number of respondents = 71

The restrictions on capital export from China remained an impediment to outbound investment. Over half (54 percent) of the Chinese investors remained concerned and stated it was difficult to get capital out of China in 2020. Some executives commented that China's domestic structural economic adjustment, such as deleveraging and other policies, had led to a reduction in funds available for overseas investment.

It is more difficult for my company to get capital out of China in 2020



2020 number of respondents = 63

Operational challenges

In this year's survey, we focused on the impact of the COVID-19 pandemic and operational challenges that Chinese firms faced in Australia. As for most businesses in Australia, operations in 2020 were challenging for Chinese investors. However, this is positive news as Chinese investors in Australia were increasingly learning and adapting to the changing external environment. In addition, Chinese investors felt more supported by local communities. Support from state governments, local councils and Australian business leaders remained at similar levels as in previous years.

Key findings:

- The COVID-19 pandemic had a negative impact on nearly all Chinese investors in Australia. Over half (52 percent) of the 75 surveyed executives stated the pandemic had negatively impacted their business revenue. One tenth of the surveyed executives believed the pandemic had led to a drop of 50 percent in revenue.
- In response, Chinese investors cited cost control, postponing new investments, and seeking government support as the most common measures to reduce the impact of COVID-19.
- Chinese investors continue to see Australian business leaders, local government and state governments as their most supportive stakeholders. Despite the overall deterioration of the political environment and bilateral relations, Chinese investors did not feel local community support had decreased.
- Key challenges Chinese companies faced in Australia in 2020 were (i) obtaining Australian government approvals; (ii) low profitability; (iii) withdrawing from projects; (iv) obtaining Chinese government approvals.
- Day-to-day business communication with Australian partners has become more difficult. Chinese executives said this was mainly due to reduced personal interaction and negative media reporting during the COVID-19 pandemic.

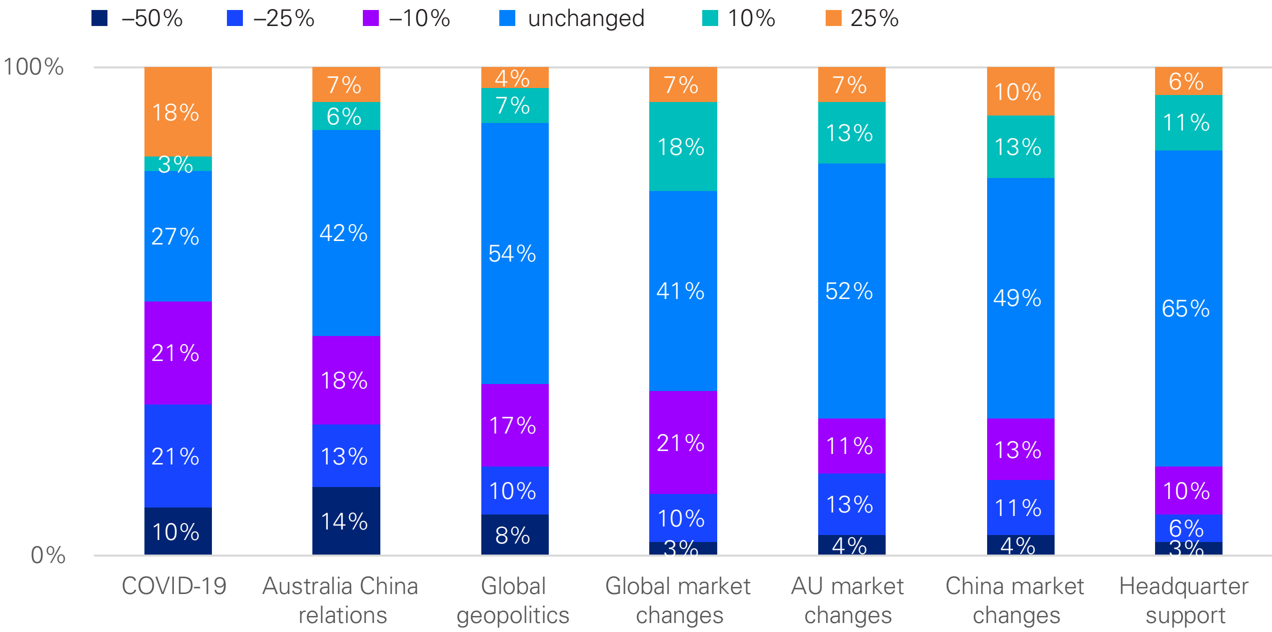
Responses:

Business operations in 2020 were challenging for Chinese investors. Over half (52 percent) of the surveyed executives stated that business revenue had declined during the pandemic. Ten percent of the survey respondents had suffered a decline of 50 percent. The majority of Chinese investors experienced supply chain disruptions, project delays, and declining sales.

Market changes in 2020 had relatively limited impact on business revenue. One third (34 percent) of the surveyed executives were affected by changes in global markets, a lesser number (28 percent) were affected by changes in Australian and Chinese markets. In very few sectors, such as iron ore, surging international demand, especially from China, produced big profit increases.

Worsening diplomatic relations between Australia and China and increasing geo-strategic tensions have been felt by Chinese investors. Nearly half (45 percent) of the surveyed executives claimed they had suffered negative consequences from the worsening relations between Australia and China. One third (35 percent) of respondents felt negatively impacted by the geopolitical situation between the United States and China.

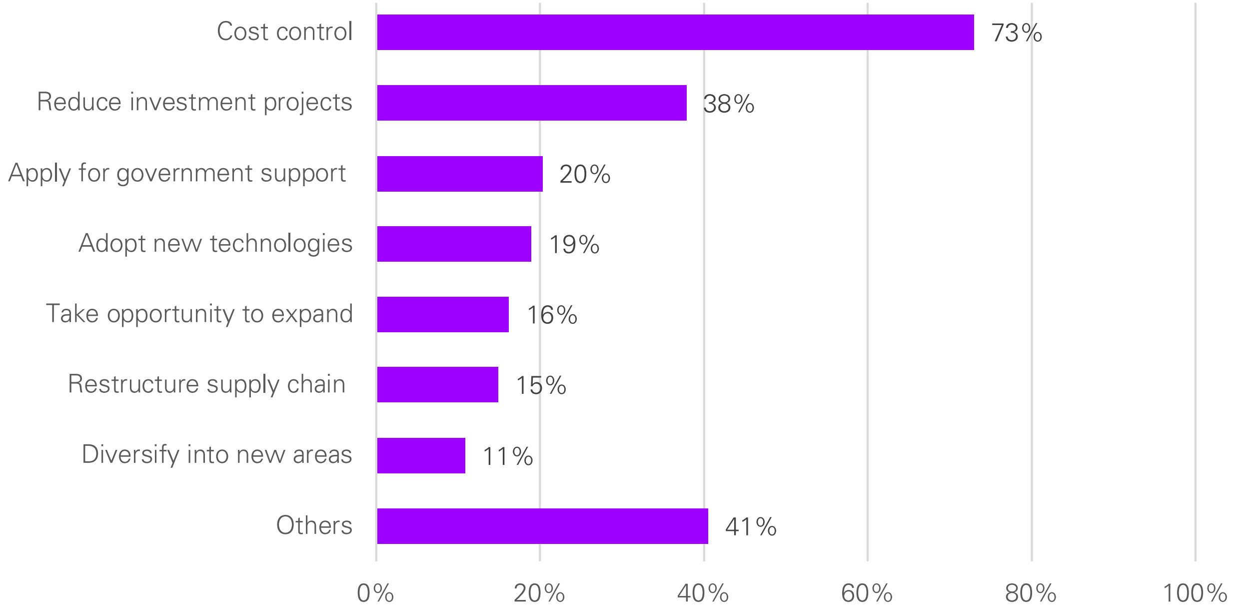
In 2020, how significant was the impact of following factors to your business in terms of revenue?



2020 number of respondents = 71

Chinese investors have taken multiple measures in response to COVID-19. Seventy three percent of the surveyed executives primarily adopted cost control measures, followed by reducing investment projects (38 percent), and applying for Australian government support (20 percent). Some Chinese investors took a long-term approach and began to pro-actively adopt new technologies (19 percent), expand operations (16 percent), restructure supply chains (15 percent), and diversify into new business areas (11 percent).

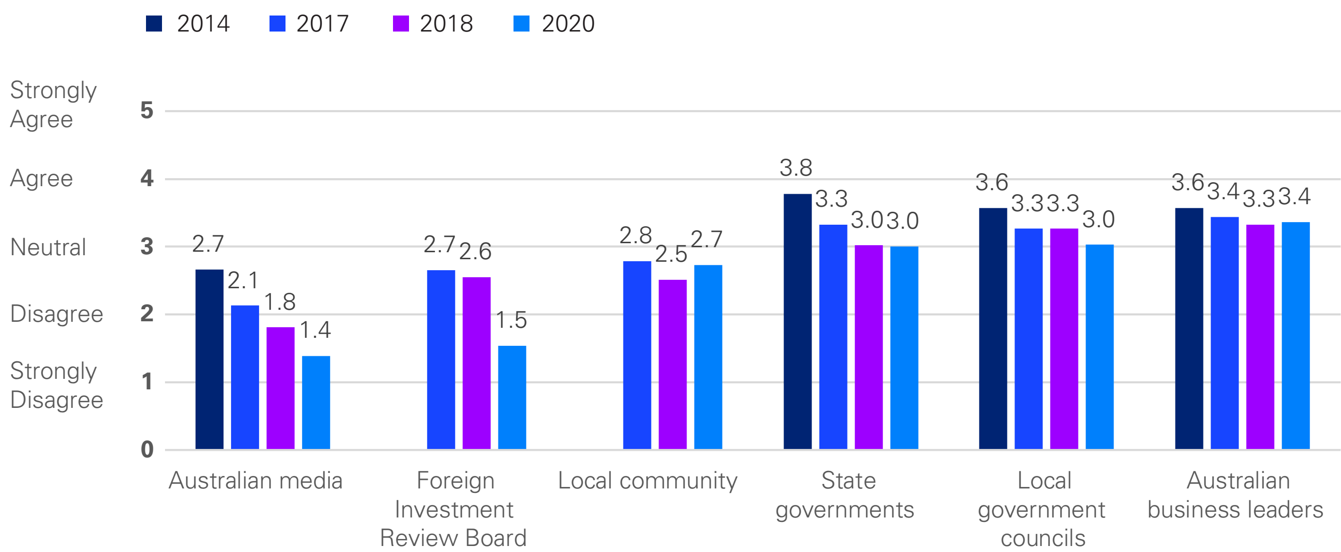
How has your company responded to COVID-19? (multiple choice)



2020 number of respondents = 74

Australian industry leaders are viewed as most supportive towards Chinese investors, followed by local government, councils, and state governments. Support from the local community has improved slightly from 2.5 in 2018 to 2.7 in 2020. Australian media are still seen as least supportive. Delays in the foreign investment review process have created the impression that Chinese investors were less supported by FIRB.

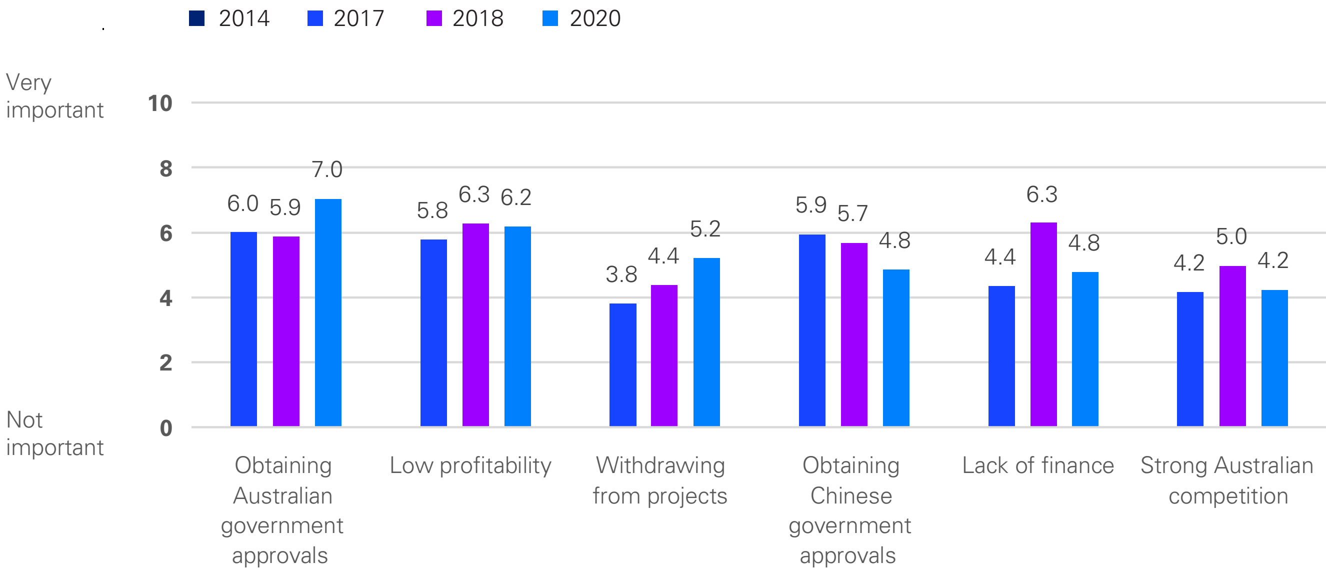
The following stakeholders are supportive towards Chinese investors



2020 number of respondents = 72

Obtaining government approvals, low profitability and withdrawing from projects have overtaken lack of finance as the top challenge for Chinese companies with investments in Australia.

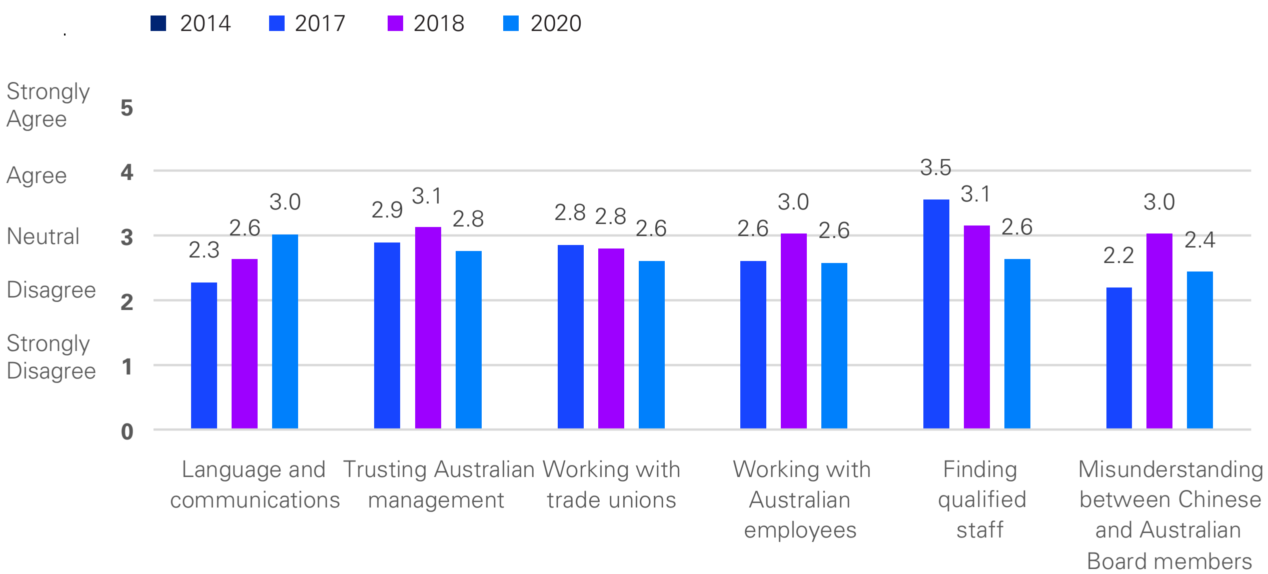
In 2020, what challenges have you faced?



2020 number of respondents = 72

In day-to-day operations, language and communication problems have become more noticeable for Chinese companies. Chinese executives said problems were mainly due to the lack of face-to-face contact during the COVID-19 pandemic and negative media reporting on Chinese companies. Building trustful and effective working relations between Chinese investors and Australian stakeholders, including local management, unions and employees, remains an ongoing challenge that Chinese executives feel they face in the midst of pandemic.

In 2020, have you faced the following difficulties?



2020 number of respondents = 75

Performance and outlook

Due to the challenges facing their operations, reported performance has dropped for Chinese investors in Australia. The outlook, however, appears to be mixed and uncertain, with less optimism expressed about future growth than in previous years.

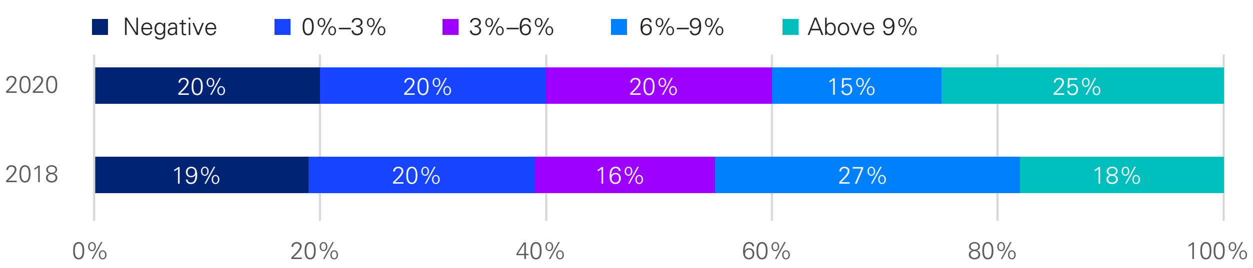
Key findings:

- Reported performance has dropped for Chinese investors in Australia. Forty percent of respondents reported an average return on net assets (ROA) above 6 percent for the last 3 years, compared with 45 percent in 2018.
- Chinese investors anticipate their operations will continue to be negatively affected in 2021. Around a third of the surveyed executives (35 percent) believe their turnover will grow in 2021, compared with 51 percent in 2018 and 65 percent in 2017.
- Less than one third of respondents (30 percent) predict their profitability will grow in 2021 and 42 percent of Chinese companies are optimistic about business prospects in Australia over the next year.

Responses:

Reported performance has declined for Chinese investors in Australia. Forty percent of respondents reported an average return on net assets (ROA) above 6 percent for the last 3 years, compared with 45 percent in 2018.

For the last 3 years, what is your average return on net assets (ROA)?

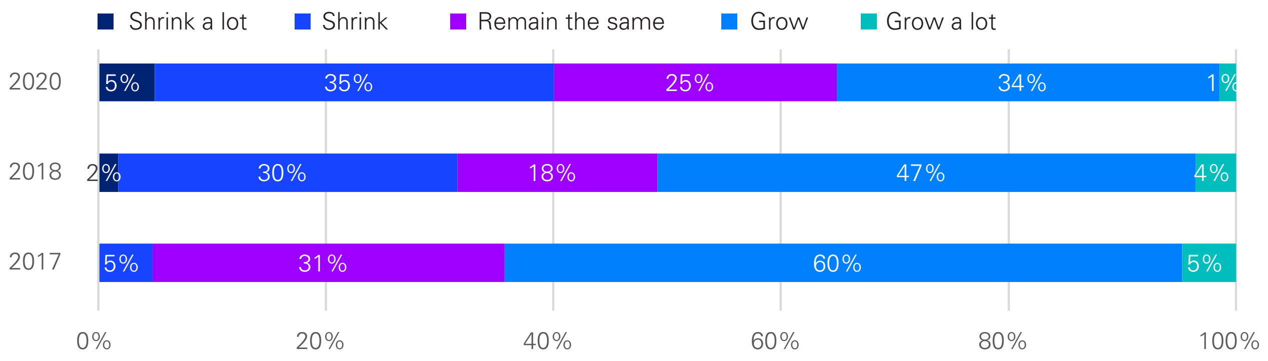


2020 number of respondents = 74

Chinese investors expect the negative impact on their operations will continue into 2021. Around one third of the surveyed executives (35 percent) believe their turnover will grow in 2021, compared with 51 percent in 2018 and 65 percent in 2017. Thirty nine percent think their turnover will decline in 2021, compared with 32 percent in 2018 and 5 percent in 2017.

According to our interviews, executives are actively searching for structural solutions, such as adoption of minority shareholder joint venture models, seeking local partnerships, moving into higher value-added products and new industries, slowing down in fixed asset investment, and team capability building for local management.

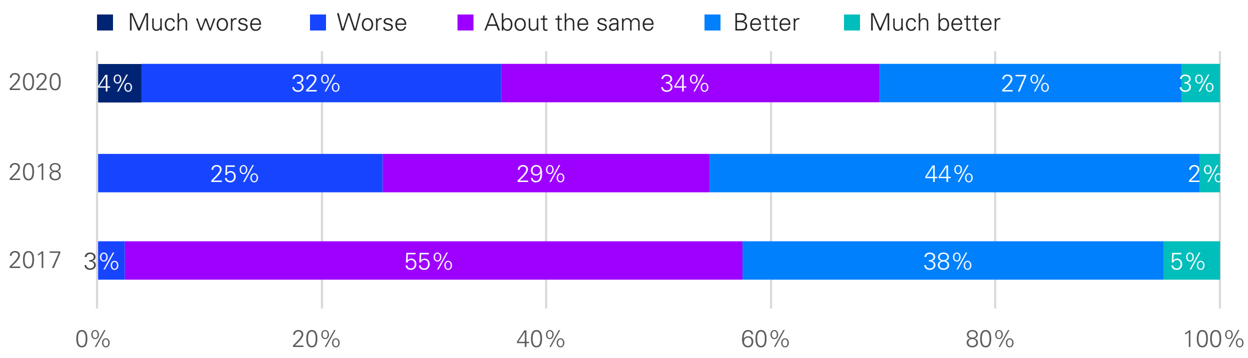
I expect our turnover next year will:



2020 number of respondents = 68

Thirty percent predict their profitability will grow in 2021, while 36 percent expect profitability to decline.

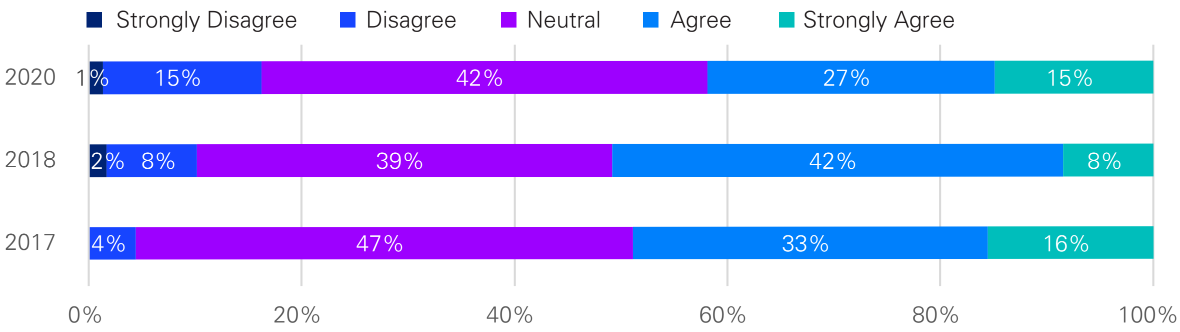
I expect that our profitability next year will be:



2020 number of respondents = 68

Forty-two percent of respondents in 2020 are optimistic about business prospects in Australia over the next year, compared with 50 percent in 2018 and 49 percent in 2017.

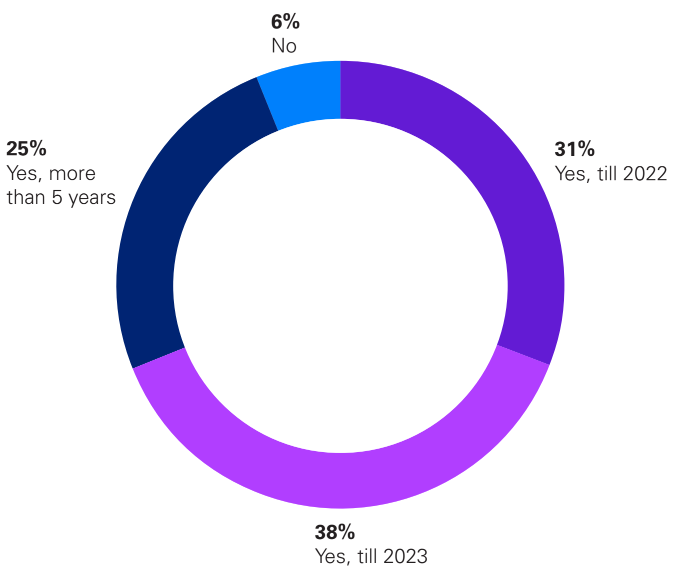
I am very optimistic about our business prospects in Australia for the next year



2020 number of respondents = 74

Asked about their business outlook, Chinese investors agreed that new investment from China would remain low for some years. Thirty-one percent of the surveyed executives believe that new investments will remain low till 2022, 38 percent expect low levels of investment to prevail until 2023, and 25 percent anticipate low levels of investment from China will continue for more than five years. Only 6 percent of the surveyed executive believe investment from China will recover soon. More than about COVID-19, Chinese executives were concerned about the uncertainties in bilateral diplomatic relations, the economic impact of the new regulatory framework for screening foreign investment, and the need to increasingly consider alternative investment destinations, such as New Zealand and Europe.

Do you think new investments from China will remain low for a long period of time?



2020 number of respondents = 65

In summary, the outlook is mixed and uncertain, with less anticipation of future growth compared to previous years. According to our interviews, existing Chinese investors continue to see Australia as a country with solid market opportunities. However, Chinese executives are aware of the need for long term strategic efforts in building policy and stakeholder support for Chinese investment.

As to future Chinese investment in Australia, there are several pull and push factors affecting investment decisions. As Chinese headquarters and boards become more experienced and focused on return on investment, they are less willing to fund expansion for only for the sake of asset growth. There is more emphasis on synergies and profitability. There is less support from Chinese local governments for overseas investment. New Chinese international private equity funds pursue more targeted opportunities in specific industries and countries, such as agriculture in New Zealand, mining in South America and Africa, service and technology in Europe, and processing in southeast Asia with less emphasis on country-based strategic relations.

Final word

Our interviews show a shift in sentiment among Chinese investors towards more pragmatic business attitudes compared to the more lofty bilateral ambitions expressed in previous years. COVID-19 and the new political realities in bilateral diplomatic relations, coupled with a new and much more restrictive regulatory framework that applies to China, as well as other foreign investors, have all disrupted the inflated expectations of geo-strategic cooperation, regional infrastructure building and hi-tech integration between Australia and China. Instead, Chinese investors are turning towards lower risk market opportunities with shorter term return on investment.

Authors and key contacts

For further information contact:

Doug Ferguson

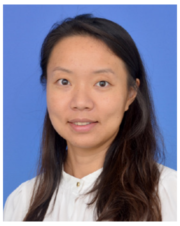
NSW Chairman,
Head of Asia and International Markets
Adjunct Professor,
University of Sydney Business School

KPMG Australia
T: +61 2 9335 7140
E: dougferguson@kpmg.com.au

Helen Zhi Dent 支巧玲

Partner in Charge,
China Business Practice

KPMG Australia
T: +61 2 9335 7059
E: helenzhident@kpmg.com.au



Sissi Qian 钱琨

Director,
China Business Practice

KPMG Australia
T: +61 2 9346 6304
E: sissiqian@kpmg.com.au

Dr. Hans Hendrischke

Professor of Chinese Business
& Management, China Studies
Centre/Business School

The University of Sydney
T: +61 2 9351 3107
E: hans.hendrischke@sydney.edu.au

Dr. Wei Li 李薇

Lecturer in International Business,
University of Sydney Business School

The University of Sydney
T: +61 2 9036 6399
E: li.wei1@sydney.edu.au

Vaughn Barber

Chairman,
Global China Business Practice

KPMG China
T: +86 10 8508 7071
E: vaughn.barber@kpmg.com

July 2021. 704531092ASIA