



Australia among China's top three destinations for outbound investment

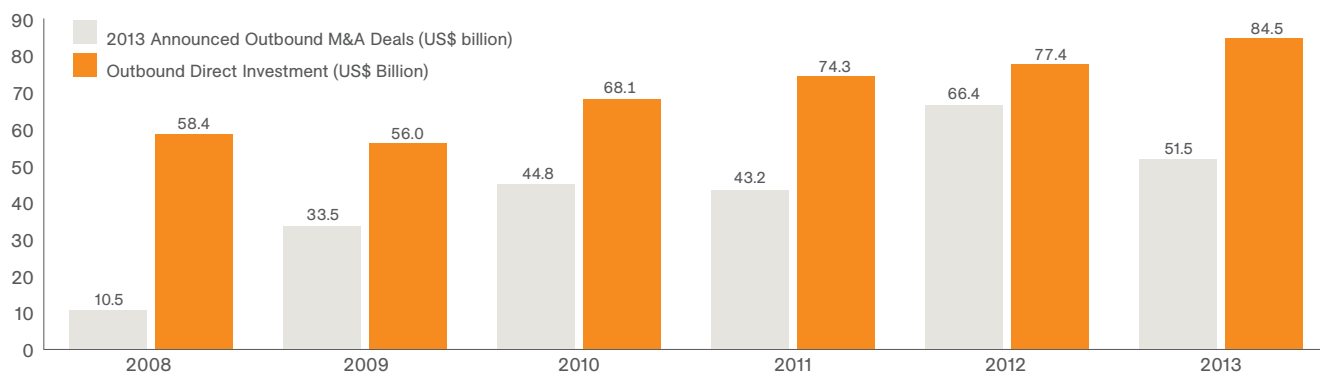
China's merger and acquisition (M&A) activity in Australia has seen the highest growth since 2009, rising 34 per cent to US\$7.7 billion in 2013, according to the latest PwC *Trends in M&A* report.¹ Australia remains the third largest investment destination behind the US and Canada, attracting 15 per cent of Chinese M&A activity. The latest figure was up from a nine per cent share in 2012 and 12 per cent in 2011.

A separate survey from KPMG and the University of Sydney has found that Australia ranked the second highest in the world for Chinese accumulated outbound foreign investment (OFI) since 2005, at US\$57 billion, behind the US at US\$60 billion.² The strong investment data illustrates that Australia, as a competitive, innovative, flexible, deregulated and business-led economy, is well regarded by Chinese companies investing and operating here.

PwC anticipates that Australia will continue to attract large amounts of China's expected OFI of US\$500 billion in the coming years. Australia's policies encouraging foreign investment, its free trade agreements, migration and other policies aimed at reducing operating costs and increasing productivity, make it an attractive destination for China's OFI.

- ▶ The value of China's M&A activity in Australia grew to US\$7.7 billion in 2013 from US\$5.7 billion in 2012 – a strong increase of 34 per cent. Australia continued to grow its share of China's announced M&A in 2013 despite a 20 per cent fall in the total value of China's foreign deals, which fell from US\$66.4 billion in 2012 to US\$51.5 billion in 2013.
- ▶ For the first time, Chinese investment in Australia was not concentrated in the mining sector. Last year, energy and power deals were the dominant drivers. Deals in these sectors accounted for 74 per cent (US\$5.7 billion) of China's total M&A deals in 2013, up from 43 per cent (US\$2.5 billion) in the previous year. Meanwhile, there was a 10 per cent rise in M&As in non-resource sectors. These were concentrated in real estate, food and agriculture, and grew to US\$417 million in 2013 from US\$380 million in the previous year.
- ▶ Australia's Foreign Investment Review Board (FIRB) data³ also indicates China has increasingly diversified its "planned investment" to the non-resource sector in recent years. Market share of Chinese planned investment in the non-resource sector totalled 38.5 per cent in the three-year period from 2010-11 to 2012-13. This was sharply up from 11 per cent for the previous three-year period to 2009-10. According to FIRB, although China's planned investment in the mining sector has been the dominant driver, this share has declined to 61.5 per cent from 89 per cent over the same period.
- ▶ A KPMG/University of Sydney survey has also found that 2013 saw fewer Chinese mega-OFI in Australia at the top-end, and more medium and small deals (below US\$100 million), which accounted for 70 per cent of total OFI, compared with 2012. Though State Owned Enterprises (SOEs) continued to dominate China's OFI in Australia by value (84 per cent) last year, Privately Owned Enterprises (POEs) increased their investment in terms of the number of deals (62 per cent) in the same period.
- ▶ Looking forward, PwC expects 2014 will see strong growth in overall Chinese outbound investments from both SOEs and POEs. PwC has stressed that the high volume of deals recorded in the second half of 2013 suggests that "momentum towards renewed deal growth is already underway".
- ▶ PwC also anticipates that Australia will again attract a significant amount of China's OFI this year. Fewer but larger and more strategic resource sector deals from SOEs are expected, and growth is anticipated in the volume of non-resource deals from the private sector, especially in the real estate and agriculture sectors.

CHINA'S GLOBAL OUTBOUND INVESTMENT 2008 TO 2013



Sources: Data of M&A deals sourced from PwC *Trends in M&A*, February 2014; and data of Outbound Direct Investment compiled by the American Enterprise Institute and The Heritage Foundation, *China Global Investment Tracker Dataset 1*; Austrade

¹ PwC, *Trends in M&A, China outbound deals: 2013 review and 2014 outlook, Deals point of view*, February 2014; ² KPMG and the University of Sydney, *Demystifying Chinese Investment in Australia*, March 2014 Update. The calculation was based on Heritage Foundation figures for accumulated Chinese investment, 2005-2013; ³ Foreign Investment Review Board, Annual Reports, Table 2.11