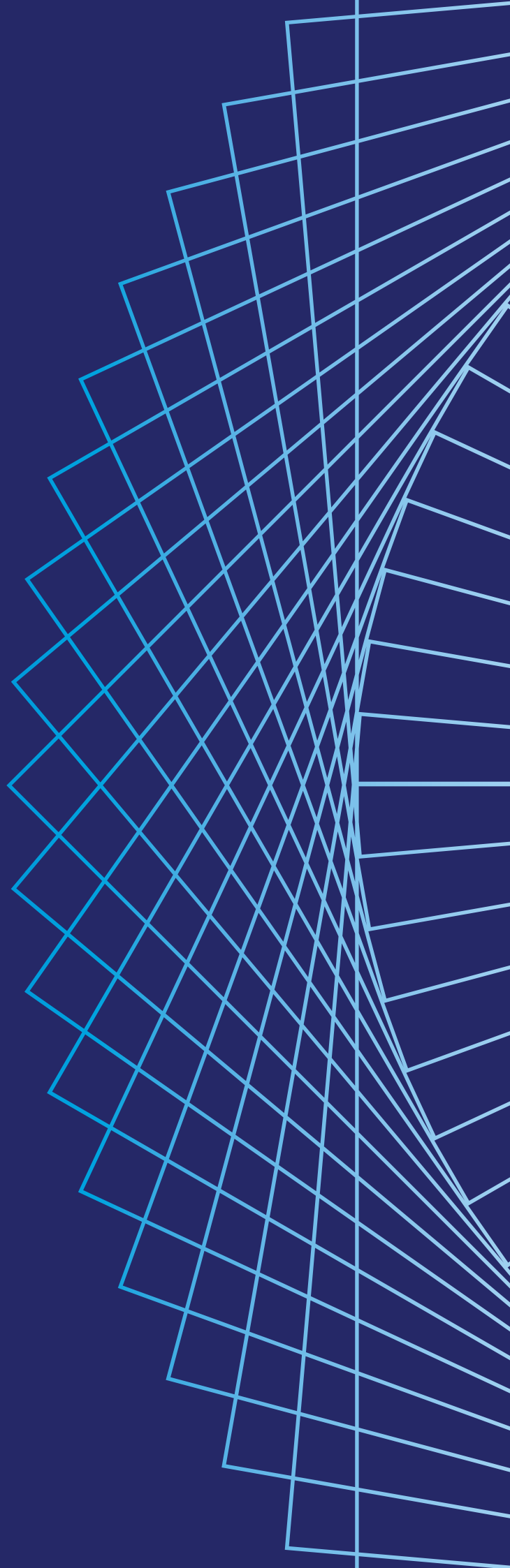


CHIA
中澳投资

Chinese Investment
in Australia

Prospectus



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About EABER

Foreword

I am very pleased to introduce this new database on Chinese direct investment in Australia: the Chinese Investment in Australia (CHIA) Database.

This prospectus explains why we need new data on Chinese investment in Australia and provides an overview of how the data has been painstakingly constructed.

The Australia–China economic relationship has never been more important to Australia, and direct investment is now a central part of that. But despite the airtime and column inches it receives in our media, there remains a gap in the public information that informs our understanding of the relationship — especially our understanding of Chinese direct investment into Australia. The importance of the relationship demands investment of time and resources into building a strong evidence base that can support an informed public and policy discussion of what’s at stake for us in the investment relationship with China.

The project that produced these data is an initiative of the East Asian Bureau of Economic Research in the Crawford School of Public Policy at the Australian National University College of Asia and the Pacific, and this project received financial assistance from the Australian Treasury. It was supported by other government agencies, including the Australian Bureau of Statistics and the Reserve Bank of Australia, as well as a group of industry partners, including Corrs Chambers Westgarth, the Future Fund, Macquarie Bank, MMG and PwC — all of whom are committed to providing sound foundations for understanding the importance of Australia’s relationship with China.

CHIIA provides much-needed information on Chinese investment in Australia and three ways to think about it. The development of the data series is important. It is also a very complex exercise.

First, it provides a detailed and accessible data series of Chinese direct investments. Second, it sets out fully and transparently, the methods used to assemble the data. That meets the crucial scientific standard of replication of results and also acts as guidance for how to create similar data series for other countries. Third, it enables careful research to be undertaken on Chinese investment at both an aggregate and very detailed level.

All the work is based on a contemporary understanding of the importance of international investment to economic prosperity and national growth, as outlined in this prospectus. As a practitioner in the private sector, and through my experience in the policy work of the public service and now in my role as Secretary General of the International Chamber of Commerce, I welcome the value that this careful study can add to how we can make the best of the opportunities that the growth of Chinese investment offers to Australia. CHIIA, I believe, will also serve to encourage a better alignment of perspectives across business, the policy community and the public on how to reap the benefits of Chinese investment.

The researchers — Peter Drysdale, Shiro Armstrong, Susan Travis (the engine and the anchor of the project), Paul Gretton, Nishanth Pathy, Aditi Razdan, Jingyi Li, Aurin Huq, Archita Sreekumar, Josh Wong, Nick Horton, Jinhee-Lee Schneider, Rebecca Weatherby, Evangeline Sharman, James Naylor-Pratt, Berwyn Wong, Tommy Chai, Janine Wan, Ingrid Mao, Elyshia Weatherby and Sean Zhu — have done a national service in their work and devotion to the project and are to be warmly congratulated on its results.

The work strikes a careful balance between the timeliness of information that the private sector — and increasingly the public sector — demand, and the carefulness that high-quality academic research requires.

This prospectus outlines the key takeaways from the CHIIA data for 2014 to 2017. It contains a wealth of data and detailed information on how it was produced, as well as how it compares with other sources of data that are available. Real-time data will continue to be published in the coming months.

I invite you to go beyond the headline figures and explore the data yourself. One of the most notable contributions of this work is its unprecedented standard of transparency. The CHIIA data, the method by which it was assembled and associated research are freely available on the CHIIA website.

CHIIA's commitment to taking high-quality information into the public domain sets new standards and, I hope, a new tone for the conversation on Chinese investment in Australia.



John W.H. Denton AO

Secretary General, International Chamber of Commerce
Chairman, International Advisory Council,
Corrs Chambers Westgarth

What these new Chinese investment data add

Chinese investment tends to make headlines. The story is usually about big-ticket purchases, billion-dollar developments and deep-pocketed state-owned enterprises.

But behind the headlines, in annual reports, local papers, trade journals and stock exchange disclosures, there is a much richer and more balanced picture.

Between 2014 and 2017 that picture was made up of 262 transactions, of which 70 per cent were worth under A\$100 million. State-owned enterprises and their subsidiaries made 40 investments across 10 sectors, but private Chinese investors were a more important part of the story, making 222 investments in 18 sectors and accounting for 53 per cent of their total value. Mining and real estate investments dominate the news, but these sectors are not always the largest destinations for Chinese investment, and the share received by healthcare and other service industries is growing.

These are data from the Chinese Investment in Australia (CHIA) Database, a new source of high-quality data on Chinese direct investment in Australia. These data are created using a carefully designed methodology developed at the Australian National University in consultation with the Australian Treasury, other government agencies and private industry partners.

CHIA produces data from information on Chinese investment that exists in the public domain. These data are painstakingly assembled, checked and cross-checked from transparent sources using consistent classifications and methods, making them suitable for use in the most rigorous analysis. CHIA sets out this process in detail online so that those who use the data know exactly what the data measure and those who want to replicate it or create similar databases for their country can readily do so.

CHIA data link Chinese investors with their participation in the Australian economy

The aim is to create data that fit with a contemporary understanding of international investment. The database is built on two fundamental principles. The first is that investment is defined by 'who' the investor is, not where the funds last came from. The second is that these data should provide a clear picture of the investment activity, not the means through which the investment occurred. Though international investment is now often facilitated through complicated structures and multiple subsidiaries around the world, CHIA data concisely links Chinese investors with their equity-based participation in business and the Australian economy.

CHIIA data fill an important gap in the existing information on Chinese investment in Australia. There are two main official sources that measured Chinese investment in Australia, both shown in the table below. The first is the Foreign Investment Review Board's (FIRB) approved investment dataset. These data are based on approvals for proposed (rather than actual) direct investments above certain thresholds. Approved investment is larger than realised investment, which is what CHIIA measures. The second is the Australian Bureau of Statistics (ABS) series, which measures Chinese investment that comes directly from the Chinese mainland. But much Chinese investment comes through Hong Kong and other global financial centres. This results in a considerable underestimation of Chinese investors' presence in the Australian economy. Other Chinese investment data that are the product of commercial or research initiatives, are not publically accessible and only provide partial information.

CHIIA data are publicly available for each transaction. This provides an unprecedented level of access and depth to analysts and the interested public.

CHIIA data are publicly available for each transaction.

CHIIA data is comprehensive and measures almost 50 different dimensions of Chinese investment in Australia. This provides information on the basic facts of each transaction and the defining characteristics of the investors and their ultimate parent companies. It draws the connections between the previous investors and the new Chinese investors, placing Chinese investment today in the much larger and older story of international investment in Australia.

Table 1 Measures of Chinese Investment in Australia (A\$ billions), 2014–2017

	CHIIA	FIRB*	ABS	USyd-KPMG	AEI Tracker
2014	5.7	27.7	9.9	9.3	11.6
2015	10.9	46.6	2.9	13.6	14.1
2016	14.9	47.3	2.0	15.5	7.6
2017	8.9	38.9	3.0	13.4	7.3

*FIRB figures are reported in financial years, not calendar years. Here, the earlier financial year is used; for example, FY1314 for 2014.

Chinese investment is a big deal for Australia, made up of many transactions and individual investors making a decision to participate in and contribute to the Australian economy. If we want to better understand these decisions, we need better data. You can find that data now at chiia.eaber.org

Our partners

CHIA was created and is maintained by the East Asian Bureau of Economic Research in the Crawford School of Public Policy at the Australian National University College of Asia and the Pacific.

This work would not have been possible without the support of the Australian Treasury and, in particular, the support of Roger Brake, Adam McKissack, Jessica Robinson, Sina Grasmann, Adrian Raftery, Vera Holenstein, Anna Schneider-Rumble and Tim Lefroy in Treasury.

Financial and in-kind support has also been provided by PwC, Macquarie Bank, Corrs Chambers Westgarth, MMG and the Future Fund. From PwC, we would like to thank Andrew Parker and Sung Lee. From Macquarie Bank, we would like to thank Kieran Zubrinich. From MMG, we would like to thank Troy Hey and Rebecca Huang. From the Future Fund, we would like to thank Craig Thorburn and Caroline Gorman.

Representatives from these partners formed a Steering Committee that guided the work on CHIA from its inception.

In addition to this support and input, many colleagues in academia, as well as the public and private sectors, have generously contributed their time and expertise. They include Paul Hubbard, Department of Prime Minister and Cabinet; Derek Scissors, The American Enterprise Institute; Jiao Wang, The University of Melbourne; Ligang Song, Charles Gretton and the ANU TechLauncher teams, The Australian National University; Bruce Hockman, Michael Abbondante and Dennis Yang, Australian Bureau of Statistics; Elizabeth Peak and Medina Hajdarevic, Department of Foreign Affairs and Trade; Guannan Wang, CCPIT; Yiping Huang and Sherry Tao Kong, Peking University; Taotao Chen, Tsinghua University; Mei Wang, National Economic Research Institute of China; Hans Hendrichske and Wei Li, The University of Sydney; Ivan Roberts, Lara Pendle and Madeline McCowage, Reserve Bank of Australia.

How CHIA provides new information on Chinese investment in Australia

CHIA has produced four years of data, covering the calendar years 2014 to 2017 with data for 2018 under construction.

A series of key statistics calculated from CHIA data are presented here. These statistics provide an overview of CHIA data at present and consider specific aspects of Chinese investment in Australia that have not been covered by other sources.

Many of these statistics present information that did not previously exist. Some of these statistics may look similar to those published previously. The crucial difference between

those statistics and those in this prospectus is that CHIA data are verifiable. The data are publicly available at the transaction level, which means you can reproduce the statistics you see here and create many more.

There are also three key technical distinctions that set CHIA apart from existing sources of data on Chinese direct investment in Australia.

Chart 1 Technical distinctions

		Date of investment	
		Dated by contracting	Dated by realisation
Geographic source of investment	Source of investment by immediate origin	-	ABS
	Source of investment by ultimate origin	AEI China Global Investment Tracker University of Sydney-KPMG	CHIA

1. CHIIA defines the source of investment (that is, China) by 'who' the investor is, not where the funds last came from.

CHIIA defines the source of investment by 'ultimate origin'. This approach is shared with The American Enterprise Institute's China Global Investment Tracker series and The University of Sydney–KPMG series (which are in the same row of Chart 1), but not with the Australian Bureau of Statistics (ABS), which defines the source of investment by 'immediate origin'.

This distinction has one important implication. The data measures investment which is ultimately owned in China no matter what its geographic pathway to Australia.

2. 'Ultimate origin' means CHIIA looks past lines on a map.

Traditionally, foreign investment is 'foreign' if it crosses a border – no matter who is undertaking the investment. CHIIA does not require investment to cross a border. This means CHIIA records specific investment activity by Chinese subsidiaries in Australia, while traditional FDI statistics may not.

3. CHIIA defines transactions as occurring when the investment is realised, not when contracts are signed.

This approach is also shared by the ABS and CHIIA, as shown in Chart 1. The China Global Investment Tracker and the University of Sydney–KPMG instead record investments by date of contracting.

CHIIA is therefore the only source of data on Chinese investment in Australia, public or private, which defines investment by 'who' the investor is and when the identified investment is realised. These technical distinctions are important. The immediate source does not necessarily reflect ultimate ownership of investment. Announced investments may not be realised. CHIIA data is therefore materially different from other sources, providing a new perspective on Chinese investment in Australia.

The story of Chinese direct investment in Australia over the past four years

According to CHIA data, Australia has received over A\$40.4 billion in Chinese direct investment between 2014 and 2017.

The aggregate values per year are shown in Table 2. These investments involve Chinese investors or their subsidiaries acquiring equity stakes in Australian entities. To qualify as direct investment, the investment must result in the investor holding at least 10 per cent in the Australian entity. CHIA currently only records the equity increase component of direct investment, which traditionally may include increases and decreases in equity, debt and undistributed earnings.

Chart 2 sets out total investment recorded each year divided into 'cross-border' and 'within-border' transactions. Over these four years, the amount of Chinese investment originating from Chinese firms already operating within Australia has increased in terms of dollar value and also as a proportion of total investment. This suggests that Chinese investors' permanent presence in Australia, through locally-based subsidiaries, has grown over this period.

CHIA defines investment by 'who' the investor is, not where the funds immediately come from.

As previously noted, CHIA defines investment by 'who' the investor is, not where the funds immediately come from. This means CHIA data includes not just Chinese investors based in China, but also their overseas subsidiaries — some of which are based in Australia. CHIA data therefore includes the cross-border transactions recorded in other FDI statistical series as well as transactions that occur within Australia's borders, regardless of the source of funds. For example, CHIA would include transactions involving the Australian-based subsidiary of a Chinese real estate developer purchasing real estate in Australia.

Table 2 Total Chinese investment in Australia recorded by year (A\$ billions), 2014–2017

Year	Total	SOE	Private
2014	5.7	2.4	3.3
2015	10.9	5.0	6.0
2016	14.9	7.9	7.0
2017	8.9	4.0	4.5
Accumulated over 4 years	40.4	19.2	21.2

Chart 2 Total direct Chinese investment in Australia recorded by year (A\$ billions), 2014 – 2017

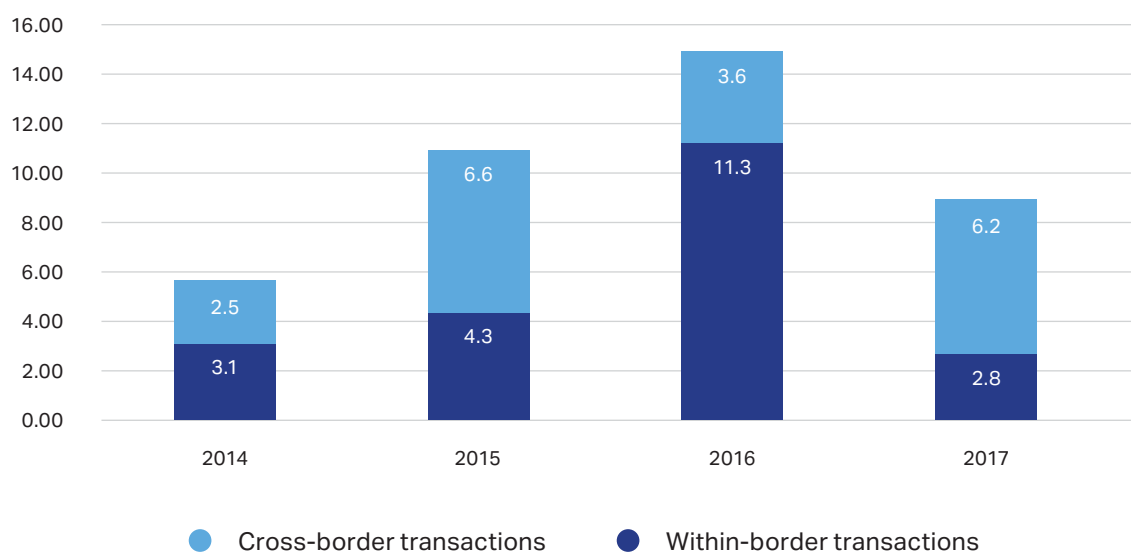


Table 3 Share of Chinese investment in Australia by sector (per cent of annual total), 2014–2017

Sectors (ANZSIC)	2014	2015	2016	2017	Whole period
Agriculture, Forestry and Fishing	1.4	2.7	6.3	0.3	3.3
Mining	34.7	12.3	13.7	50.9	24.5
Manufacturing	0.8	15.0	0.03	4.7	5.2
Electricity, Gas, Water and Waste Services	-	0.03	22.4	5.7	9.5
Construction	4.5	13.1	0.4	-	4.3
Wholesale Trade	-	0.1	-	-	0.02
Retail Trade	-	-	-	3.7	0.8
Accommodation and Food Services	15.7	6.8	0.3	2.1	4.6
Transport, Postal and Warehousing	16.1	4.6	27.3	-	13.6
Information Media and Telecommunications	15.9	-	-	-	2.2
Financial and Insurance Services	0.03	0.10	-	-	0.03
Rental, Hiring and Real Estate Services	6.9	42.1	16.2	14.8	21.6
Professional, Scientific and Technical Services	-	-	2.7	0.9	1.2
Administrative and Support Services	-	1.1	-	1.5	0.6
Public Administration and Safety	-	-	-	-	0.00
Education and Training	0.8	0.02	0.05	-	0.1
Health Care and Social Assistance	-	1.8	9.7	15.5	7.5
Arts and Recreation Services	-	0.2	0.8	-	0.4
Other Services	3.1	-	-	0.03	0.5

Key

This value is more than 100% of the previous year's value for the same sector.

This value is more than 200% of the previous year's value for the same sector.

This value is more than 300% of the previous year's value for the same sector.

All sectors, except one, have received Chinese investment during this period

Chinese investment is concentrated in particular sectors. For instance, mining accounted for a quarter of the total Chinese investment received in the last four years. However, all sectors categorised, except the public administration and safety sector, received some investment during this period.

The share of investment received by different sectors varies greatly year-by-year. Table 3 shows the percentage of total investment for each year received by each sector. The highest figure for each year is outlined in blue. Perhaps unsurprisingly, mining begins and ends this period receiving the largest proportion of investment, in those years. In between, the rental, hiring and real estate services ('real estate') and transport, postal and warehousing ('transport') sectors received the highest share of investment in 2015 and 2016, respectively.

Table 4 Number of large¹ Chinese investments, per year, by sector for 2014–2017

Sectors (ANZSIC)	2014	2015	2016	2017
Agriculture, Forestry and Fishing	0	1	4	0
Mining	3	2	2	7
Manufacturing	0	3	0	1
Electricity, Gas, Water and Waste Services	0	0	2	2
Construction	1	2	0	0
Wholesale Trade	0	0	0	0
Retail Trade	0	0	0	1
Accommodation and Food Services	3	2	0	1
Transport, Postal and Warehousing	1	1	5	0
Information Media and Telecommunications	1	0	0	0
Financial and Insurance Services	0	0	0	0
Rental, Hiring and Real Estate Services	1	8	5	5
Professional, Scientific and Technical Services	0	0	2	0
Administrative and Support Services	0	1	0	0
Public Administration and Safety	0	0	0	0
Education and Training	0	0	0	0
Health Care and Social Assistance	0	1	2	4
Arts and Recreation Services	0	0	1	0
Other Services	1	0	0	0

¹'Large' is defined as involving at least A\$100 million

Investment peaks are driven by a few large deals

Three sectors — mining, real estate and transport — received the largest share of investment in every year, except in 2017 when transport received zero investment. The sudden drop from the highest to lowest recipient of investment by this sector in the space of one year, illustrates the annual variability of investment by sector captured in these data.

The coloured cells in Table 3 highlight this. If the percentage of investment received in one year is more than 100 per cent higher than that received in the previous year, the cell is yellow. If this increase is more than 200 per cent higher, the cell is orange. If more than 300 per cent higher, the cell is red.

The red cells in 2015 and 2016 are all followed by a dramatic decrease in 2017 with the exception of the health care and social assistance (the 'health care') sector. Only one other sectors appear to follow this growth path: accommodation and food services. With this sector hitting peak growth in 2017, it remains to be seen whether this can be sustained in 2018.

The variability revealed in Table 3 appears to be associated with a number of large investments involving at least A\$100 million. The number of large deals received by sector, each year, is shown in Table 4. The red outlined cells in Table 4 mirror the peaks illustrated by the red cells in Table 3. This association holds for all sectors except one: health care, which receives its highest number of large deals in the following year.

Large and small investments are almost equally as common.

Large deals have an effect on investment value-based statistics commensurate with their size.

However, CHIA data shows us that large deals are only slightly more frequent than the very small deals involving up to A\$10 million over these four years.

Chart 3 shows the number of investments by transaction value for all four years.

The total number of investments for each column in Chart 3 is the sum of the investments within each category for all four years. These data are shown for each year and the whole period in Table 5. The frequency of transactions by size appears to be volatile if the raw figures are considered, as shown in Table 5.

CHIA data shows us that large deals are only slightly more frequent than the very small deals

However, if these figures are represented as a percentage of the total number of investments per year, there appears to be a more stable pattern in the distribution of investments by size. These percentages are shown in Table 6.

Chart 3 Total direct Chinese investment in Australia recorded by year (A\$ billions), 2014 – 2017

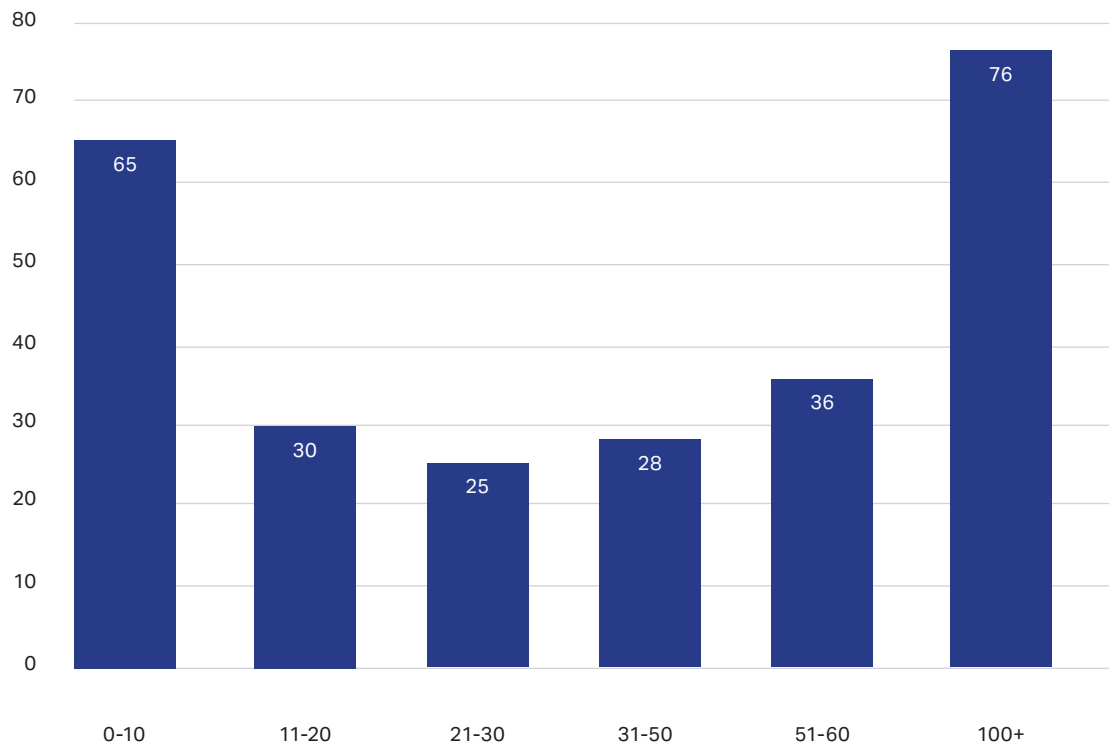


Table 5 Number of Chinese investments by value per year, 2014–2017

Value of investment (\$A, millions)	2014	2015	2016	2017	TOTAL (shown in Chart 3)
0-10	10	17	24	14	65
11-20	5	8	8	9	30
21-30	5	9	5	6	25
31-50	4	10	11	3	28
51-99	6	6	15	9	36
100+	11	21	23	21	76
N/A	0	2	0	0	2
TOTAL	41	73	86	62	262

Table 6 Number of Chinese investments by value as a percentage of the total Chinese investments received per year, 2014–2017

Value of investment (\$A, millions)	2014	2015	2016	2017	Average over period
0-10	24.4	23.3	27.9	22.6	24.4
11-20	12.2	11.0	9.3	14.5	12.2
21-30	12.2	12.3	5.8	9.7	12.2
31-50	9.8	13.7	12.8	4.8	9.8
51-99	14.6	8.2	17.4	14.5	14.6
100+	26.8	28.8	26.7	33.9	26.8
N/A	0.00	2.7	0.00	0.00	0.00

Less than one-fifth of transactions involve state-owned investors

Of the 262 transactions include in the CHIA data, 222 involved a privately-owned investor.

Of the 262 transactions include in the CHIA data, 222 involved a privately-owned investor. Of the transactions involving private-owned investors, almost 18 per cent involved an investor listed on a stock exchange. The proportion for state-owned investors was slightly lower. For transactions involving state-owned investors, only 15 per cent of those transactions involved investors which were listed on a stock exchange.

Table 7 shows the number of transactions involving a private or state investor.

Chart 4 Background of Chinese investors by number of investments, 2014–2017

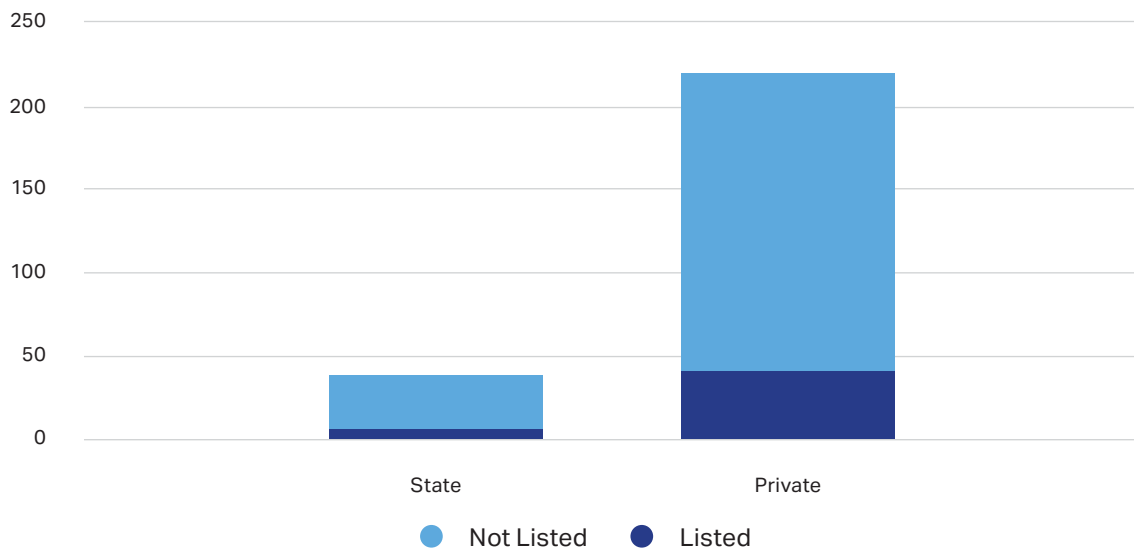


Table 7 Background of investor by number of investments for 2014–2017

	Listed	Not listed	TOTAL
Private	41	181	222
State	6	34	40
TOTAL	47	215	262

Chinese investors are predominantly investing in urban areas – less than 10 per cent of total investment was received in rural areas

The entities receiving Chinese investment are overwhelmingly located in urban rather than rural areas. Chart 5 shows the investment received by each state and whether that investment is located in a rural or urban area.

'N/A' appears as a category in both aspects because some investments are located in more than one state and in both urban and rural areas. Table 8 shows the same data used to produce Chart 5.

Chart 5 Level of Chinese investment received by state and location of entity (A\$ millions), 2014–2017

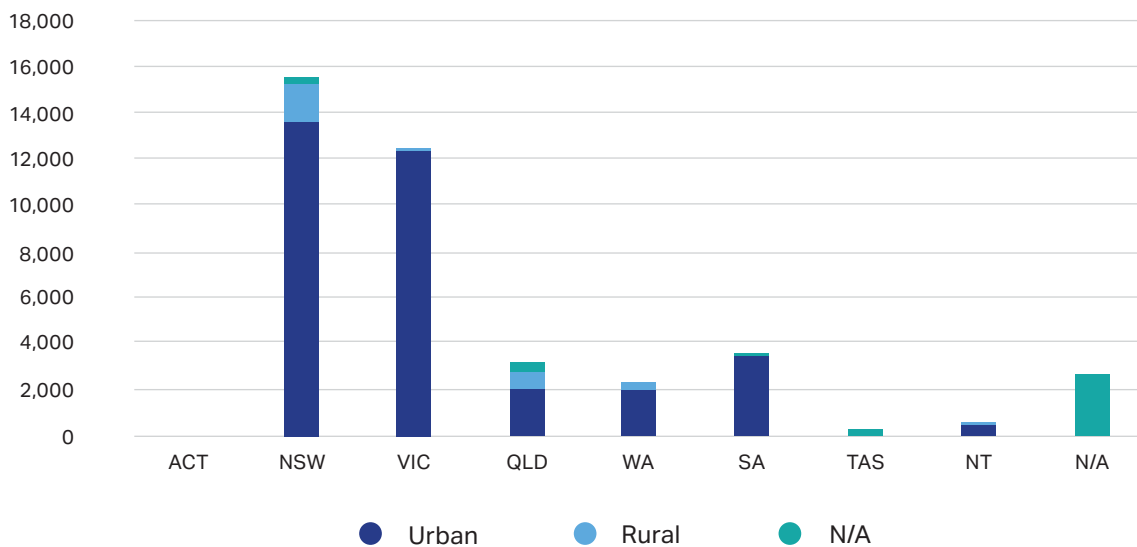


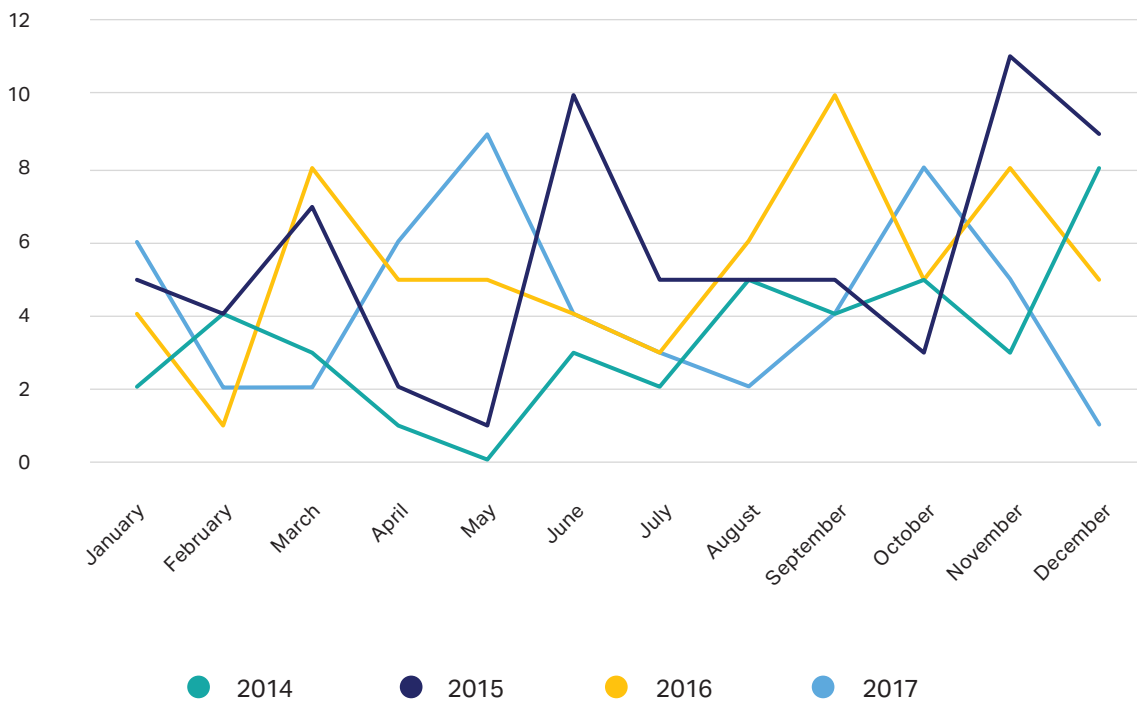
Table 8 Investment received in urban and rural areas by state for 2014–2017 (A\$ millions)

State	Urban	Rural	N/A	TOTAL
ACT	0	0	0	0
NSW	13,631	1,583	331	15,546
VIC	12,301	187	0	12,488
QLD	2,062	683	392	3,137
WA	1,940	351	0	2,290
SA	3,470	29	0	3,499
TAS	6	280	0	286
NT	518	47	0	565
N/A	0	0	2,605	2,605
TOTAL	33,928	3,159	3,328	40,415

Investments are fairly evenly spread across months of the year

CHIA records investments by realisation which is sometimes referred to as the date of 'change in legal ownership'. Chart 6 shows the number of investment received in each month for each year. Note that this does not include investments for which the month has been estimated in CHIA data. If there is insufficient information regarding the month of realisation, CHIA estimates the month by placing these transactions in the month which experienced the average (or closest) monthly average AUD–USD exchange rate. This minimises measurement error if researchers are converting the Australian dollar investment values into American dollars, which is common practice in this area of research.

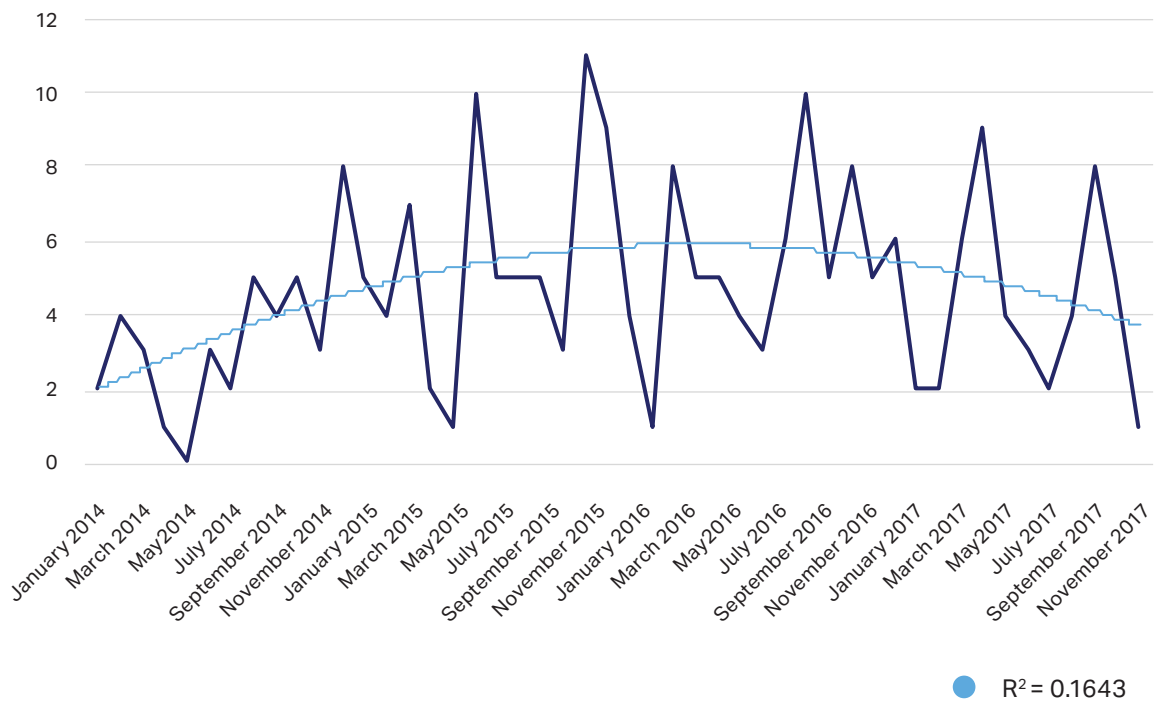
Chart 6 Number of Chinese investments (excluding estimations) per month, 2014-2017



Across these four years, there is no consistently common month in which investments are realised. The 'peak' number of investments for each year occurred in December for 2014, June for 2015, September for 2016 and May for 2017.

Across all years, except 2017, a slightly higher number of investments are received at the end of each year as compared to the beginning. Also, the number of investments received at the beginning of the year rises across years with the exception of across 2015 and 2016, which received five and four investments in January, respectively. These two trends result in a positive trend in the number of investments, which then tapers off in 2017. This reflects the trend in the amount of investment received, as shown in Table 2. Interestingly, this suggests that the total amount of investment is not just driven by large investments — as these are given equal weight to all other investments in Chart 7. Chart 6 also suggests that, around the variations in each year the trend has been for Chinese investment in Australia to level off.

Chart 7 Number of Chinese investments in Australia per month, 2014–2017



About EABER

The East Asian Bureau of Economic Research (EABER) is a forum for high-quality economic research focusing on issues facing the economies of East Asia.

It comprises a network of institutes from Japan, China, South Korea, Vietnam, Cambodia, Laos, Thailand, Malaysia, the Philippines, Indonesia and Australia. The rapid development of the East Asian economies, the growth of intra-regional trade, financial and other economic interaction, and East Asia's new role in the global economy all underline the need for access to a vastly increased range of quality economic analysis on East Asia. EABER is coordinated through a research unit in the Crawford School of Public Policy at the Australian National University College of Asia and the Pacific and undertakes collaborative research projects with its partner institutes around the region.

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