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REPORT ON 2015 CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE (CCPIT) SURVEY RESULTS: AN AUSTRALIAN PERSPECTIVE

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INTRODUCTION

In recent years, Chinese companies have faced increased media exposure over their international investment activities as well as their growing presence in global outward investment markets. This is in stark contrast to the relatively small scale of overseas direct investment (ODI) flows in 2002, the year in which China's 'stepping out' strategy was launched. Now, it is widely recognised that China is experiencing a rapid transition from the 'world workshop' and 'capital receiver' to being a major source of foreign capital. According to Chinese Ministry of Commerce (Mofcom) statistics, China is now a net exporter of capital, with ODI flows reaching US$145.67 billion in 2015, with actual use of foreign capital amounting to US$135.6 billion in the same year.

Consistently ranked as the first or second largest recipient country of accumulative Chinese investment, Australia has received over US$78.68 billion since 2005 according to China Global Investment Tracker statistics. However, the concentration of investment from Chinese companies in sectors such as mining and infrastructure in recent years has provoked community concern over national security and lack of control over resources. Such concerns are reflected in a series of recent setbacks, including State Grid Corporation of China's unsuccessful bid for Australian power provider Ausgrid in 2016[1] as well as Shanghai Pengxin Group's blocked acquisition of agricultural giant S. Kidman & Co.[2]

However, considering the relatively small share of Chinese foreign direct investment (FDI) in total investment flows (4.9 per cent) and stocks (2.5 per cent) into Australia in 2015 (Department of Foreign Affairs and Trade of Australia, 2016), the simmering fears that China is 'buying out' Australia seem to be overly exaggerated. Rather, as more Chinese companies engage in the Belt and Road Initiative (OBOR), discussions about Australia's investment environment as perceived by Chinese investors as well as Australia's ability to attract Chinese capital are becoming more strategically meaningful. Furthermore, as Australia's resource investment boom recedes, economic policymakers must look to cooperation potential in sectors beyond real estate and mining.

Founded in 1952, the China Council for the Promotion of International Trade (CCPIT) is a nationwide organisation for the promotion of foreign trade and investment.[3] CCPIT's primary responsibilities include implementing relevant major national development strategies, promoting foreign trade and bilateral investment, facilitating technological cooperation, organising foreign visits of Chinese delegations, helping to

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[1] State-owned power giant State Grid Corporation of China proposed to acquire the lease of a 50.4 per cent share in Ausgrid, the electricity distribution network based in New South Wales. The plan was rejected by Australia's Treasurer in 2016 due to the transaction structure and asset nature. http://sjm.ministers.treasury.gov.au/media-release/069-2016/

[2] The Australian subsidiary of Chinese company Shanghai Pengxin Group intended to acquire 80 per cent interest in S. Kidman & Co Limited, the largest private land holder in Australia who controlled approximately 1.3 per cent of Australia's total land area and 2.5 per cent of the country's agricultural land. The deal was considered against 'national interest' and also blocked by Australia's Treasurer in 2016.
http://sjm.ministers.treasury.gov.au/media-release/050-2016/

[3] See also *About CCPIT*, updated March 2016:
http://en.ccpit.org/info/info_40288117521acbb80153a75e0133021e.html

formulate trade and economic policies and rules as well as providing relevant information and services in legal consulting, arbitration and intellectual property. As a non-government organisation, CCPIT's members are mainly domestic companies dispersed over a broad spectrum of industry sectors. It has established 48 local sub-councils and 23 industrial sub-councils within China and has built close connections with around 400 international organisations in over 180 countries.

To better understand the current status as well as future prospects of Chinese ODI, CCPIT conducted an online survey in 2015 among its member companies. The survey comprised different sections for both current and potential investors, including questions regarding their ODI performances and intentions, destination choices and industry preferences. This paper will analyse the 309 responses that were collected from the CCPIT survey. It will start by describing the characteristics of survey samples in terms of company size, ownership structure and industry sector. Findings regarding the current ODI status will also be discussed, along with what member companies consider to be their ODI's driving factors and obstacles. This paper will then look to the future, examining member companies' intentions to invest overseas for the next three years as well as the most attractive sectors for investment as perceived by these companies. Finally, this paper will focus on investment issues that are specific to Australia.

LIMITATIONS

This paper intends to give a general insight into the characteristics of existing Chinese ODI and the prospects for future ODI, as based on results from the 2015 CCPIT survey. However, due to missing data on a number of critical questions, the scope of the findings in this paper are, at this stage, limited. Issues such as current investment destinations and sectors, factors that affect the choice of destination or the investment environment as perceived by Chinese companies were unable to be investigated. This then makes it difficult to identify any shifting trends in investment dynamics.

Despite the limited knowledge of how the CCPIT sampling was conducted, the findings in this paper assume that the survey samples are sufficiently representative to reveal the investment status and future intentions of the CCPIT member population as well as the wider population of Chinese enterprises. Nevertheless, it is important to note that the survey results may be biased by the large number of sample companies in certain industry sectors such as mining and real estate, which, in turn, may limit the reliability of the findings regarding Chinese companies' investment intentions.

DESCRIPTION OF CCPIT SURVEY SAMPLES

Breakdown by company size

Of the 278 companies that responded to questions regarding the size of their annual business revenue, the majority — 68.7 per cent — earned revenue of less than 50 million dollars. Around 20.9 per cent of companies fell within the range of 50 million to 1 billion dollars (Figure 1). There were also 29 relatively large companies in terms of revenue size, accounting for roughly 10 per cent of the sample. As seen in Figure 1, the sample is mainly comprised of small- to medium-sized companies, which is consistent with the membership composition of CCPIT.

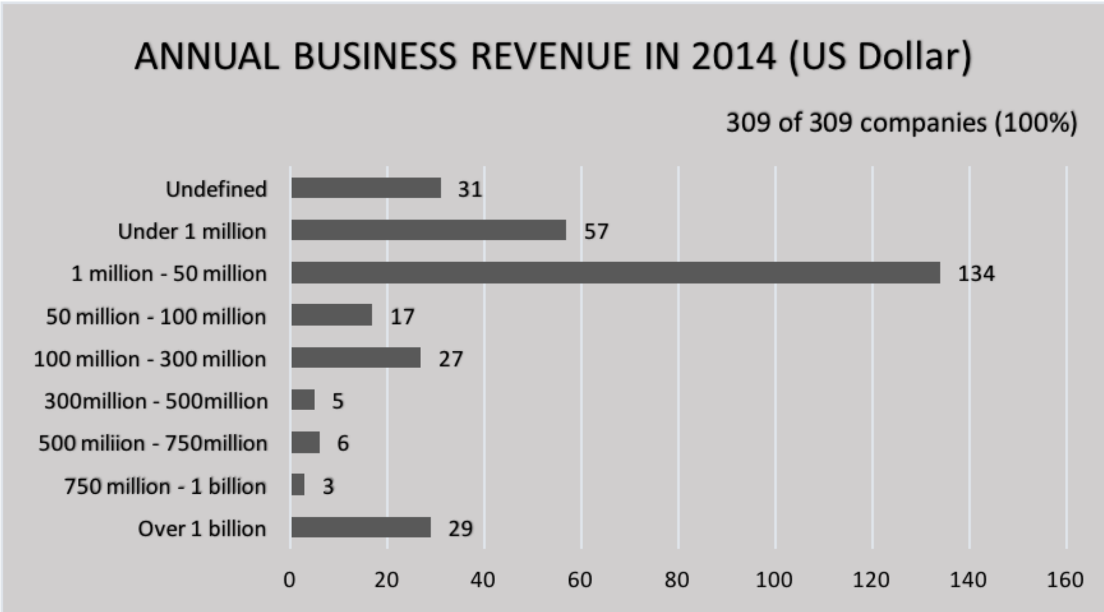

Figure 1: Annual business revenue of respondent companies in 2014 (US Dollars)

Breakdown by ownership structure

Companies registered as collectively-owned enterprises accounted for the largest proportion of respondents at about 34 per cent. The second class of respondents were private companies (29 per cent), which may reflect private companies' increasing interest in exploiting business opportunities in global markets and that they are therefore seeking support from CCPIT to facilitate such strategic moves. Foreign-invested and HMT-invested (Hong Kong, Macao and Taiwan) companies altogether accounted for 18 per cent of the total sample size as a result of higher degree of economic openness. Although only 21 per cent (10 out of 47 companies) of these foreign-invested enterprises were wholly-owned by foreign capital, the significant percentage still suggests that foreign capital is playing an important role in China's economy. On the other hand, it is noteworthy that merely 13 per cent of respondents were registered as state-owned enterprises (SOEs), occupying a much smaller proportion than the first three types. Five per cent of respondent companies were controlled by state-owned capital but registered in other types such as limited liability corporations and incorporated companies, which may be in accordance with SOEs transforming to gradually reduce the weight of state-owned capital in many former SOEs (Figure 2).

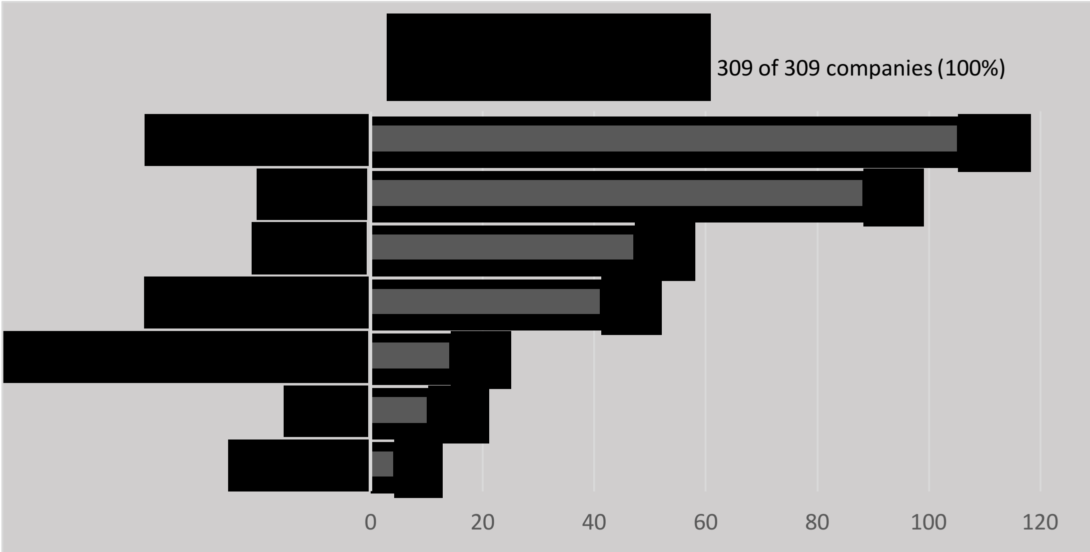

Figure 2: Ownership type of respondent companies

Breakdown by industry sector

While the survey was open to companies from a wide range of industry sectors, from financial services to sports and entertainment, the sample data is biased towards the mining, real estate and construction industries. Respondents from the top three industries jointly amount to 73.1 per cent of the total sample size while those companies from the other 17 sectors made up the remaining 26.9 per cent (Figure 3). Although the actual industry distribution of CCPIT members is unknown, the sample distribution may still indicate that mining, real estate and construction companies are more likely to engage in international trade and overseas investment with the assistance of CCPIT. It also exposes the potential problem that survey outcomes could be somehow biased by the overly centralised industry distribution, which may neglect the investment intentions of companies from sectors other than the top three.

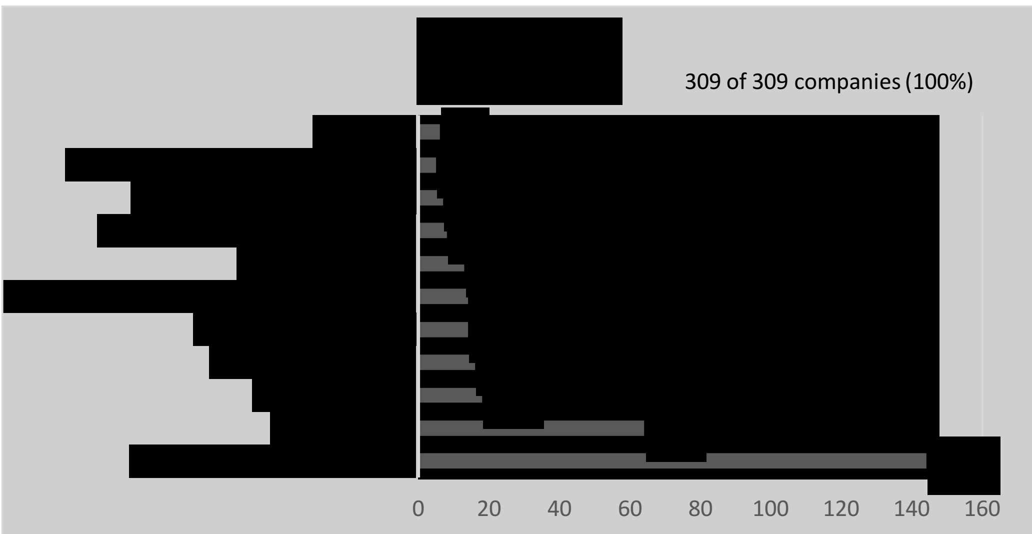

Figure 3: Industry sector distribution of respondent companies

CURRENT ODI BY CHINESE COMPANIES

The profitability of outward investment projects is still an important issue that requires further attention. The survey confirms this recent ODI boom, with the percentage of respondent companies that were involved in overseas investment (32.3 per cent) more than doubling in comparison to the 2005 CCPIT survey (14 per cent). The accumulated investment amount of these 260 respondents up until 2013 reached US$167.3 billion. However, there were also performance concerns that come with greater investment. Among the 78 enterprises that disclosed profit status of all their investment projects up until 2013, only 28 (35.9 per cent) reported an overall gain while others merely broke even (42.3 per cent) or reported a loss (21.8 per cent) (Figure 4).

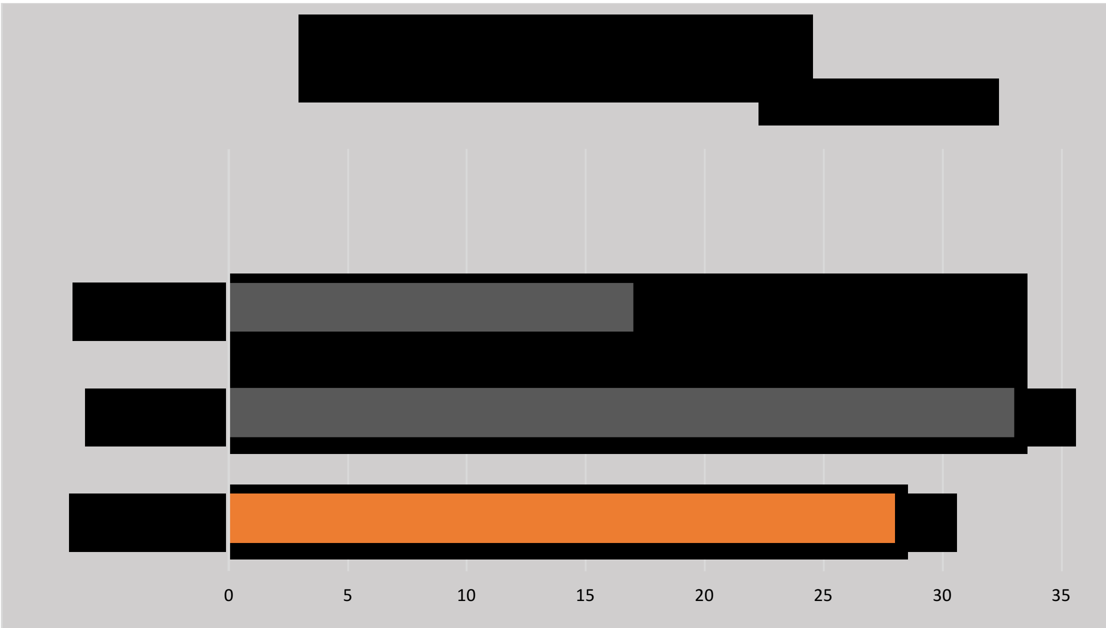

Figure 4: Profitability performance of overseas programs

Figure 5 shows the sector distribution of the 28 respondent companies that realised an overall gain on their ODI projects as well as the number of investing companies within each sector for comparison. In general, the majority of investing companies and 'profitable' companies are found in the mining, real estate, wholesaling and retailing, and business services industries. These are also seen as the preferred industries of Chinese investors. However, while many mining and real estate companies 'stepped out', only a small portion of them benefited from their overseas investments. In contrast, wholesaling and retailing as well as business services industries featured a relatively higher percentage of profitable companies.

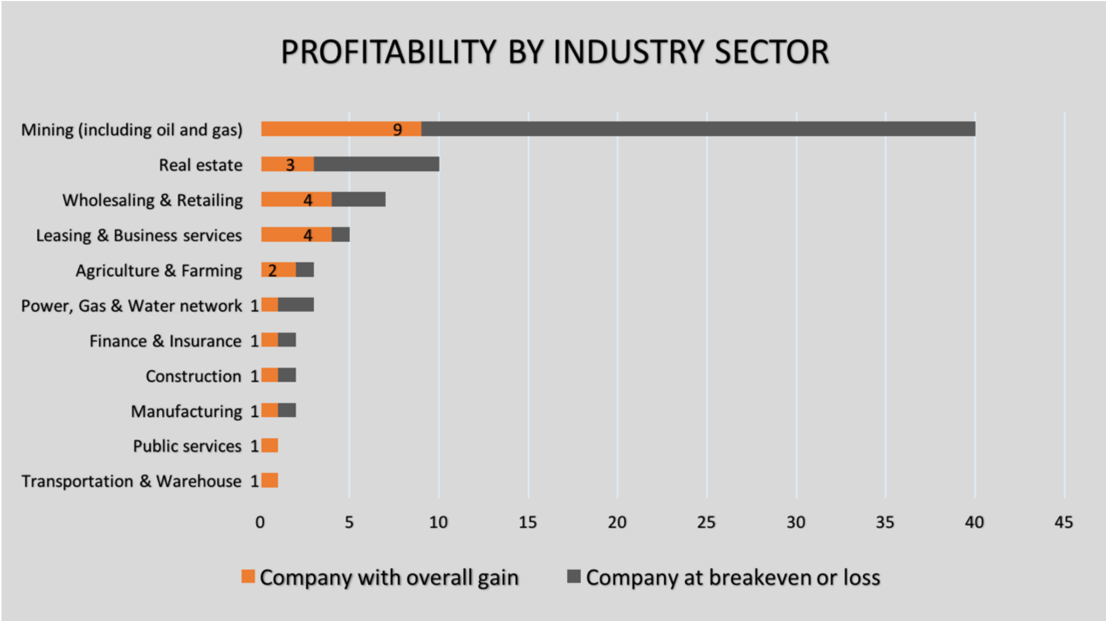

Figure 5: Profitability performance of overseas programs by industry

Chinese companies prefer doing overseas investments by themselves rather than in partnership with other Chinese companies. The survey results reveal that roughly two thirds of respondent companies would like to develop overseas programs without partners. For those that have cooperated with other Chinese companies in overseas programs, over half are willing to partner with SOEs.

While current ODI programs are more likely to be driven by policy-related factors, building up brand awareness is being given greater weight by many respondent companies. On a scale of 1 (not important) to 5 (very important), respondents were asked to rate the driving forces behind their investment decisions. The survey results show that good bilateral relations between China and the host country, the government's Go Global policy, promoting brand awareness in domestic and global markets and preferential policies of host countries to foreign investors are considered the most important driving forces behind existing investments (Figure 6). Respondents are more concerned about the safety of their invested capital than the actual benefits they get from preferential policies. These results also suggest that companies have ambitions of creating globally competitive brands instead of purely manufacturing under others' names.

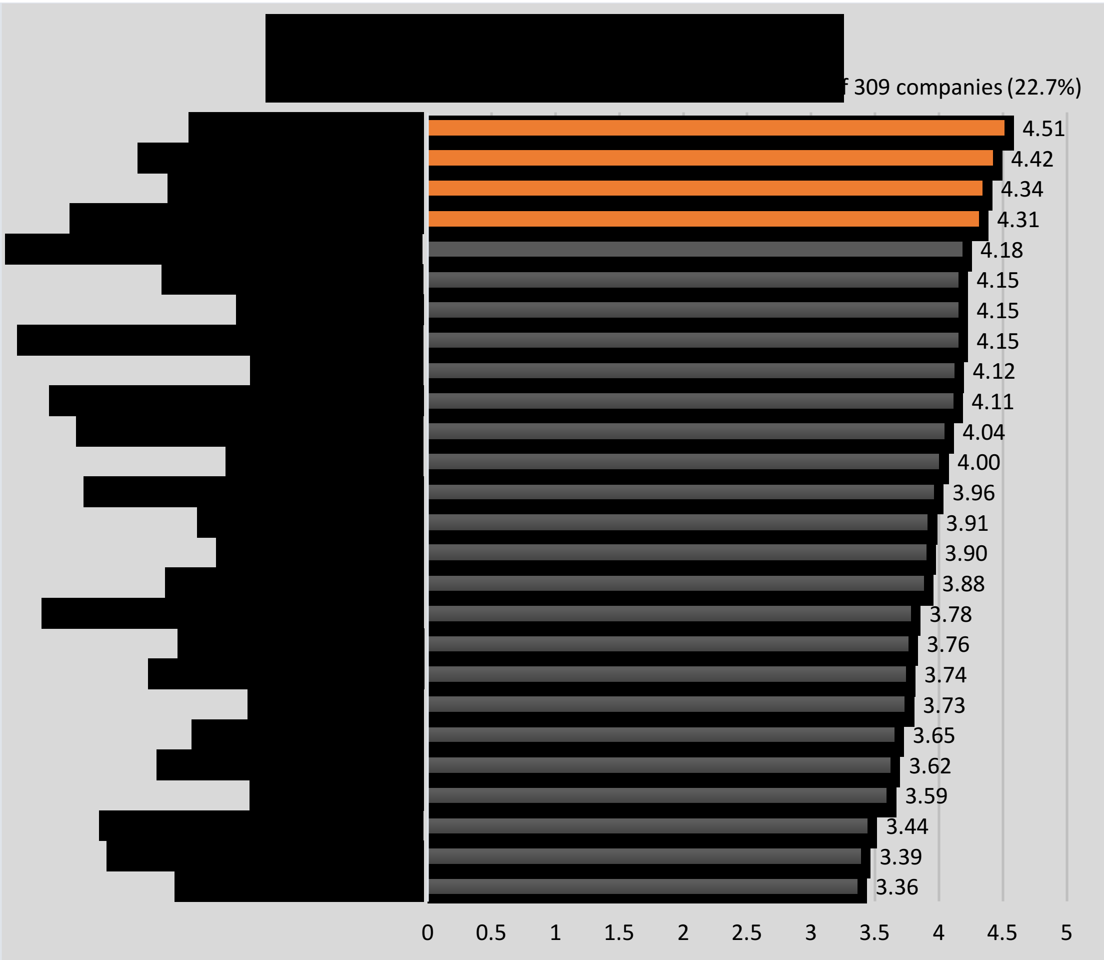

Figure 6: Driving forces of current ODI

With the rapid growth in flows and stocks of Chinese ODI, insufficient investment funds and knowledge on the regulatory environments of host countries, and the need for experts are becoming more apparent issues for many outward-looking Chinese companies. The survey provided a series of impediments from which respondent companies selected and ranked their three most significant ones. The results indicate that a lack of knowledge about laws and regulations in the destination country, a lack of investment capital and a lack of globally competitive talent are seen as the three biggest difficulties in current investments (Table 1). While these obstacles are not expected to disappear in the immediate term, they may help policymakers in both home and host countries to refine their ODI policies.

RANK	PERCEIVED OBSTABLES OF ODI BY COMPANIES
1	Lack of knowledge about laws and regulations in destination country
2	Lack of investment capital
3	Lack of globally competitive talent
4	Lengthy domestic approval procedures
5	Cultural differences
6	Domestic control of foreign exchange
7	Lack of international competitiveness
8	Unable to get information about investment opportunities
9	Negative attitude towards Chinese investments
10	Others (Impact of global economic situation, lengthy approval procedures in destination country, etc.)

Table 1: Top difficulties in current ODI

FUTURE INVESTMENT INTENTIONS

Due to its late start in overseas investment, China's share in global ODI still remains small compared to other major investor countries, accounting for only 4.4 per cent in 2015 (Ministry of Commerce and National Bureau of Statistics, 2016). However, after the 13th consecutive year of growth in ODI flow, many Chinese companies have become more open to overseas opportunities. According to the survey, around a quarter of the 170 respondent companies stated that they have seriously considered the feasibility of outbound investment during the past three years. Unsurprisingly, the United States is still ranked as the most favourable destination in the same period among all competitors, followed by Kazakhstan, India and Middle Eastern countries (Figure 7) — countries connected to the OBOR initiative.

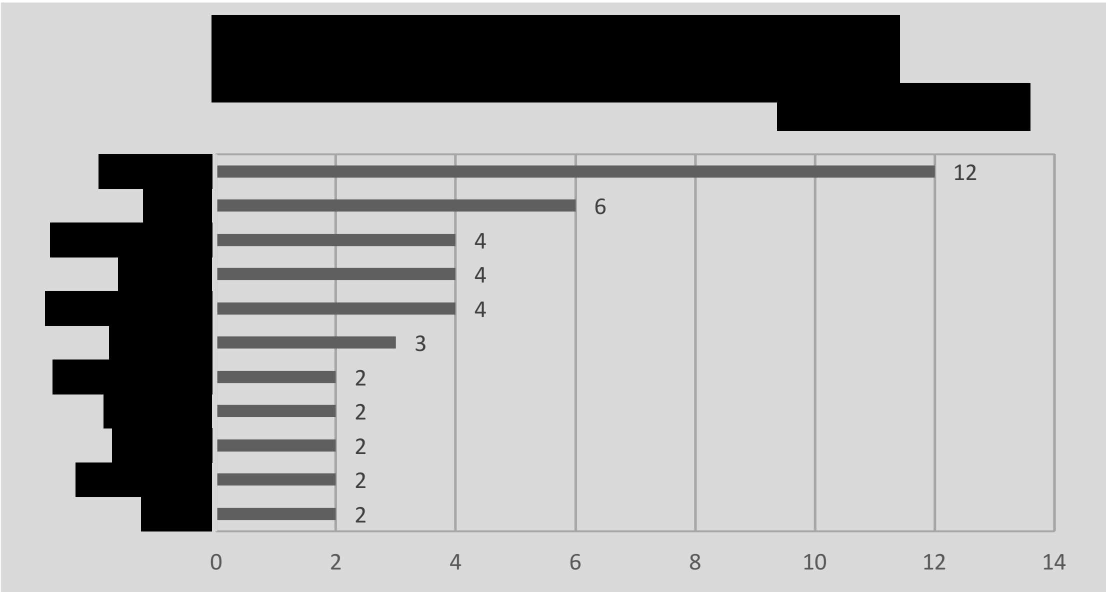

Figure 7: Seriously considered investment destinations 2012–2014

The survey also suggests that Chinese companies are looking to become more active in global ODI markets in the immediate term. Nearly half (48.3 per cent) of the 87 respondent companies expressed their intention to increase the portion of ODI in their total annual investment in 2015. When it comes to the preferred investment industry sectors in the next three years, the wholesaling and retailing and manufacturing sectors are considered the top two choices, based on the selection of respondent companies (Table 2). The emergence of IT and computer-related sectors, as well as the services sectors on the list, suggests that Chinese companies are interested in moving towards the upper end of the value chain. While traditional investment hotspots such as the construction, power and gas, and mining sectors remained on the list, they will be given less attention by respondent companies in the following years.

RANK	PREFERRED INVESTMENT SECTORS - NEXT THREE YEARS
1	Wholesaling and Retailing
2	Manufacturing
3	IT, Computer and Software
4	Other services
5	Transportation and Warehouse
6	Agriculture and Farming
7	Leasing and Business services
8	Construction
9	Power, Gas and Water network
10	Mining (including oil and gas)

Table 2: Preferred industry sectors 2015–2017

When discussing the future of Chinese ODI, it is also important to take factors such as world economic conditions, market fundamentals and companies' perceptions over these economic variables into consideration. As indicated in the survey, 68.7 per cent of Chinese companies tended to share a positive or neutral expectation of general market conditions in 2016 as compared to 2015. In the case of expectations regarding the investment environment, the total proportion sharing positive or neutral expectations reached 62.9 per cent. The percentage increase in positive expectations may reflect the confidence of Chinese companies in a brighter future, which may be a good sign for future ODI flows.

CHINA'S ODI IN AUSTRALIA

It is widely recognised that the past ten years have been a golden decade of Chinese ODI into Australia. This rapid expansion made Australia the second largest recipient country of Chinese investment, with the growth rate of cumulative investment reaching 30 per cent in 2015. Thanks to its political stability, government transparency and mature financial market, Australia has long been regarded by Chinese investors as one of the most popular destinations for investment (KPMG and The University of Sydney, 2016). In the CCPIT survey, factors such as political stability, openness to foreign capital, policy consistency and legal system transparency were also given high ratings by the two respondent companies that were seriously considering investing in Australia (Figure 6).

Additionally, rigorous approval procedures and popular resistance to Chinese investment among the Australian public may be perceived by Chinese investors as significant impediments to their overseas projects, which makes the discussion on the future prospects of Chinese ODI into Australia of significance.

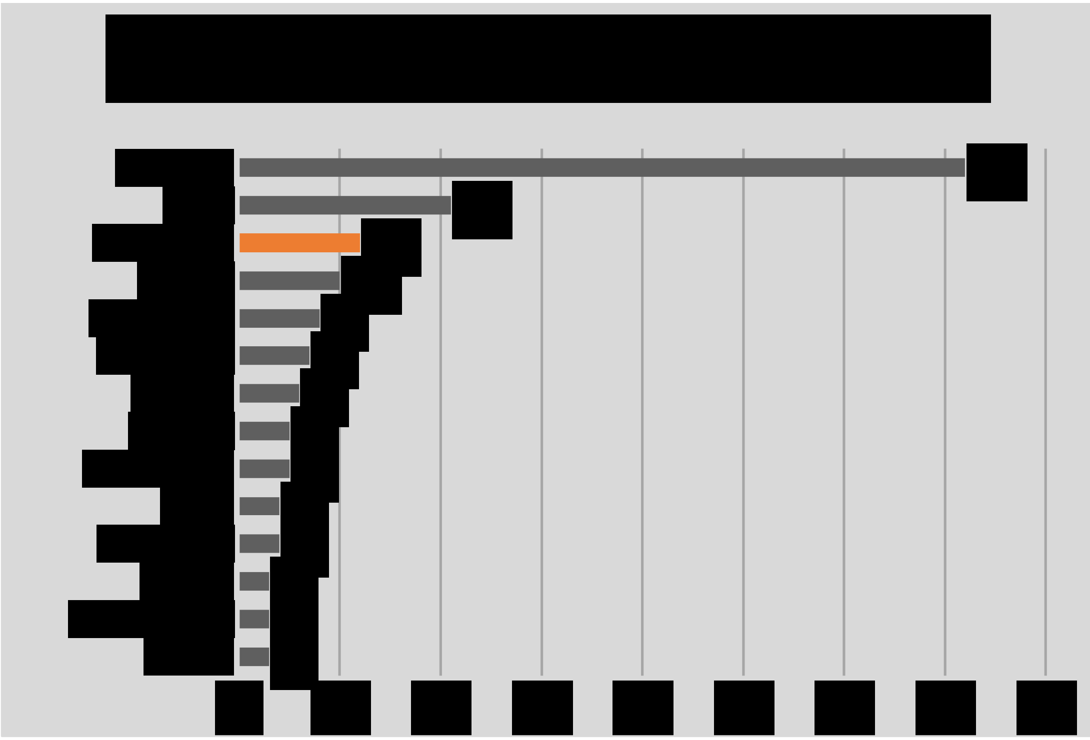

Figure 8: Preferred destination countries in next three years

Australia is still among the most preferred destination countries in next three years — well ahead of other developed countries except for the United States (Figure 8). The wholesaling and retailing as well as manufacturing sectors are considered the most attractive sectors in Australia for the next three years. At the same time, the rise of leasing and business services, public services and other services reveals a shift from capital intensive sectors towards service-oriented ones (Table 3).

RANK	PREFERRED INVESTING SECTORS IN AUSTRALIA - NEXT THREE YEARS
1	Wholesaling and Retailing
2	Manufacturing
3	Other services
4	Agriculture and Farming
5	Leasing and Business services
6	Public services
7	Real estate
8	Mining (including oil and gas)
9	Construction
10	Finance and Insurance

Table 3: Preferred investing sectors in Australia for the next three years

In general, the sectorial preferences of private enterprises and SOEs are similar, both putting the wholesaling and retailing as well as manufacturing sectors on the top of their wish list. The notable difference is that SOEs tend to invest in traditional capital-intensive sectors such as mining, construction and power. This is consistent with the sector distribution of SOEs in the Chinese economy (Hubbard, 2016). Private enterprises are more willing to find opportunities in the agriculture and farming and IT-related sectors (Tables 4 and 5).

RANK	PREFERRED INVESTING SECTORS IN AUSTRALIA - PRIVATE ENTERPRISES
1	Wholesaling & Retailing
2	Manufacturing
3	**Agriculture & Farming**
4	Mining (including oil and gas)
5	Construction
6	**IT & Computer software**

Table 4: Preferred investing sectors in Australia - private enterprises

RANK	PREFERRED INVESTING SECTORS IN AUSTRALIA - SOEs
1	Manufacturing
2	Wholesaling and Retailing
3	Mining (including oil and gas)
4	Construction
5	**Transportation and Warehouse**
6	**Electricity, gas and water network**

Table 5: Preferred investing sectors in Australia - SOEs

The Australia–China investment relationship is experiencing a transition. While the size of investments from Chinese private companies is relatively small, the quick expansion of China's private sector, as well as the large number of private companies, indicate great growth potential for private investment. Given the concerns in some resource-related sectors, exploiting business opportunities in other less sensitive sectors is becoming the new focus of both countries. Unlike investments into farming, real estate and infrastructure industries, transactions in financial, IT and medical services sectors may encounter less apprehension. While it will still take some time for deals in emerging sectors to become mainstream ODI inflows, cases in 2016, such as the joint-venture of HengKang Medical Group and PRP[4] as well as Biostime's investment into Swisse[5], shed some light on future cooperation.

Perhaps due to the Asia Pacific's complicated political environment, the bulk of Chinese companies regard good bilateral relationships and friendly government policies as critical driving forces of their investments. Ongoing strategic moves with the United States and increasing reports of Chinese media regarding the unsuccessful Chinese merger and acquisition transactions in Australia may to some extent influence the policy direction of the Chinese government and the perception of Chinese investors. Thus, a healthy investment relationship between the two countries requires policymakers in Australia to ensure that isolated high profile rejections of Chinese investment are not misinterpreted as hostility in the underlying policy regime.

4 China's Hengkang Medical Group is negotiating with Australian radiology company PRP about creating a joint-venture PRP Diagnostic Imaging. Hengkang intends to take a 70 per cent share in this business, with the new company planning to target both Chinese and Australian markets.
http://www.afr.com/street-talk/hengkang-medical-in-talks-to-buy-majority-stake-in-prp-diagnostic-imaging-20161027-gscciu

5 An 83 per cent stake in Swisse, a well-known Australian wellness company, was sold to Hong Kong-listed company Biostime International Holdings for $1.67 billion in 2016.
http://www.smh.com.au/business/retail/swisse-bought-by-hong-kong-company-biostime-for-more-than-15-billion-20150917-gjoqir.html

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