



THE UNIVERSITY OF  
SYDNEY

# Demystifying Chinese Investment in Australia

June 2020

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# About our reports

KPMG and The University of Sydney formed a strategic relationship to research and publish insights on doing business with Chinese investors. 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.

Our first report was launched in September 2011 and this is the sixteenth Demystifying Chinese Investment report in our series. This report examines Chinese investment in Australia for the calendar year 2019.

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## Methodology

The dataset is compiled jointly by KPMG and The University of Sydney Business School and covers investments into Australia made by entities from the People's Republic of China through mergers and acquisitions (M&A), joint ventures (JV) and greenfield projects. Knight Frank has provided data and analysis on real estate transactions in the 2019 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, as are our previously published reports.<sup>1</sup> 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.

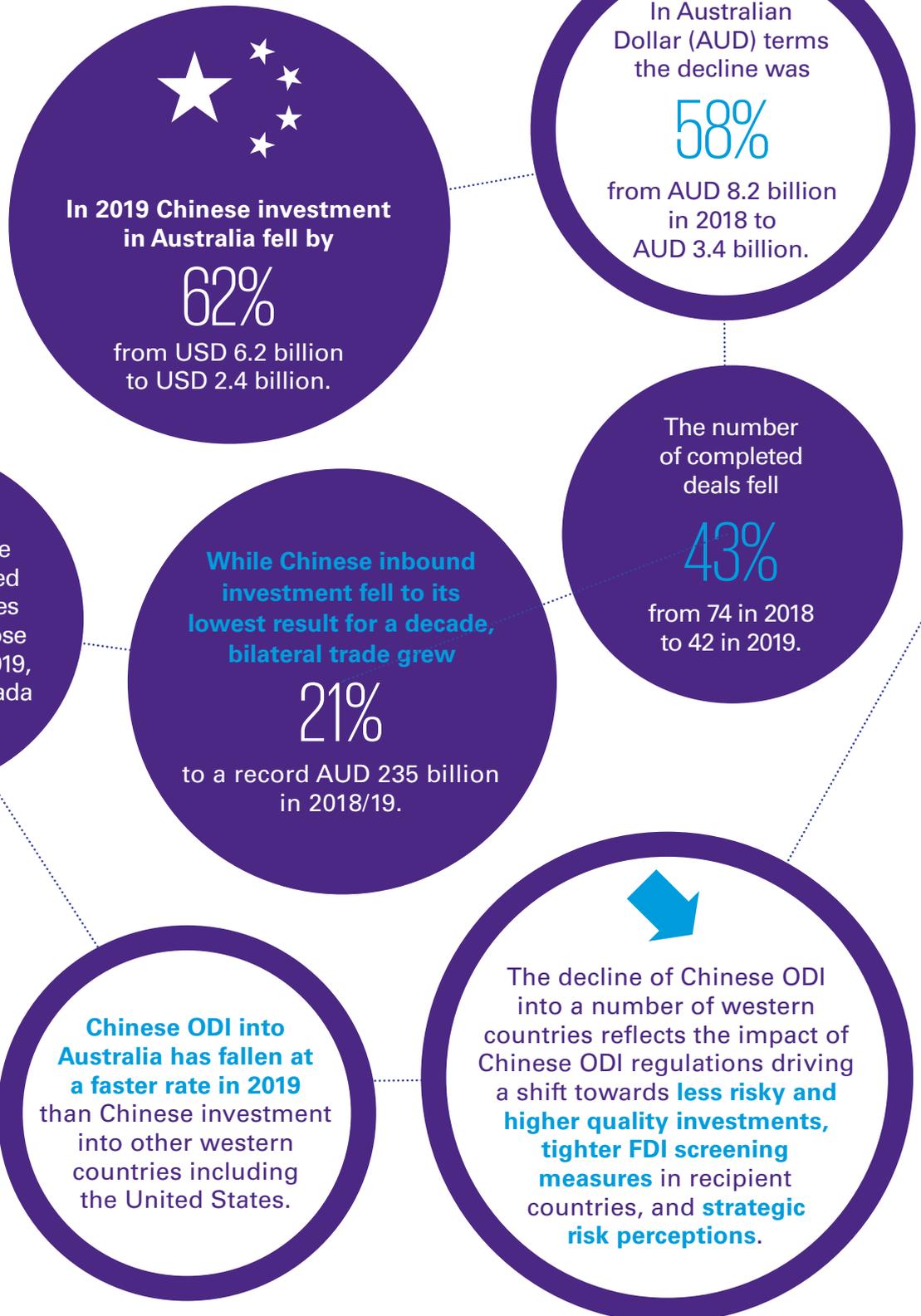
Our data is regularly updated and continually revised when new information becomes available. In line with international practice, we traditionally record deals using USD as the base currency. However, since 2015 our reports have used AUD for detailed analysis.

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.

# Key findings

## Chinese investment in Australia is very low despite a year of record bilateral trade



China's biggest investment in Australia in 2019 was Mengniu Dairy Company's acquisition of Bellamy's Australia Limited for

**AUD 1.5 billion**



This accounted for **44 percent** of China's total investment in Australia that year, and made food and agribusiness the largest recipient sector of Chinese FDI with 44 percent of the annual total. As a result of this one deal, Tasmania received the largest percentage of Chinese investment across all regions for the first time.



The commercial real estate sector was the second largest recipient of Chinese investment in 2019, despite an annual decline of

**51%**

Other active sectors included **services** and **mining**. No investment was registered in the healthcare sector, marking a major change from recent years.

Private / non-SOE investment continued to dominate ownership in 2019, accounting for

**84%**

of the total value and 76 percent of the number of deals. This ratio is in line with previous years.<sup>2</sup>

2. Bellamy's acquirer, Mengniu Dairy Company, is a mixed-ownership company. We treated Mengniu's acquisition of Bellamy as a non-SOE investment because Mengniu is not included in the Chinese official SOE register.

# Global context for global and Chinese investment

In 2019, global foreign direct investment (FDI) was flat at USD 1.4 trillion, down one percent from 2018.

For 2020/21, the United Nations Conference on Trade and Development (UNCTAD), in its revised March 2020, forecast projected a downturn of 30 to 40 percent in global FDI as a result of the COVID-19 pandemic.<sup>3</sup>

The United States and China were the largest recipient countries of global FDI inflows in 2019 with USD 251 billion and USD 140 billion received respectively. Singapore ranked third with USD 110 billion followed by Brazil in fourth position with USD 75 billion. UNCTAD statistics revealed Hong Kong, for its part, fell to the sixth position due to a 48 percent drop in FDI flows to USD 55 billion.<sup>4</sup>

According to UNCTAD figures, Australia's global intake of FDI in 2019 dropped by 42 percent to USD 39 billion, down from a record high in 2018.<sup>5</sup>

According to China's Ministry of Commerce (MOFCOM) statistics, China's non-financial outbound direct investment (ODI) declined by 8.2 percent in 2019 to USD 110.6 billion, down from USD 120.5 billion in 2018. Global Chinese ODI was balanced across a range of industries including commercial real estate, manufacturing, distribution and retail. 'Belt and Road' countries took USD 15 billion, representing a 13.6 percent of China's ODI, and similar to their share in 2018.<sup>6</sup>

Chinese ODI into developed economies decreased sharply in 2019. M&A data by Baker McKenzie and Rhodium Group showed a decline of 29 percent from USD 80 billion to USD 57 billion into developed economies. Chinese M&A activity into North America and Europe was down by 27 percent and 40 percent respectively to USD 19 billion (aggregated), marking the lowest result since 2008. The only region recording an increase in Chinese M&A activity was Latin America, where Brazil performed strongly.

Chinese FDI into the United States was USD 5 billion in 2019, down from USD 5.5 billion in 2018.<sup>7</sup> The largest M&A deal in the US was Shandong Ruyi's acquisition of Invista's

Apparel and Advanced Textile business for USD 2 billion which operates as The Lycra Company. Shandong Ruyi is also a major investor in Australia, with the Cubbie Station cotton farming operation. The other notable Chinese acquisitions in the US were Envision Energy's acquisition of Nissan's Automotive Energy Supply Corporation's US manufacturing assets and Xtep International's acquisition of a footwear company.

Chinese FDI into Canada halved to USD 1 billion in 2019 from USD 2 billion in 2018. The largest Chinese M&A deal in Canada involved mining assets acquired by CITIC and Zijin Mining Group.<sup>8</sup>

According to Rhodium/Mercator research, Chinese ODI into the European Union in 2019 declined by 33 percent to EUR 11.7 billion (USD 13.4 billion), the lowest level since 2013. In broad terms, 2019 showed a doubling of Chinese investment into Northern Europe, particularly Finland and Sweden, and 25 percent increase into the United Kingdom. Meanwhile, Chinese ODI fell in Germany and France. Sectoral distribution of Chinese ODI in the EU has diversified to include consumer-related products and services, automotive and energy-related basic materials, as well as ICT.<sup>9</sup>

There are several factors explaining a decrease of Chinese investment in developed economies:

- Chinese policy restrictions to avoid irrational and financially-risky transactions continue having a downward impact on the number and value of investments;
- De-leveraging efforts over the past years have led to less available credit for overseas investments. While authorities have recently decided to increase liquidity levels and reduce the cost of financing, this is only intended to support the domestic economy due to the impact of COVID-19. This means less credit is available for overseas investments, and;
- FDI regimes in developed economies are tightening.

3. [https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3\\_en.pdf](https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf)

4. [https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1\\_en.pdf#page=1&zoom=180,-4,846](https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1_en.pdf#page=1&zoom=180,-4,846)

5. [https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1\\_en.pdf#page=1&zoom=180,-4,846](https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1_en.pdf#page=1&zoom=180,-4,846)

6. <https://www.reuters.com/article/us-china-economy-fdi/chinas-2019-fdi-up-5-8-outbound-investment-slumps-idUSKBN1ZK051>

7. <https://rhg.com/research/two-way-street-us-china-investment-trends-2020-update/>

8. <https://www.bakermckenzie.com/en/newsroom/2020/01/chinese-investment-in-europe-na>

9. <https://rhg.com/research/chinese-fdi-in-europe-2019-update/>

# Overview of Chinese investment in Australia in 2019

Our dataset and methodology shows Chinese investment in Australia declined by 62.2 percent in USD terms in 2019, from USD 6.2 billion (AUD 8.2 billion) in 2018 to USD 2.4 billion (AUD 3.4 billion).

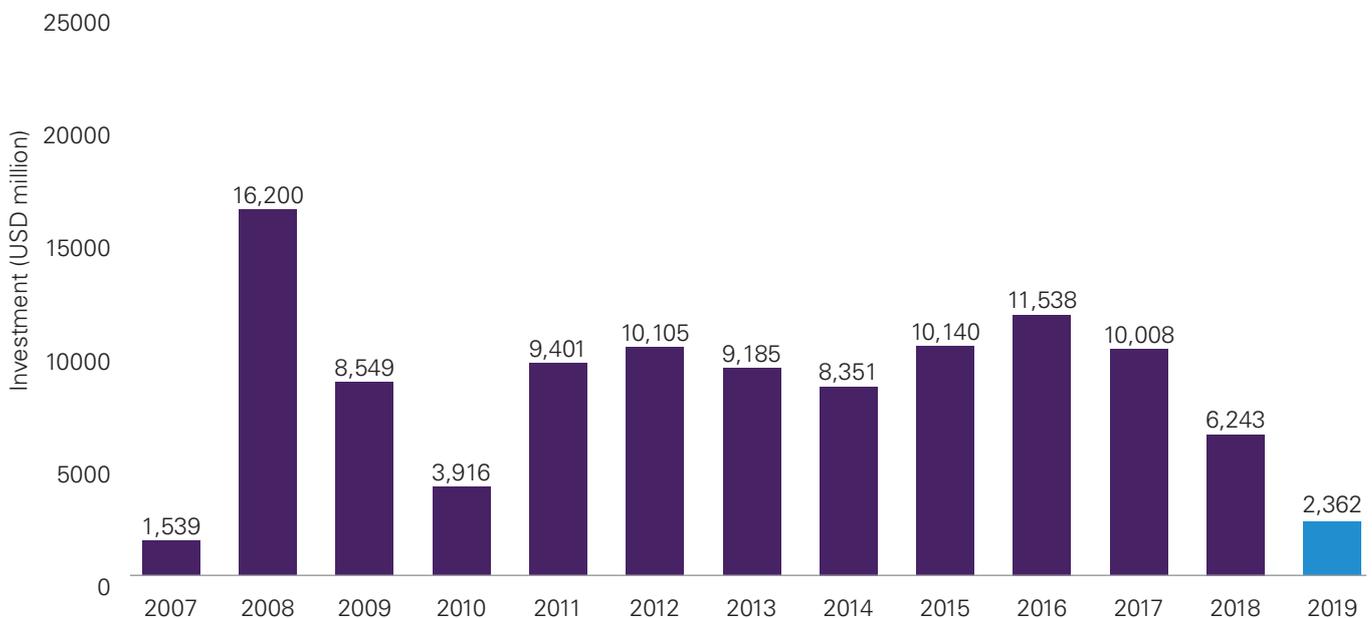
This 2019 downturn in value brings Chinese ODI into Australia to the lowest annual level since Chinese investment peaked in mining and energy in 2008. It is also worth noting that, on average, transactions are much smaller in size.

In terms of number of transactions, we are back to the level of 2013. Based on our data, 42 transactions were completed in 2019, down from 74 in 2018.

This decline in new Chinese investment was in striking contrast to the significant growth in bilateral trade which reached its highest annual volume ever in 2018/9 with AUD 235 billion, a 21 percent increase.<sup>10</sup>

The Foreign Investment Review Board (FIRB) in its 2018/19 annual report confirms the continuing decline in number and volume of proposed investments from China over the period of FY 2018/19.<sup>11</sup>

## Chinese ODI into Australia by value 2019 (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

10. <https://www.dfat.gov.au/sites/default/files/trade-investment-glance-2020.pdf>

11. <https://firb.gov.au/about-firb/publications/2018-19-annual-report>

**Selected major Chinese investments in Australia in 2019 (in AUD)**

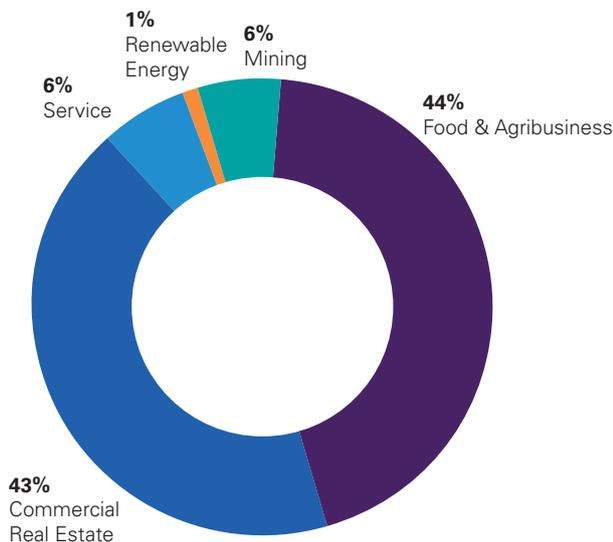
Target Name	Acquirer Name	Industry Sector	State	Value (AUD million)
Bellamy's Australia Limited	China Mengniu Dairy Company Limited	Food & Agribusiness	TAS	1,500
Propertylink Australian Logistics Trust II/ ESR Australia Logistics Trust (80%)	China Merchants Fund	Commercial Real Estate	NSW	280
Bluestone Capital	Aoyuan International	Commercial Real Estate	NSW	200
Novotel Melbourne & Century City Walk	Chaolong Developments	Commercial Real Estate	VIC	144.8
King's Own Institution	China Education Group	Service – Education	NSW	128

Source: The KPMG/Sydney University database

# Chinese investment in Australia by industry

For the first time and as a result of the very large Mengniu Dairy deal, the agribusiness sector received the largest share of 2019 Chinese investment followed by commercial real estate. Interestingly, even though Chinese companies were very active in Australia's healthcare over the past recent years, there were no completed transactions in 2019.

## Chinese ODI by industry in 2019 (percentage of total)



Source: The KPMG/Sydney University database

## Chinese investment in Australia by industry 2019

Industry	Value (AUD million)	% of 2019 total	Change in % from 2018
<b>Food &amp; Agribusiness</b>	1,528	44%	1699%
<b>Commercial Real Estate</b>	1,479	43%	-51%
<b>Services</b>	195	6%	1675%
<b>Mining</b>	208	6%	-55%
<b>Renewable Energy</b>	23	1%	-94%
<b>Energy (gas and oil)</b>	0	0%	-100%
<b>Infrastructure</b>	0	0%	-100%
<b>Healthcare</b>	0	0%	-100%
<b>Total</b>	<b>3,433</b>	<b>100%</b>	

Source: The KPMG/Sydney University database

## Food & Agribusiness

Three deals were completed in the food and agribusiness sector in 2019 totalling AUD 1,528.74 million, making food and agriculture the biggest Chinese-invested sector in 2019 with 44.5 percent of the total investment in 2019. This was largely driven by one deal, the acquisition of Bellamy's Australia Limited by China Mengniu Dairy Company Limited for AUD 1.5 billion.

The Foreign Investment Review Board's approval of the take-over was conditional upon a majority of Bellamy's board members being Australian citizens, maintaining corporate headquarters in Australia for at least the next 10 years and spending at least AUD 12 million in establishing or improving infant milk formula processing facilities in Victoria.

## Real Estate

### Data and analysis contributed by Knight Frank Australia

According to Real Capital Analytics, Chinese global cross-border investment in commercial real estate totalled USD 10.4 billion in 2019, down 56 percent on 2018 levels. Restrictions on capital outflows from China continue to weigh on investment offshore. Despite capital flows falling by 41 percent, Hong Kong remained the most popular destination for capital from Mainland China, accounting for 43.5 percent of cross-border investment. Trade tensions between United States and China weighed heavily on investment in the United States which fell by 90 percent, while investment in the United Kingdom also declined sharply. By contrast, investment in Japan, Singapore, and Malaysia increased significantly.

Mainland Chinese investment in Australian commercial real estate (including residential development sites) totalled around AUD 1.5 billion in 2019, down 51 percent compared to the previous year. The decline in capital inflows from Mainland China partly reflects investors directing capital through non-Mainland Chinese companies and funds.

By sector, residential development sites continue to be a popular segment for Chinese capital, accounting for just over two-fifths of deal volume. Industrial property made up 20 percent of transaction volume boosted by China Merchants Group's majority acquisition of the Propertylink Australian Logistics Trust II. Office property accounted for 15 percent of investment, boosted the purchase of 107 Mount Street in North Sydney by an undisclosed Chinese buyer. Retail and hotel assets made up 14 percent and 10 percent of transaction volume respectively.

Chinese investment was mainly directed towards smaller acquisitions in 2019. Just under 70 percent of the total number of transactions involved deal sizes of AUD 50 million or less compared with two-thirds in 2018. By deal volume, deal sizes less than or equal to AUD 50 million accounted for 32 percent of the total compared with 17 percent in 2018. The prevalence of activity in smaller deal brackets partly reflects the ongoing impact of measures to limit capital outflows from China.

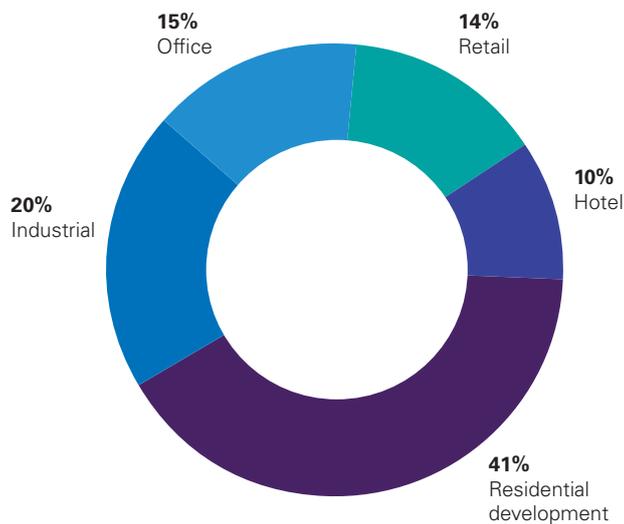
Australia's largest cities remain the key destinations for Chinese capital. Sydney accounted for around half of total investment in 2019, while Melbourne made up 34 percent. Brisbane, Cairns and the Gold Coast made up the remainder, each accounting for between 5 percent and 6 percent of total investment volume boosted by hotel and development site transactions.

Looking ahead, recent falls in interest rates in Australia, a competitive currency, and relatively high commercial property yields compared to many major markets globally make Australia an attractive destination for offshore capital, including from Mainland China. However, the COVID-19 pandemic adds a high degree of uncertainty to the outlook. The global downturn is adversely affecting investment activity and may restrain global capital flows for some time to come. However, lower interest rates will act to cushion the adverse impact on commercial property prices, while the depreciation of the Australian dollar over the year to date will make investment in Australia more attractive.

## Top real estate transactions in 2019

Property	Location	Type	Purchaser	AUD million
Propertylink Australian Logistics Trust II/ESR Australia Logistics Trust (80%)	Sydney	Industrial	China Merchants Group	280
Capital Bluestone acquisition	Sydney	Residential development	Aoyuan International	200
Novotel Melbourne & Century City Walk	Melbourne	Hotel/retail	Chaolong Developments	145
107 Mount Street	Sydney	Office	Undisclosed	115
The Exchange at Darling Square	Sydney	Retail	SLLZ Development and Holdings Group Pty Ltd	70

## Real estate investment share by sector



Source: Knight Frank Research, RCA

## Mining

The mining sector in 2019 accounted for 6 percent of total Chinese investment, with six deals totalling AUD 207.73 million, a decrease of 55 percent from 2018.

Increasing pressure to lower domestic emissions back in China is impacting Chinese investment in Australia's traditional mining sectors. While Chinese companies continue to be attracted by Australian high-grade iron ore and coal assets, they face pressures from the global anti-fossil energy public sentiment.<sup>12</sup> Chinese investors are increasingly looking for higher quality assets or shifting investment to other asset types.

For non-traditional mining, Chinese investment interest in base metals and lithium mining continued. Australia remains the dominant supplier for lithium, the base raw material for global battery production for electric cars

and other purposes. Four of the six mining projects in 2019 involved lithium mining. Investors include leading lithium-ion compounds and battery manufacturers such as CATL and Ningbo Shanshan, and Jiangxi Ganfeng. These strategic players in lithium-ion supply products to some of the leading companies in the world including Tesla, BYD and BMW.

China today accounts for over 65 percent of global battery production and over half of the world's total lithium chemical production. Growth in Chinese lithium compound production and the rising number of companies able to supply high quality lithium both domestically and overseas have been a major factors in transforming lithium into a valuable commodity as a specialty chemical product<sup>13</sup>.

## Renewable energy

While we continue to see strong interest in wind and solar projects in Australia and increasing interest in battery storage, most deals are small and many are greenfield investments. The deals we identified in 2019 were all made by private investors from China.

Chinese investors face similar challenges as other renewable energy investors, particularly ongoing regulatory uncertainties and grid connectivity issues.

## Services

Chinese investments into the Australian services sector in 2019 totalled AUD 195.2 million representing 5.7 percent of the total. This included two educational businesses, one in financial services and one in hotel management services.

## Healthcare

In 2019, Chinese investment in healthcare dropped to zero from AUD 3.4 billion in 2018.

We have seen high levels of investment from Chinese companies into Australia's health sector between 2015 and 2018. Healthcare was the main target sector for Chinese investment in 2018 with a total of AUD 3.4 billion. In our 2018 health sector report we noted that Chinese investors are primarily interested in scalable medical services and healthcare products.<sup>14</sup>

12. According to our interviews with Chinese investors, Mining (<https://www.conectas.org/en/news/dam-collapse-delisted-global-compact>), climate change, China's economic rebalancing and the growth of new industries.

13. <https://www.metalbulletin.com/Article/3898269/Evolution-in-Chinas-lithium-supply-chain-paves-way-for-commoditization.html>

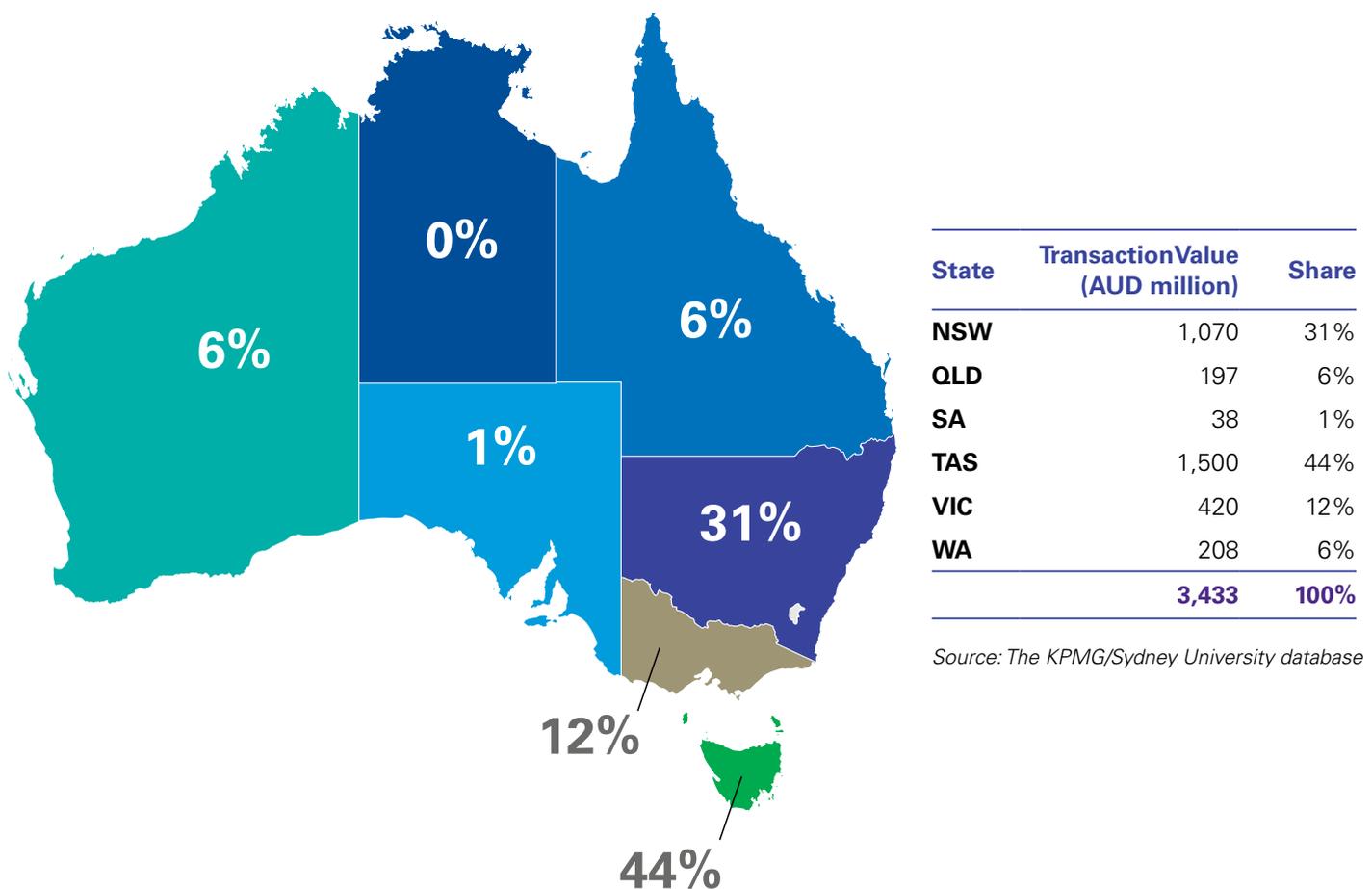
14. *Demystifying Chinese Investment in Australian Healthcare*, January 2018

# Chinese investment in Australia by geography

Tasmania received the largest proportion of Chinese investment in 2019 due to the acquisition of Bellamy's Australia Limited by Mengniu. NSW was second in 2019 with AUD 1 billion or 31 percent of the total investment, followed by Victoria with 12 percent.

The sectoral diversity of Chinese investment in each state has decreased. In New South Wales, investment was concentrated in commercial real estate and services. In Victoria, agribusiness and commercial real estate were dominant and in Western Australia, mining remained the focus of interest.

## Geographic distribution of Chinese investment in 2019 by state

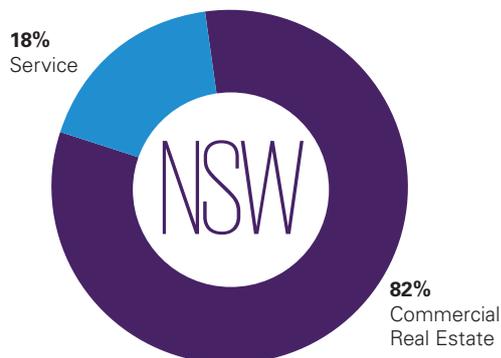


Source: The KPMG/Sydney University database

### New South Wales

Industry	Transaction Value (AUD million)	Share
<b>Commercial Real Estate</b>	875	82%
<b>Service</b>	195	18%
<b>Total</b>	<b>1,070</b>	<b>100%</b>

Source: The KPMG/Sydney University database

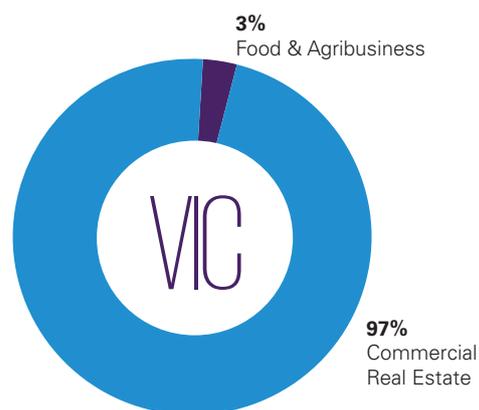


Source: The KPMG/Sydney University database

### Victoria

Industry	Transaction Value (AUD million)	Share
<b>Food &amp; Agribusiness</b>	14	3%
<b>Commercial Real Estate</b>	406	97%
<b>Total</b>	<b>420</b>	<b>100%</b>

Source: The KPMG/Sydney University database



Source: The KPMG/Sydney University database

### Western Australia

Industry	Transaction Value (AUD million)	Share
<b>Mining</b>	208	100%
<b>Total</b>	<b>208</b>	<b>100%</b>

Source: The KPMG/Sydney University database

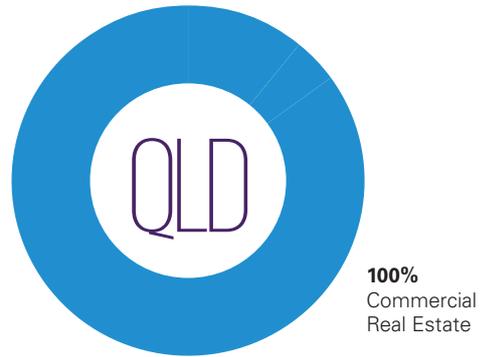


Source: The KPMG/Sydney University database

### Queensland

Industry	Transaction Value (AUD million)	Share
<b>Commercial Real Estate</b>	197	100%
<b>Total</b>	<b>197</b>	<b>100%</b>

Source: The KPMG/Sydney University database



Source: The KPMG/Sydney University database

### Tasmania

Industry	Transaction Value (AUD million)	Share
<b>Food &amp; Agribusiness</b>	1,500	100%
<b>Total</b>	<b>1,500</b>	<b>100%</b>

Source: The KPMG/Sydney University database



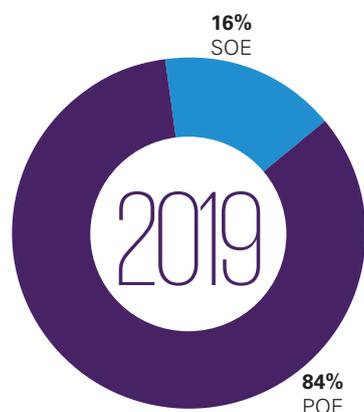
Source: The KPMG/Sydney University database

# Chinese investment in Australia by ownership

We continue to see the share of privately owned Chinese companies rising and state-owned investment falling.

Private Chinese companies accounted for 84 percent of deal value and 76 percent of deal numbers in 2019. We treated Mengniu's acquisition of Bellamy as a private investment because Mengniu is not included in the Chinese official SOE register. COFCO's acquisition and ownership of shares in Mengniu Dairy is an example of 'mixed ownership' reform. As such, Mengniu is a mixed ownership company. Mixed ownership firms are companies with investment both from state-owned capital and non-state-owned capital. If Mengniu had been classified as state-owned, it would reduce total private investment in 2019 from 84 to 40 percent.

We expect an increase in investment by mixed ownership Chinese firms in the future.



Source: The KPMG/Sydney University database

	Investment Value (AUD million)	%	Number of deals	%
<b>SOE</b>	553	16%	10	24%
<b>Private / non-SOE investment</b>	2,880	84%	32	76%
	<b>3,433</b>	<b>100%</b>	<b>42</b>	<b>100%</b>

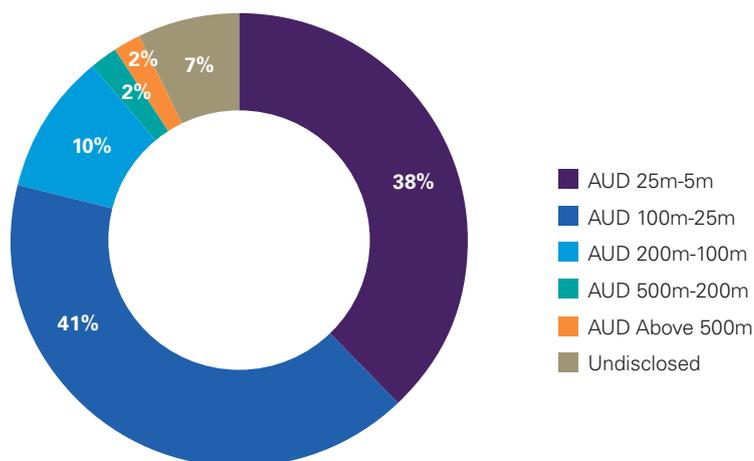
Source: The KPMG/Sydney University database

# Chinese investment by deal size

The trend toward smaller deals has continued in 2019, with the average deal size down from AUD 111 million in 2018 to AUD 81.75 million.

The total number of deals has dropped from 74 in 2018 to 42.

79 percent of deals fell below the AUD 100 million mark as more deals are being done in mid-sized Australian markets across a range of sectors including mining, services, renewable energy and real estate.



Source: The KPMG/Sydney University database

Size of Deal (AUD)	Number of deals	%	Value	%
<b>AUD 25m-5m</b>	16	38%	243	7%
<b>AUD 100m-25m</b>	17	41%	822	24%
<b>AUD 200m-100m</b>	4	10%	588	17%
<b>AUD 500m-200m</b>	1	2%	280	8%
<b>AUD Above 500m</b>	1	2%	1,500	44%
<b>Undisclosed</b>	3	7%	-	
<b>Total</b>	<b>42</b>	<b>100%</b>	<b>3,433</b>	<b>100%</b>

Source: The KPMG/Sydney University database

# Future outlook for Chinese investment in Australia

Our analysis shows that Chinese companies have invested over USD 107 billion into Australia since 2008. This capital has been an important contributor to our post-GFC economic prosperity, driving new project construction activity, creating local employment, increasing and diversifying exports and delivering other related benefits.

New Chinese investment into Australia has been falling quite significantly for the past two years, and in 2019 a sharp decline in both value and number of transactions is clear evidence that the most recent investment boom cycle is over – in Australia and globally.

The reasons are many and no single country or issue is responsible. Tightening Chinese ODI regulations, SOEs investment moving away from developed markets and towards BRI projects, and negative Chinese perceptions accompanying a tightening of investment regulations by foreign governments (including Australia) have, inter alia, jointly contributed to this declining investment trend.

Recent COVID-19 driven changes to FIRB regulations introduced in late March 2020 impacting all foreign investors have reduced the mandatory FIRB review threshold to zero value and allow for a longer six-month review process with no clear sunset maturity timeframe provided. This is consistent with protective measures introduced in other western countries also severely impacted by COVID-19.

We expect FDI regimes in developed economies to continue tightening going forward, as governments seek to protect critical infrastructure and tech, and any other asset deemed as essential for national economic security and try to prevent opportunistic acquisitions of companies at undervalued prices – which is what happened during GFC.

The tightening of FDI regimes globally has been accompanied by a worsening of perceptions regarding China and the ‘purpose’ of investments by SOEs. These perceptions may become even more negative as a result of the pandemic.

Locally, Chinese investors have taken this to be another signal that Australia is less welcoming of their investment. To date, already two Chinese investment applications in the rare minerals sector have either been blocked or aborted as a result of the federal government’s deal terms and / or the review process, although these are unlikely to have been caused by very recent changes to FIRB regulations.

We don’t expect to see a continuation of large-scale investment by new Chinese entrants in the short-medium term. The domestic health and economic effects of COVID-19 are all consuming for both Chinese and Australian governments and companies. Recent public diplomatic tensions have the potential to negatively impact Chinese investment perceptions, although we believe deal activity will continue because there is genuine complementarity between both nations.

COVID-19 has driven China and Australia’s borders to be closed for the medium-term, with flights between Australia and China restricted to transporting Chinese and Australian citizens back to their homes and limited dedicated air freight for perishable or urgent product supplies which will impact trade exports in the short-medium term. This is operationally disabling new investment deal making and due diligence activity.

However, there are now a large number of Chinese companies established and operating in Australia that we expect will continue to invest or divest and drive local deal activity and bilateral trade. We expect the private sector will continue to be most active, deal sizes will be smaller, and most states and territories will continue to be active with NSW and Victoria the largest and most attractive investment destinations.

Two upcoming KPMG / University of Sydney reports will explore the local integration of these Chinese investors. The first report will focus on the expansion of established mainland China investors into value-adding industries such as food processing, wine, manufacturing, health and wellbeing products and services, real estate, tourism assets and services, renewable energy projects and other niche areas with stable domestic demand and growing export opportunities back to China.

The second report will profile the scale, nature and stories of the new generation of Chinese-Australian entrepreneurs who have migrated to Australia since the start of China’s economic reform period and whose companies have become part of Australia’s SME sector.

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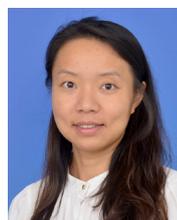
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