CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT IN AUSTRALIA

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Since the introduction of the 'Going Out' (zou chu qu) investment policy (GOIP) in 1999, the growth of China's outward foreign direct investment (OFDI) has accelerated. This rapid growth has prompted concern by numerous policymakers, policy advisers and think-tank analysts, especially in Western countries, regarding the strategic agendas and consequences of Chinese investments. Particular scholarly attention has been given to the role of the Chinese state in influencing and directing OFDI. Research has mainly focused on the support given to Chinese enterprises abroad in the form of funds and preferential policies; and how this assists those enterprises to achieve declared state goals (Wang 2007; Meunier 2014; Andrews-Speed *et al*. 2016; Kamiński 2017). Most of the prior studies on the topic of Chinese investments in Australia are premised on the similar understanding that the investments are part of an orderly effort to achieve some clear goal defined by the Chinese government (Reilly 2013; Cook *et al*. 2010). Some Australian analysts, leading defence and political elites have also expressed concern about Chinese investments in Australia, believing that OFDI is a calculated move by the Chinese state to promote its strategic ambitions in the region (Wade 2015; Barnes and Jennings 2015; James and Hannah 2016). This article seeks to address these concerns by exploring whether Chinese OFDI is government-driven investment for particular strategic purposes.

Existing studies mostly assume that the Chinese state is a rational, unitary actor that influences or directs its OFDI with explicit and predetermined objectives. However, these studies have not closely explored the interests and roles of various state and non-state actors in this process nor the effects

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they have on China's OFDI behaviours. By taking Australia as a case study, this article aims to fill this gap by accounting for the influence of various actors on the outcome of China's OFDI. It argues that, within China's fragmented political system, various state and non-state actors can independently exert some degree of influence over China's OFDI behaviours. With an increasing number of non-state enterprises participating in China's OFDI and pursuing their own interests, the haphazardness of China's OFDI has become more prominent. In addition, although this article focuses on the influence of participants on China's OFDI outcomes, it aims to challenge the existing consensus that there are clear state objectives driving China's OFDI. The analysis proceeds with detailed analyses of the three stages of the development of China's OFDI in Australia since 1978, followed by a short conclusion.

The beginning era: 1978–2005

The first stage of Chinese investment in Australia can be divided into two periods. From 1978 to 1991, China's OFDI in Australia was small in volume and primarily conducted by the Chinese and Australian governments based on their diplomacy. Then, from 1992 to 2005, following the relaxation of China's OFDI policy, China's OFDI in Australia started to grow substantially.

Initial Chinese investments in Australia: 1978–1991

While economic interactions between Australia and China date back to the 1850s, the contemporary development of a bilateral investment relationship commenced only after the two countries established official diplomatic relations in late 1972 (Zhou 2017; Wang 2016: 37). Chinese investors officially started investing in Australia in the 1980s. China's early OFDI was mainly focused on the iron ore and steel industries (Wang 2016: 86-87). To begin with, there was very little Chinese OFDI in Australia, and it almost entirely took the form of government-led, business-to-business cooperation as a way of promoting diplomacy between the two countries (Cui 2016).

Following a wave of high-level political visits between the two countries in the 1980s, China first attempted to invest in Australia in 1984. Prime

Minister Bob Hawke encouraged the official beginning of Chinese–Australian investment cooperation when he visited China and launched the Iron and Steel Initiative (ISI). This initiative was regarded as a form of economic diplomacy (Wang 2016: 77). Later, during a visit to Australia in April 1985, Hawke and the general secretary of the Communist Party of China (CPC), Hu Yaobang, issued a joint communique in which they agreed to continue encouraging commercial arrangements in iron and steel cooperation and further promoted the ISI (Wang 2016: 80-2). The communique highlighted two projects of particular significance: the Mount Channar iron ore mine and the re-activation of idle blast furnaces in Kwinana. These two projects were defined by both governments as essential components of the ISI and paved the way for the beginning development of China's OFDI in Australia (Wang 2016: 80-2).

Efforts to develop the ISI came to fruition in February 1986 when the China International Trust and Investment Corporation (CITIC) took a 10 percent stake in the Portland Aluminium Smelter owned by the Alcoa World Alumina and Chemicals joint venture (The Australian Financial Review Magazine 2013). At the time, this was the first and largest OFDI deal made by China. The ISI continued to be fruitful when State Councillor Gu Mu visited Australia to conclude the Mount Channar deal in November 1987 (Wang 2016: 86-7). In the Mount Channar deal, China's Metallurgical Import and Export Corporation (later renamed to Sinosteel Corporation) and Rio Tinto jointly established the Channar Mining Joint Venture, which owned the Channar mine in the Pilbara region of Western Australia (Callick 2013). Sinosteel Corporation and Rio Tinto had 40 and 60 percent stakes of the joint venture, respectively.[1] This was China's first major OFDI and the first large-scale joint mining initiative undertaken by a Chinese state-owned enterprise (SOE) and an Australian mining corporation at that time.

During this period, China's OFDI in Australia mainly reflected efforts at investment cooperation between the Chinese and Australian governments. Investment in Australia by Chinese SOEs was undertaken in an organised fashion under the direction of the Chinese government, not only to secure

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1 See *https://www.acbr.com.au/channar-iron-ore-game-changer*.

supplies of natural resources but also to promote the early development of the China–Australia diplomatic relationship.

Early Developments: 1992–2005

China's OFDI in Australia started to grow after 1992 as the Chinese government relaxed its OFDI policies. This is largely because Deng Xiaoping's trip to southern China in 1992 was a historical turning point in terms of encouraging China's OFDI, which was officially accepted as a way of securing the natural resources needed for China's economic development. Meanwhile, the general secretary of the CPC, Jiang Zemin, also vigorously promoted the development of China's OFDI. As a result, the approval process for Chinese OFDI was gradually relaxed, and it became easier for Chinese enterprises to invest abroad. Further, with the ongoing implementation of the GOIP in 1999, China's OFDI had been encouraged significantly.

Between 1991 and 2005, China's OFDI in Australia increased at an average annual rate of approximately A$180 million (US$124 million) (Huang and Wilkes 2011). [2] According to the Australian Foreign Investment Review Board (FIRB), Chinese OFDI was heavily concentrated in the real estate and mineral resources sectors during the period 1993–2005. There was a very limited amount of investment in other sectors, such as agriculture, forestry and fisheries, manufacturing, and services and tourism. Chinese OFDI in Australia was only slightly more diversified due to the participation of more investors (mainly SOEs): in addition to a certain number of natural resource investments, there was some investment in real estate, an area that was not traditionally encouraged by the Chinese government.

Although the total amount of China's OFDI in Australia increased during this period, it remained insignificant, as China's national economy could not support the substantial growth of its OFDI. In particular, there was a lack of foreign exchange at this time. As a result, Chinese companies were only encouraged to invest overseas in specific areas, like natural resources, that effectively promoted China's economic development (Christiansen 2005). Moreover, at the same time, it was only some particularly capable

[2] Exchange rate conversion based on current year conditions.

Chinese SOEs, backed by Chinese state-owned banks, that were able to invest abroad. China's initial OFDI in Australia concentrated on natural resources and was financed by large Chinese SOEs. At the end of 1998, Australia was one of the three most important countries for Chinese OFDI, behind the United States and Canada. These three countries accounted for 42.3 percent of China's total OFDI at this time (Wu and Chen 2001).

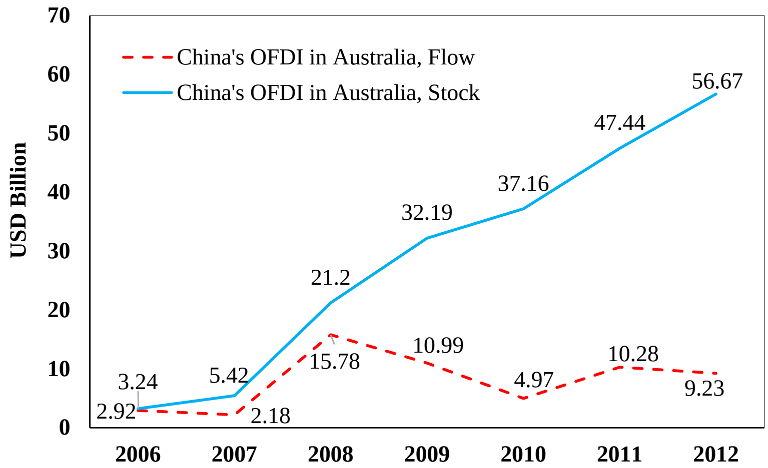
Why did China focus on investment in Australian resources? China had begun to shift from a 'light' to 'heavy' stage of industrialisation after the economic reforms of 1978. It focused on manufacturing industries, such as those involved in the production of machinery, ships and automobiles (Holmes 2013). China's largely state-owned steel industry had nearly quadrupled in size to supply the raw materials needed by these consumer industries, but China's iron ore reserves were far from meeting the requirements of its steel industry's rapid development (Wilson 2011: 287). Consequently, China's demand for metals from around the world accelerated after 1999, and it was responsible for two-thirds of the increase in global metal production between 1999 and 2005 (Streifel 2006). China's need for raw materials was well matched by resource-rich Australia (Australian Government 2019), so investing in Australian minerals was an important way to secure the supply of natural resources for China's industrial development. Australia was also geographically close to the Chinese market, which resulted in cheaper shipping costs.

Although China's OFDI in Australia during the period 1978–91 increased somewhat and covered a wide range of fields, China's OFDI activities can also be said to have become slightly more unorganised. Besides natural resource investment, there were investments in real estate, an area that was not traditionally encouraged by the Chinese government. Moreover, although the amount of Chinese investment in Australia was not particularly large, it accounted for a high proportion of China's total OFDI. This was because Australia had natural resources needed by China and was an ideal place due to its ideal location for China.

The mining boom investment era: 2006–2012

From 2006 to 2012, China's OFDI in Australia grew rapidly, increasing from A$3.70 billion (US$2.92 billion) in 2006 to A$8.86 billion (US$9.23 billion) in 2012. During the course of this period, the flow increased by nearly eight times in 2007–2008, from A$2.49 billion (US$2.18 billion) to more than A$23.1 billion (US$15 billion), but then declined in 2009 and 2010. It increased again during 2011, reaching A$10.07 billion (US$10.28 billion). Thus, between 2006 and 2012, the trend of Chinese investment in Australia showed a significant increase and the stock of China's OFDI in Australia reached nearly A$45.4 billion (US$56.67 billion) by the end of 2012 (see Figure 1).

Figure 1: China's Outward Foreign Direct Investment in Australia, 2006–2012



Source: China Global Investment Tracker.

This rapid growth was mainly caused by a surge in China's OFDI in Australia's iron ore industry, as the Chinese government encouraged its SOEs to invest abroad to secure supplies of natural resources. China's further rapid economic development generated significant increases in demand for resources such as iron ore (Wilson 2011: 287) as its steel production rose steadily, growing at average annual rates of 7 percent, 10 percent and close to 20 percent during the 1980s, 1990s and 2000s respectively (Holloway *et al.* 2010). However, while China had abundant iron ore reserves, the quality of most of these was inadequate for producing high-quality steel and required additional expensive processing (Tcha and Wright 1999). The price of iron ore in China rose in the 1990s to about US$35 per wet million ton (WMT), which was above the world trading price of US$25 per WMT, after accounting for the processing of low-quality ore in China and production taxes (Labson *et al.* 1995). By importing high-quality iron ore, China could significantly reduce the cost of steel production. As a result, China became the destination of approximately 60 percent of the world's seaborne iron ore supply, with Australia (its largest supplier) providing more than 45 percent of these imports (Au-Yeung *et al.* 2012).

Even though China was the world's largest importer of iron ore and producer of steel, it lacked bargaining power when negotiating prices with sellers (Hewitt 2009). This helped to drive a surge in metal prices, along with the rising demand, low inventories and a weaker dollar; thus, by mid-2011, the price of iron ore had increased to nine times what it had been in 2000 (Streifel 2006). The three major iron ore companies – Brazil's Companhia Vale do Rio Doce, the British–Australian Rio Tinto and Australia's Broken Hill Proprietary Company – controlled approximately 80 percent of the global iron ore resources. In addition, the price system was very complicated (Wilson 2011: 291). Unlike the prices of other commodities, that of iron ore was usually set by buyers and sellers in annual contract negotiations, with Japanese and European steel manufacturers dominating the three major iron ore companies for a long time (Zhang and Fan 2006). When a pricing agreement was reached between the dominant steel producers and the iron ore majors, the agreed price would become the benchmark price for the rest of that year (Hewitt 2009). In 2003, on behalf of the Chinese steel industry, Baosteel accepted the Nippon Steel Corporation's increase of 18.6 percent and its price of A$12.34 (US$9.07) per ton for shipping (Deng 2009). At the same time, Chinese iron ore producers had become, on average, the most expensive in the world (Hurst 2015).

To help secure supplies of iron ore and overcome the pressure of rising prices, the Chinese government began to encourage Chinese enterprises to invest in the mining industry. In particular, for Chinese policy-makers, OFDI was regarded as a better way to serve China's strategic demand for iron ore and steel than international trade with independent suppliers. This was because it allowed Chinese investors to own the assets and influence the relevant mining companies, which, in turn, helped to secure supplies of energy and resources and to fight against escalating iron and steel prices (Zhou 2017; Tan 2013).

The growth of China's OFDI in Australia during this period was partly a response to Chinese state policies. In particular, *China's Policy on Mineral Resources (zhongguo de kuangchan ziyuan zhengce)* was issued in 2003 by the Information Office of the State Council and notably aimed to encourage Chinese companies to invest overseas in mining to secure the supply of natural resources for the domestic market. The 11th Five-Year Plan (2006–2010) also identified scarcity of resources as an issue and was of great importance over the following five years in the pursuit of the ambitious goal of securing natural resources. It was in 2005 that the National Development and Reform Commission (NDRC) issued *Iron and Steel Industry Development Policy (2005 Steel Policy, gangtie chanye fazhan zhengce)*, the first resource security strategy, as a response to a 71.5 percent increase in the price of iron ore that year.

The *2005 Steel Policy* covered two main points (Wilson 2011: 291; Ma 2005). Firstly, China's state-owned banking system would support the sponsorship of new iron ore suppliers by encouraging steel companies to invest in overseas iron ore projects and would provide loans on concessionary terms to finance steel mills (NDRC 2005: Article 30). Secondly, the China Iron and Steel Association, which had the delegated authority to distribute iron ore import licences, would support the creation of a cartel of Chinese importers – by promoting coordination among Chinese steelmakers – to improve the bargaining position of the industry in annual benchmark price negotiations (NDRC 2005: Article 39).

Encouraged by the Chinese government, the enthusiasm of Chinese companies, especially SOEs, to invest in Australia's mining sector was obvious and they began to invest heavily in Australia's mineral resources. According to FIRB (Annual Reports 2005–2013), Chinese investment proposals related to the mineral exploration and development sector totalled A$6.76 billion (US$4.93 billion) – 93 percent of all Chinese companies' proposals in Australia from 2005 to 2006 – reaching a high point of nearly 99 percent between 2008 and 2009 (see Table 1). Although this percentage fluctuated in the following years, it continued to be more than half of all Chinese investment proposals in Australia from 2006 to 2012 (Zha 2013).

Table 1: China's Outward Foreign Direct Investment in Australia by Industry, 2005–2013 (in A$ million)

Sector	2005/ 6	2006/ 7	2007/ 8	2008/ 9	2009/ 10	2010/ 11	2011/ 12
Agriculture forestry and fishing	-	15	-	-	-	4	27
Finance and insurance	-	-	420	43	-	558	60
Manufacture	223	700	-	82	198	416	538
Mineral exploration and development	6758	1203	5311	26,254	12,186	9758	10,505
Real estate	279	712	1491	-	2421	4093	4187
Resource processing			137	162	760	132	240
Service	-	10	101	54	717	16	634
Tourism	-	1	20	5	-	-	#
Total	7259	2640	7479	26,599	16,282	14,976	16,190

Source: FIRB.

Note: Total may not add to rounding. All figures represent investments approved by the FIRB. '#' = a figure of A$10 million or less; '-' = a figure of the zone; '0' = a figure of less than A$0.5 million.

Given ready access to state financing, Chinese companies did not hesitate to invest in Australian mineral resources, as reflected in the large size of each transaction. The ten largest Chinese corporate investors in Australia from 2006 to 2012 were all SOEs (see Table 2). These SOEs' investments accounted for US$39.8 billion (A$41.79 billion) of a total accumulated direct investment of US$50 billion (A$52.5 billion), which was equivalent to 80 percent of accumulated Chinese OFDI in Australia over the previous seven years. Notably, the ten largest Chinese investments in Australia were concentrated in the energy and resource sectors which were then the primary focus for Chinese investments.

Table 2: Largest Chinese Investors to Australia and their Australian Projects, 2006–2012

Rank	Investor	Managing owner	Investment sector and sub-sector	Australian projects	Accumulated value (US$ million)
1	Chinalco (Shining Prospect Pte. Ltd)	Chinalco	Metals (aluminium)	2008 Rio Tinto	14,300
2	Yanzhou Coal	Yankuang Group	Energy (coal)	2009 Felix Resources 2011 Yancoal 2011 Syntech 2011Wesfarmers 2011 Gloucester	6,590
3	PetroChina Company Ltd	China National Petroleum Crop.	Energy (gas)	2009 Arrow Energy 2012 Bow Energy 2012 BHP	3,480
4	Sinopec Corp	Sinopec Group	Metals (steel)	2008 AED 2011 Original Energy–ConocoPhillips 2011 Australia Pacific Liquefied Natural Gas	3,070
5	CITIC	CITIC Group Corporation		2006 Mineralogy 2007 Macarthur Coal	3,020

6	Taurus	Guangdong Nuclear Power Group	Metals	2012 Extract Resources	2,380
7	CNOOC	CNOOC Group	Energy (gas)	2010 BG 2012 BG	2,200
8	Datang Power and China SOE South Industries	China Datang Corp.	Energy (alternative)	2011 CBD Energy	2,030
9	Minmetals Resource Ltd	China Minmetals Corp.	Metals	2009 Oz Minerals	1,390
10	Sinosteel	Sinosteel Corp.	Metals (steel)	2008 Midwest	1,320
				Total	39,780

Source: Heritage Foundation and the University of Sydney/Klynveld Peat Marwick Goerdeler database.

Note: All investors are state-owned enterprises. Further, the accumulated value for 'CITIC' is an aggregated total of investments by different subsidiaries of the CITIC group, namely CITIC Pacific, CITIC Resources, CITIC Construction, and CITIC Group.

Massive investments made by SOEs in the Australian mining sector did little to curb the rise in iron ore prices. From 2002 to 2010, Chinese companies made 49 investments in overseas iron ore and coking coal-related projects, valued in total at A$40 billion (US$33.2 billion) (Wilson 2011: 291). 36 of these investments, worth a combined A$27 billion (US$22.41 billion), were in Australia. However, these projects were still in their infancy in early 2010: only seven of them were in production, with the combined development plans for the rest envisaging the installation of capacity for 230 million tonnes of iron ore through to 2015 (Wilson 2011: 295). As a result, the Chinese government's incentives for its companies to invest in Australia could do little to arrest increases in the iron ore price during the boom era of mining investment. By mid-2011, prices had increased nine-fold compared with iron ore prices in 2000 (Wilson 2012).

By this time, China's strategic investment in Australia had prompted strong opposition from the Australian Government to Chinese investors, especially those looking to invest in the natural resources sector (Larum 2011). Given the wave of Chinese OFDI to 2012 and its state-backed, strategic nature, the Australian Government tightened its approval of OFDI projects proposed by SOEs (Drysdale and Findlay 2009; Wilson 2011: 287-9). In February 2008, the Treasurer unveiled a set of additional guidelines concerning foreign government investment proposals consisting of more stringent rules for Chinese OFDI applications (Swan 2008).

Australian opposition to Chinese investors, especially SOEs, was largely based on the notion that Chinese investment in Australia was planned by the Chinese government for a strategic purpose: the securing of natural resources (Wilson 2011: 289). However, in practice, the course of Chinese investment in Australia was not centrally planned. To begin with, the large number of Chinese SOEs flooding into the Australian mining sector led to excessive competition, overlap and divergence among them. For example, during the 2008–2009 period, Chinese SOEs made six significant proposals for investing in the Australian resources sector – Chinalco and Rio Tinto in 2008, Sinosteel and Murchison Metals in 2008, Minmetals and OZ Minerals in 2009, Hunan Valin and Fortescue in 2009, China Non-Ferous Metals and Lynas in 2009 and Yanzhou and Felix in 2009 (Golding 2010). This resulted in fierce competition during the Australian Government's approval process. Additionally, after the Australian Government approved these projects, each enterprise had to compete vigorously to ensure their long-term survival.

Further, the investment behaviours of SOEs in Australia did not comply with Chinese government regulations. To control the reckless expansion of SOEs, Chinese OFDI-related government agencies issued a series of regulations. In particular, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued the *Interim Measures for the Investigation of Liability for Loss of Assets of Central Enterprises (zhongyang qiye zichan sunshi zeren zhuijiu zhanxing banfa)* in August 2008 and *Interim Measures for Supervision and Administration of Overseas State-Owned Assets of Central Enterprises (zhongyang qiye jingwai guoyou zichan jiandu guanli zhanxing banfa)* in

June 2011 (Wang 2011; Li 2008). The main purpose of these regulations was to prevent SOEs from investing heavily in overseas projects with high risks by strengthening SASAC's oversight and holding them accountable for directly or indirectly causing the loss of state-owned assets (Xinhuanet 2018). The degree of asset loss was graded and the penalty to be suffered by a culprit varied according to the degree of asset loss and the nature of problems leading to the loss. According to the concept of *zhidu mianqian yilu pingdeng, yi ba chi zi liang daodi* ('all equal in front of the system and measuring all with the same ruler'), the degree of asset loss of central SOEs was classified as follows: less than ¥5 million (US$0.75 million) for general asset losses; ¥5 million (US$0.75 million) or more but less than ¥50 million (US$7.5 million) for large assets losses; and ¥50 million (US$7.5million) or more for major assets losses (Xinhuanet 2018). The classification and penalty were largely aimed at preventing SOEs from investing overseas with insufficient consideration of high risks, especially in large-scale overseas investments.

In practice, these regulations had relatively little effect on the total amount of Chinese OFDI in Australia. As some Chinese companies with little experience and ability still tried to invest in Australia, the frequency of rejection by the Australian Government increased, often leading to the failure of entire projects and substantial financial losses (Wilson 2011: 297-9). The Ministry of Commerce of China reported in November 2010 that 65 percent of failed deals since 2005 had been due to failure to comply with foreign regulations, although that figure was not for Australia alone. In one 2009 instance of this phenomenon, China Nonferrous Metal Mining Group Company Ltd (CNMC) planned to acquire a A$0.7 billion (US$0.47 billion) shareholding in Lynas Corporation Ltd, Australia's largest miner of rare-earth metals, seeking to obtain a 51.6 percent stake for A$0.25 billion (US$0.17 billion) at A$0.36 (US$0.24) per share. The additional undertakings required by the FIRB would have required CNMC to reduce its proposed ownership to less than 50 percent and its number of board positions to less than half the board. This requirement indicated that the Australian Government preferred China's OFDI not to take a controlling interest in companies (Drysdale 2011). However, as CNMC refused to follow the FIRB's requests, its proposed acquisition failed (Huang and Austin 2011). If it could have flexibly dealt with this situation and better understood the aim of the Australian Government, it would have been able to take a 49 percent stake first and then affect resource flows in other ways, such as through long-term supply agreements internally influencing Lynas Corporation Ltd (Fu and Zha 2014).

Another example was the case of Sinosteel Corporation's US$1.5 billion loss after its takeover of Western Australian iron ore miner Midwest Corporation in September 2008 (Zhou 2014). Sinosteel Corporation launched a A$1.2 billion (US$0.8 billion) takeover bid for Midwest Corporation, with a controlling stake of 98.52 percent (Sinosteel Corporation 2008). However, when the acquisition was completed, Sinosteel Corporation found that it was not buying a premium iron ore such as hematite, but magnetite, which contains less than 50 percent iron content (compared with more than 60 percent in hematite) and would be low in value but expensive to develop (Jones 2014). Additionally, Sinosteel Corporation did not acquire supporting ports, railways and other ore export channels; as a result, it was difficult to transport the mined ore. Having failed to investigate the specific characteristics of the minerals and to give adequate consideration to the project, Sinosteel Corporation faced a loss of US$1.5 billion (Zhou 2014).

The haphazardness of Chinese OFDI activities in Australia was also indicated by the fact that there had been a significant increase in Chinese OFDI in the Australian real estate sector, which was not encouraged or supported by the Chinese government. Table 1 demonstrates that China's investment proposals regarding real estate increased from A$0.28 billion (US$0.20 billion) in 2005 to US$4.19 billion (US$4.27 billion) in 2012, making it the second-largest investment sector. Meanwhile, China's OFDI in other sectors which had been prioritised by the Chinese government, had also risen between 2005 and 2012. With the relaxation of China's OFDI policy, an increasing number of attempts to invest in Australia have made OFDI even more haphazard.

In sum, even during the mining boom investment era, when investments were largely directed by the overall planning of the Chinese government and enterprises were mostly investing in Australia's mineral resources, haphazardness was evident in China's Australian OFDI behaviours. Although there had been some achievements, the results were the opposite of the Chinese government's expectations and caused heavy financial losses. Chinese enterprises crowding into the Australian mining industry caused serious conflicts within Australia; and the Australian Government imposed restrictions on Chinese companies' investment in Australia. In response, the Chinese government was forced to regulate the reckless trend of mineral OFDI. However, this regulation was ignored by SOEs. Overall, 2006-2012 was a period during which the number and range of investors increased and the processes of Chinese investment in Australia became more haphazard.

The diversified investment era: from 2013 to the present

In contradistinction to the Deng Xiaoping era, the Chinese government has become more centralised through reforms under Xi Jinping’s leadership, while only partially reducing the fragmentation of power (Cabestan 2017). Particularly, Xi Jinping has created new bureaucracies, resulting in new bureaucratic overlaps and tensions – in other words, a new form of power fragmentation. Consequently, within China’s political system, Chinese investments in Australia have also tended to be disorderly – or even more so – in the period from 2013 to the present.

Since 2013, the nature of China’s OFDI in Australia has changed significantly: the mix has become yet more diverse. Chinese state-led investments in minerals have declined because of a comparative slowdown in the growth rate of China’s economy (Kent 2013). Investment now extends to the real estate, healthcare, agribusiness, and infrastructure sectors. Additionally, encouraged by the GOIP and supported by sufficient foreign exchange reserves, an increasing number of Chinese enterprises, including both SOEs and privately-owned enterprises (POEs), have been involved in OFDI in Australia (KPMG and University of Sydney 2017).

With the increasing diversification of Chinese investments in Australia, OFDI has seemed to lack any obvious developmental or strategic purpose. This is reflected especially in the large-scale expansion of real estate investment (Li 2017). Since 2013, much more real estate investment has taken place than before. From 2013 to 2016, Chinese investment in mineral resources fell considerably, while investment in real estate showed strong growth.

In 2013, for the first time, nearly half of China’s OFDI was focused on the commercial real estate sector. According to FIRB (Annual Report 2013–2014), Chinese investment proposals for real estate in 2013–14 totalled A$12.4 billion (US$11.0 billion) and accounted for 44.9 percent of all proposals in Australia – surpassing the total amount of A$5.7 billion (US$5.1 billion) in the mineral exploration and development sector and representing 20.5 percent of proposals (see Table 3). In 2016, commercial real estate remained the largest sector for China's OFDI in Australia at 36 percent of all proposals, followed by infrastructure with a record 28 percent worth A$4.3 billion (US$3.2 billion), and healthcare with nine percent.

2016 was also a breakthrough year for agribusiness, which rose from seventh to fourth place as an investment sector, with an increase from A$0.38 billion (US$0.29 billion) in 2015 to more than A$1.2 billion (US$0.8 billion), while mining fell to the sixth position, declining by 35 percent from 2015 (KPMG and University of Sydney 2017).

Table 3: China's Outward Foreign Direct Investment in Australia by Industry, 2013–2016 (in A$ million)

Sector	**2012–13**	**2013–14**	**2014–15**	**2015–16**
Agriculture, forestry and fishing	328	32	2494	996
Finance and insurance	23	51	1730	#
Manufacturing	957	3298	5317	10,056
Mineral exploration and development	8273	5656	9845	1596
Real estate	5932	12,406	24,349	31,912
Resource processing	#	43		
Service	291	6163	2822	2737
Tourism	#	#	#	#
Total	**15,803**	**27,650**	**46,563**	**47,302**

Source: FIRB.

Note: Total may not add to rounding. All figures represent investments approved by the FIRB. '#' = a figure of A$10 million or less.

The main reason for such diversification is that more and more POEs have made large-scale investments in Australia. From 2005 to 2012, there were only two real estate deals worth more than US$100 million (A$147.6 million), one by an SOE and one by a POE. Conversely, there were 21 real estate deals worth more than US$100 million between 2013 and 2016, two of which were – by SOEs and 19 were by POEs (American Enterprise Institute and the Heritage Foundation 2019). The number of POEs investing in real estate increased by 19 times from the previous period.

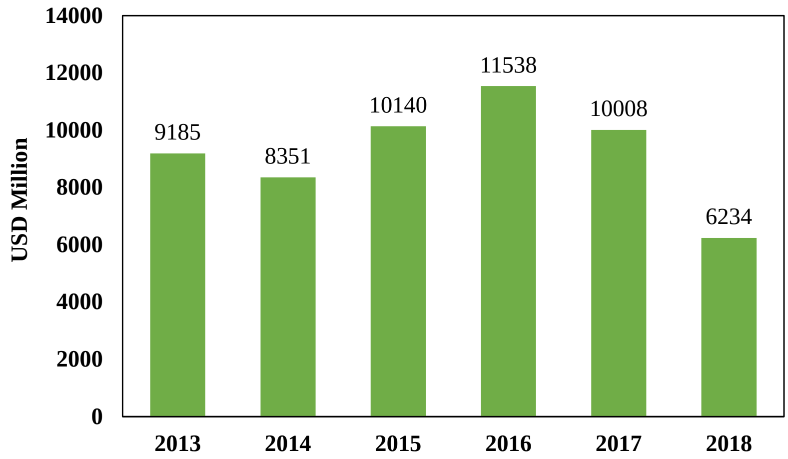
The overall growth rate of POEs investing in Australia was also significant. In 2013, the number of Chinese POE deals (25) exceeded the number of SOE deals (15) for the first time. The former accounted for 65 percent of all Chinese investment in Australia (KPMG and University of Sydney 2014). By the following year the number had grown to 51 deals with a value of A$6.2 billion (US$4.2 billion). These numbers exceeding the investments by SOEs – 9 deals and A$3.2 billion (US$2.1 billion) – and accounted for 66 percent of all Chinese OFDI in Australia (KPMG and University of Sydney 2015). In 2016, POEs signed 78 deals with a total value of A$7.6 billion, representing 49 percent of China's total OFDI – only slightly less than the A$7.8 billion (US$5.2 billion), or 51 percent, invested by Chinese SOEs (KPMG and University of Sydney 2017).

In late 2016, the Chinese government tightened its enforcement of capital controls, primarily because of the marked increase in the pace of China's OFDI between 2015 and 2016. These changes focused mainly on multibillion-dollar overseas deals, such as those in the real estate sector (Korporaal 2017). Specifically, the Chinese government set formal guidelines for OFDI, restricting investment in real estate, tourism and entertainment but encouraging it in other sectors (*e.g.*, oil, mining and infrastructure). The restricted sectors are listed as 'irrational' OFDI in China's current national economic plan, the 13th Five-Year Plan (2016–2020) (Sue 2017). Since then, investments are also likely to come under increased scrutiny if they have not undergone due diligence, are highly leveraged or not aligned with investors' core competencies. Although these changes did not explicitly target Chinese real estate investments in Australia, the number of these investments declined under the recently established controls.

These tightened restrictions on capital outflows may have affected China's Australian OFDI in 2017 and 2018, which declined from US$11.5 billion (A$15.4 billion) in 2016 to US$10 billion (A$13.3 billion) in 2017 and

US$6.2 billion (A$9 billion) in 2018 (see Figure 2). Notably, commercial real estate slipped into second position in 2017, at A$4.4 billion (US$2.9 billion), representing 33 percent of the total (KPMG and University of Sydney 2018). Conversely, in 2017, mining became the largest sector for Chinese investment for the first time in the diversified investment era, representing 35 percent of the total and valued at A$4.6 billion (US$3.1 billion) – an almost five-fold increase over that in 2016.

Figure 2: China's Outward Foreign Direct Investment Flows in Australia, 2013–2018



Source: The University of Sydney / Klynveld Peat Marwick Goerdeler database.

Beijing's restrictions have had a limited effect on OFDI in Australia, and investment has continued to be inconsistent with Chinese regulations. In particular, in terms of the total proportion of investment in Australia since 2018, real estate investment (discouraged by the Chinese government) has increased, while the share of mineral investment (encouraged) has decreased. Although the total amount of real estate investment declined between 2017 and 2018, it was nevertheless the largest sector of Chinese investment in 2017: it increased from 33 percent of total OFDI in 2017 to

36.7 percent in 2018 (KPMG and University of Sydney 2018). While Chinese investments in Australian real estate (excluding residential dwellings) were A$3 billion (US$2.01 billion) in 2018, down from 2017 levels, it was still the second-largest investment sector for Chinese investors (KPMG and University of Sydney 2019). Conversely, the mining sector accounted for 5.6 percent of China's total Australian OFDI in 2018, with five transactions totalling A$0.46 billion (US$0.31 billion) – a decrease of more than 90 percent from 2017 (KPMG and University of Sydney 2019). As a result, Chinese mining investment in Australia fell from first place in 2016 to fourth place in 2018 (see Table 4). These trends show that Chinese investment in Australia has not followed the prescriptions of the Chinese government but instead has gone in the opposite direction.

Table 4: Chinese Outward Foreign Direct Investment in Australia by Industry, 2018

Ranking	Sector	Percentage of Total
1	Healthcare	41.70%
2	Commercial Real Estate	36.70%
3	Energy (Oil and Gas)	8.80%
4	Mining	5.60%
5	Renewable Energy	4.80%
6	Infrastructure	1.20%
7	Food and Agribusiness	1.00%
8	Services	0.20%

Source: The University of Sydney / Klynveld Peat Marwick Goerdeler database.

Investments that are contrary to the Chinese government's wishes have also occurred in other sectors (see Table 4). Several enterprises have begun to invest heavily in the healthcare sector since 2017, another area that was not on the list of encouraged investments. While Chinese OFDI in

Australia declined by 37.6 percent in 2018 – from US$10 billion in 2017 (A$13 billion) to US$6.2 billion (A$8.2 billion) – Chinese investment in the healthcare sector increased from A$1.58 billion (US$1.06 billion) in 2017 to A$3.4 billion (US$2.29 billion) in 2018, representing a 111 percent increase over 2017. In 2018, healthcare had become the largest sector of Chinese investment.

Overall, the number of Chinese investors in Australia has increased rapidly, mainly because of the marked increase in the number of POEs investing. With the increase in participating investors, it is more evident than previously that China's investment behaviours in Australia are inconsistent with the expectations of the Chinese government. In particular, this period saw a significant increase in real estate investment, which traditionally has not been encouraged by the Chinese government. This real estate investment has even affected China's economic development because it involved a net loss of foreign exchange, leading the Chinese government to introduce further regulations. Under the control of the Chinese government, there has been a significant dip in real estate investment, but this remains one of the main areas for China's OFDI in Australia. This situation indicates that the Chinese government has reduced diversification to some extent, but not entirely. Another point of interest is the increase in healthcare investment by POEs since 2018: it remains to be seen whether these investments in health will develop in the same way as those in real estate, particularly in terms of whether the Chinese government will exert more control of them later.

Conclusion

Since 1978, Chinese OFDI in Australia has displayed different patterns and has had different targets according to Chinese government policies. Although Chinese investment in Australia is a relatively new phenomenon, it has developed rapidly. Until 2005, China's OFDI was limited; but, by that point, Chinese investors were no longer beginners in the Australian market. They gradually acquired a great deal of experience, becoming a vital investment source for Australia and a critical element of the China–Australia economic relationship (Dong and Collins 2017).

Driven by China's investment policies, the early priorities of China's OFDI in Australia were to make large deals in the minerals and energy sectors. However, the flood of investments made by SOEs in pursuit of their interests in the Australian minerals sector was disorganised and led to significant conflicts of interest. Many high-profile proposals made by Chinese SOEs were either blocked or substantially modified and then rejected by the Australian Government following FIRB advice, which led to serious financial losses (Larum and Qian 2012). Plans to influence iron ore prices through OFDI also failed: as the price of iron ore rose, China’s steel mills were forced to pay increasing prices. Overall, China’s OFDI in Australia did not achieve the effects expected by the Chinese government. Even with the guidance of the Chinese government, SOE investment was not orderly, but haphazard.

Since 2013, China’s OFDI in Australia has shifted away from natural resources towards other sectors (*e.g.*, real estate), and its ownership has diversified as more and more POEs have begun to participate. However, some OFDI projects – especially those undertaken by POEs – were characterised as ‘irrational’ investments by the Chinese government and restricted at the end of 2016. In particular, real estate investments were considered not to be in the interest of China’s economic development. This indicates that Chinese POEs invested in ways that put their commercial interests first, which led to conflicts of interest with the Chinese government. The government has sought to halt these ‘irrational’ investments, but its own authority was limited to some extent. Simultaneously, another type of investment that is not encouraged by the Chinese government – in healthcare – has been carried out extensively. The growth in the number of Chinese investors has made the haphazardness of China’s OFDI activities in Australia more obvious.

This evidence indicates that it would be hasty to assume that the Chinese state is a rational, unitary actor that influences and directs OFDI with predetermined and explicit objectives. Instead, decisions regarding specific OFDI projects are influenced by a range of state and non-state actors with different interests. In other words, although the Chinese government has some influence over Chinese OFDI, Chinese enterprises in most cases enjoy a great deal of autonomy in making decisions regarding their OFDI projects. Not only do Chinese POEs behave differently in their OFDI projects than in local projects, but even SOEs do not always behave in line with China’s national preferences as expressed by the national government. With an increasing number of POEs investing abroad over the past few years, an individual POE can increasingly influence China's OFDI rather than being guided by policies. As a result, the haphazardness of China's OFDI has become more prominent. Thus, China's OFDI policies, such as the Belt and Road Initiative, may be understood as guidelines for general development rather than as a mean of controlling investment behaviours for specific strategic purposes.

In summary, the suspicion that the Chinese state uses investment as a vehicle to achieve strategic objectives in Australia is largely unfounded. To continue those unfounded suspicions would be detrimental to Australia's investment environment and undermine long-term cooperation and mutual trust between the Chinese and Australian business communities.

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