

Drivers of Chinese Investment

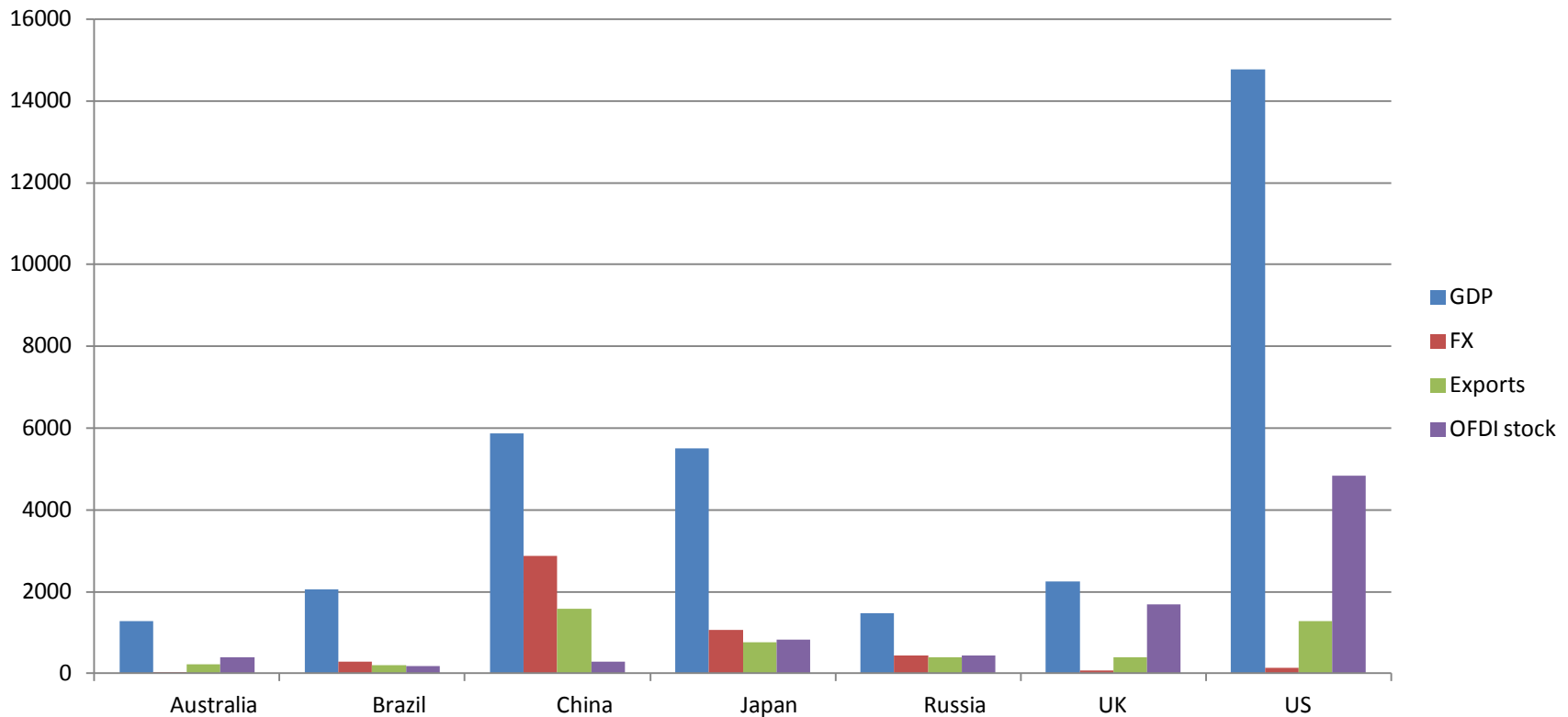
2011 Australian APEC Study Centre Conference

John Larum

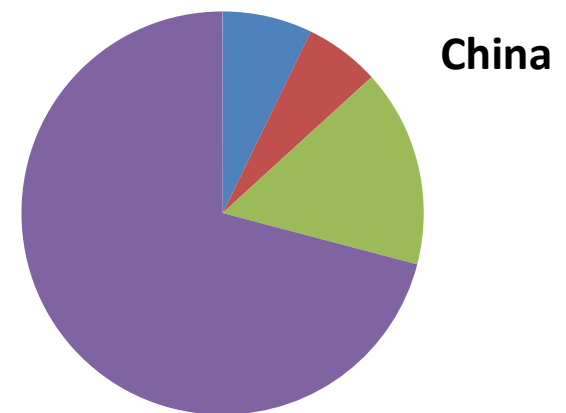
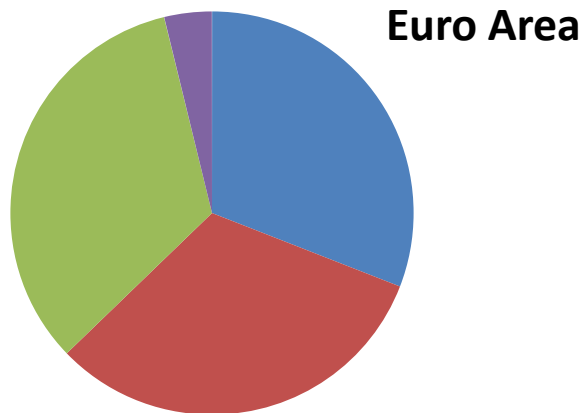
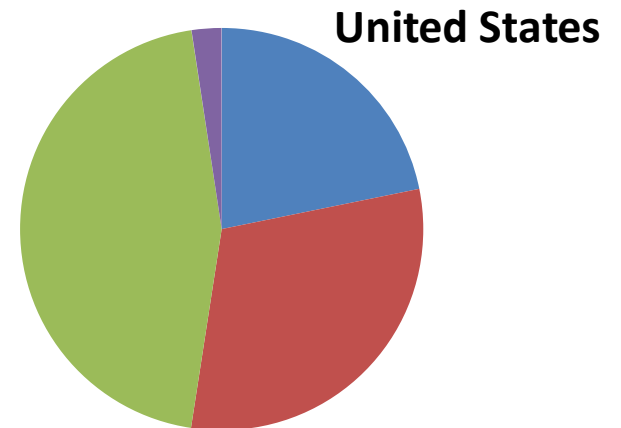
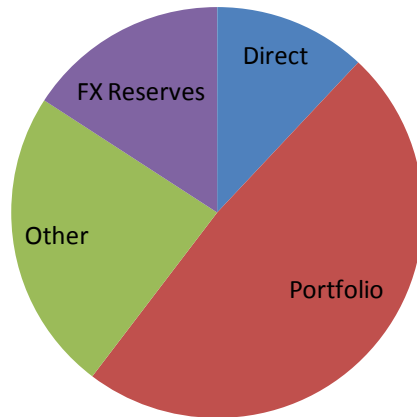
17 November 2011

China's offshore foreign direct investment (OFDI) is way below its potential

Offshore FDI and global economic footprint
(USD billion, 2010)

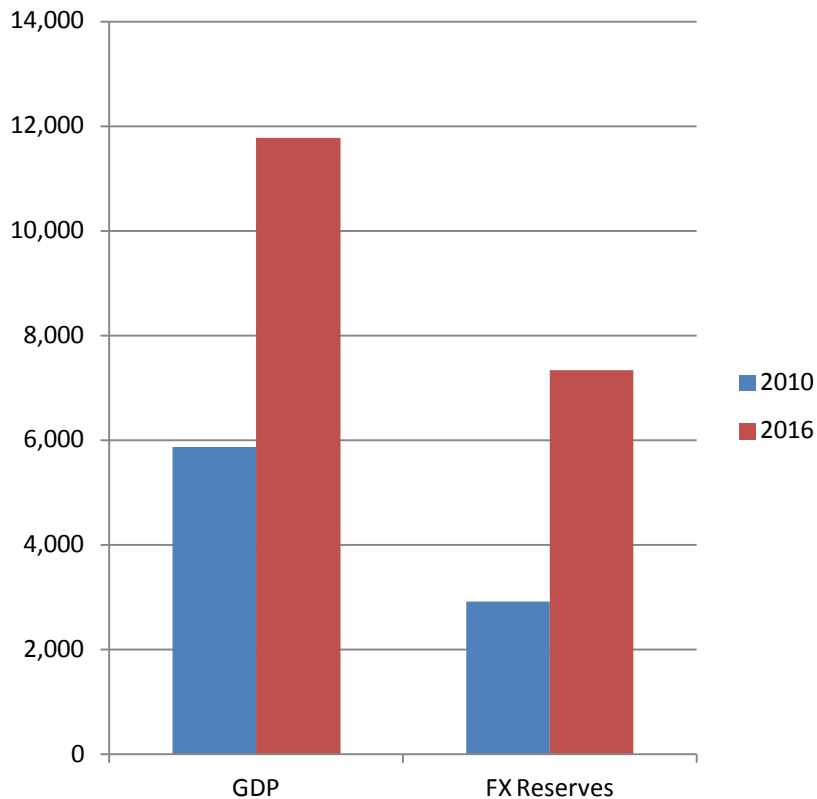


International investment position - composition of external assets

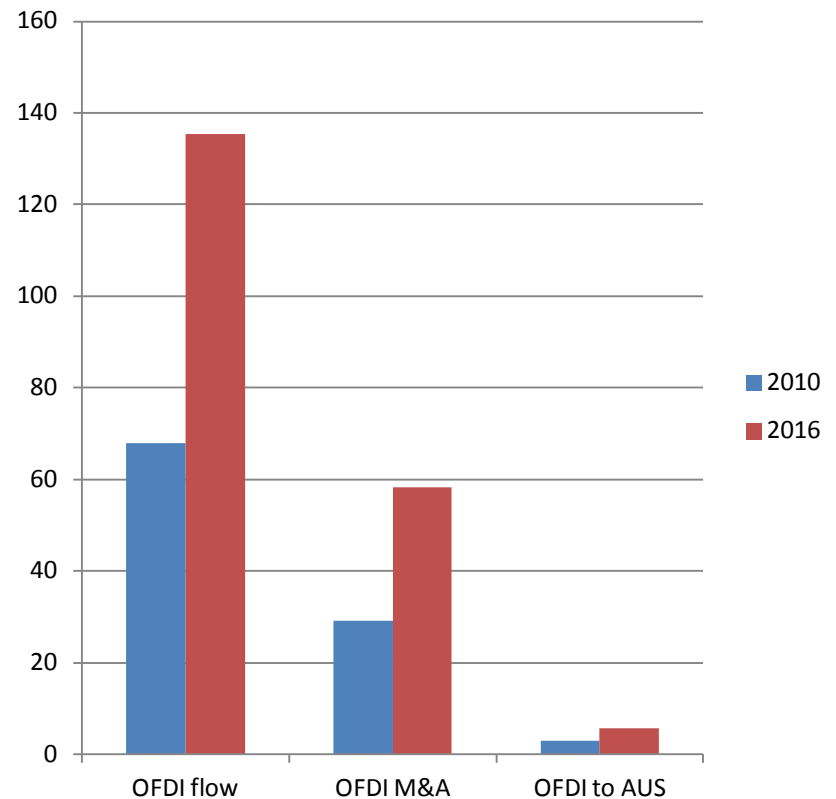


China has the policy intent and the financial resources to expand OFDI significantly

China's growing global economic footprint...



...meaning strong prospective increases in OFDI



Drivers of Chinese OFDI

- Policy: “Go global” + 12th 5 year plan
- “Go global” objectives:
 - Security of natural resource supply (minerals, food)
 - Access new markets
 - Acquire technology, brands and know-how
 - Improve domestic competitiveness
 - Diversify international assets
 - Financial return
- Huge financial resources:
 - FX set to grow further
 - Corporate savings
 - Availability of finance, especially for large SOEs
 - New finance sources (eg PE)

Constraints to Chinese OFDI

- Capacity of China investors to transact and manage acquired assets
 - Cultural gaps
- Greater Chinese regulatory scrutiny of offshore deals
- Caution ahead of leadership changes in 2012
- Harder to find quality assets at attractive prices (especially cf GFC)
- Perceptions of tougher political and regulatory barriers, especially in developed countries
- Political/ security risk in developing countries