

HD **Diverse suitors seeking Chinese favour**

BY Shanna Crispin

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Western Australian businesses are having to work harder to secure investment from **China** as high net-worth **Chinese** seek opportunities outside of the resources sector.

It's a very different economic scenario to that of a few years ago, when investment from the Asian powerhouse was pouring in during the construction phase of the **mining** boom.

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In 2012, for example, more than \$6 **billion** of **Chinese** investment was funnelled into the WA **mining** sector.

That dropped to around \$300 **million** last year, according to research from KPMG and the University of Sydney's **China** Studies Sector.

Agribusiness, in particular, now represents a clear business opportunity as **China** tackles food security and supply challenges.

Many have already taken advantage of that shift in focus, with a handful of deals struck in recent months, and indications that more could be on the cards.

But the state has a tough slog ahead, as competition for **Chinese** investment emerges from all over globe.

Exacerbating WA's challenge in attracting cashed-up investors for long-term gains is the fact that a migration scheme designed specifically for that purpose is failing to meet its targets.

Visas

In 2012, businessman John Garland launched the 888 Fund designed to work alongside the federal government's newly established Significant Investor Visa.

The visa provides investors with temporary residency if they commit more than \$5 **million** to an investment perceived to have significant benefit for Australia.

The idea, Mr Garland told Business News, was one that could bring WA significant reward.

"Quite a lot of investors are significantly high net-worth people," Mr Garland said.

"If we took 70 of those we would rewrite the WA rich list. If you think what influence the Western Australian people on that list have, when you introduce that new injection of capital, it's got a massive opportunity for the state."

Mr Garland launched the fund with **Chinese** businessman Yu Jiao Qing, chairman of Shanghai Shintan Investment **Company** and a major shareholder in **Chinese** state-owned engineering procurement and construction **company**, MCC20.

But the pair is yet to secure an investor, effectively making the 888 Fund an investment fund with no money in it, according to its Australian co-founder.

Mr Garland said the visa program was established with expectations it could secure 700 new high net worth residents to Australia annually.

Four months out from the two-year anniversary of the launch, just 286 visas have been granted.

As per Mr Garland's earlier remark, WA was expected to attract 70 of those new 700 investors each year. Instead it has secured just 14.

"It was a realistic expectation," Mr Garland said.

"The problem broke down in the processing. The applications are processed in **Hong Kong** and that's where it hit a logjam."

Such concerns were raised with the federal government when it announced a review of the visa program in April this year. However, it is yet to report any plans to improve the process.

In the meantime, Mr Garland said WA was missing significant opportunities.

"We've got four or five people who, from the early days, were very keen to come and invest in our fund, but they just simply said there were issues, they were too busy, and they were not going to put themselves into the maelstrom of the application process," he said.

"There's a lot of good people just sitting there waiting for the government to come in and make the changes - that will reopen the gates for us."

Mr Garland suggested WA had failed to make the most of the opportunity to strike up relationships that could facilitate long-term involvement in the state.

"The government hasn't recognised the potential benefits that can flow from this for the broader community in the long term," he said.

"Other states are approaching the significant investor visa far better than we are; they're up there marketing, resourcing and staffing up people to do it."

The food bowl

Much has been made of Australia's potential to be the 'food bowl of Asia', with WA's close proximity to **China** a major drawcard.

Progress has been made in this area with a growing number of deals in the agribusiness space. Last year, **Chinese** investment in WA agribusiness was \$17 **million**, which followed a \$52 **million** farmland **acquisition** by state-owned Beidahuang Group in 2012.

There have been further deals struck this year, including V&V Walsh's agreement to supply **Chinese company** Grand Farm with frozen boxed meat.

As part of the deal, Grand Farm is expected to invest \$200 **million** to increase lamb and beef production in WA.

Rich-listers Gina Rinehart and Andrew Forrest have also engaged in deals under which they can potentially take advantage of **China's** increasing demand for livestock, while The Chia Co founder, John Foss, is reportedly negotiating a supply agreement with **Chinese** buyers.

As these deals show, and Department of Agriculture and Food director general Rob Delane attests, there's no lack of interest in WA's agriculture.

"We are aware of genuine interest from **Chinese** investors and others in purchasing of livestock and grain production properties," Mr Delane said.

"I can't tell whether we're on the cusp of a rapid expansion in acquisitions and/or investment for expansion. But we wouldn't expect that to suddenly take off, we're not going to see **billion** dollar deals done overnight - the sector is just not like that."

The department has helped establish an alliance of stakeholders to facilitate investment into WA agriculture, as well as a conference specifically on **Chinese** investment in agriculture earlier this year.

Mr Delane said there had been positive responses from both potential investors and those in the agriculture sector, despite talk of resistance to **Chinese** investment.

"We hear about it, but we've not had any resistance directly to us. In fact, I've had direct contact from people who want me to help them sell their farm or point them towards potential **Chinese** investors," he said.

"The only person that can sell off the farm is the person who owns the farm; the land will always stay on the Australian map."

Mr Delane warned that, despite the strong interest, WA's agribusiness sector was competing with cheaper alternatives.

"It is an intensely competitive world and the **Chinese** are worldly, I understand there's a lot of **Chinese** interest in Europe and North America," he said.

"Asset purchases in Australia are relatively costly because of the continued high Australian dollar and they've got no particular allegiance to Western Australia, or Australia for that matter, so we need to have something good to offer and we need to be able to do that efficiently.

"We need to make every investment or market trade relationship as positive as possible."

The agriculture market is still tiny compared with the resources sector, however.

For example the value of **iron ore** exports to **China** dwarfed the largest agricultural export, wool, by more than \$50 **billion** in the 2012-13 financial year.

Technology

Those kinds of figures highlight the need for diversified growth and investment, with tourism and ICT both pitched as opportunities for the future.

On the technology front, the entrance of **Chinese** technology giant Huawei could open doors for students and local businesses.

The **company** is in the process of setting up a permanent office in Perth as it seeks to tap into what Huawei Australia chairman John Lord perceives as a lack of ICT innovation in the resources sector.

"**Mining** has taken on technology in lots of areas, but not so much in the ICT area. I think this is a huge change that is about to happen," Mr Lord told Business News during a recent trip to Perth.

"Coming into WA, what we do see is that we are a bit late, but there hasn't been much competition before either."

Mr Lord insisted the federal government's refusal to have Huawei involved in building the National Broadband Network did nothing to taint its brand in Australia.

He said growth in certain segments had been around 10-12 per cent year on year.

Since its entrance into Australia, Huawei has had close collaboration with universities in the eastern states, which Mr Lord said would be replicated in WA.

"We take about 12-20 undergrad students over to **China** and they get about two weeks in Beijing or Shanghai," he said.

"These are undergraduate students studying engineering or ICT degrees ... we haven't done it in Western Australia yet so we'll probably be starting that next year."

Mr Lord said Huawei was also looking for opportunities to work with local technology companies.

"Last year we found a **company** in Melbourne that is now permanently in Huawei's global supply chain, so those opportunities are in WA as well," he said.

"WA is the home of the resources and **energy** industries, companies feeding into those industries will no doubt have good R&D capabilities in some areas."

Tourism

Meanwhile, other small to medium businesses are exploring ways to take advantage of the growing number of **Chinese** tourists.

The number of **Chinese** visiting the state increased by 50 per cent after Guangzhou-based **China** Southern Airlines began flying to Perth three times a week in November 2011.

During those three years, the money spent in WA by **Chinese** tourist has increased 18 per cent to \$163 **million** in the year to the end of March 2014, buoyed by a three-year cooperative marketing deal with **China** Southern Airlines worth \$11 **million**.

Two weeks ago, Business News reported Tourism WA had struck a successive three-year cooperative marketing partnership with **China** Southern Airlines worth \$4.8 **million**.

Tourism WA chief executive Stephanie Buckland said the relationship with **China** Southern had been fruitful in that the load factor on its flights were at a point where, she thought, it would justify an increase in the frequency of flights to more than the current three per week.

The ultimate goal is to increase the number of **Chinese** passengers to 100,000 a year by 2020.

Figures for 2014 indicate that 33,9000 **Chinese** visitors came to WA in the 12 months to the end of March.

Ms Buckland said Tourism WA had focused on how WA businesses could extract the most value out of the **Chinese** tourism market.

"There are some businesses that have said 'this is a market that we want to be in' and they have really adapted," she said.

One example is the Lobster Shack in Cervantes, which has diversified from a family-owned lobster fishing **company** into a tourism destination offering a unique travel experience.

Farmers Michael and Mary Nenke are doing something similar. The couple diversified into yabbie production from wheat and sheep farming in 1990.

While still producing wheat and sheep, they now also export their Cambinata Yabbies into **Hong Kong** and Macau.

Chinese restaurants in Australia were also becoming increasingly significant customers.

Mrs Nenke told Business News the business was now focused on increasing the tourism appeal of the farm at Kukerin, and had received a lot of interest from groups visiting from Asia.

"People are looking for something new and something different," she said.

"There are cities all over the world, but to actually get out on a farm and really connect to the land and the food - they love it.

"Having had many people from overseas visit us, you become more and more aware of what we've got.

"[The visitors] were in awe of the size of our machinery that we use to crop, they love to see the yabbies and they ask an enormous number of questions about the **operations**."

The Nenkes have invested in transforming a shearing shed into a function centre and will soon open purpose-built cottages for accommodation.

Ms Nenke said the most important thing for them to keep in mind was the **Chinese** culture and way of doing things - a comment made from people involved in all levels of WA-**China** business.

Despite the awareness, Mr Garland said true understanding was somewhat lacking.

"A lot of people think of [**Chinese** investment] as an immediate 'this guy's going to come to Australia and open his factories tomorrow' sort of thing," he said.

"It's not the way it works. **China** is about the long term, it's about generational involvement, but mostly it's about relationships."

RE china : China | austr : Australia | waustr : Western Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

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