



# UNDERSTANDING CHINESE INVESTMENT IN NEW ZEALAND



*Ko Te Kaunihera o Aotearoa me Haina*  
**New Zealand China Council**  
新西兰-中国关系促进委员会



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This report, including interviews and other research, was conducted in 2018 and uses data from 2017-2018, unless none was available for these periods, in which case the most recent data was utilised.

# FOREWORD

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New Zealand has from the earliest times relied on foreign investment in the form of people, capital and technology to develop the local economy. Since New Zealand's capital base is limited, foreign direct investment (FDI) is instrumental for ensuring productivity and competitiveness.

In recent years China has emerged as a major trade partner but the pattern of investment growth, while significant, has tended to lag behind the expansion of the relationship generally. New Zealand outward direct investment (ODI) to China has risen even less rapidly.

A recent survey undertaken by the NZ China Council<sup>1</sup> suggests New Zealanders have a range of views about foreign investment in general and investment from China in particular. Most New Zealanders appear comfortable with foreign investment provided it is strictly regulated, as is currently the case. Further amendments to current legislation are currently in the pipeline. The survey however pointed to some major mis-understandings – China is not, for example, New Zealand's largest investor; that place is held by Australia by quite a wide margin. And Chinese investment is not confined to agricultural land and property; in fact, Chinese investment is quite diversified across the

economy and across the country. It was to clarify this picture, to take account of recent developments and to address the gaps in understanding that the Council commissioned this report. We are grateful for the work of Pat English and Carol Cheng for helping us assemble and analyse the available information, taking into account both official statistics and data from other available sources. Their work in interviewing a number of Chinese investors in New Zealand as well as New Zealand investors in China is reflected in the case studies spread throughout the report. The case studies also highlight a number of benefits from foreign investment which are often overlooked in the public debate – investment brings not only much needed capital, but also technology, expertise and access to markets. In New Zealand's case almost half of Chinese investment is directed to the regions. A number of developing industries have also benefited.

The report updates an earlier assessment released by the Council in 2015 and will hopefully provide a basis for further discussion. It responds to the Council's mandate to improve public understanding and provides a factual base from which to build strength and resilience into this critically important relationship.

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**Rt Hon Sir Don McKinnon**  
Chairman, New Zealand China Council

1. <https://nzchinacouncil.org.nz/wp-content/uploads/2018/08/Perception-of-China-Monitor-Survey-2018-FINAL.pdf>



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Note: The report uses New Zealand dollars as the default currency, unless otherwise stated, e.g. US\$100. A glossary of terms is provided at Annex C.

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## 2 EXECUTIVE SUMMARY

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New Zealand needs foreign investment. China has emerged as one of New Zealand's most important sources of foreign direct investment (FDI). While investment is a natural consequence of the breadth in links between the two economies, the growth in FDI from China, while strong, still lags behind growth in other aspects of the relationship including trade and people-to-people links.

Statistics NZ data shows that China, including Hong Kong, is now our second largest investment partner behind Australia with a stock of FDI, measured by official statistics of \$8.25 billion at December 2017, or 7.67% of total. It has been suggested that actual investment from China may exceed official estimates as investment transactions are often routed through Hong Kong or other countries, including Singapore, as well as other jurisdictions. Capturing the extent of this Chinese investment from so-called "immediate" sources is complex and is only partially captured in this report.

As a sovereign nation, New Zealand, like China, controls and manages investment coming into the country by setting policy and applying regulations to direct FDI to where it is most needed. New Zealand's policy settings are currently undergoing review. Perceptions of New Zealand as a recipient of FDI are influenced by the opportunities available to investors, the clarity of the policy environment, and the practices of comparable jurisdictions.

New Zealand is still a small recipient of global Chinese investment. While growth in Chinese outward direct investment (ODI) into New Zealand and globally has been strong in recent years, that trend is changing as China adjusts its outward investment policies. In 2017-18 Chinese global ODI fell by 29% after almost 15 years of continuous growth. The implementation of the newly promulgated 2018 Outbound Investment Regulations will further impact markets both globally and bilaterally. In March 2019, as this report was in preparation, China enacted a new Foreign Investment Law, bringing together and codifying a number of policies and regulations.

Chinese investments in New Zealand are well diversified and distributed around the country. Around 50% of Chinese FDI is directed to the regions. Chinese investors have made investments in sectors that are in need of capital and expertise including primary industries/food and beverage, tourism, infrastructure and commercial construction and housing. While foreign investment, including from China, can be controversial, especially in some sectors, New Zealand has benefited from Chinese investment in numerous ways. These include job creation, economic growth, innovation and increased exports of key products through improved access to markets and distribution.

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This report includes case studies based on interviews with some key Chinese investors. The single largest Chinese investment in New Zealand is represented by a \$950 million investment from Beijing Capital into Waste Management that enabled the formerly Australian-owned company to expand, modernise and invest in critical waste processing facilities. On a smaller scale, significant benefits have also been generated by Allied F&P Food Company which invested \$30 million into an ice-cream manufacturing business in a rural area which had not seen a large scale investment for decades. Fu Wah has so far invested more than \$300 million into a hotel under construction at Auckland Viaduct - the first of a number of planned investments and a world class facility that will be critical for upcoming events in the city, including the America's Cup and APEC in 2021.

Super Organic has partnered with local Iwi in Taupo to invest \$40 million in genetics and processing technology to develop a new local sheep milking industry. Shanghai Pengxin through Milk New Zealand has invested more than \$500 million into 29 farms to become one of the largest milk producers in New Zealand, and has increased staff from 80 to more than 400. Other significant players in the Chinese dairy industry are expanding their milk processing footprint in New Zealand: Yashili with a new investment in Pokono, south of Auckland, and Yili, with a plant in Glenelg in the South Island has entered into a scheme of arrangement to acquire the New Zealand dairy co-operative and processor Westland Milk.

In terms of ODI, few New Zealand companies appear to have made significant investments into China. Fonterra and Methven are exceptions. One approach where it seems that New Zealand investors have met with success in China is to invest in less tangible assets such as brands and distribution. Zespri has had a significant market turnaround in its business in China in the last five years to the point where it is now the importer of record and marketer of Zespri branded products in China, with record China sales to June 2018 of \$505 million. F&P Healthcare has been successfully building sales and distribution in China for more than a decade and Primary Collaboration New Zealand (PCNZ) is a collaboration of a number of well-known New Zealand companies cooperating in China to grow their brands and manage distribution.

Looking ahead, it may be that the strong momentum in the investment relationship may be difficult to maintain in view of changes in policy and regulations in both countries. Even so it is important to the long term health of New Zealand economy that there is a continuing flow of inbound investment from all our key trading partners: currently investment from China is underweight compared to our trade and tourism and when compared to other partners.







# 3 INTRODUCTION

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This report is an update of an earlier report into Chinese investment into New Zealand “Fostering Growth”<sup>2</sup>, released by the NZ China Council in 2015. Since that report was completed, many changes have taken place which require the Council to take a fresh assessment of the current status of the New Zealand/China investment relationship.

## **The Objectives of this Report are to:**

- **Update the statistics**
- **Highlight recent trends in two-way investment between New Zealand and China**
- **Analyse the destination for Chinese investment in New Zealand i.e. land based and other categories of investment**
- **Provide background on major investments**
- **Highlight any issues arising in the investment relationship which could form the basis of future recommendations to the Government from the Council**

This report therefore provides updated data and information as well as observations on the regulatory changes in both countries. To provide further insight particularly into the benefits of investment in both directions, a number of Chinese and New Zealand companies were also interviewed.

Both China and New Zealand have changed significant elements of their FDI regulations and policies, which in some cases have had a direct impact on results and also on the immediate future of the bilateral investment relationship. For China, the changes have been to both FDI and ODI. New Zealand's changing investment environment also reflects the change in government in September 2017.

This report reflects the maturity of some of the Chinese investments in New Zealand. Many investors have had time to develop relationships in the communities in which they are based which has enabled the parties to work together and develop greater understanding.

Overall the report reflects a significant change in the global investment environment since the first report was published.

2. NZ China Council, Perceptions of China Monitor: Survey 2018 [https://nzchinacouncil.org.nz/wp-content/uploads/2017/05/a31db9\\_b3155fe0a7614954916f22317e625ed0.pdf](https://nzchinacouncil.org.nz/wp-content/uploads/2017/05/a31db9_b3155fe0a7614954916f22317e625ed0.pdf)

# 4 NEW ZEALAND CHINA BILATERAL INVESTMENT

## 4.1 New Zealand Investment Environment

- **NZ needs FDI to grow the economy – with total stock of \$107.7 billion in December 2017, FDI is equivalent to over 50% of GDP**
- **Australia is New Zealand's largest investor, with China second**
- **In New Zealand there has been considerable change in investment regulations: investments into sensitive land and sectors need to be proven to make a significant difference and monitoring and enforcement are to be increased**
- **Further changes to investment regulations are in the pipeline**

### New Zealand Needs Foreign Investment

For much of its history, New Zealand has needed, and relied on, FDI to deliver capital for a wide range of infrastructure projects and as well as large scale commercial developments. With New Zealand's small population, reliance on domestic savings alone to fund economic development has never been a realistic option. However, FDI is not just about capital; it is about how partners transfer technologies and expertise, provide access and distribution to develop global markets, improve management skills and develop the new business opportunities that go with investment.

According to a report referenced by the Organisation for Economic Co-operation and Development (OECD) in its annual survey of New Zealand (Doan 2014), labour productivity of foreign owned

companies in New Zealand was almost twice that of local companies <sup>3</sup>.

### FDI Profile and Performance

FDI measures the value of foreign-owned companies operating in New Zealand. According to Statistics NZ <sup>4</sup>, FDI in New Zealand was \$107.7 billion at 31 December 2017. The OECD has found that FDI stocks in New Zealand are relatively low for a small, open economy <sup>5</sup>.

Statistics NZ data indicates that the main source of FDI into New Zealand is Australia with stock of \$55.97 billion at December 2017 - not surprising given the proximity, bilateral trade and economic and people-to-people ties.

Traditional investor countries - the United States and United Kingdom - are still in the top five, but according to this data set, which will be further explained in Chapter 5, China including Hong Kong at \$8.25 billion is at second place at 7.67%. This is well ahead of the 2014 data published by the Council when China was ranked fourth <sup>6</sup>.

For the year ended December 2017, the value of foreign direct investment rose for most countries, including Australia, China including Hong Kong and the US, UK and Canada, with Singapore being the (surprising) exception.

As shown in Figure 1, Australia is still New Zealand's largest source of FDI by a considerable margin, but, according to figures supplied directly by Statistics NZ, in the year to June 2018, approximately 54.6% (or \$31 billion) of Australian investment is in the banking, finance and insurance sector. This is up from 2014, when it was at 43% (or \$23.2 billion) <sup>7</sup>.

3. OECD: 2017 New Zealand Economic Survey OECD, page 95-97 [https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-new-zealand-2017\\_eco\\_surveys-nzl-2017-en#page98](https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-new-zealand-2017_eco_surveys-nzl-2017-en#page98)

4. It should be noted that the value for each country is based on the country of the immediate investor, rather than the country where the ultimate investor resides (see note on Statistics New Zealand FDI Data in the Glossary of Terms).

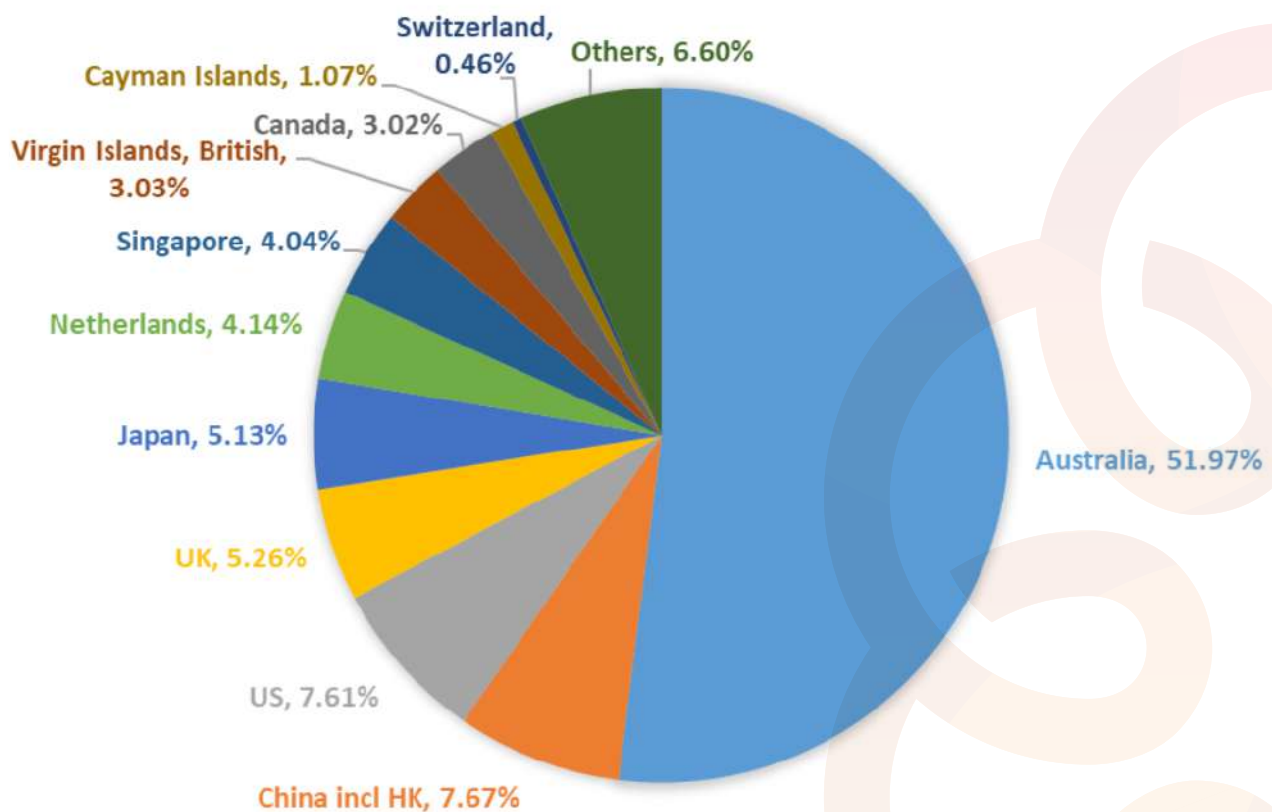
5. <https://data.oecd.org/fdi/fdi-stocks.htm#indicator-chart>

6. Statistics NZ Data FDI stock to year end December 2017 – page 11: <https://www.stats.govt.nz/reports/global-new-zealand-year-ended-december-2017>

7. Email communication with Statistics NZ, November 2018

**Figure 1: China is behind Australia as a Source of FDI<sup>8</sup>**

**2017 STOCK OF DIRECT INVESTMENT BY COUNTRY/REGION**



SOURCE: STATISTICS NZ (AT 31 DEC 2017)

FDI in New Zealand is spread across most sectors of the economy. Since the 2014 report, as shown in Figure 2, sectoral increases have come from agriculture/forestry/fishing,

manufacturing, wholesale and retail trade and financial and insurance services, with the other sectors only dropping slightly except for professional/scientific and technical services.

8. Statistics NZ: Global New Zealand: Year ended December 2017 <https://www.stats.govt.nz/reports/global-new-zealand-year-ended-december-2017>

## Case Study 1: Investment Brings Growth To The Regions



### Investment from China is helping to transform a regional economy

**Investor:** Beijing Sanyuan Foods / Allied Faxi Food Company

**Head Office:** Kerepehi Industrial Park

**Established:** 2014

**Employees:** 50

**Value:** \$28 million

Until 2014, the settlement of Kerepehi in the Waikato was going the way of many small rural towns - former industry had closed down, and the population was dwindling. An old cheese factory, once considered state of the art, stood derelict near the memorial hall, where a lonely plaque bore the names of fallen servicemen - a nod to busier and more bustling times.

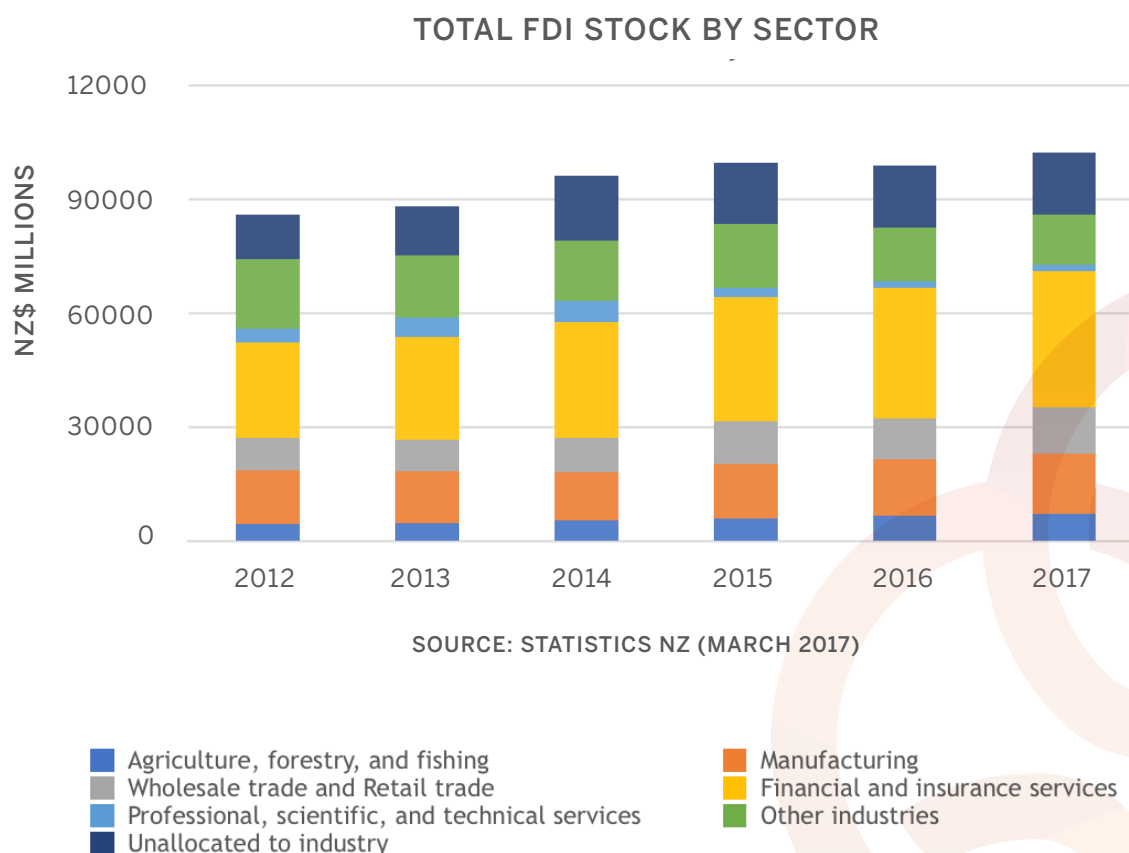
That all changed after the Hauraki District Council spent \$9 million upgrading the town's water treatment plant to accommodate existing farms, plus future industrial growth. Then Hauraki Mayor John Tregidga led an economic delegation to China to promote investment in Kerepehi, noting its location in New Zealand's 'golden triangle' between Auckland, Hamilton and Tauranga. The Council's hard work paid off. In 2014, some of Kerepehi's derelict factory was purchased by Chinese-owned ice cream manufacturer Allied

Faxi Food Company. Well known in China for its popular 'Baxi' brand of ice cream, Allied Faxi is a subsidiary of Beijing Sanyuan Foods, a major dairy producer and listed company.

General Manager Arthur Yan says being part of a community and its history is important to Allied Faxi. This approach was evident in the company's decision not to demolish the existing factory, but instead to build in and around the structure. As of 2019, they have used less than half the current site, and their current infrastructure has the capacity for considerably more growth.

The benefits to Kerepehi have been felt through employment, with 50 locals hired from the immediate area as well as the nearby towns of Ngatea, Paeroa and Thames. Using locally sourced milk for ice cream is another tangible benefit that Allied Faxi's investment has generated for Kerepehi and the surrounding area. In 2018, exported 3200 tons of frozen cream and ice cream, and with demand forecast to grow, the company is aiming to increase that by 50% in 2019. The flow on benefits from the factory are significant.

**Figure 2: FDI in New Zealand by Sector<sup>9</sup>**



### Changes in New Zealand's Foreign Investment Regime

Policies and regulations relating to foreign investment are critical determinants in the attraction, management and enforcement of FDI in any country. New Zealand operates an investment screening process under the Overseas Investment Act (OIA) and the process is administered by the Overseas Investment Office (OIO). In New Zealand there have been significant changes in policy settings and regulation in recent years. Annex A provides an overview of the current situation.

It should be observed that the Act and its implementation have sometimes been criticised as reducing the

attractiveness of New Zealand for FDI, suggesting that future policy changes need to take account of perceptions on the part of global investors. For example, in the Organisation for Economic Co-operation and Development (OECD) in its 2017 New Zealand Economic Survey<sup>10</sup>, New Zealand's FDI screening process is described as "poorly targeted", "imposes high thresholds", and "creates transaction costs that deter FDI". The lack of statutory timeframes in the application process is cited as another significant deterrent. This is reflected in the OECD Restrictiveness table, where New Zealand is ranked as the 7th most restrictive OECD nation at 0.231 (where 0 is open and 1 is closed), and the OECD average is 0.066.

9. Statistics NZ: Directional basis stock of direct investment by industry to March 2017: <https://www.stats.govt.nz/information-releases/balance-of-payments-and-international-investment-position-year-ended-31-march-2017>

10. 2017 New Zealand Economic Survey OECD, page 95-97 [https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-new-zealand-2017\\_eco\\_surveys-nzl-2017-en#page98](https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-new-zealand-2017_eco_surveys-nzl-2017-en#page98)



In October 2018, the New Zealand Government announced the launch of the second chapter in its rewrite of the OIA to “ensure investments are consistent with New Zealand’s national interest”. Associate Finance Minister David Parker said that this rewrite will also focus on reducing complexity and cutting unnecessary red tape; “We know that steps can be taken to simplify the rules for those making productive investments in our economy, while adequately protecting our most sensitive assets including our pristine land - the envy of the world...In the second phase of our reform we will ensure New Zealand remains an attractive destination for beneficial, long-term foreign direct investment, while examining ways to ensure prospective foreign investments are consistent with New Zealand’s national interest”<sup>11</sup>.

In April 2019 the Government initiated a public consultation process on options to amend the OIA, with a view to legislating reforms by the middle of 2020<sup>12</sup>.

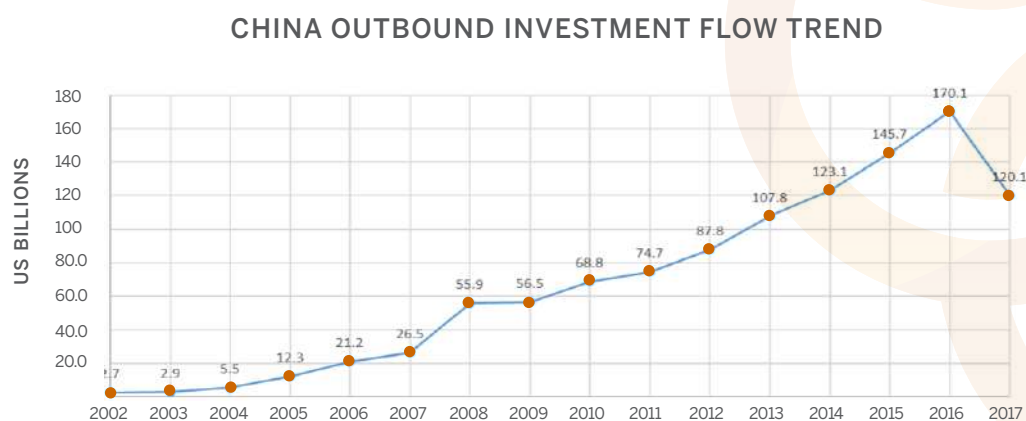
## 4.2 China’s Investment Environment

- China’s ODI grew significantly until 2017: policy and regulatory changes in China are now driving significant reductions in outbound investment
- The impact of these regulatory changes for New Zealand could be significant in critical areas such as tourism/hotels.

### China’s ODI has Grown Rapidly but is Starting to Slow

China is the world’s second largest economy and in June 2017 was the second largest source of global FDI behind the United States<sup>13</sup>. ODI flows from China experienced accelerated growth from US\$87.8 billion in 2012 to US\$170 billion in 2016. However, from the policy changes in mid 2016, as illustrated in Figure 3 below, China’s global outbound investment dropped in 2017 for the first time in more than a decade. There was a sharp decline of 29% to US\$120 billion in December 2017 compared with the peak year in 2016.

**Figure 3: China Outbound Investment Flow Trend 2002-2017<sup>14</sup>**



SOURCE: MOFCOM (2002-2017)

11. Press release, Hon David Parker, 16 October 2018: <https://www.beehive.govt.nz/release/next-phase-rewrite-overseas-investment-rules>

12. NZ Treasury, Overseas investment consultation <https://treasury.govt.nz/news-and-events/reviews-consultation/overseas-investment-consultation>

13. State Council, People’s Republic of China [http://english.gov.cn/news/top\\_news/2017/06/08/content\\_281475680528842.htm](http://english.gov.cn/news/top_news/2017/06/08/content_281475680528842.htm)

14. Ministry of Commerce, People’s Republic of China (MOFCOM) <http://www.mofcom.gov.cn/article/ae/ag/201801/20180102699398.shtml>

## Case Study 2: Investment Builds On Cultural Base



**Investment from China is contributing to Māori economic development and raising the level of our agricultural technology base.**

**Investor:** Super Organic Dairy Company

**Head Office:** Taupo

**Established:** 2014

**Employees:** 70, as well as seasonal jobs

**Value:** \$40 million

Māori and Chinese share ancestral connections and growing Māori Chinese business interactions are built on a firm cultural base. Māori increasingly have assets needing investment and development, while a growing number of Chinese have money to invest and expertise to help develop assets and business.

The scale of opportunities is significant with the Māori economy estimated to be worth more than \$40 billion. A number of partnerships here already proving the value, viability and economic success of such interactions. One of these is Super Organic Dairy Company Limited (SODC), established in 2014 by a group of Chinese investors in partnership with Māori businesses, aiming to establish a sheep dairy industry supply chain for the breeding, farming, milking, processing and exporting of premium sheep milk products to China.

SODC formed a joint venture, Maui Milk Co Ltd with local iwi from the Waitahi Kuratau Trust Farm, a pioneering sheep milk farm in the rolling hills surrounding Lake Taupo and Lake Kuratau. SODC holds 60% of Maui Milk while the Trust holds 40%.

The following year it set up another joint venture, Southern Cross Sheep Dairy Technology Company, one-third owned by two prominent New Zealand dairy sheep genetics experts and 70% owned by SODC.

The primary benefits to New Zealand from the investment have been in employment, with 15 full-time local jobs created, as well as work for 20 local subcontractors and additional seasonal work opportunities. It has brought much needed economic development to a region which has historically experienced higher rates of unemployment and underemployment compared to major urban centres.

The acquisition by SODC of the Waikino Station, a 770-hectare block on the shores of Lake Taupo has also created a valuable asset by transforming it into a sheep dairy farm. The investment involved the development of the first 'internal rotary' milking platform to be used in a sheep milking operation in New Zealand. Other benefits include the development of world-class genetic data for a new premium sheep breed known as the 'Southern Cross'. This innovation has made it possible to scale up the broader ewe milking industry across New Zealand.

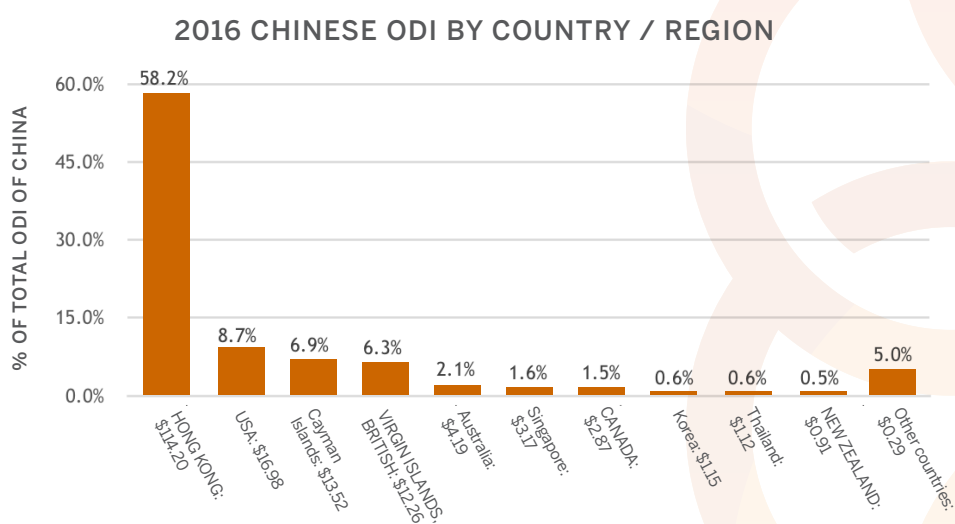
As more business partnerships develop between Māori organisations and individuals, and Chinese investors, they will build on the success of pioneering partnerships like SODC, bringing new economic and employment benefits to iwi around the country. In doing so, they will prove that while Māori may still be small players in global trade and business, the relationships they establish are of high quality and high value. It speaks well to the traditional Māori saying "ahakoa niania he pounamu" - "although it is small, it is still greenstone".

## Direction of Chinese ODI

In relation to New Zealand and a number of similar countries, while China's investment impact in New Zealand has been increasingly large, as far as the "big picture" of China's ODI is concerned, New Zealand plays only a small role. As at 2016, New Zealand

received approximately 0.5% of China's outbound investment as shown in Figure 4 below.

**Figure 4: 2016 Chinese ODI Stock by Country/Region<sup>15</sup>**



**SOURCE: NDRC CHINA OUTBOUND INVESTMENT REPORT (NOVEMBER 2017)**

According to the Economist Intelligence Unit (EIU) China Going Global Investment Index 2017, New Zealand overall ranks number 35, down from number 19 in 2015. The UK also had a dramatic fall to number 40, with Japan, Australia, Germany and Canada

also dropping. According to EIU's index report, this arose from efforts to clamp down on "irrational" ODI, while prioritising investment in strategic sectors or regions and also sectors and regions linked to the Belt and Road Initiative (BRI)<sup>16</sup>.

<sup>15</sup>. China Outbound Investment Report dated November 2017 by National Development and Reform Commission, People's Republic of China, p.5 <http://www.ndrc.gov.cn/gzdt/201711/W020171130400470019984.pdf>

<sup>16</sup>. China Going Global Investment Index 2017, p. 21: [http://www.eiu.com/public/thankyou\\_download.aspx?activity=download&campaignid=ChinaODI2017](http://www.eiu.com/public/thankyou_download.aspx?activity=download&campaignid=ChinaODI2017)

## Case Study 3: Rising Tourist Numbers Need New Hotels



**Investment from China is giving our tourism infrastructure a much-needed shot in the arm.**

**Investor:** Fu Wah New Zealand

**Head Office:** Auckland

**Value:** \$750 million

Every day, an average of 1,200 tourists from China touch down in New Zealand. Each of them will look forward to spending almost nine days travelling the country, taking in nature and wildlife areas, along with Māori culture, farms and beaches. Every year, Chinese tourists are also staying longer, spending more and are more independent, all positive trends for local operators.

While New Zealand's sights and attractions are consistently rated world class, our tourism infrastructure can struggle with demand. One major constraint on growth is a lack of high-quality hotel rooms, particularly at high-end hotels and during peak times like Chinese New Year. With tourist arrivals from China forecast to jump to around 2,200 daily in the next five years, we're facing a critical shortfall that could put the brakes on future growth.

This is one of the challenges being tackled by Fu Wah New Zealand, whose parent company, Fu Wah International Group, has invested more than \$350 million in the construction of a new 195 room, international 5 star Park Hyatt Auckland in the heart of Auckland's Viaduct Basin. The project represents the single largest foreign investment in New Zealand tourism infrastructure to date.

To build the hotel, Fu Wah partnered with China Hawkins Construction, a joint venture between Hawkins Construction (a well-established firm with a presence all over the country) and Shanghai based China State Construction. The company faced its fair share of challenges during the building phase, but Fu Wah has pressed on with the project which is now nearing completion.

It's not just the lack of rooms constraining the Chinese tourism market in New Zealand, either. A 2017 survey found just 17% of New Zealand hotels had Chinese speaking staff, while only 12% offered Chinese payment options and fewer than a quarter had translated tours on offer. Through its global businesses catering to Chinese travellers, Fu Wah offers valuable insights which can help local operators deliver better services and experiences on the ground.

Following the completion of Park Hyatt Auckland, Fu Wah plans to build an apartment complex in the adjacent area with 435 apartments. Currently, a high-end luxury train service is also underway between Auckland and Queenstown, serviced and supported by other hotels along the route.

Fu Wah's investment isn't only good news for tourists and local operators, it also supports the government's goals to strengthen ties between New Zealand and China through tourism. With 2019 officially designated as the China-NZ Year of Tourism, Fu Wah's investment will directly contribute to the goals of visitors staying longer, exploring wider and returning to enjoy the high-quality hospitality New Zealand has to offer.







## Policy Change in China

China's ODI flow is mainly controlled by the Chinese government's policies and this sharp decline has mostly been driven by a number of new Outbound Investment Regulations issued by the Chinese regulators in late 2016 and into 2017. These regulations were aimed at restricting Merger and Acquisition (M&A) transactions in certain industries such as real estate, hotel and cinemas, entertainment and sports clubs. Chinese regulators were apparently concerned about the case of so-called "irrational investment" behaviour by some Chinese companies in these sectors<sup>17</sup>.

One of the key regulations published in August 2017 was the "Guiding Opinion on Further Directing and Regulating the Direction of Overseas Investments" which introduced a new outbound investment compliance regime which lists investment projects as "encouraged, restricted and prohibited"<sup>18</sup>. A summary of this regulation is provided at Annex B.

Monitoring controls of ODI flows are now tight and moving funds out of China has become more difficult and time consuming than before, even for companies who have in recent years been able to move investment funds relatively freely. There appears

little doubt that the current geopolitical environment, as well as domestic pressures in the Chinese economy are playing an increasingly significant part in the fall of Chinese outbound investment<sup>19</sup>.

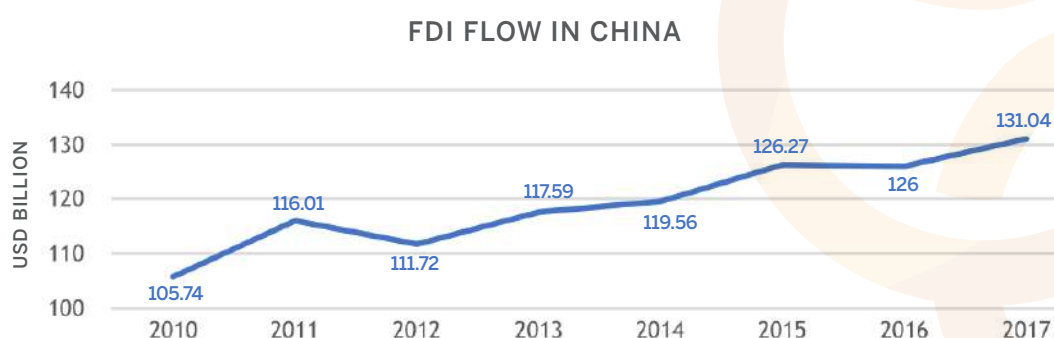
As noted, investments in some property, hotels, film studios, entertainment and sports clubs have been placed in the restricted category, so they now require approval by the central authorities: the impact for New Zealand could be significant in the strategically important tourism/hotel sector<sup>20</sup>.

## Investing in China

Over the past 40 years, China has been one of the top destinations in the world for FDI, particularly in the manufacturing sector. Investors were traditionally attracted by the then low labour costs and increasingly developed internal infrastructure including transportation and telecommunications as well as the general operating environment. China welcomed FDI, seeing capital and expertise as fundamental to the economic strategy of "reform and opening" that began in the late 1970s under Deng Xiaoping.

As shown in Figure 5, FDI to China has continued to grow strongly in recent years.

**Figure 5: Foreign Direct Investment Flow to China from 2010 to 2017** <sup>21</sup>



SOURCE: MOFCOM (YEAR ENDED DEC 2017)

17. See for example comments in the report "Rising Tension: Assessing China's FDI Drop in Europe and North America, Baker McKenzie 2018: [https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising\\_tension\\_china\\_fdi.pdf?la=en](https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en)

18. Official Chinese version of "Guiding Opinion on Further Directing and Regulating the Direction of Overseas Investments" [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)

19. Private communication with EIU

20. As for footnote 18.

21. 2016 / 2017 data from the Ministry of Commerce, People's Republic of China (MOFCOM) website [http://www.fdi.gov.cn/1800000121\\_33\\_10078\\_0\\_7.html](http://www.fdi.gov.cn/1800000121_33_10078_0_7.html) Earlier data from NDRC <http://www.ndrc.gov.cn/gzdt/201711/W020171130400470019984.pdf>

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In March 2019, as this report was in preparation, China enacted a new Foreign Investment Law, bringing together and codifying a number of policies and regulations<sup>22</sup>.

The impact of foreign investment on the Chinese economy has reportedly been in decline over a number of years. In a report by the Ministry of Commerce, foreign-invested companies comprised less than 3% of China's total number of companies in 2017, they were responsible for almost 50% of China's foreign trade, and more than 25 of reported industrial profits and 20% of tax revenue<sup>23</sup>.

## 5 CHINA'S INVESTMENTS IN NEW ZEALAND

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- As the economic relationship has expanded, China has become one of the most significant investors into New Zealand in recent years
- Official statistics show FDI from China and Hong Kong in New Zealand is \$8.25 billion at December 2017
- In the year to June 2018, 54% of committed migration investor funds came from China, well ahead of New Zealand's traditional migration investor markets
- Chinese FDI is diversified across multiple sectors and locations: Chinese investments have created new job opportunities, increased export receipts and fostered innovation
- Chinese investors interviewed are strongly committed to New Zealand.

### 5.1 Features of Chinese Investment

#### Growth in Chinese Investment

New Zealand's investment relationship with China is part of a rapidly expanding economic relationship with merchandise and services exports making a critical contribution. The significant expansion in the relationship has been driven by the New Zealand China Free Trade Agreement (FTA) which came into force in 2008. This was China's first comprehensive bilateral FTA with a developed economy. The phasing out of tariffs has long since become embedded in our systems, and at the time of this report, New Zealand and China are in the process of negotiating an upgrade to the FTA for what has been an extremely successful and fruitful agreement for both countries<sup>24</sup>.

22. <https://www.scmp.com/economy/china-economy/article/3001780/china-approves-new-foreign-investment-law-designed-level>

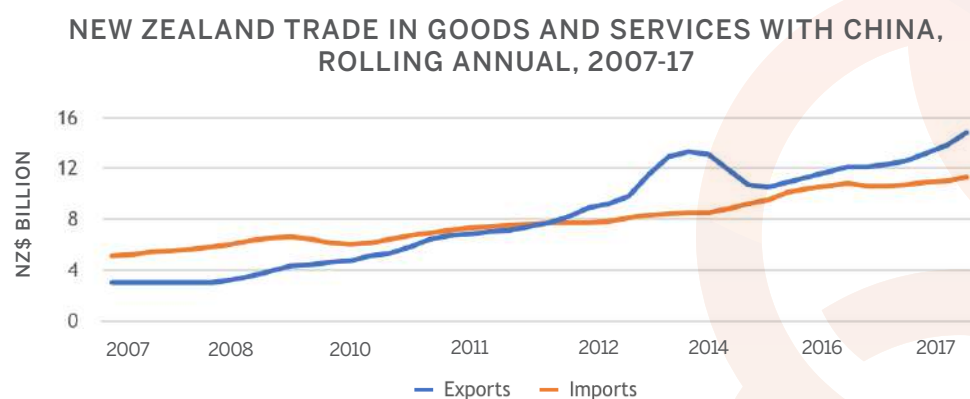
23. China's Foreign Investment Growth Slows <http://www.eurasiareview.com/29042018-chinas-foreign-investment-growth-slows-despite-opening-up-analysis/>

24. <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/nz-china-fta-upgrade/>

Overall, New Zealand's merchandise exports to China have quadrupled since the FTA entered into force in 2008, and bilateral trade has more than tripled<sup>25</sup>. China is currently New Zealand's largest merchandise trading partner, with two-way trade valued at over \$27 billion to June 2018. This is made up of \$15.3 billion in exports (\$12.2 billion in goods, \$3.1 billion in services), and \$11.9 billion in imports (\$11.1 billion goods, \$760 million in services).

The growth in trade with China in recent years is shown in Figure 6 below. In a number of cases, the strength and growth in merchandise and service exports have contributed strongly to FDI growth in corresponding sectors, especially in Primary Industries and Food Processing.

**Figure 6: New Zealand and China Trade Relationship (2007-2017)** <sup>25</sup>



SOURCE: STATISTICS NZ (2007 - 2017)

Growth in investment has generally lagged growth in trade. There are various reasons for this. New Zealand is generally perceived by Chinese investors as a desirable investment destination, with a stable economic and political environment, a generally positive environment in which to operate, with investor-friendly tax policies, including the absence of a capital gains tax. However, New Zealand, as an investment destination is also seen as increasingly complicated and expensive to access, as supported by the earlier reference to the 2017 OECD New Zealand Economic Report<sup>26</sup>.

New Zealand perhaps also appeals to Chinese investors as much for the quality of life and the standard of living that support and underpin key sectors, such as Tourism, Education and Food & Beverage/ Primary Industries, with New Zealand Investment Migration statistics supporting this (see further below)<sup>27</sup>.

The increase in Chinese investment into New Zealand in recent years has been steady, albeit from a low base, with China's share of New Zealand's FDI stock, as measured by official statistics, growing to 7.7% in 2017.

<sup>25</sup>. Statistics NZ: Bilateral Trade with China Press Release <https://www.stats.govt.nz/news/new-zealands-two-way-trade-with-china-more-than-triples-over-the-decade>

<sup>26</sup>. Assessment based on interviews with investors

<sup>27</sup>. Investment Migration: <https://www.newzealandnow.govt.nz/investing-in-nz/visas/investor-visa>

## Case Study 4: Better Managing Waste Brings Environmental Dividends



### Investment from China is helping drive sustainability and innovation for New Zealand's largest waste services company.

**Investor:** Beijing Capital Group/Waste Management NZ

**Head Office:** Auckland

**Established:** 1985

**Employees:** 1,700

**Value:** \$950 million

New Zealanders generate more than 730kg of waste each per year, estimated to be among the highest in the developed world. Managing this sustainably and safely is no mean feat, requiring advanced technology, rigorous standards and innovative, forward thinking.

It's a challenge taken seriously by Waste Management, New Zealand's leading waste and environmental services company, which provides resource recovery, recycling and waste services from the Bay of Islands in the north to Otago in the south.

While the Waste Management brand was created in 1985, the company's history can be traced back to Auckland in 1894, with the company entering the waste sector 84 years ago. Capital constraints limited its ability to grow and innovate in the past. With increasing public concern about climate change, plastic waste and wider sustainability issues, the company needed investment from an outside partner to achieve its long-term growth and environmental goals.

A turning point in this journey came in 2014 when Beijing Capital Group (BCG) successfully completed the purchase of Waste Management from its then Australian owner for \$950 million. Following this initial investment, BCG has invested a further \$300 million in other operations in New Zealand, along with an ongoing operational development programme.

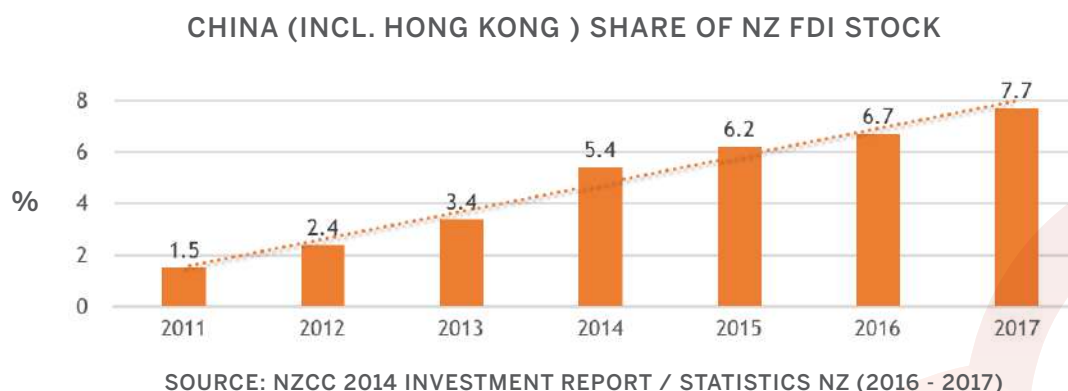
The benefits to New Zealand of the acquisition include investment in world-class infrastructure to minimise the environmental impact of waste, the electrification of Waste Management's transportation fleet and the purchase of tyre recycling and related firms to tackle wider environmental problems.

Since BCG acquired Waste Management, the company has pursued aligned services which support the "circular economy", where the aim is to minimise waste and optimise the use of scarce resources. In Waste Management's case, it has enabled investment in assets and services which support the diversion of waste where sustainable, while ensuring waste streams which enter our landfills are put to work generating electricity.

Electric transportation is another area where BCG's investment is making a tangible difference. The transport sector is fossil fuel intensive and accounts for a significant amount of New Zealand's annual carbon emissions. There are huge opportunities to reduce emissions by converting transport to electricity, and Waste Management, through its capital investment from BCG is playing its part by introducing electric vehicles. In 2016, the company expanded the transition of its heavy vehicle fleet to electric by investing in conversion of its diesel trucks to electric. It now has nine electric trucks, including their first truck converted in their own EV Innovation Hub, which is currently collecting medical waste in Auckland. The company is aiming to have 20 electric trucks on New Zealand roads in the near future.

With BCG also playing an active role in environmental services in China, technology exchange has increased since the acquisition in 2014. While BCG staff initially came to New Zealand from China to understand the business, management of the company has remained in New Zealand, with the majority of the Executive Management Team staying in place. According to Managing Director Tom Nickels, some of the key elements of working with China successfully are long term thinking, thinking and learning differently, and fostering goodwill between various parts of the companies.

**Figure 7: China and Hong Kong Investment in New Zealand as Percentage of FDI Stock <sup>28</sup>**



### Actual Investment may Exceed Official Statistics

As noted earlier official statistics may understate the full value of Chinese FDI particularly due to the distinction between ultimate and immediate investor. This is no different from investment from any source. "Immediate Investor" refers to the source of FDI funds from the registered investor, but the registered investor may utilise a legal entity based in another country or jurisdiction from which to make the investment. Chinese companies often use Hong Kong, Singapore or another jurisdiction as the legal entities for the registered source of FDI, but the original source of funds, or the ownership of the off-shore entity, is based in or originates from China. The latter is referred to as the "ultimate investor".

By way of example, in 2012, when Haier completed its purchase of Fisher and Paykel Appliances, the OIO reported that the \$742 million transaction was made through Haier (Singapore) Management Holding Co Pte Ltd as the "Immediate Investor", a 100% owned subsidiary of the Haier Group Corporation. So, this investment was reflected in New Zealand's FDI statistics as being from Singapore, whereas clearly the "ultimate Investor" was from China. As a result, the Haier investment into Fisher and Paykel Appliances investment is not represented in the China FDI total of official statistics.

The extent of this immediate investment is difficult to quantify. Figure 8 captures the official statistics related to FDI from China. In this case we have added the statistics from Hong Kong which gives the stock of Chinese FDI in New Zealand in December 2017 as \$8.25 billion.

<sup>28</sup>. Data from [New Zealand China Council, Investment Report 2014](#) and Stats NZ, Global New Zealand International trade, investment, and travel profile: Years ended December 2009-2017. Wellington: Ministry of Foreign Affairs and Trade and Stats NZ



## Case Study 5: Solutions At Hand For Housing Crisis



### **Investment from China is helping to alleviate housing supply shortages in our largest city, as well as elsewhere in the country.**

For any country, one of the more sensitive issues involving foreign investment is where it concerns land and property. In New Zealand, the lack of housing supply is also a matter of significant public concern, with more construction of new housing urgently needed in Auckland and other parts of the country.

While solutions to addressing the current shortage of housing in New Zealand are complex and multipronged, overseas investment will likely play a critical role in delivering the capital, materials and skills needed.

The New Zealand China Chinese Building Industry Association (NZCBIA) represents a wide range of businesses and professionals in the building industry in New Zealand, as well as Kiwi business and professionals that have a close working relationship with the Chinese building industry.

An internal survey of 26 of the largest members of NZCBIA showed that Chinese investment in current or planned property construction and

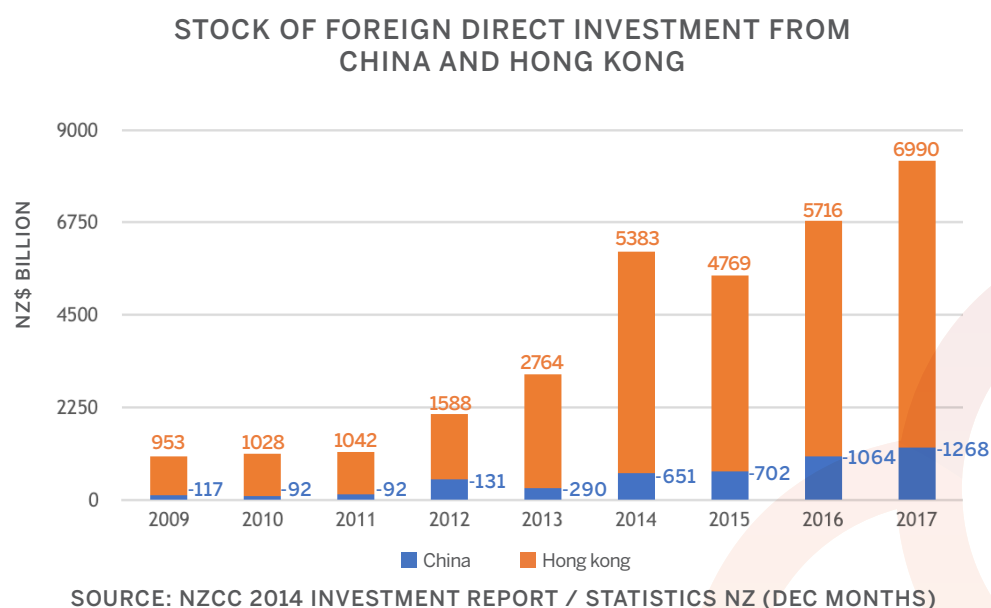
development currently stands at \$14.6 billion. Auckland accounts for the lion's share of this investment, with 90% or \$13.19 billion invested in projects in the region. \$1.2 billion or 7.66% of the investment is spread across the remainder of the North Island, while the South Island (including Queenstown) accounts for 2.2% or \$310 million of the investments.

The majority of these investments is in large residential projects, such as apartments and subdivisions. They involve high-end developments such as the Seascape Auckland and the Park Hyatt Hotel, but are also helping complete projects that address wider parts of the market.

Another way Chinese involvement in New Zealand's housing can have a positive effect is through the manufacture and supply of prefabricated homes, including sourcing expertise as well as materials from Chinese factories.

Finding solutions to the housing problem is not easy. Investment from China can be part of the solution through the significant contribution of Chinese building and construction companies.

**Figure 8: China and Hong Kong Investment in New Zealand** <sup>29</sup>



### Diversification of Chinese Investment

Chinese investment into New Zealand is relatively diversified in key sectors. Precise data is difficult to obtain but many of these are those where capital for expansion is needed and where China is able to leverage exports from New Zealand back into China's domestic market, in particular in Primary Industry and Food Processing. Other sectors such as Infrastructure and Utilities, and Commercial Building and Hotels, are also all areas in need of significant investment. However, as noted earlier, hotels and tourism are now off the encouraged list for China's ODI, so the future impact on this sector is less certain.

Anecdotal evidence suggests there has been strong growth between 2015 and 2018 for FDI from China in key sectors such as Primary Industry and Food Processing. In other words, although total Chinese investment

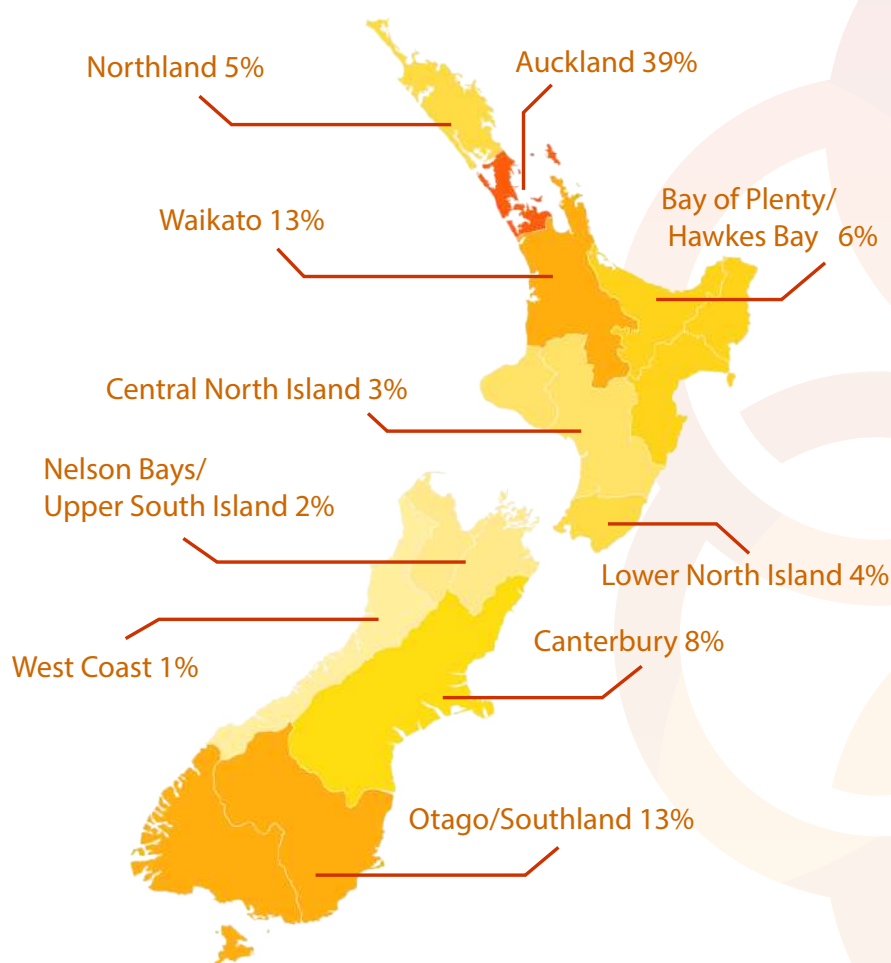
as a percentage of the total FDI stock in New Zealand is not as significant as Australia for example, it has grown significantly in some critical sectors.

The location map of Chinese investments in New Zealand in Figure 10 illustrates the wide geographical spread and importance of the regions for Chinese investment. The map shows an expected 52% of investment concentrated in the Auckland/Waikato regions, but other investments are well spread out. Otago/Southland has the second equal highest concentration of investments. It also means that approximately 50% of Chinese investments are in regions outside the main centres probably reflecting the concentration in the primary sector.

<sup>29</sup>. Data from [New Zealand China Council Investment Report 2014](#) and Stats NZ, Global New Zealand International trade, investment, and travel profile: Years ended December 2009-2017. Wellington: Ministry of Foreign Affairs and Trade and Stats NZ

## Figure 10: Map of Chinese Investment in New Zealand <sup>30</sup>

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**30.** This map is based on our own analysis of publicly available data. The percentages are indicative only and may not match official statistics.

## Case Study 6: Fresh Start For Established Meat Brand



**Investment from China has helped a cooperative shake off debt and free itself up to develop innovative new product strategies for international markets.**

**Investor:** Shanghai Maling Aquarius/ Bright Food Group

**Head Office:** Dunedin, NZ

**Established:** 1948

**Employees:** 7,000 in peak season

**Value:** \$261 million

Based in Dunedin, Silver Fern Farms traces its history back to 1948 as the Primary Producers Cooperative Society, a meat marketing cooperative. Like most of the wider meat industry, Silver Fern Farms faced decades of challenges adapting to changing markets and consumer needs, and maintaining competitiveness and profitability. Attempts to address processing over-capacity proved difficult, and by 2013 the cooperative had accumulated significant losses.

In October 2015, chairman Rob Hewett unveiled a 'game-changing' partnership with Chinese food company Shanghai Maling Aquarius, a subsidiary of Bright Food Group, a multinational food and beverage manufacturing company headquartered in Shanghai.

The involvement of Shanghai Maling wasn't without its detractors, with many shareholders concerned about loss of control, and the effect of foreign investment on the company as well as the wider

meat industry. Ultimately, the deal passed with a majority of 82% of shareholders voting in favour of the investment.

The partnership involved the formation of a new joint venture company owned 50/50 by Silver Fern Farms and Shanghai Maling. As well as providing capital to strengthen Silver Ferns Farms' balance sheet, the partnership is built on a shared strategic vision, capital re-investment in processing excellence and ability to get closer to consumers in the growing China market.

The deal enabled significant investment in Silver Fern Farms' global 'Plate to Pasture' strategy, focused on driving up the value chain, to achieve higher returns for products. This thinking begins with the plate, identifying consumer needs and then working closely with farmers to create differentiated products specifically to meet those needs. It remains one of Silver Fern Farm's most important strategies to this day.

Access to capital has also allowed Silver Fern Farms to optimise its production facilities and capability, including new plant robotics for packaging and processing and new offal processing facilities. Innovations such as robotic cutting machines, de-boning and trimming systems and automated conveyor systems have put Silver Fern Farms on the cutting edge of meat processing technology worldwide.

Today, Silver Fern Farms produces 30% of all New Zealand lamb, beef and venison, with over \$2.4 billion in annual sales globally. In 2018, the New Zealand Herald reported the Shanghai Maling deal had allowed the company to slash debt by \$203 million. The company is now well positioned to take advantage of the growing Chinese, US and domestic markets.



## Case Study 7: Agriculture Benefits From New Approach



**Investment from China has helped to turn formerly struggling dairy farms into award-winning, export-focused businesses that employ more than 400 people.**

**Investor:** Shanghai Pengxin/  
Milk New Zealand

**Head Office:** Auckland

**Employees:** 175 (farming and dairy exports).  
450 including farming, dairy export, property development and hotels.

**Value:** \$520 million  
(farming and dairy exports).

In 2012, when a group of poor-performing dairy farms in the central and upper North Island formerly owned by the Crafar family went into receivership, several overseas bidders expressed interest and the sale became a matter of public and media scrutiny.

At the time, however, there was no disagreement that any new owner would need to invest heavily. The farms were in abject condition, with poor soil quality and stock health, inadequate drainage and substandard infrastructure that had seriously impacted productivity. The successful bidder was Shanghai Pengxin Group, a conglomerate with businesses in property, development, mining, finance and agriculture.

A new entity, Milk New Zealand, took on the challenges at the Crafar Farms (now Tahi farms) by injecting \$27 million into capital projects including new staff housing, re-grassing, upgraded and properly lined effluent ponds and irrigation, and 300 kilometres of farm roading and fencing. This was just the beginning of a remarkable transformation.

At the time of the acquisition, approximately 80 staff worked on the farms, living in conditions that were arguably not fit for human habitation.

Milk New Zealand also acquired Synlait Farms (now Purata farms) in Canterbury in 2013, and have injected a further \$16m to upgrade the farms. Improved management systems have reduced the cost of production by up to 25%. Today, more than 175 employees work on the farms and their associated businesses, and productivity and environmental compliance have improved significantly.

Milk New Zealand also cooperates with Miraka, an iwi-owned business, to supply UHT milk on an exclusive basis and has contracted seven New Zealand processing plants to manufacture its UHT, fresh milk and milk powders for export. Through the partnership, Miraka has been able to create employment for 40 locals in the Taupo area. Milk New Zealand has also sponsored over 100 Chinese students to New Zealand in the past five years to experience Māori culture.

The wider Shanghai Pengxin Group also employs about another 275 staff in New Zealand for its hotels and properties business.

Building connections to China's enormous e-commerce market is another area where Milk New Zealand has added real value to the farms and their operations. In 2018, Alibaba became a strategic investor by taking a controlling interest in Milk New Zealand's dairy export business unit. The launch of the agreement was streamed live to millions of consumers in China and featured some of the country's biggest social media influencers as well as founder, Jack Ma.

In just seven years, Milk New Zealand has demonstrated the benefits investment brings to the country's agricultural base in terms of new technology, new business models, and new opportunities for farmers and farm workers.



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## Investor Migration

Immigration New Zealand has very clear goals and objectives in supporting inward investment, not just from China, but from a wide range of sources<sup>31</sup>.

Immigration New Zealand has 2 key entry options for investor migrants:

- **An investment of \$3 million for 4 years, or \$2.5 million when 50% or more of the investment is in “productive investments”, i.e. an acceptable investment other than Bonds**
- **Investor Plus, which requires an investment of \$10 million for 3 years**

In 2017-18 more than 50% of investment capital from all investor migrants came from Investor Plus applicants, and over time these investors on average ended up investing three times the required amount into follow-on or non-visa related investments in New Zealand. Between July 1 2017 and 31 June 2018, Immigration New Zealand received more than 100 Investor Plus applicants for the first time, bringing in more than \$1 billion just from that category alone<sup>32</sup>.

In the year to 30 June 2018, 54% of committed investor funds have come from China (approximately \$3.67 billion), followed by the United States at 13%, United Kingdom at 5% and Japan and Germany both at 4%. China is by far the largest source of funds.

These amounts may not be fully captured in official statistics of FDI flow.

As with the key elements of OIO regulations, the deciding factor for approving investor migrant applications is that investments will deliver significant sustainable returns for New Zealand over time. In determining eligibility, the counterfactual also

applies: what would the investor do that is significantly more than what would be achieved through local investment. It is important to note that the purchase of residential housing is excluded from the list of acceptable investments. While Immigration New Zealand's goal was to have more than 40% of capital invested by all investor migrants into productive assets, that has ended up at 52% in active investments and the programme, which began in 2009, has to date seen \$8.8 billion invested in NZ (\$6.8 billion via visa applications and \$2 billion in follow-on investment)<sup>33</sup>.

## 5.2 Chinese Companies Invested In New Zealand

During the process of writing this report, more than twenty interviews were conducted with Chinese and New Zealand companies, government officials and commentators. Information from only a limited number of interviews could be incorporated in this report, but an effort has been made to draw on as much as possible of the information throughout the report.

The investment process experienced by Chinese companies varied, from some finding it difficult, complicated, unclear and expensive, to others finding the experience met their expectations and delivered on key outcomes. What was consistent across the interviews was that the investors were all committed to New Zealand and, in a number of cases, planning further investments.

The case studies show Chinese investment in New Zealand is far more diverse than many people assume. It is well distributed across sectors and regions of New Zealand, and is characterised by long term approaches that emphasise sustainable employment, innovation and increased exports of key products and services.

31. <https://www.newzealandnow.govt.nz/investing-in-nz/visas/investor-visa>

32. Email from Investment NZ, October 2018

33. Ibid.



## 6 NEW ZEALAND'S INVESTMENTS IN CHINA

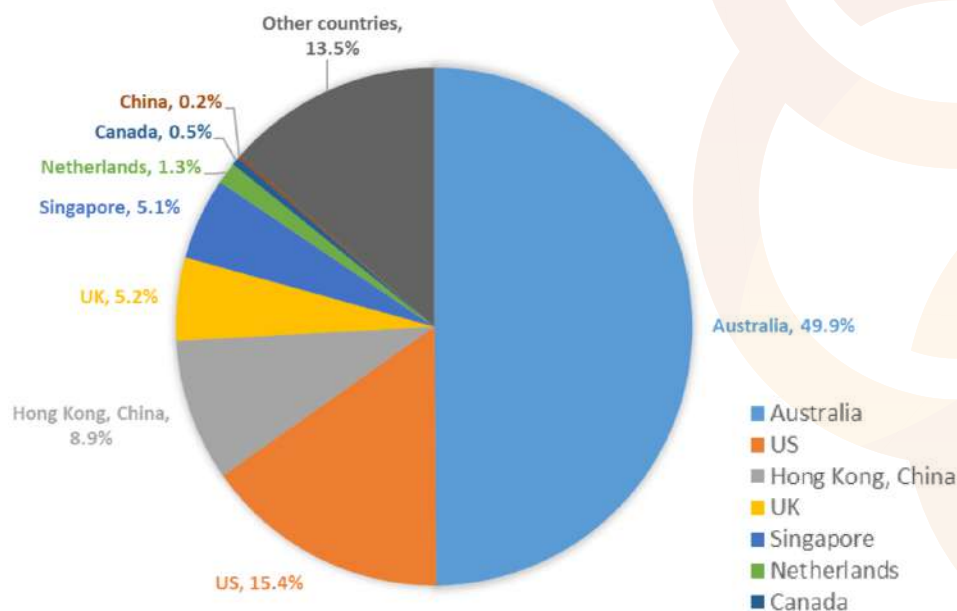
- New Zealand remains a small investor in China, by volume and by value, although New Zealand globally is not a large investor
- Key examples are Methven and Fonterra
- Alternative strategies such as Brand and Distribution investment into China are significant for New Zealand companies

New Zealand has traditionally not been a heavy investor in China, although New Zealand has never been a strong outward investor in any market, perhaps with the exception of Australia.

According to the Chinese Ministry of Commerce (MOFCOM) statistics for the year ended December 2017, there are 67 New Zealand companies in China with actual use of capital of approximately US\$21 million<sup>34</sup>. This represented 0.16% of total inward FDI in China.

According to Statistics NZ for the year ended December 2017 as shown in Figure 10 below, New Zealand's investment in China was \$47 million, representing 0.2% of total and China including Hong Kong was New Zealand's 3rd largest ODI destination, with 8.9% to total ODI stock.

**Figure 10: New Zealand's ODI Stock by Country/Region to December 2017** <sup>35</sup>



SOURCE: STATISTICS NZ (DEC 2017)

<sup>34</sup>. Ministry of Commerce, People's Republic of China (MOFCOM) official report on foreign investments in China, p. 87 <http://images.mofcom.gov.cn/wzs/201810/20181009090547996.pdf>

<sup>35</sup>. Stats NZ ODI data stock to year end December 2017: <https://www.stats.govt.nz/reports/global-new-zealand-year-ended-december-2017>

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Over the years, there have been a number of large investments by New Zealand companies into China, not all meeting with the success they would have hoped for, possibly due to differences in the business environment. Some of these include: AFFCO into Chengdu, Lion Nathan into Suzhou Industrial park, Millburn Cement into Golden Cat, and Fletcher Steel into Datong. There have been other significant and successful New Zealand investments into China such as Nuplex, however when they were sold,

the investment lost its New Zealand connection and identity. Examples of New Zealand companies that have invested into China in manufacturing and processing include Methven Limited, which has invested into Guangdong Province, and Fonterra Co-operative Group's investment into Beingmate and Fonterra Farms.

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## Methven Limited

### Investment Background:

- Methven Limited designs, manufactures, and supplies showering and tapware products. The Auckland based company exports to a number of countries, and in 2014 invested approximately \$10 million in a tapware manufacturing supplier, Invention Sanitary, based in Heshang, Guangdong, their only manufacturing operation outside of New Zealand.

### Methven's China Investments:

- Methven Heshan: Invention Sanitary is now known as Methven Heshan and is a 100% controlled subsidiary in China, employing approximately 72 staff. Methven also has sales in China and exports some components back to New Zealand, but Chinese sales are not limited to Chinese made products. They have signed up 44 good quality distributors actively selling in the China market. The first Methven stand-alone branded store was launched in Shangdong

in August 2018. There is good retail momentum, as its products are currently distributed through 80 stores, with plans to increase this number to 500 stores in the future. Currently, R&D is carried out in New Zealand, however R&D and design functions are also planned in China.

- Investment into the relationship: For Methven's operations in China, a key has been to bring together New Zealand and Chinese cultures. When Methven assumed 100% ownership of Invention Sanitary, a 'coming together ceremony' was held, at which pounamu was gifted to each staff member in China. Methven CEO David Banfield sees this as an important element of the company's success. To cement the relationship, Banfield initially visited the operation every six weeks. "You don't need to roll the dice for investments in China. It's not a matter of taking a chance. Without huge cost, you can limit the risk as you do it," Banfield says. <sup>36</sup>

36. Interview with Methven CEO David Banfield



## Fonterra Co-operative Group

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### Investment Background:

Fonterra Co-operative Group Limited is a global dairy nutrition company that is owned by 10,000 New Zealand farmers. With the milk supply originating both in NZ and throughout the world, the milk is processed and distributed through Fonterra's global supply chain to customers in more than 140 countries. China is the most important single export market to Fonterra, with annual revenue to July 2018 of almost \$4 billion, approximately 20% of total revenue of \$20.4 Billion. Fonterra China also employs 1697 staff in market.

### Fonterra's China Investments:

- **Beingmate:** As part of Fonterra's long-term investment in China, Fonterra acquired an 18.8% shareholding in Beingmate Baby & Child Food Co., Ltd. (Beingmate) for cash consideration of \$756 million in March 2015. Beingmate is an infant formula business in China, listed on the Shenzhen stock exchange. As of 31 July 2018, the value of the Beingmate investment was \$204 million. There was an impairment of \$439 million write-down of its investment in Beingmate due to its financial performance in the Fonterra 2018 annual report. Fonterra's shareholding in Beingmate makes up around 5% of its total investment in China.
- **Fonterra Farms:** Fonterra has seven farms with 31,000 milking cows in China producing high-quality fresh milk to the China market. Due to several one-off costs, the China farm business has incurred a direct normalised EBIT loss of \$9 million for the financial year ended 31 July 2018. However, Fonterra's strategy for its China farms is to deliver the highest value by integrating them into its Ingredients and Consumer and Foodservice businesses in Greater China. China Farms' partnerships with Hema Fresh, Starbucks, McDonald's and other quick service restaurant (QSR) channels continue to build positive momentum, as its raw milk goes into higher value channels<sup>37</sup>.

### Alternative Investment Strategies: Brand and Distribution

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A number of New Zealand companies have been successful in China by focusing on investment into their brand and distribution. It still requires considerable investment of time and resources into building up and managing these operations, so they are no less of an investment, but they are by their very nature not a traditional "bricks and mortar" manufacturing or processing investment.

Examples of these sorts of investments include the following (this is a selection and by no means a comprehensive list of the companies that invested in China based on brand and distribution):

- **Zespri:** With its considerable investment into the importation and distribution of its own products, including marketing and promotions, Zespri has in recent years changed from a distributor model in China to becoming the importer of record. With the use of its own networks and distributors, it has become more deeply involved in its China business operations. This change in strategy has resulted in extremely good returns, with record China sales in June 2018 of \$505 million.<sup>38</sup>

<sup>37</sup>. Notes supplied by Fonterra Cooperative Group

<sup>38</sup>. Hutching, Gerard. "Zespri heads for record China kiwifruit export season", <https://www.stuff.co.nz/business/farming/103328152/zespri-heads-for-record-china-kiwifruit-export-season>





- **F&P Healthcare:** This operation has been managed and operated by F&P Healthcare for more than a decade. They have a headoffice operation in Guangzhou in Southern China and a number of sub-branches around China, feeding into a wide range of domestic distributors. It also enables them to provide technical support on the ground, support the marketing of their products and respond directly and quickly to issues.
- **Primary Collaboration New Zealand (PCNZ):**  
The concept of PCNZ was born out of the inaugural 2012 Te Hono Primary Sector Bootcamp, now called Te Hono, held at Stanford University in the United States. The initial aim was to establish a New Zealand based entity to gain a better understanding of the complex Chinese market and facilitate easier access to China. Support and funding were provided both by the participants themselves and various government departments including New Zealand Trade and Enterprise. The New Zealand based entity, PCNZ NZ, established a China services company known as Primary Collaboration New Zealand (Shanghai) Co. Ltd (PCNZ SHG) as a wholly foreign owned enterprise in Shanghai to provide 'in-market' services in China.  
  
Members include Mr Apple, Bostock, Synlait, Sealord, Freshmax, Silver Fern Farms, Villa Maria, and clients include New Zealand King Salmon, K9 Natural Food Group, Rokit, Taharoa, Pamu and Douglas Pharmaceuticals. Combined, these companies represent more than \$3 billion in exports for the New Zealand economy, representing the following categories – wild caught seafood, free range beef, lamb and venison, infant formula and dairy based nutritional ingredients, sustainable wine production and marketing, farmed mussels and oysters, fruit leathers, apples and king salmon.
- **Vista Entertainment:**  
Vista Entertainment is one of the largest software companies in New Zealand. They are in 94 countries around the world and are leading software technology in cinema ticket sales and distribution. They have their own company in China, with 60-70 staff between Shanghai and Beijing. They also recently announced a partnership with Beijing Weiyang Technology company (Weipiao) which is backed by Tencent, one of China's largest technology software companies.
- **Fonterra: Consumer Brands and Food Service.** Consumer brands: Since launching in China five years ago, Fonterra's Anchor brand has become one of the top consumer brands in China. It is now the top ultra-heat treated (UHT) milk brand in China (for both online and offline sales) as well as the number one imported adult milk powder in the offline distribution channel. E-commerce and omnichannel now account for 55% of Anchor sales and Fonterra has strategic e-commerce partnerships with both key major platforms in China – Alibaba, Tencent and JD. Anchor is now available on all major e-commerce platforms and in over 13,000 bricks and mortar stores nationwide in China and continues to grow its presence and market penetration<sup>39</sup>.
- **Anchor Food Professionals (AFP):** Fonterra's Foodservice business, has had strong growth in Greater China in recent years, reflecting an increase in food and beverage consumed outside the home. AFP is now the number one foodservice brand in China, with over a 50% average market share across all categories. For example, Fonterra's Individually Quick Frozen (IQF) mozzarella now tops over 50% of the 300m pizzas sold in China, while AFP butter has nearly an 80% market share, with over 90% of leading bakery chains

39. Notes supplied by Fonterra Cooperative Group, December 2018

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using AFP butter. Other leading products include Ultra Heat Treated (UHT) cream and cream cheese, where AFP holds around 50% market share in both categories. AFP also has a number of chefs working directly with customers in China on product application, optimisation and innovation.

- **Ingredients:** NZMP is Fonterra's ingredients brand that supplies leading companies across China, and is benefitting from strong demand. In addition to the core demand across bulk milk powders,

demand for cheese and protein is growing with the trend towards healthier and more active lifestyles.

## 7 FINAL WORD

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As a small country, New Zealand needs FDI to generate new job opportunities, to grow businesses domestically and internationally, and to help drive productivity and innovation. Although Australia has traditionally been New Zealand's largest source of FDI, it is important for New Zealand to remain globally competitive in terms of attracting investment from overseas, including from China. Good investments from any source bring benefits for both economies and peoples.

Chinese investments in New Zealand have grown steadily since 2014 and the impact and benefits for New Zealand should not be underestimated or understated. Chinese investors tend to invest in the long term and many investments come with the potential opportunity to leverage their links back into Chinese markets to help grow New Zealand businesses.

However, with the recent regulatory and policy changes in both China and New Zealand, it is uncertain whether future bilateral investments will be able to maintain the same momentum.

New Zealand's long term economic interests are linked with China: the Chinese economy is too large to be ignored and while other countries have invested more into China in the past five years, it is still critical for New Zealand businesses to evaluate and re-evaluate their China growth strategy to determine if investment in China, with China or from China should be part of the mix in ensuring New Zealand companies grow, both domestically and globally.







## REGULATION OF FOREIGN DIRECT INVESTMENT IN NEW ZEALAND

The regulation of foreign investment in New Zealand is governed by the Overseas Investment Act 2005 (The Act) and related regulations. The Act is administered by the Overseas Investment Office (OIO).

Section 3 of the Act states that “it is a privilege for overseas persons to own or control sensitive New Zealand assets” and the Act provides Ministers with a mechanism to screen investments by overseas persons in sensitive New Zealand assets and, in respect of investments in sensitive land and fishing quota, to ensure that these investments are of benefit to New Zealand.

In the case of FDI from China into “significant business assets”, the current threshold is \$200 million for Chinese incorporated entities with business operations in China undertaking the investment. The threshold was recently raised as part of New Zealand’s FTA obligations to China consequent on the ratification of the Comprehensive and Progressive Agreement on Trans Pacific Partnership.

The Act requires consent to be obtained before an investment can be given effect where there is an overseas investment (i.e., direct ownership or a 25% or more indirect control interest) in sensitive land, significant business assets or fishing quota.

All applicants must satisfy an Investor Test at the outset and on an ongoing basis, which requires detailed information on the person(s) ultimately in control of the applicant. Applicants wanting to acquire sensitive land or fishing quota must establish that benefits to New Zealand will arise from the investment beyond those that would occur under the counterfactual i.e., if a New Zealander acquired the asset.

The Act, the way in which it is interpreted and implemented and the surrounding politics were the topic of considerable public debate in the lead up to and during the 2017 election. In November 2017, under the newly elected

Coalition Government, a new Ministerial Directive letter was issued, significantly changing the way in which applications involving rural land are to be considered. The Directive letter places a greater emphasis on economic benefits and has led to a lifting of the bar on what is a “substantial and identifiable” benefit to New Zealand in relation to rural land. The application must be compelling, not just “somewhat more” or “a little more” than what a New Zealand investor would do. This has resulted in a significant reduction in consents granted for investments in farms.

Other changes to the Act came into force in October 2018, which are more supportive of foreign investment in forestry and wood processing, along with changes in relation to residential property essentially to prevent non-residents owning residential property in New Zealand, with some exceptions.

If consent is granted, the OIO will impose conditions requiring the applicant to implement its stated business plan to ensure that any claimed benefits will be realised. Monitoring compliance with conditions of consent is an important part of the OIO’s work and the OIO has been provided with additional resources so that it is able to more closely monitor compliance. In cases where applicants have been through the OIO process and received consent, but later failed to deliver on the conditions of that consent, applications can be reviewed and overturned.

In other cases where through subsequent actions, the applicants fail the Investor Test on an ongoing basis, these can also be reviewed with the potential for the consent also to be overturned.

The application process is complex. It is critical that any overseas person considering making an investment in sensitive assets in New Zealand obtains professional advice at the outset as to whether consent under the Act will be required.

# ANNEX B

## REGULATION OF INVESTMENT IN CHINA <sup>40</sup>

### Outward Direct Investment (ODI)

Set out below is a summary of the provisions from the “Guiding Opinion on Further Directing and Regulating the Direction of Overseas Investments” which introduced a new outbound investment compliance regime which lists investment projects as “encouraged, restricted and prohibited”<sup>41</sup>:

#### ENCOURAGED

- Infrastructure projects that facilitate the “communication and connections” segment in relation to the “Belt and Road” initiative
- Investment in overseas projects that will facilitate the export of high standard industrial capacity, high-quality equipment and technical standards
- High-tech and advanced manufacturing investments and the establishment of offshore R&D centres
- Oil and gas, mining and energy resource investments based on prudent assessment of cost benefits
- Expanded investment and cooperation in agricultural projects
- Promotion of investments in commerce and trading, the cultural and logistics etc service sectors. Also some qualified financial institutions are encouraged to set up offshore branches and service networks

#### RESTRICTED

- Investment in countries or regions that have no diplomatic relations with China, are at war or sensitive countries or regions the investments are restricted by bilateral or multilateral treaties
- Overseas investments in real estate, hotels, cinemas, entertainment sector or sports clubs
- Note: this is potentially a significant issue for New Zealand in light of growth of tourism and the housing demand
- Overseas equity investment funds or investment platforms without underlying business operations
- Companies using obsolete production technology and equipment that is not compliant with the target country’s technical standards and regulations
- Overseas investments that are not compliant with the relevant target country’s environmental protection, energy consumption or safety standards.

#### PROHIBITED

- Investments that involve the export of unauthorised military core technologies and products
- Investments using technologies, techniques and products that are prohibited from export
- Gambling and pornography sectors
- Other investments which may endanger national interests and national security

<sup>40</sup>. This commentary is provided as a guide only and should not be relied upon for any financial decision-making.

<sup>41</sup>. Official Chinese version of “Guiding Opinion on Further Directing and Regulating the Direction of Overseas Investments” [http://www.gov.cn/zhengce/content/2017-08/18/content\\_5218665.htm](http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm)

# ANNEX B CONTINUED

## Inward Foreign Direct Investment (FDI)

The Chinese government has continued to promote opening up the market to foreign investors in recent years. At the opening of the 19th Communist Party Congress in October 2017, Chinese President Xi Jinping confirmed “China’s open door will not be closed. It will only be opened wider”<sup>42</sup>. China marked its 40th anniversary of its reform and opening-up policy in December 2018.

One of the key policies to measure the Chinese government’s attitude toward direct foreign investment in China is the Chinese official “Special Administrative Measures on Access to Foreign Investment (Negative List)”. The negative list provides an outline of the sectors in which foreign investment is restricted in China. The new negative list, known as the “2018 Negative list” took effective on 28 July 2018, and this negative list has been shortened with the number of items down to 48 from 63 in the previous version<sup>43</sup>.

The new list relaxed the market access in primary, secondary and tertiary industries and further opened up industrial sectors including financial services, transportation and logistics, commercial and trading, professional services, manufacturing, infrastructure, energy and resources and agriculture. In the agricultural sector, the former restriction on foreign shareholding in the production of seeds of agricultural crops (except the seeds of wheat and corns) has been removed<sup>44</sup>.

Restrictions on foreign shareholding in domestic banks have been eliminated and the cap of foreign shareholding in securities companies, fund management, futures and life insurance companies was raised to 51%, although the question remains how this will be implemented and operationalised. Foreign companies have for a long time been very interested in gaining a “level playing field” in China’s financial markets.

The 2018 Negative List also sets out a timetable for further opening-up of the financial services and automobile sectors in the next three to four years. According to these provisions, all foreign shareholding restrictions in the financial services sector will be removed in 2021. The “Special Administrative Measures for Access of Foreign Investments to the Free Trade Zone (Negative List of the Free Trade Zone –FTZ)” has also been reduced from 95 restrictive measures to 45<sup>45</sup>. This Negative List of the FTZ is applicable for businesses within Free Trade Zones of China.

The Chinese government has also signalled its intention to simplify the setting up and company registration process for foreign investors, something that has been under consideration for many years. It has said that the new process will be carried out “paperless, cost-free and without the need to be present” in the future to improve efficiency and reduce the compliance burdens and costs for foreign investors<sup>46</sup>.

42. Reuters, “Xi says China will continue to open its economy, deepen financial reforms” 18 October 2017 <https://news.abc-cbn.com/business/10/18/17/xi-says-china-will-continue-to-open-its-economy-deepen-financial-reforms>

43. Xinhua Net, “China Focus: China unveils shortened negative list for foreign investment” 29 June 2018 [http://www.xinhuanet.com/english/2018-06/29/c\\_137287927.htm](http://www.xinhuanet.com/english/2018-06/29/c_137287927.htm)

44. Official Chinese version of Negative list 2018 from the National Development and Reform Commission, People’s Republic of China <http://www.ndrc.gov.cn/zcfb/zcfbl/201806/W020180628640822720353.pdf>

45. EY Newsletter “China further relaxes restrictions on foreign direct investment” [https://www.ey.com/Publication/vwLUAssets/EY-ctin-2018002-en/\\$FILE/EY-ctin-2018002-en.pdf](https://www.ey.com/Publication/vwLUAssets/EY-ctin-2018002-en/$FILE/EY-ctin-2018002-en.pdf)

46. PLMJ Newsletter “New Rules on Foreign Investment in China -2018” <https://www.plmj.com/en/knowledge/legal-insights/China-New-Rules-on-Foreign-Investment-in-China-2018/19033/>







## ANNEX C: GLOSSARY OF TERMS

**Counterfactual:** expressing what has not happened but could, would, or might under differing conditions. Certain applications to the OIO are required to address what is likely to happen with the investment, and what is likely to happen without the investment (the counterfactual). This means that investors will need to ask what could reasonably be expected to occur if the proposed investment does not proceed and fully explain this in any application.

**Foreign Direct Investment (FDI):** is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Shares ownership amounting to less than the stated amount is termed portfolio investment and is not categorized as FDI. FDI does not include foreign investments in stock markets. FDI refers more specifically to the investment of foreign assets into domestic goods and services.

**Gross domestic product (GDP):** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well (in the United States, for example, the government releases an annualized GDP estimate for each quarter and also for an entire year).

**Immediate Investor:** is the source of FDI funds from the registered investor, but the registered investor utilises a legal entity based in another country or economy from which to make the investment. Chinese companies and corporations for example, often use either Hong Kong or Singapore legal entities

as the registered source of FDI, but the original source of funds, or the ownership of the off-shore entity is based in or originates from China (PRC).

**Negative List:** in a trade environment, a negative list means that all items are affected except those that are explicitly listed. This is a less restrictive approach than the positive list, which means that only those listed are allowed, and everything else is explicitly excluded. The negative-list approach can also be called "bottom-up."

**Most Favoured Nation (MFN) provision:** is a status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must nominally receive equal trade advantages as the "most favoured nation" by the country granting such treatment. MFN also means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners, regardless of status.

**Outward Direct Investment (ODI):** an outward direct investment (ODI) is a business strategy in which a domestic firm expands its operations to a foreign country. This can take the form of a green field investment, a merger/acquisition or expansion of an existing foreign facility. Employing outward direct investment is a natural progression for firms if their domestic markets become saturated and better business opportunities are available abroad.

**Organisation for Economic Co-operation and Development (OECD):** is an intergovernmental economic organisation with 36 member countries, founded in 1961 to stimulate economic progress and world trade. It is a forum

## ANNEX C: GLOSSARY OF TERMS

of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.

**Overseas Investment Office (OIO):** is mandated by the New Zealand government to assess applications from overseas investors to ensure they meet the criteria in the Overseas Investment Act 2005. Overseas people and organisations (more than 25 per cent foreign-owned) wanting to invest in New Zealand's sensitive land, significant business assets and fishing quota must get consent before they do so. The OIO monitors investors to make sure they provide truthful and complete information about themselves and their plans, and keep the commitments they make when they apply for consent. The OIO is empowered to take enforcement action when required.

**Sensitive Land or Assets:** land is sensitive if it is or includes land of a particular type, adjoins land of a particular type, or is on islands specified in the Act. Sensitive New Zealand assets are sensitive New Zealand land, significant business assets, or fishing quota.

**Statistics New Zealand FDI Data:** Statistics New Zealand base their FDI data on a quarterly survey of banks and key New Zealand corporations and companies involved in FDI transactions. They review OIO data as well, but only in relation to large

transactions. The survey requests data on:

- the investment relationship between the resident reporting unit and the offshore counterparty, classifying the offshore party as a: direct investor, direct investee, fellow enterprise, or other counterparty
- instrument type classification (e.g. equity, debt instrument such as debt securities, loans, trade finance, derivatives).

In relation to country breakdowns of FDI, this is presented directional basis, meaning it is presented on a net basis by grouping assets and liabilities transactions together according to the relationship between the two companies. FDI is represented as the value of a New Zealand company's foreign-owned equity and borrowing minus any lending the New Zealand company makes to the overseas parent.

**Ultimate Investor:** in relation to the Immediate Investor, the Ultimate Investor is the original source of funds or the parent company of the legal entity used to invest off-shore.

# ANNEX D: ACKNOWLEDGEMENTS

## ACKNOWLEDGEMENTS

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The New Zealand China Council is grateful for support and funding towards the completion of this report received from its member organisations, ANZ, MinterEllisonRuddWatts and PwC.

The New Zealand China Council is also grateful to the following companies, organisations and individuals that have participated and contributed for this report by sharing relevant information and material:

**(in alphabetical order):**

Allied Faxi New Zealand Food Co. Ltd, ANZ Bank New Zealand Ltd, Bank of China (New Zealand) Ltd, China Resources, Chinese Embassy in New Zealand, DLA Piper New Zealand, First NZ Capital Limited, Fisher & Paykel, Fonterra Co-operative Group, Fu Wah New Zealand Limited, Huawei Technologies (NZ) Co. Ltd, Industrial and Commercial Bank of China (New Zealand) Ltd, Loo & Koo, Mary Boyd, Methven Ltd, Milk New Zealand, MinterEllisonRuddWatts, New Zealand Trade and Enterprise, NZ Chinese Building Industry Association, Overseas Investment Office, Primary Collaboration New Zealand (Shanghai) Co. Ltd, Professor Natasha Hamilton-Hart, PwC New Zealand, Silver Fern Farms, Stephen Sinclair, Super Organic Dairy Company Ltd, Vista Group, Waste Management Limited, Yashili New Zealand Dairy Co., Ltd, Yili Group.

**No specific view expressed in this report in whole or part should be taken as representing the views of any individual or organisation.**

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