

## Why gold-rush investors will stumble

GUEST COLUMNIST



Marcus Beveridge

Many recent investments from China into New Zealand have been poorly conceived and executed

New Zealand was built on foreign investment. In world terms, it is a young country with a tiny population. Britons came here 160 years ago and since then so have Americans, Canadians and Australians.

From Asia, some 20 years ago Hong Leong Singapore invested in the property and tourism sector – now it owns more than \$1 billion of hotels and motels with no debt.

Chinese Indonesians acquired, at bargain basement prices, prime New Zealand property assets after the stock market crash in 1987. They bought and disposed of their investment in Winstone Pulp & Paper for some \$200 million.

The Japanese, who also invested heavily, have come and gone.

And now there are the (mainland) Chinese. But just as many New Zealand companies' forays into China have not been a happy or profitable experience, Citic's (the Chinese government's investment arm) \$1 billion marriage to Fletcher Forests was not a successful enterprise.

Today teams of New Zealand consultants and locally based Chinese traders are regularly considering investments. Just three proposals we are involved in include:

- a \$400 million high-rise development in Auckland by a Shanghai billionaire;
- a \$300 million investment in the manufacture of New Zealand milk products; and
- a \$300 million development comprising some 500 new houses in south Auckland by Chinese investors aged in their early 20s.

Most recently it has been announced that China's sovereign wealth fund, the Chinese Investment Corporation (CIC), will invest heavily in this country, including \$6 billion in government bonds.

New Zealand's regulatory framework is favourable. Overseas Investment Office consent is only triggered in circumstances where the investment exceeds \$100 million, land size exceeds 5ha (or in some other sensitive land situations) or there are significant national interest concerns. The vast majority of OIO applications are approved.

Chinese are not interested in investing here because of the population or the expected return on their investment. The drivers are diversification, future proofing, lifestyle and an increasing acceptance and, in some discreet cases, facilitation by the Chinese government



**BOSTON LEGAL LAWYERING:** Denny Crane and sidekick Alan Shore with their paint guns are one way to protect our borders but ...

of overseas investment. However, many of these recent investments are poorly conceived and executed.

Parallels can be drawn with former examples of Japanese and Korean companies rushing into new markets without a deep understanding of local business practices, the investment landscape and the regulatory framework.

Unlike Hong Kong- and Singapore-based investors, who would often have a deep understanding of New Zealand's legal system, the rule of law, compliance-driven issues and so on, these new investors will

often not deeply appreciate such issues and will leap into projects that are not commercially viable, often based on advice from equally ill-informed intermediaries.

Accordingly, a lot of such investments may be messy and confused affairs. At times the new rich looking at investment opportunities here misunderstand the local environment by thinking that money and or profit is the only material consideration.

Such pecuniary arrogance will in some cases end in tears. At other times rushing into unconditional contractual arrangements without properly completing due diligence or properly understanding New Zealand's acquisition processes may well also end in acrimony. Not tailoring a particular investment in terms of scale could be equally fatal.

Reasons for rushing head long into business initiatives in New Zealand without getting the groundwork right include a lack of local knowledge or relying on poor quality commercial advisers, dealing in an environment that is not as competitive or heated as say Shanghai, a general lack of trust and a desire to park money into a project quickly without proper care.

This lack of subtlety, strategic planning and due diligence has already been evident. Tailoring an investment to suit a much smaller economy and population is not properly considered.

Some reasons for Chinese millionaires rushing into business initiatives without doing the groundwork include lack of experience of doing business in a jurisdiction such as ours and a general lack of trust or alternatively too much trust on individuals not properly qualified or experienced.

Others are communication

problems, sycophantic behaviour of mid-tier management wanting to impress their bosses at all costs, a generally poor understanding of many local issues, processes and considerations and not properly understanding the creation and enforcement of legal obligations in a western sense.

Many Kiwis will scratch their heads when considering some such investment proposals. The proposal may seem commercially naïve or unsustainable. There are some matters we generally will not consider, such as the risks inherent in dealing in a small, volatile currency, local labour costs or the ultimate sale price in China of our commodities.

In any event, perhaps it is time that Denny Crane from *Boston Legal* and his paint gun took a stand at the border to protect our small nation from some of the inevitable consequences that will follow these investment funds.

Perhaps Shirley Schmidt needs to lecture us all on safeguarding our institutions, business practices, the rule of law and other cherished doctrines from being wittingly or unwittingly undermined by a different set of practices and business customs that will no doubt be bedfellows of this new wave of investment.

Alternatively we could simply rely on the likes of Jenny Shipley and others to keep everyone in line. It's a bit like travelling to North Asia and seeing the Russians working as the hired labour at the local versions of Disneyland. It rocks our foundations.

*Marcus Beveridge, principal of Queen City Law, has acted for some of the largest Asian investors in New Zealand over the past 20 years. This is the second of a two-part series on immigration and investment. The first was published last week.*

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Owen McShane is unwell. He will return next week

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### EDITORIAL

Accusations of corporate skulduggery have been overdone since Prime Minister John Key and Sky City Entertainment Group agreed on plans for a 3500-seat Auckland convention hall.

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### COMMENT

A minimum wage makes it clear fairness has not been abandoned when people on low wages are enduring a recession caused by people on high salaries.

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### ORDER PAPER

This has seen confirmation the government is prepared to turn the policy ratchet in a direction National is supposed to favour but which it has tended to be too timid to take.

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INSIDE  
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