

## RESEARCH

# Banking on China

China's economic boom has led to an explosion in high net worth Chinese. But tapping their wealth is as much about culture as investment nous. BY **LESLEY SPRINGALL**

In less than a decade China's economic boom has increased the nation's wealthy 100-fold. By 2015 it's expected to have 1.4 million millionaires, half of Asia's total number of millionaires — and control more than half the region's estimated US\$16 trillion of wealth, according to research by Swiss banking group Julius Baer. In 2010 alone, more than 500,000 new Chinese millionaires were created.

But many of these new Chinese rich-listers are superstitious about how they got there, says Zhenzhen Li, a Chinese-born postgraduate student based in Auckland. "They believe in luck. They are not really sure how they've made so much wealth so quickly. So when you talk about business you have to talk about good fortune instead of bad luck or death or anything relating to unlucky stuff."

Li investigated the "Motivations and barriers to Chinese investors in New Zealand life sciences" as part of her Masters in Bioscience Enterprise from the University of Auckland. A key finding was how overseas Chinese (defined as those with investments or family links in New Zealand) were turned off by some of the ways westerners pitch science wares.

"Most of our documents start with things like, 'prostate cancer is the second most common cause of death in men', which evidently can be somewhat off-putting," says Brent Ogilvie, co-founder of life sciences venture investment firm Pacific Channel, which commissioned the research. "So while we look at investments with purely an investment lens, the Chinese have their own cultural background that comes into play."

Ogilvie's already changed the executive summaries of some of Pacific Channel's investment statements to present investee companies' offerings in a happier light. Summaries are also being translated into Mandarin to boost appeal after criticism was levelled at the New Zealand's



investment community on this point.

The language problem was one of the more obvious findings, says Li. But one she hadn't expected was how risk averse Chinese investors still appear to be.

Chinese investors prefer less risky investments such as primary products like milk power, or infrastructure like property, she says. If they were to look at investing in a kiwifruit nutraceutical, they'd probably prefer to buy kiwifruit orchards with the nutraceutical investment, rather than just invest in the nutraceutical.

"Chinese investors worry about how they will ensure a continuous supply; a risk free supply," says Li. Despite China's rapid economic growth and the breadth of innovative new companies this has spawned, the research shows Chinese investors are still strongly conservative, she says. Many life science investment opportunities are simply deemed too risky.

In China, early stage biotechnology investments still tend to be the sole domain of the inventor and the government. Other investors are rarely approached until a much later stage when most of the risk has been mitigated. But this is changing. The Chinese government has promised almost

US\$1.6 billion, plus another US\$4.8 billion from provincial governments, to biotechnology investment as part of a five year plan to shed its reputation as a cheap producer of low quality goods. But it's hoping to tempt private investors to invest alongside it with the promise of reduced income tax rates.

But that's back home. Overseas science investments don't come with government backing, so they need to be encouraged in other ways, through trusted relationships, built up over time, says Li. In New Zealand contracts and transactions dominate business relationships, but in China, trusted relationships, or *guanxi*, are fundamental to doing business. To even consider a slightly more risky investment, overseas Chinese investors need guidance from and trust in their New Zealand counterparts, says Li. "So those friendship bonds become a very important part of attracting investment."

Work is underway to tackle this problem with the establishment of a new overseas Chinese investment group through the Ice Angels network, the private investment group established by the Icehouse. The new group has the backing of ATEED, Auckland's economic development agency, Auckland City Council, which has donated the "suitably prestigious" Auckland Mayoral Chambers for the group's first meeting.

The aim of the new group is to build relationships with those overseas Chinese business people who have especially strong links to New Zealand, says Ogilvie. "We think we've got such a good resource on our own doorstep, we want to at least start here." But the hope is these links will one day form a network that will tap into the very heart of China's growing bank of investment millionaires.

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