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The motivations and investment preferences of Chinese investors who migrate to New Zealand

Abstract

The investment motivations, preferences and behavior of Chinese migrant investors have a significant impact on the New Zealand economy. The objectives of this research were to investigate the preferences (what kind of investment assets they prefer) and the motivations (why they chose New Zealand as their investment destination) of Chinese migrant investors who had made New Zealand their home.

Using a grounded theory methodology, the researchers draw some findings from the data analysis. Furthermore, using a constant comparative method, the researcher develops some preferred choices which explain Chinese migrant investors' investment preferences and motivations. In the end, the researcher develops a theory from the ground – exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations.

Due to the growing number of Chinese migrant investors in New Zealand, the authors expect the findings will be a useful element in explaining New Zealand's economic development. It highlights a different understanding of home bias in investing. It also will be important for the development of New Zealand's growing finance industry and equity market.

Keywords: investment preferences, Chinese migrant investors, New Zealand economic development; grounded theory.
JEL Classification: F21, F22, F30, G11, G15.

Introduction

Chinese people have moved to many parts of the world to study, to settle or to find employment. These Chinese migrants contribute to their destination countries where they settle or visit. For instance, education export income is an important part of New Zealand revenue, New Zealand is heavily dependent upon the income generated by international students (Ma and Abbott, 2006). In 2005, there were 97,745 Chinese international-students in New Zealand, which is the 50.7 percent of the total international students in New Zealand (Ma and Abbott, 2006). The Chinese are the largest Asian ethnic group in New Zealand (Su, 2005) and had reached the population of 147,570 by 2006 (*Asianz*, 2009). These Chinese migrants contributed an average of three or four times more to New Zealand in comparison with local-born residents (Grealish, 2008). This contribution is a part of economic globalization, and is an important and unique resource to the destination countries (Zhang, 2003).

Light (2002) pointed out Chinese migrants play a significant role in their destination countries, and through demand, support high values in destination property and financial markets. Inward foreign investment (between $NZ 969 million and $NZ1500 million are from Chinese migrants) can provide capital, expertize and offshore distribution to help New Zealand companies grow and create jobs (Jacobi, 2009). Chinese migrant investors have had a significant impact on the New Zealand economy as well.

There also are many benefits for investors who invest capital in foreign markets: participation in the growth of other countries, hedging their consumption basket against exchange rate risk, realising diversification effects, tax benefits and taking advantage of a global market scale (Bartram and Dufey, 2001). Moreover, foreign investment generally has a lower correlation of returns with the investor's home market. Bartram and Dufey also point out those investment opportunities are no longer restricted to domestic markets; financial capital can now seek opportunities abroad with relative ease.

In 2008, New Zealand and China signed a Free Trade Agreement. An increase in international trade has been enabled by improvements in the globalization of financial activity, especially between New Zealand and China. China has become New Zealand's fourth largest trading partner, taking over $1.6 billion of merchandize exports and over $1 billion of services (New Zealand Ministry of Foreign Affairs & Trade, 2008). Therefore, Chinese migrants may improve opportunities for bilateral business activities in New Zealand and China; they also lead an increase in international trade (Poot and Cochrane, 2004).

A number of studies have discussed investors' preferences and motivations (Arnswald, 2001; Jackson, 2003; Nelson, Boomfield and Krische, 2003; Chan and Fong, 2004; Wang, 2004); however, none of them were specifically for Chinese investors who have invested in New Zealand. This study focuses on Chinese investors who migrate from mainland China, in order to highlight factors that may influence the way Chinese people invest. The aim of the research is to investigate what kind of investment assets Chinese migrant investors prefer (Chinese investors' preferences and behavior) and why they chose New Zealand as their investment destination (Chinese investors' motivations). The structure for the rest of this paper is organized as follows: section 1 presents literature reviews, section 2 describes research methodology and data collection details, research findings are provided in section 3, and the final section summarizes the whole paper.

1. Literature review

Some investors believe that local or well-known companies or firms are low-risk because these companies are near where they live or they have some relatives or friends working for these firms. Alternatively, they know something about these companies which makes them consider to be low-risk ones. Lauterbach and Reisman (2004) argue that investors overweight (investors invest too much of their capital into some particular investment product or section) domestic stocks in their portfolios, which indicates that domestic stocks are often preferred. These individual investors have preference for domestic investments over investments in foreign assets. This is referred to as the home bias; investors expect local investments to outperform their remote investments (Ivkovic and Weisbenner, 2005).

Two Finnish academics, Grinblatt and Keloharju (2001), found that investors are more likely to hold, buy, or sell stocks of firms which are located close (geographically) to them. Grinblatt and Keloharju (2001) point out that investors prefer to hold and trade stocks headquartered in nearby locations to those in more distant locations; and, institutional investors are less influenced by distance, language and culture on stockholdings.

D'Souza and Peretiatko (2005) believe that similar cultures provide similar demand preferences. Furthermore, Lecraw (1983) points out that similar cultural, economic and social background is a major underlying factor leading strategic groups to select particular markets. Grinblatt and Keloharju (2001) find that these household investors always think local businesses are low-risk because the companies are near where they are living; these investors do not test whether the investments they choose are low-risk or whether their investments are more profitable than distant investments.

Giannetti and Simonov (2006) suppose that another reason why individual investors prefer home-bias investment is that investors believe that they can access private information while other investors cannot. Because they may have access to private information, investors consider this private information can help to reduce potential risk. Giannetti and Simonov also find that investors often like to invest in companies which they are familiar with. Furthermore, small individual investors like to connect with company insiders to extract private benefits or access private information.

Cooper and Kaplanis (1995) further point out that home-bias investment is very significant and comprises a heavy weight allocation in an investors' portfolio; investors believe these home-bias investments with low risk may achieve high returns. French and Poterba (1991) document the strong tendency of investors in the USA, Japan and the UK to hold domestic securities. Their opinions are supported by both Kang and Stulz (1997) and Lewis (1999).

To avoid high risk and achieve high returns, many investors not only prefer to invest in stock markets, especially domestic or familiar markets, but also like to herd. Demarzo, Kaniel and Kremer (2004) suppose individual investors are impacted upon by local communities to make investment decisions; investors compete for local resources through their portfolios.

Shleifer and Summers (1990) suggest that the influences of fads and fashions are likely to impact individual investor investment decisions. Nofsinger and Sias (1999) explain that herding is a group of investors trading in the same direction over a period of time. Similarly, Shiller (1984), De Long and Shleiger et al. (1990) and Lakonishok, Shleifer and Vishny (1994) suggest that individual investors are likely to herd when they follow the same investment signals or place importance on recent news. Choi, Dassiou and Gettings (2006) further believe that many individual investors do not know much about their investments and make investment decisions by following the herd. Similarly, cultural environment appears an important factor which leads to herding investment decision making; especially when a group of investors speak the same language or have similar social-life environment (Tse, Lee, Vertinsky and Wehrung, 1988).

Both home-bias and herding investment strategies are tools or methods which individual investors use to reduce risk. Investors want and desire high returns even though they know high returns is accompanied by high risk; they expect to use strategies like home bias or herding to avoid or reduce unnecessary risk.

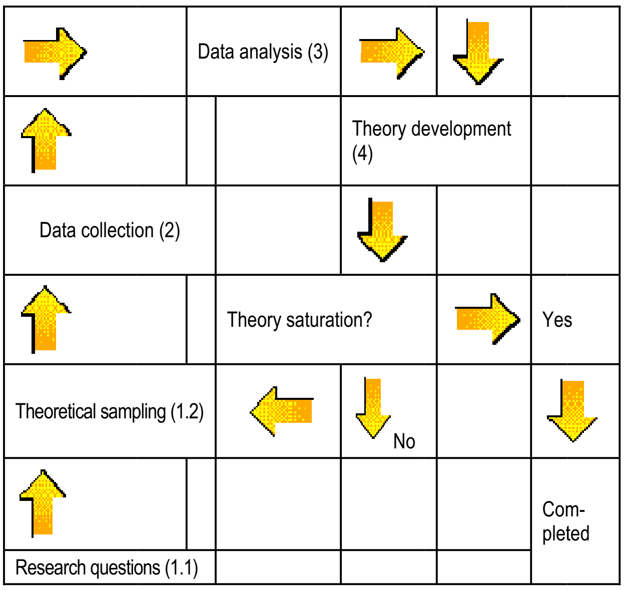
The Economist (2004) recognizes that, unlike many western investors who are often content to invest at home, wealthy Asians generally demand a global service. This is perhaps partly due to the region's financial crisis in 1997-1998 which taught them to spread their risk. The Economist article also notes that bankers estimate the wealth of China's rising upper class at US$600 billion to US$1 trillion. Wang (2004) points out that these Chinese investors prefer the Western financial markets rather than the developing and unstable Chinese financial markets. Wang also notes that individual investors control a greater part of the Chinese equity market than institutional investors do, and that individual investors have become the dominant source of investment.

2. Research methods and data collection

This research adopts a qualitative research methodology − grounded theory – to develop a theory to explain Chinese investors' motivations and preferences. Grounded theory was introduced by Glaser and Strauss in 1967 and developed by Strauss and Corbin (1990). Grounded theory is a research methodology to use to build up theory from interviews based primarily on qualitative data. The principles of grounded theory are based on the premise that theory can be generated from empirical findings and phenomena. To generate a theory from grounded data, there are several stages and steps: research design stage; data collection stage; data analysis stage; and literature comparison stage. Grounded theory helps researchers to find how, when, and why things are done, and to find out how people and organizational units interact.

Gurd (2004) claims that grounded theory have begun to gain prominence in the field of empirical research in recent years. Nonetheless, grounded theory has also been criticized as it is sometimes coined a 'do-it-yourself' methodology (Glaser and Strauss, 1967).

The Figure 1 overviews these stages and gives a picture of the process of grounded theory building.



Source: Pandit (1996, p.7)

Fig. 1. The processes of research design, data collection, and data analysis to build grounded theory

The interviews were used to understand investment motivations, behavior and preferences of Chinese investors who had migrated to New Zealand. The objective of an interview is to gather data that is rich in explicit detail of participants' experiences to enable the researcher to answer their research questions (Parker and Roffey, 1997). Interview invitation letters were sent to approximately 200 Chinese investors who had migrated to New Zealand. Twenty respondents agreed to participate. This sample included thirteen men and seven women, from a range of social classes, educational qualifications and migration terms. The below tables provide the details of interview respondents.

Table 1. Age composition of sample

Age range	Number	%
16-20 years		0
20- 40 years	10	50
40-60 years	8	40
60+	2	10
Total N = 20		

Source: designed for this study.

Table 2. Gender composition of sample

Gender	N	%
Male	13	65
Female	7	35
Total N = 20		

Source: designed for this study.

Table 3. Migration lengh composition of sample

Length range	N	%
Less than 5 years	3	15
5-10 years	15	75
10+ years	2	10
Total N = 20		

Source: designed for this study.

Table 4. Migration status composition of sample

Status class	N	%
Student visa holder	1	5
Work permit holder	0	0
NZ permanent resident	14	70
NZ citizen	5	25
Total N = 20		

Source: designed for this study.

Table 5. Education composition of sample

Education level	N	%
High school	3	15
Undergraduate	12	60
Postgraduate	5	25
Total N = 20		

Source: designed for this study.

Table 6. Social class composition of sample

Social class	N	%
Professional: e.g., lawyer, accountant	0	0
Intermediate: e.g., teacher, nursing	3	15
Skilled: mechanic, printer, clerical	1	5
Semi-skilled: e.g., lorry driver	1	5
Unskilled: e.g., cleaner, factory worker	1	5
Student	2	10
Housewife/husband	11	55
Total N = 20		

Source: Designed for this study.

The interviews were conducted over a 15 month period. They ranged from one to three hours in length and were recorded. Field notes were also made during interviews and interview memos were written after each interview. The data collected from the 20 interviews met the criteria for theoretical saturation. In the data collection and data analysis process, the criterion for judging when to stop theoretical sampling is when 'theoretical saturation' occurs. By this term Glaser and Strauss (1967) referred to the situation in which:

"No additional data are found whereby the researcher can develop properties of the category. As he sees similar instances over and over again, the researcher becomes empirically confident that a category is saturated" (Glaser and Strauss, 1967, p. 65).

3. Research findings

With grounded theory, six main findings were developed:

1. Firstly, these investors are still interested in the Chinese market more than the New Zealand market, because they believe they may gain more speculative investment opportunities from the Chinese market.
2. Secondly, finance companies have become the main method of transferring capital from China to New Zealand.

Overall, due to the Chinese currency control policy, it is very difficult for individuals to bring capital into other destination countries if they do not have bank accounts or businesses in other international ports, such as Hong Kong or London. Interview data indicated respondents usually used four methods to transfer their capital funds into New Zealand:

- Via Hong Kong or other international ports.
- Transactions between Chinese banks and New Zealand banks.
- Via Chinese-owned New Zealand finance companies.
- Carrying cash personally.

There were 15 respondents who transferred their capital via Chinese owned finance companies. In New Zealand, there are more than twenty Chinese-owned finance companies, which are called "underground banks" by Chinese migrants. These finance companies usually offer better exchange rates than New Zealand's major banks. However, there are two main risks: loss through the Chinese finance companies or through the Chinese government. Once an underground bank is discovered, all the depositors' money will be seized by the Chinese Government.

Further, investors still liked to use the finance companies even to transfer small amount of cash, such as \$1000 or \$2000. One interviewee had brought a very large amount of US dollars into New Zealand, even though he understood it is illegal to bring such amounts of cash through customs.

3. Thirdly, the main reason Chinese investors make New Zealand their investment destination is they are resident in New Zealand (home bias); the additional factors can be high interest rates, tax effectiveness, a growth economy and financial secrecy.

Every respondent mentioned the attraction of high New Zealand interest rates. Many Chinese investors also gain tax benefits for themselves. Three interviewees mentioned that New Zealand's bank and financial professional secrecy protected account holders from financial information disclosure. Investors did not choose New Zealand as their investment destination until they became residents in the country. One interviewee stated:

4. Fourthly, most respondents believed they are low-to-medium risk level investors; however, they expected high investment returns and prefer high-risk investment assets.

Even though these investors had investments in New Zealand or China, 35 percent (seven out of twenty) said they did not have any investment goals. Three interviewees stated that their goals were to accumulate enough money for their retirement; the remaining ten respondents wanted high investment returns. The interview data indicated that those investors who said they did not have any goals actually had similar goals to the others – to make high returns or profits from their investment.

Interviewees' expected investment annual returns, investment preferences, and the risk tolerance level are summarized in Table 7. In Table 7, there are only two respondents who believed they were high-risk taking investors. Further, three respondents wanted investments with low risk and high returns. The most highly preferred investments were Initial Public Offering (IPO), foreign exchange, international shares, property and New Zealand finance company debentures.

5. Fifthly, these investors prefer to rely on themselves rather than professional assistance.

The twenty participants evaluated their own experience or knowledge of investment: eight agreed that they did not have any, three thought they had very little understanding of investment, three believed they had enough experience to understand the importance of diversification, two believed they had experience with all investment sectors and understand the various factors which influence performance, and four believed they could understand that the markets fluctuate and that the different market sectors offer different income, growth and taxation characteristics. Investors had sought professional investment advice from their advisors, planners or brokers, at least in the beginning of their investment in New Zealand.

6. Sixthly, short-term, undiversified and high-risk investment is still the theme of their future investment strategies and plans.

Many believed that two or three different asset allocations could be effective diversification. To match their low-risk tolerance levels, these respondents sought "safe or secure" investments from their own understanding. Outside of New Zealand, quite a few respondents had taken their capital back to the Chinese stock-market.

A phenomenon among these Chinese investors was that they believed that investment is only for wealthy or rich people. Most respondents still made short-term, undiversified and high-risk investments; however, they thought their investments were long-term, low-risk and well diversified.

Table 7. Summary of interviewees' expected investment returns, investment preferences and risk tolerance level

Respondent	Tolerance risk level	Expected net annual return	Investment preferences
1	High	20%+	IPOs
2	High	10%+	International shares
3	Medium	8%+	Property
4	Low	20-30%	FX
5	Low	20%+	IPOs
6	Low	7%+	NA
7	Medium	12-20%	IPOs , FX
8	Low	Higher than bank deposit rates	NZ finance debentures
9	Medium	8-9%	NA
10	Medium	10%+	NZ finance debenture, Chinese property
11	Low	9%+	NZ finance debentures
12	Medium	8-10%	Share
13	Medium	8-10%	NZ finance debentures, IPOs
14	Low	9%+	Low-risk & high-return investment
15	Low	2% + bank deposit rates	Low-risk & high-return investment
16	Low	No loss	IPOs
17	Low	9%+	IPOs
18	Low	9%+	NZ finance debentures
19	Low	9%+	Low-risk & high-return investment
20	Low-medium	8%+	IPOs

Source: Designed for this study.

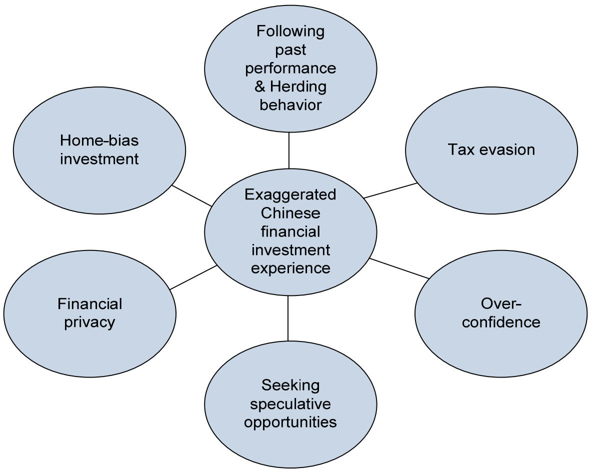
Six categories of the characteristics of Chinese investors' preferences and motivations were identified to further refine the findings:

1. Home-bias investment behavior − that is mainly China and New Zealand.
2. Following past performance/herding behavior.
3. Seeking speculative opportunities – high return, high risk.
4. Over confidence.
5. Taxation evasion.
6. Financial privacy.

If a theme survives the full-sample evaluation, an attempt should be made to see if it can be improved – to account better for the data (Rust, 1993). Two themes have been developed and refined from data analyses concerning Chinese migrant investors' investment preferences, behavior and motivations:

1. Those Chinese investors who migrate to New Zealand often do not understand investment, and seek speculative investment opportunities by exemplifying unprofessional opportunistic behaviours; and,
2. The Chinese investors interviewed did not make New Zealand their preferred investment destination until they arrived here.

Considering the two tested themes and above refined findings, this researcher has reached this conclusion concerning the core category (developed theory) of this study − Exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations. The below Figure 2 shows the relationship between six refined findings and the core theory.



Source: Designed for this study.

Fig. 2. Relationships among characteristics based on Chinese investors' investment experience

As demonstrated in Figure 2, all these characteristics are caused by exaggerations of Chinese financial investment experience; in other words, Chinese investors' optimism is derived from all the characteristics that function together and effectively to core category. Consequently, the following relationships of a theoretical explanation of the above Figure 2 were developed.

The characteristics around the core categories function equally and effectively; every characteristic is a function of a Chinese investor's historical exaggerated investment experience. Also, it is the basic core category of all the findings of this research. The Chinese migrant investors' interviewed behaviors and motivations are derived from their willingness to believe the myths of spectacular investment success by inexperienced Chinese investors.

Simply, these Chinese migrant investors do not forget their investment experience from their previous Chinese-market investments; when they invest in the New Zealand market, they still like to use the same strategies or behaviors or motivations for their investments. Their investment behaviors, strategies and motivations exactly reflect the exaggerated investment experiences which are the myths of the Chinese financial market.

Conclusions

This study finds that Chinese migrant investors prefer to invest in China rather than New Zealand. This finding is similar to those of French and Poterba (1991), Cooper and Kaplanis (1995), Coval and Moskowitz (1999), Grinblatt and Keloharju (2001), Campbell and Viceira et al. (2003), Lauterbach and Reisman (2004), Ivkovic and Weisbenner (2005), Meyer and Nguyen (2005) and Giannetti and Simonov (2006) who believed investors prefer to overweight their capital into their home markets. This is termed home-bias investment behavior. The Chinese migrant investors interviewed still seek speculative investment opportunities from their home country – China, but they also invest capital in New Zealand after their arrival in New Zealand. The new migrant destination has become their home as well. To achieve the transfer of funds to invest, the study finds that Chinese migrant investors are mostly likely to transfer their capital illegally via finance companies (underground banks) even though this process has significant risks of loss.

As a point of difference from the literature, this study finds that Chinese migrant investors interviewed first settle in New Zealand and then start investing in their new home. This study has not found any indications that Chinese investors aim to diversify or reduce their investment risk from investing in overseas markets. Overseas tax haven benefits (tax efficiency) and financial secrecy are elements which attract many Chinese investors to choose New Zealand as their investment destination. This finding matches Keen (1991), Barber (1992), Devereux and Griffith (1996) and Wildasin (1989).

These interviews provide a clearer picture of Chinese investors who invest in New Zealand and China; it develops a significant theoretical knowledge for investors to improve their investment skills. It also may help government policy makers to make appropriate policies to regulate financial markets. That many individual investors transfer their money via high-risk underground banks, may cause the two governments to make appropriate regulations to prevent illegal money laundering. Also the respective governments may promote efficient and convenient money transfer systems to support investors in transferring their money between China and New Zealand.

This study contributes to both Chinese investors and policy makers in New Zealand and China. The research assists in guiding policy development with regard to Chinese and other ethnic investors who invest in New Zealand. Furthermore, these research findings and theory may not only be used to study Chinese investors, they could also be applied to studies which are relevant to investors of other nationalities.

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