THE MOTIVATIONS AND INVESTMENT PREFERENCES OF CHINESE INVESTORS WHO MIGRATE TO NEW ZEALAND

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Doctor of Philosophy

2009
THE MOTIVATIONS AND INVESTMENT PREFERENCES OF CHINESE INVESTORS WHO MIGRATE TO NEW ZEALAND

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A thesis submitted to
Auckland University of Technology
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy (PhD)

2009

The Faculty of Business and Law

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# TABLE OF CONTENTS

## Chapter One: Introduction to This Study
1.1 Introduction 1  
1.2 Objective of This Study 3  
1.3 Overview of Study Contribution 4  
1.4 Overview of the Methodology 6  
1.5 Impact of Economic Fluctuation on This Study 7  
1.6 Thesis Structure 8  
1.7 Conclusion 10

## Chapter Two: Literature Review of Investment Preferences
2.1 Introduction 12  
2.2 Risks, Returns and Investment Assets 13  
2.3 Investment Asset Classes 24  
2.3.1 High Return, High Risk 24  
2.3.1.1 Share Investments 25  
2.3.1.1.1 Home-bias Investment Behaviour 27  
2.3.1.1.2 Herding Investment Behaviour 30  
2.3.1.1.3 Unique Chinese Investment Behaviours 32  
2.3.1.2 Property Investments 34  
2.3.2 Income-asset Investments 41  
2.3.3 Alternative Asset Investments 45  
2.4 Investors' Other Investment Behaviours 47  
2.4.1 Wealth Level, Investment Horizon and Age to Investment Preferences 47  
2.4.2 Non-professional Investment Behaviours 50  
2.5 Conclusion 53

## Chapter Three: Literature Review of Investment Motivations
3.1 Introduction 55  
3.2 Opportunistic International Investments 57  
3.3 Overseas Tax Havens and Tax Rates 62  
3.4 Graphic Diversification 70  
3.5 Other Reasons Drive Foreign Investment Motivations 75  
3.6 Research Questions 84  
3.7 Conclusion 86

## Chapter Four: Chinese Migrants in New Zealand
4.1 Introduction 89  
4.2 New Zealand Immigration 90  
4.3 Chinese Settlement in New Zealand 94  
4.4 Chinese Business Migrants in New Zealand 95  
4.5 Methods of Money Transfer 99  
4.6 Free Trade Agreement 108  
4.7 Conclusion 111
Chapter Five: Research Methodology

5.1 Introduction
5.2 Research Paradigms
  5.2.1 Middle Range Thinking
  5.2.2 Empirical Research Methods
  5.2.3 The Interpretive Paradigm
5.3 Grounded Theory Methodology
  5.3.1 The Elements of Grounded Theory
5.4 The process of Grounded Theory Building
  5.4.1 Research Design
  5.4.2 Data Collection
  5.4.3 Introduction to Data Analysis
  5.4.4 Theoretical Saturation
  5.4.5 Literature Comparison
5.5 Conclusion

Chapter Six: Research Findings

6.1 Introduction
6.2 Research Findings
  6.2.1 Research Finding One
  6.2.2 Research Finding Two
  6.2.3 Research Finding Three
  6.2.4 Research Finding Four
  6.2.5 Research Finding Five
  6.2.6 Research Finding Six
6.3 Discussion
6.4 Conclusion

Chapter Seven: Conclusion and Future Study

7.1 Introduction
7.2 Literature Comparison
7.3 The Contribution of this Study
7.4 Research Limitations and Future Opportunities
7.5 Conclusion

References

Appendix 1 Consent to Research Participation
Appendix 2 Information for Participants
Appendix 3 Ethics Approval
LIST OF CHARTS, FIGURES AND TABLES

Chapter Two: Literature Review of Investment Preferences
Figure 2.1 Risk/Return characteristics of the five asset classes 16
Figure 2.2 Diversified Investment Portfolio 18
Chart 2.1 Asset allocation of low-risk investor 22
Chart 2.2 Asset allocation of medium-risk investor 23
Chart 2.3 Asset allocation of high-risk investor 23

Chapter Four: Chinese Migrants in New Zealand
Chart 4.1 The Transfer between RMB and NZD via Underground bank 104

Chapter Five: Research Methodology
Table 5.1 Quantitative (Positivistic) and Qualitative (Interpretive) Paradigm Assumptions 117
Table 5.2 Key Characteristics of the Dominant School of Thought 120
Figure 5.1 The Processes of Research Design, Data Collection, and Data Analysis to Build Grounded Theory 133
Table 5.3 Age Composition of Sample 135
Table 5.4 Gender Composition of Sample 135
Table 5.5 Migration Length Composition of Sample 135
Table 5.6 Migration Status Composition of Sample 135
Table 5.7 Education Composition of Sample 136
Table 5.8 Social Class Composition of Sample 136
Figure 5.2 The Paradigm Model 142

Chapter Six: Data Analysis and Research Findings
Table 6.1 Summary of Interviewees’ Expected Investment Returns, Investment Preferences and Risk Tolerance Level 166
Table 6.2 Morningstar Investment Benchmark Asset Allocation 167
Figure 6.1 Relationships among Characteristics Based on Chinese Investors’ Investment Experience 178
ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.
ACKNOWLEDGEMENTS

I wish to thank those investors who agreed to be interviewed for this research.

I would like to thank my primary supervisor, Professor Keith Hooper, for his friendly advice and encouragement through the 4 years leading to the submission of this thesis. Professor Keith Hooper was also my Master’s dissertation supervisor in 2004. Sincerely, without his encouragement, I would not have started my PhD study; he always told me “Yes, you can”, which gave me strength and confidence. Professor Keith Hooper is a busy person as the chair of financial accounting department at the Auckland University of Technology; I appreciate his support.

I also would like to thank my secondary supervisor, Dr. Andy Godfrey. Dr. Godfrey is Associate Dean of the Faculty of Business, Auckland University of Technology. Dr. Godfrey encouraged me enormously, helped me to understand the methods of analysis used at the time, and did plenty of work to improve my thesis.

I would also like to record my gratitude to the following people:

Mrs. Roz Stevens, a friend and colleague of mine. Mrs. Roz Stevens proof read chapters 1, 2, 6, 7 and the first draft. I thank her for her enthusiasm and a number of very interesting discussions as well.

Dr. Helen Tregidga, a lecturer in the accounting department in Auckland University of Technology, for her speedy responses to chapters 3, 4 and 5, proof reading and for her advice.

Ms Mary Bateman, proof reader and ESOL teacher, I thank her for her advice and quick responses for the final draft proof reading.

On a practical note, I would also like to thank all my colleagues in the
Financial Advisory Department of ANZ National Banking group, for their encouragement and support.

Finally, I would like to thank my family; my parents for their love and support, thanks also to my lovely wife, she somehow stands by me when I am at my worst as well as celebrating with me when I am at my best. Throughout the years we have been together, she has given me courage and a sense of peace.
ABSTRACT

Chinese migrants play a serious role in their destination countries, and through demand, support high values in destination property and financial markets. Therefore, Chinese investors’ investment motivations, preferences and behaviours have a significant impact on the New Zealand economy.

The objectives of this research are: 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. The findings will be a useful element in explaining New Zealand’s economic development, and in making financial decisions. It also will be important for the development of New Zealand’s growing finance industry and equity market.

The researcher collected data from 20 respondents who are Chinese migrant investors who have made New Zealand their home. The collected data examines investors’ preferences and motivations, such as what kind of investment assets they prefer and the motivations which drive them to invest in New Zealand or elsewhere.

Using a grounded theory methodology, the researcher draws 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.

The core findings (called phenomena or categories) of Chinese migrant investors’ preferences and motivations in this study are listed below:

- Home-bias investment behaviour – that is mainly China and New Zealand
- Following past performance / herding behaviour
Seeking speculative opportunities – high return, high risk
- Over confidence
- Taxation evasion
- Financial privacy

Considering these core categories, the researcher re-tested and re-analysed all interview data. Two refined themes are drawn:

1. Chinese investors don’t understand investment; they seek speculative investment opportunities exemplifying non-professional opportunistic behaviours.

2. Chinese investors don’t take New Zealand as their preferred investment destination until they arrive in New Zealand.

Finally, the researcher reconsiders both themes and other inferences, to develop a theory from the ground – exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations.
CHAPTER ONE

INTRODUCTION TO THIS STUDY

1.1 Introduction

New Zealand is a small credit-dependent nation that is reliant on foreign savings and is always trying to attract overseas investment; up to March 2009, New Zealand had a population of 4.2 million, with a GDP of NZ$179.5 billion (New Zealand Statistics, 2006a). China, up to 2008, has a large population of 1330 million and is the third largest economy in the world with a GDP of NZ$4993 billion (OECD, 2008). Su (2005) points out there are more than 100,000 Chinese people in New Zealand. Up to 2006, Chinese - the largest Asian ethnic group in New Zealand has reached the population of 147,570 (Asianz, 2009). These Chinese migrants contribute an average of three or four times more to New Zealand in comparison with local-born residents (Grealish, 2008). This contribution is part of economic globalization, and is an important and unique resource to the destination countries (Zhang, 2003).

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).
In 2008, New Zealand and China signed the 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 their fourth largest trading partner, taking over $1.6 billion of New Zealand’s merchandise 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).

Light (2002) points 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 $1500 million are from Chinese migrants) can provide capital, expertise and offshore distribution to help New Zealand companies grow and create jobs (Jacobi, 2009).

Furthermore, there also are many benefits when investors invest their capital in foreign markets; they can participate in the growth of other countries, hedge their consumption basket against exchange rate risk, realize diversification effects, take tax benefits and take 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 that investment opportunities are no longer restricted to domestic markets; financial capital can now seek opportunities abroad with relative ease.

Chinese migrant investors’ preferences and motivations have had a significant impact on the New Zealand economy. The objective of this research is to investigate what kind of investment assets these Chinese
migrant investors prefer (Chinese investors’ preferences) and why they chose New Zealand as their investment destination (Chinese investors' motivations). Due to the growing number of Chinese investors in New Zealand, these findings from Chinese investors will be a useful element in explaining New Zealand’s economic development, and also important for the development of New Zealand’s growing finance industry and equity market.

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 are specifically for Chinese investors who invest in New Zealand. This study focuses on Chinese investors who migrate from mainland China, in order to highlight potential ethnic differences that may influence the way Chinese people invest.

1.2 Objective of This Study

The objective of this study is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand. The research centralized questions are as following:

Question 1: What kind of investment assets do these Chinese migrant investors prefer?

Questions 2: Why do these Chinese migrant investors choose New Zealand as their investment destination?
As the overall objective of this study is to address these research questions, it is fundamental that the research questions are taken into consideration when deciding which methodology is the most appropriate to use and what interview questions are asked.

### 1.3 Overview of Study Contribution

Chinese investors’ preferences and motivations would have an impact on New Zealand’s economy and financial markets. This study will contribute to both New Zealand’s and China’s economies; and to help these Chinese investors to become successful. This research’s findings and developed theory are likely to benefit the parties in the following ways:

- **The objective of this study is to develop an understanding of what is currently regarded as best practice for Chinese investors in New Zealand.** It is important for Chinese investors to know appropriate investment strategies to match their risk tolerance and investment returns.

- **This research will help financial professionals to better understand Chinese investors.**

- **This research will develop an understanding of investment challenges and potential ways of managing such challenges with the aim of investment success.**

- **The researcher also believes this study will provide a clear picture of Chinese investors who invest in New Zealand and China.** Significant theoretical knowledge will help investors to improve their investment
skill and government policy makers to make appropriate policies to regulate financial markets.

- Through the research interview process and interview data analysis, interviewees and other Chinese investors can better understand the efficacy of their investment behaviours and motivations. These investment or financial understandings will contribute to their future investment behaviours and motivations.

- In the future, there may be more studies focusing on Chinese investors’ investment preferences and motivations; this study establishes a research framework appropriate to future studies involving Chinese investor participants. The research also adds to the academic literature on the motivations and preferences of Chinese investors who migrate from mainland China.

- This research assists in guiding policy development with regard to Chinese and other ethnic investors who invest in New Zealand. It also provides the public with some underground information such as money laundering between New Zealand and China, which helps New Zealand and China financial departments to develop appropriate policies to protect both financial markets becoming healthier.

- This research summarises Chinese investors’ investment preferences, behaviours and motivations, and also develops a core theory from various interview data which may increase the potential for Chinese investors to become successful.
1.4 Overview of the Methodology

The research will be qualitative rather than quantitative. It will consist of twenty interviews of Chinese investors who migrated from mainland China. Through this qualitative study, these twenty interviews will provide persuasive accounts of Chinese investor motivations. Although it is not presumed that the findings based on twenty interviews of Chinese investors who migrate to New Zealand will be representative of all Chinese investors, it may provide an entry point to further research which is relevant to Chinese investors’ investment preferences and motivations.

The interview data includes Chinese investors’ investment patterns, motivations, and preferences. It will also cover investors’ risk-taking level, expected returns and their own opinions of the New Zealand and Chinese markets.

The resulting qualitative data will be analysed within a framework of key issues which address the research questions -- these include the investors’ financial situation, investment motivations, preferences, investment risks taken and investment returns.

The data is analysed using grounded theory (Goulding, 2002; Locke, 2001). The difference from other methodology is that grounded theory aims to generate a theory, rather than test a theory. Strauss & Corbin (1990) define the grounded theory approach as a qualitative research method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon. The theory must be grounded in the data; a
theory must emerge from the data (Chamberlain, 1995). Grounded theory requires an understanding of related theories and empirical works in order to enhance theoretical sensitivity (Goulding, 2002).

1.5 Impact of Economic Fluctuation on This Study

The researcher started interviewing in early 2006, and completed this thesis in the middle of 2009; it has taken more than three years to complete it. During the past three years, the global economy (including New Zealand and China economies) has dramatically changed.

Real house prices in the US and the Eurozone rose about 30 percent between 1970 and 2000, and added another 40 percent in both regions over the period between 2001 and 2007 (Saputelli, 2008). Thus, accelerating house price inflation increased the return on housing investment and therefore encouraged more investment spending; the ratio of housing investment to the number of households has increased sharply in the US. Over the course of 2008, it become clear the bursting of the US housing bubble had ramifications more far-reaching than many had believed possible. As households, companies and financial institutions were forced to de-leverage, no asset class was spared and forced selling saw drastic price drops across the board.

Propelled by rising unemployment, diminished financial and housing wealth, and tighter lending standards, Kobler and Edelmann (2008) expected a global recession in 2009. Globally, the financial sector is on life-support, and it is still not clear just how much damage the shocks of
September 2008 did to the rest of the economy. Data from all major countries shows that the US faces a deep and long recession; European countries are also in trouble in this financial recession. Even in Asia, China and India have deteriorated significantly since then, hitting lows that in some cases were last seen in the 1970s (Kobler and Edelmann, 2008). In New Zealand, 24 financial companies have failed since March 2006 to 2008; business and consumer confidence have dropped dramatically while the unemployment rate has increased sharply to a 6 year high of 5.0% in May 2009. As it became clear the US sub-prime mortgage crisis was a global issue, emerging-economy equity and debt markets capitulated (ING, 2009).

When twenty Chinese investors were interviewed in 2006, the global market, certainly including New Zealand and China, was a bull market, most investors had positive investment returns and a positive outlook for their future investments. When this thesis was completed mid 2009, it was definitely a bear market (ING, 2009) and the most serious global economic recession since War II. The analyses and findings of this research and the developed theory are based on the interview data which were collected in 2006.

1.6 Thesis Structure

This thesis covers five areas: contextual background, a review of existing or previous literatures, description of methodology, the data analysis, and research findings.
The Literature Review is divided into two segments: the relevant literature of investors’ preferences – what kind of investment assets investors prefer – have been reviewed in Chapter Two. Chapter Two describes the relationship between risk and returns and introduces investment assets such as cash, fixed interest, property, shares and alternative assets. The different investors’ preferences and behaviours have been summarized into categories: home-bias investment behaviour, herding investment behaviour, unique Chinese investment behaviour and others e.g. wealth level and age impact on investment preferences or “DIY” investment behaviour. Chapter Three focuses on the motivation of offshore investment – why investors want to invest their capital in overseas markets. In Chapter Three, the researcher finds in the relevant literature that most investors tend to invest their capital in international markets because they seek opportunities in international markets, or seek overseas tax havens, or to diversify their investment portfolio or for other reasons, such as money laundering.

Chapter Four gives the history and present circumstances of Chinese migrants in New Zealand. Chapter Four describes New Zealand immigration categories, and the composition of the New Zealand population, the history of Chinese migrants in New Zealand and the Free Trade Agreement between New Zealand and China. Chapter Four also covers how underground banks exist in China, and why these individual investors and small companies prefer to choose underground banks to transfer their money to foreign countries rather than state-owned banks. It describes how money has been transferred to New Zealand, and gives other information about underground banks.
Chapter Five describes grounded theory, the methodology is chosen to analyse the interview data. After a series of comparisons of the methodologies available, both qualitative and quantitative, grounded theory has become the most appropriate approach to fit the objectives of this study. The elements grounded theory approach and process have been provided in Chapter Five for this study.

In Chapter Six, interview data has been analysed by grounded theory. Two themes have been developed: one is that Chinese investors do not understand investment; they seek speculative investment opportunities with unprofessional investment behaviours. The other is that Chinese investors do not take New Zealand as their preferred investment destination until they are resident in New Zealand. One theory is developed from the interview data – exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations.

In the final chapter, Chapter Seven, the developed theory from data analysis has been compared with the literature. Chapter Seven concludes the whole thesis and states the contribution of this study. In conclusion, it points out the limits of this study and reveals future opportunities for similar or relevant studies.

1.7 Conclusion

This chapter has outlined the objectives of this research, and also introduced the background of this study. This chapter also has discussed
the contribution and significance of this study with the grounded theory mythology used, and has a clear outline of the structure of this thesis.

The global market has dramatically changed from bull market to bear market during this study time between 2006 and 2009. In this chapter, this researcher also provides the economic fluctuation situation to provide a clear economic background for this study.

This research was undertaken to allow a greater understanding these Chinese migrant investors’ preferences and motivations. In order to better understand the objective of this study, the following chapter provides the literature review on Chinese migrant investors’ preferences.
CHAPTER TWO

LITERATURE REVIEW OF INVESTMENT PREFERENCES

2.1 Introduction

The objective of this research is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand. In order to understand the motivations and preferences of Chinese migrant investors who invest in New Zealand, or set up their investment portfolio via New Zealand investment institutions, an in-depth literature review is necessary. This literature review not only takes into those literature which describe Chinese migrant investors’ preferences and motivations, but also the literature which wrote about investors’ behaviours, strategies, the relationship between risk and return and other reasons which drive investors preferences and motivations.

The review of motivations and preferences has been divided into two separate chapters. This chapter focuses on relevant literature which discusses investor preferences, in other words, what kind of investments investors prefer, for example equities, properties, fixed-term deposit, cash or derivatives. The next chapter, Chapter Three, is the review chapter concerning the motivations towards offshore investments -- why some investors like or want to invest on international markets.
This chapter comprises the following sections. Section 2.2 presents the relationship between risk and return, and asset classes, which is followed by section 2.3 which details different investment asset classes, and the relevant literature. Section 2.4 includes a discussion of investor behaviours, whilst the final section, section 2.5, concludes the chapter.

2.2 Risks, Returns and Investment Assets

For most of individual investors, it is necessary to understand the relationship between risks and returns (ANZ, 2006). This section provides the details and knowledge of investment risk and returns, and asset allocation introduction, which would help the researcher to in-depth understand these Chinese investors' preferences and motivations.

Investor preference refers to the kinds of investments or investment strategies investors prefer. Although there are hundreds of different products offered by many different companies, ANZ (2006) states that investors will, almost without exception, invest in one or more of the following asset classes:

**Cash**

Put at its simplest, cash is money in a bank account. In finance terms, cash is not only notes; it also is those securities which may be converted to cash in a very short term, for example 90 days Treasury bills or less than one-year term deposits. Cash investments typically attract a relatively low rate of interest, do not provide any scope for capital growth and are low risk.
**Fixed Interest**

Fixed interest securities are often known as bonds and are issued by governments, local authorities and companies as a way of raising money from investors. Fixed interest securities involve investors lending money to the bond issuer, for which they receive interest during the period of the loan, and are then entitled to repayment of the loan at its maturity (ANZ, 2006). Generally speaking, bonds are regarded as attractive to investors who require relatively low-risk investments (although the capital value of bonds can fluctuate) and a relatively stable income. Fixed interest investment products are generally considered to be suitable for investment over, at the least, the medium term of three years. In the New Zealand market, there are many fixed interest investment products available, like New Zealand Government bonds, ANZ Bank capital notes, Rabobank perpetual preference shares, and so on (ANZ, 2006).

**Property**

For many people, ownership of their own home represents the largest investment that they will ever make and may represent a very substantial proportion of their total assets. Property (and in particular, commercial property) has historically proved to be generally a sound investment by providing some protection against inflation and typically also provides income to investors in the form of rent (ANZ, 2006).

Commercial property is often difficult for individuals to invest in because of the high acquisition cost of commercial property, with office and retail developments often costing many millions of dollars. Therefore, it is our experience that commercial property investment is normally best achieved through a managed fund which allows the investor to pool their capital with
other investors (ANZ, 2006). Both ING property security fund and Kiwi property fund are examples in the New Zealand property market.

Property values and rental incomes are subject to fluctuations as market conditions change and property investment is therefore generally considered to be a long-term investment, that is, at least five years.

**EQUITIES**

Companies that wish to raise money often issue equities (or shares). When an investor buys a share he or she becomes a part owner of the company and the investor is entitled to share in what he/she hopes will be its future success. Profits that the company makes can either be reinvested into the company to invest in its future, or alternatively can be distributed to investors in the form of a dividend; this dividend represents income to the investor (ANZ, 2006).

Historically, shares have provided investors with an effective way of protecting the value of their capital against the effects of inflation. However, shares and the income they produce do fluctuate in value and the experience from investment advisors is that investors should think of shares as a long-term investment of five years or more. Investors in New Zealand can go to the share market to buy shares; all the listed companies can be found on (New Zealand Stock Exchange, 2009).

**ALTERNATIVE ASSETS**

The above four types of investments are called traditional asset classes. Alternative assets, usually described as non-traditional asset classes,
include private equity, hedge funds, futures, options, and collections. Alternative assets are generally more risky than traditional assets, but they should, in theory, generate higher returns for investors (ANZ, 2006).

RISK AND DIVERSIFICATION

Income assets are cash, mortgages and fixed interest investments where returns consist of interest payments and a repayment of capital at a future date. Growth assets include shares, property and alternative investments where returns are mainly from an increase in the capital value (ANZ, 2006).

On a risk/return basis, income assets have lower returns and lower risks than growth assets. Investors wanting to earn higher returns generally have a higher proportion of growth assets in their investment portfolios; however, risk increases as the proportion of growth assets increases.

Figure 2.1

Risk/return Characteristics of the five asset classes are shown below:

(Source: ANZ, 2007).
From the figure 2.1 it is clear that both risk and return increases from cash to alternative assets. From the fundamentals of investment, the relationship between investment return and investment risk can be concluded as: higher investment returns must be accompanied by high risk, while low risk investments always produce low returns.

Investors may choose either a single investment or single investment section or organize an investment portfolio. A portfolio (finance) is a collection of investments held by an institution or a private individual. Holding a portfolio is often part of an investment and risk-limiting strategy called diversification. By owning several assets, certain types of risk (in particular specific risk) can be reduced. There are also portfolios which are aimed at taking high risks -- these are called concentrated portfolios (ANZ, 2006).

To invest in only one or a limited number of asset classes can increase the risk of a negative return over any given timeframe. It is important to remember that investment markets move in cycles and the timing of the peaks and troughs may differ between each of the asset classes. One market may perform poorly while another one performs well (ANZ, 2006). Diversification as an effective investment tool involves the spreading of investments around many different types of investments, including stocks, mutual funds, bonds, and cash. Money can also be diversified into different mutual fund investment strategies, including growth funds, balanced funds, index funds, small-capital or large-capital funds, and sector-specific funds. Geographic diversification involves a mixture of domestic and international investments (ANZ, 2006).

Most people are familiar with the saying, "Do not put all your eggs in one basket", which is the underlying principle of investment diversification. The
best way to reduce investors' investment risk and improve their expected
returns is to diversify their portfolio by investing in a mix of different asset
classes. Generally speaking, the greater their tolerance for investment risk,
the greater the proportion of shares they are likely to have in their portfolio
(ANZ, 2006).

The following Figure 2.2 illustrates how diversification can be expected to
reduce overall risk and improve overall returns. In essence, diversification
produces this effect because asset classes are not perfectly correlated (i.e.
when one is performing well, another may be under-performing and vice
versa).

Figure 2.2 Diversified Investment Portfolio

(Source: Designed for this study)

As stated above, diversification generally aims to reduce investment risk;
however concentrated portfolios aim for a high level of risk. Generally,
when considering investment portfolio options, it is important to consider
the possible portfolio risks that the investor may be taking on in conjunction
with the benefits of the portfolio. ANZ National Banking Group (2006)
mentions some risk factors in its Investor Guide; they point out that these potential risk factors may involve the total portfolio or a single section of the investment.

Volatility Risk is the possibility that in the short term, and potentially in the long term, the movement in the relevant market will cause investments to decrease (as well as increase) in value. This is caused by various market cycles such as was experienced recently with world share prices. Also, the greater the asset allocation to shares, property, and to a lesser degree fixed interest, in an investment portfolio, the more likely it is investors may experience short-term fluctuations in investment value. The longer the investor holds his or her investments the lesser the impact that the short-term fluctuations will have on the portfolio. So, the investment time horizon also can be treated as a risk factor (ANZ, 2006).

Inflation means the upward price movement of goods and services in an economy. The Inflation rate definitely will cut investors’ real return (real return is equal to gross return minus tax and inflation rate). Inflation risk is the possibility that portfolio value, or distributions after deducting fees and tax, may not keep pace with increases in the cost of living. Currency also poses a risk to investments. Currency risk is the risk that an investment’s value will be affected by changes in currency exchange rates. For example, if money must be converted into a different currency to make certain investments, changes in the value of that currency relative to the New Zealand dollar will affect the total loss or gain on the investment when the money is converted back.

When we talk about currency, interest rates have to be mentioned. The interest rate is the rate paid for use of money, that is, the rate the bank pays for deposits. Interest rate risk is the possibility that the movements in
the market or changes in Government policy will cause interest rates to
decrease or increase. This could potentially mean that any investments
that are interest rate sensitive such as cash and fixed interest could
experience fluctuations in distribution and in the case of fixed interest,
fluctuations in capital value.

Liquidity risk is the risk that the investor will not have sufficient cash
available to call upon if required in the event of an urgent need. If an
investor does not have sufficient cash reserves he/she may need to sell a
portion of his/her investment portfolio and at an inopportune time. Further,
some investments have withdrawal restrictions; this is the case with some
superannuation funds.

Besides those market risk factors, human behavior is also discussed in the
ANZ Investor Guide. Fund manager risk is where investors rely on one
manager to manage their portfolio. Risk is associated with investor
manager performance, meaning if the manager performs poorly and/or not
up to investor expectations then they have no other managers to offset that
performance. By spreading their investments among numerous managers
with varying styles, investors can effectively reduce this risk factor.

In New Zealand, the Morningstar standard has generally been used as a
benchmark to judge investor risk level (ANZ, 2006). Financial advisers
usually make an investment portfolio based on a client’s risk profile which
means choosing investment options based on the kind of risk that the
investor may take or be willing to take. Advisers make special investment
plans for each client based on the investor’s own risk profile and unique
situation.
At this point, the researcher follows investor risk levels to discuss their investment preferences. The following three sections include low-risk investors, who prefer more income assets or who like to over-weight their portfolio with income assets; medium-risk investors whose portfolio involves a balanced mix of income and growth assets; and high-risk preference investors, those who put more capital in growth assets than in income assets or only like to pursue high returns on growth investment assets.

It is easy to understand risk preference when an investor prefers only a single investment; however, when an investor diversifies his/her fund into a portfolio there are some standards or criterion to judge his/her investment risk level by. The following charts, 2.1, 2.2 and 2.3, attempts to indicate investors’ risk level.

If an investor has organised an investment portfolio, his/her level of investment risk taken may be judged from his/her capital allocation. An example of New Zealand investment risk level is provided by Morningstar and outlined below (ANZ, 2006).

Low-risk investors prefer their capital to be protected and constitute a regular source of income. They are willing to accept below average returns to minimise volatility. The chart below gives the rough percentage capital
allocation: about 80 percent of investment capital is invested on income assets (cash and fixed interest) and only around 20 percent on growth assets (property and equities). In reality, the investment section allocation may be varied, ranging around 5 percent. Of course, investors may ask for some particular investment or note their preference if it is different from the standard.

![Chart 2.1 Asset Allocation of Low-risk Investor](image)

(Source: Designed for this study)

The chart 2.2 below represents capital allocation for medium-risk investors. This allocation is also a standard which is used to help investment professionals to judge investor risk tolerance. Medium-risk investors require a relatively low level of income and above average long-term growth from a portfolio that maintains a balance between income and growth assets; those investors are willing to accept moderate volatility. The asset allocation usually is 50:50 on income and growth assets.
High-risk investors require minimal income or no income and are willing to accept high levels of volatility in return for potentially higher returns over the long-term, see chart 2.3 below.

(Source: Designed for this study)
In practice, financial advisors and other investment professionals divide investors into more categories with further details, such as low-to-medium risk investors and medium-to-high risk investors. The above three charts just give a general knowledge of investor's risk tolerances.

From all the above, it is easy to understand how investment managers assess an investor's risk tolerance level. When he or she is a single sector investor, his or her investment risk level may be judged from his/her single investment (risk level from low to high: cash, fixed interest, property, share to alternative assets). If an investor has a portfolio investment, his/her investment risk level can be ascertained from the capital allocation percentage which may match the above charts.

2.3 Investment Asset Classes

It can be seen from the above paragraphs that different investment assets have different risk levels. In today’s market, investors have opportunities to invest in any preferred asset class at their optimum risk level. In the following sections, the researcher wanted to find what kind of investment assets which investors prefer, or their preferred risk and return levels.

2.3.1 High Return, High Risk

Investors always try to seek high returns when they invest their capital in different investment assets (ANZ, 2006). From Figure 2.1, higher investment returns will be accompanied by high risk, while low risk investments always produce low returns.
2.3.1.1 Share Investments

Since the Dutch East India Company issued the first shares on the Amsterdam Stock Exchange in 1602, share markets (also called stock markets) have had significant growth in world financial markets (Brown, 2008). Share markets have grown rapidly in the past 400 years; share investment has become many investors’ investment preference. Guiso, Haliassons and Jappelli (2003) state that many investors today like to invest in the stock markets directly or indirectly (via mutual funds and other managed accounts) while households’ financial wealth 10 years ago was likely held in the form of liquid, safe, but low-return assets. Guiso et al. (2003) also point out that investors prefer to invest in stock markets because stocks yield higher expected returns and higher liquidity.

Barber and Odean (2000) find that in the United States, approximately 47 percent of household investors prefer high-risk investments, even though their investments often perform poorly. This phenomenon happens not only in the United States. Brown and Chappel (2002) examined detailed daily Australian stock exchange share registry data for investors in IPOs and index stocks between 1995 and 2000 in an Australian context. They found that most individual investors prefer short-run investments; they buy stocks to sell in the short-term rather than to hold on to for the long-term. These kinds of investors are usually called speculators rather than investors, because they are likely to speculate, not to invest. When speculators choose a stock, they focus on the profit margin they expect to make in the short-term rather than the long-term potential benefit.
In the past two decades, Barber and Odean (2000), Brown et al. (2002) have found that high-return and high-risk stocks are the preference of investors. To examine this finding, Barberis and Huang (2001) turn to the experimental evidence that has been accumulated on how people select their investments. Barberis and Huang find that more than 50% of investors prefer aggregate stock returns; these stocks have a high mean (mean is the average return of an investment during a period of time) and high volatility which indicates that these stock prices will fluctuate up and down quite strongly.

Brands and Gallagher (2006) identify that investors (including active fund managers and buy-to-hold individuals) exhibit certain preferences for stocks. Butler, Domian and Simonds (1995) suggest that both individual investors and portfolio managers diversify their portfolios and allocate their assets into international and domestic markets. These investors prefer stock investments in both foreign and national markets.

Butler, Domian and Simonds (1995), Brands and Gallagher (2006) and Barberis and Huang (2001) all illustrate a clear picture that many investors prefer to invest in shares because they know that the stock market has high return potential, even though they may know that these high returns are often accompanied by high risk. Facing high-risk investments, some investors have ideas on how to reduce the potential high risk, or ideas to try to minimize those risks. Coval and Moskovitz (1999) point out those investors will always minimize their investment risk via two main methods. These risk minimising methods are called home-bias investment and herding investment behaviour.
2.3.1.1.1 Home-bias Investment Behaviour

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 them to be low risk. Lauterbach and Reisman (2004) argue that investors over-weight (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). The reason as to why some investors prefer local or domestic stocks is to avoid unnecessary risk, they seek potential higher return with low risk; they believe some local or domestic companies may bring them higher returns with low risk as opposed to foreign or remote investments which they perceive will have higher risk.

Two Finnish academics, Grinblatt and Keloharju (2001b), found that investors are more likely to hold, buy, or sell stocks of firms which are located close (geographically) to them. Grinblatt and Keloharju (2001a) point out that:

- Investors prefer to hold and trade stocks headquartered in nearby locations to those in more distant locations;
- Investors prefer to hold the stocks of companies in which their management teams have the same native tongue as the investors;
Institutional investors are less influenced by distance, language and culture on stockholdings; and,

Sophisticated household individual investors are less influenced by distance, language and culture on stockholdings and trades.

D’souza and Peretiatko (2005) believe 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 (2001b) 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) believe that other reason 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 believe 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.

Meyer and Nguyen (2005) believe that investors adapt their strategies to formal and informal local institutions. Similarly, Coval and Moskowitz (1999) find that the preference for investing close to home also applies to portfolios
of domestic stocks. More specifically, they find that US investors exhibit a strong preference for local stocks.

Coval and Moskovitz (1999) find that many investors apply a close to home bias investment preference to an investment portfolio and 94 percent of U.S. investor portfolios are allocated to domestic securities, even though the U.S. equity market comprises about 48 percent of the global equity market. They believe that this phenomenon, dubbed the “home bias”, is the cause, and conclude that the “home bias” also exists in other countries, resulting in many investors ignoring outside opportunities. 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. Campbell, Petrova and White (2003) point out that, according to home bias theory, investors have a large allocation of their portfolio in domestic assets and little weight on foreign assets. French and Poterba (1991) document the strong tendency of investors in the USA, Japan and UK to hold domestic securities. Their opinions are supported by both Kang and Stulz (1997) and Lewis (1999).

Meyer and Ngugen (2005), Coval and Moskovitz (1999), Campbell, et al. (2003) and Cooper and Kaplanis (1995) all believe that many individual investors prefer to allocate a heavy weighting to local or home bias investments in their portfolios. Because these investors understand that stock investments may produce high returns, which they want, they also come with high risk, which they do not want. To achieve high return and avoid high risk, many individual investors choose to invest in local or
home-bias stocks; they believe they know these local companies and believe they have lower risk than foreign or distant firms.

2.3.1.1.2 Herding Investment Behaviour

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

Herding means that individuals always follow other investors or previous performance. Chan and Fong (2004) found that many investors prefer short-term stock returns because they believe that short-term stock returns can be predicted. These individual investors collect information from publications, and buy or sell stocks according to herding behaviour (Shleifer and Summers, 1990; Chang, Cheng and Khorana (2000). Black (1986) calls these individual investors’ behaviour ‘irrational noise trading’. Using a database of more than 1.85 million investor transactions, Kumar and Lee (2006) found that individual investors’ trades are systematically correlated, that is, individuals tend to buy or sell stocks in concert with each other. They point out that when one set of retail investors buy or sell stocks, a different set of investors will follow on to do so.

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 Shleifer, 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, the cultural environment appears an important factor which drives herding investment decision making; especially when a group of investors speak the same language and 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.

China has become one of the most dynamic growth stories since the leadership of Deng Xiaoping in 1978 (Zhang and Zhao, 2004). Deng Xiaoping initiated reforms to move towards a market based economy within a communist Government. Starting with the establishment of the Shenzhen Stock Exchange in 1992 and the Shanghai Stock Exchange in 1991, the Chinese stock market has now grown to be the largest emerging market in the world (Zhang and Zhao). Stock investment has become a significant part of the Chinese investor portfolio. Zhang and Zhao point out Chinese individual investors have different behaviours in dealing with stock investment.
2.3.1.1.3 Unique Chinese Investment Behaviours

The Economist (2004b) recognises 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 1997-98 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.

Dong (2006) suggests that share funds have become popular with more and more Chinese investors who now prefer to invest in share funds. Wang (2004) states that because individual investors always seek short-term benefits, this makes for a volatile financial market because of the immaturity of investment behaviour. Due to the unique investment environment, most Chinese investors in China trade speculatively with short holding periods (Wang and Xu, 2004). Wang and Xu also summarise that the benefit of long-term investment in the Chinese market is limited, so the majority of investors seek short-term gains.

Similarly, Quill (2001) finds that in practice individual investors always act short-term, while, in theory, they tend to think long-term. Bowe and Domuta (2001) conducted a survey of the 1997 Asian financial crisis; and
they identify that both foreign and local investors expected short-run equity returns during the crisis period. This is similar to the conclusions of Wang (2004). Seiler and Harrison et al. (2005) identify two distinct features of Chinese investors’ behaviour; excessive speculation and volatility. Kim and Oppenheimer (2002) suggest that individual investor preferences are speculation; individual investors are primarily affected by profit margin requirements.

Chi and Padgett (2005) conclude that Chinese IPOs (Initial Public Offers) enjoy the world’s highest initial returns, at around 200% - 300%. They also find the average market-adjusted initial return on the first trading day is 127.31%. Chinese IPOs performed well during the three years after listing, especially in the first two trading years. This good performance is also the reason why so many Chinese investors are keen to invest in IPOs. Similarly, Derrien (2005) suggests that high IPO prices, large initial returns and poor long-term performance causes individual investors’ large demand. Biais and Bossaerts (2002) acknowledge further that uninformed individual investors with small holdings especially prefer IPOs. After analysing a large number of western and south-east Asian investors since the late seventies, Lioui and Poncet (2005) find that most investors’ optimal portfolio strategies contain pure hedge and speculative components. They also conclude that whether the investor’s investment behaviour is myopic or not, the speculative and pure hedge components are always present.

Peng and Xiong (2005) find that Chinese individual investors always tend to access inside information. Similarly, Giannetti and Simonov (2006) find individual Chinese investors are particularly keen on security benefits. They provide the example that some investors may expect to appropriate private
benefits by trading at more favourable prices because they have access to private information from companies with weak corporate governance. Chinese investors generally attribute this behaviour to cultural factors (Jiang, Chen and Liu, 2010).

Large number of new Chinese investors entered in the Chinese equity market with no idea as to how to invest or to avoid risk; the only thing they know is that existing funds performed well during 2006. These fresh investors are now the main purchasers of existing funds. Also, many Chinese investors focus only on past performance, and do not care about listed companies’ situations; this is a very dangerous signal. Feng and Seasholes (2004), after analysing Chinese individual investor behaviour, conclude herding behaviour in Chinese market is prevalent.

Even though both Chinese investors and foreign investors prefer to invest in the share market, some differences still exist in their behaviours and preferences. Foreign investors prefer home-bias or local companies while Chinese investors like to invest in western markets. Speculation has become investment characteristic for both Chinese and foreign investors. Herding behaviour has also become fashionable in global investment markets, following other individuals, following past performance, and following the general herd.

2.3.1.2 Property Investments

As part of growth assets, the property market is also significant to investors. Property includes land and buildings. Property is also called “real” estate. It
is clear that property has taken on a very important position in people’s mind; it is the “real” estate asset while other assets are not. There is a global shortage and limited amount of land compared with the continuing growing population.

The property market is a significant part of investors’ investment portfolios. Chiang, Lee and Wisen (2005) point out the relationship between stock market returns and real estate investment returns is significant to investors. Through their study covering 1972 to 2002, Chiang et al. find portfolio diversification and assets allocation, particularly the allocation between property and the stock market, are significant decisions for investors; which may affect investors’ investment quality. Martin and Cook (1991) point out that individual investors prefer to put equity mutual funds and real estate property into their portfolio.

New Zealanders’ love of property investment is deep-seated. Its roots lie in the promise of property ownership made more than 150 years ago to the early settlers. Over recent decades, its appeal has strengthened, partly as a result of the “beating” many investors took in the 1987 share market crash. That experience led many Kiwi investors away from shares and toward direct property investment, where they felt in greater control of their retirement savings and had a tangible sense of ownership (Lieberman, 2008).

Private real estate returns exhibit great variance compared with the returns of the stock market. This variance would have significant implications for asset allocation decisions involving real estate (Fu, 2003). Chan, Hendershott and Sanders (1990) indicate that real estate investment trusts
generally are less risky than stocks. Chan et al. also find that REIT returns are around 60% of the corporate stock returns over 1973-1987 periods. Pagliari, Lieblich, Schaner and Webb (2001) overviewed the performance of the U.S. national property index over the twenty–year period ended 1998. Pagliari et al. find that the index generates average returns of approximately nine percent per annum; they also point out different types of properties produce varying returns, for example apartments generate the highest return, while suburban office property generates the lowest return.

Sureth (2002) analysed real estate option investment in order to find taxation’s impact on investors’ decisions, and found that many investors prefer to invest in property because of some countries’ capital gains tax-free policies, for example in New Zealand and Australia. In quite a few nations property markets have had good performance in the past decade, which is attractive to investors.

King and Leape (1998) conducted a survey of 6010 US households to estimate their household portfolio allocations. Property is a common investment asset in these households’ portfolios. There are two findings in the paper by King and Leape. First, most households hold only easily-redeemed assets like shares, bonds, property and others. Second, tax impact does exist on portfolio composition with some tax preference assets like property being preferred in household portfolios. King and Leape also find those households only hold a small number of assets, lack of diversification in their portfolios; and residential housing investment produces both a consumption flow of housing service and a stream of returns on the investment.
Brueckner (1997) advocates owner-occupied housing as a major investment for many households worldwide. Unlike other investment assets, stocks or bonds, owner-occupied housing not only provides returns, but also brings consumption benefits to investors. In the consumer portfolio structure, housing plays dual roles -- the effect of housing investment motives and consumption. In Brueckner’s point of view, the consumption and investment motives intertwine on housing sections. Arrondel and Lefebvre (2001) call home property the two-dimensional dwelling: consumption and investment. Arrondel and Lefebvre also find that home property is generally found in varied portfolios, and more often combined with stocks and other assets. Arrondel and Lefebvre further identify that home property always plays an important role in household portfolios, and housing assets usually increase households’ wealth following the age and life cycle; in other words, many older people own more residential home properties than young people. Furthermore, housing prices have significantly increased in the past; this increases a house owner’s accumulated wealth.

Pagliari, et al. (2005) find that public real estate investment trusts (REITs) have better returns than private real estate equities by approximately 5 percent per annum. This result was concluded from a 21-year longitudinal study ending in 2001. Pagliari et al. believe that the persistence of REITs’ excess performance is corroborated by their growing popularity, as since the mid 1990s REITs have exceeded private real estate in market shares. Campbell, et al. (2003) agree that the last decade is a decade of rapid REIT growth. After examining REITs from 1995 to 2001, Campbell et al. find shareholders’ returns are significantly positive, and real estate is an investor’s primary asset class; real estate investment takes prominence in many investors’ investment portfolio asset allocations. Campbell, et al.

Hirono (2004) points out that, in Japan, about 82 percent of household wealth is in home property investment. Home property investment decisions are often caused by buyers’ different information (for example) about the property. Drawing on a sample of investors in the Australian private rental housing market, Wood and Tu (2004) find that property capital gains receive favourable tax treatment that will particularly benefit high income-tax-bracket investors. These high income-tax-bracket investors like to invest in high value property, while low income-tax-bracket investors prefer to invest in low-value property. Wood and Tu illustrate that many property investors have weak diversification -- some of them are single-property investors; some of them hold multiple-property portfolios. Ciochett, Craft and Shiling (2002) studied the available statistics on REITs portfolio investment between 1993 and 1998, and find pension plans, mutual funds, insurance companies, bank trusts and individual investors have different preferences for property investments; and conclude that many institutional investors prefer to take larger capital and more liquid assets like REITs while individual investors like to invest in private real estate equities. Blouin, Ready and Shackelford (2003) believe that individual investors prefer to defer selling appreciated stock and property until it qualifies for favourable tax treatment. These individuals like to hold onto their appreciated investments on a long term horizon.

The main engine driving the consistent booming of the Chinese property market is speculation rather than property investment or consumption demand. High profit in the property market drives many Chinese, who chase
the climbing market; which is also a factor which simulates the property market (Wang, 2005). Wang also points out that many Chinese property investors focus on short term investment, in other words, speculate. Xie (2007) points out the Chinese property market is much overvalued; and believes that the market is overheated. Furthermore, Xie notes that the booming phenomenon cannot last much longer and that many speculators may suffer from the volatile market. Wang also believes that the Chinese property market is overheated which is caused by the huge inflow of amounts of hot money provided by speculators.

While Yi (2006) points out that Chinese property is rapidly pushed up by speculative hot money, he also warns investors to step away from the Chinese property market. In China, many individual investors believe that the property market may produce great returns, that property markets will not decline, and that house prices will continue to climb (Wang, 2005). Yuan (2007) claims that the consistently increasing property market has attracted many investors and that more and more Chinese believe property markets may help them to become wealthy, which is ultimately having an impact on the Chinese property market.

The findings discussed above are not only occurring in the Chinese domestic property market. Light (2002) finds that Asian immigrants like to invest large amounts of money in the United States property market and join the local economy growth machine. Light also says that Asian-placed entrepreneurs increase the average status level of the United States metropolitan area: Asian immigrants push up property markets. Nyiri (2003) provides an overview of the flow of new entrepreneurial Chinese migrants into East Europe. Some of these migrants illegally enter or immigrate to
some liberal countries, and many of them illegally bring large amounts of money into their immigration destinations. Some of those migrants sometimes purchase a house without any mortgage, some of them invest in private real estate for sale, and such behaviours add impetus to local property markets and push the market up.

Broadman and Sun (1997) point out that the area that has attracted the most investment in China has been concentrated in the real estate sector. Wang and Xie (2006) indicate that Chinese property returns may decline due to Chinese government control. Wang and Xie believe more investors may inject their capital into share markets instead of investing in the property market, leaving the property market at high risk while the share markets show great potential opportunities. In contrast, Zhang (2006) believes that Chinese property investors prefer long-term investment time horizon while share investors prefer high-return and short-term investment. Similarly, Chen (2006a) believes that short-term investors may change their investment direction to stock markets, while long-term investors will always prefer to invest in property.

Shiling (2003), through examining studies from the last 15 years in the field of American real estate marketing, finds that real-estate investors always require a higher return from investing in property as opposed to a fixed interest investment. Shilling (2003) states that investors believe there is a lot less risk in investing in real estate than in other options; in fact, real estate expected returns produced a risk premium over the 15-year period of about 6 - 6.75 percent, which is more than fixed interest investments did. Such findings indicate that real estate investment has a higher risk than fixed interest investment does.
Growth assets like equity and property, in the long term, yield higher expected returns for investors; even though those growth assets also have higher risk. Some investors chase high expected returns, and try to avoid or reduce unnecessary risk with home-bias and herding investment strategies.

Unlike western investors, Chinese investors often like to invest in overseas share markets. Most Chinese investors also enjoy short-term investment in stock markets and property markets, speculation rather than investment being the main driver of Chinese investors’ behaviour.

2.3.2 Income-asset Investments

Rather to growth assets (stock and property), income assets (cash and fixed interest) focus on money earned from investment rather than potential growth. Income investors are those who like to see returns from dividends or interest. Generally, income assets investments have low-to-medium risk.

Investors evaluate a coupon bond based on financial considerations such as coupon rate, time-to-maturity, the financial condition of the issuer, convertibility and callability (Smith, 2005). Brennan and Schwartz (1977), Brown and Schaefer (1994), Barrett, Gosnell and Heuson (1995), Longstaff and Schwart (1995), Chance and Jordan (1996), Ho and Pfeffer (1996), and Martzoukos and Barbhill(1998) point out that bonds can be categorized by: duration (Duration is a weighted measure of the length of time the bond will pay out), interest rates and default risk (default risk is defined as uncertainty
due to any event causing the issuer of debt to fail, any time over the remaining contracted life, to satisfy completely the debt obligation).

The return of a bond can be yield-to–maturity (Yield is that which would be realized on a bond or other fixed income security if the bond was held until the maturity date. It is greater than the current yield if the bond is selling at a discount and less than the current yield if the bond is selling at a premium). Yield-to-call is the holding period return when the bond is sold before maturity. Diaz and Navarro (2002) advocate that two risks may have an impact on bond yields: default and liquidity (the risk that arises from the difficulty of selling an asset. An investment may sometimes need to be sold quickly). Chen, Lesmond and Wei (2007) point out that liquidity is a key determinant in bond yield, the conclusion drawn from 4000 corporate bonds spanning both speculative categories and investment grade.

To measure a bond or bond issuer’s risk, professionals usually judge it by its credit rating. The most authoritative rating organisations are Standard & Poor’s and Moody’s. AAA or Aaa is the highest rate. An AAA or Aaa rating means the bond issuer has very strong financial ability to meet debt obligation with less default risk. Rates below BB or bbb are called junk bonds; these have a high default risk for not meeting debt obligation. Billingsley and Fraser (1984) believe that debt rating is significantly determined by company size, the economic environment and variability of net income.

Dimson and Marsh, et al. (2000) conclude that the last century was not a good era for bond investment. One reason for this was that high and unexpected levels of inflation reduced bond investment return. Ferra (1964)
tested for profitability amongst risky investments using the internal rate of return (IRR); he examined numerous examples through debentures and finds industrial debentures always have a long duration with high risk. However, Soucik and Allen (2006) conclude, through the analysis of 537 Australian fixed interest funds that fixed interest fund returns are always driven by GDP growth, equity market proxy, and inflation. Soucik and Allen also say that fixed interest funds have achieved notable volume in the last two decades, “fixed income” representing 29.4 percent if total assets are under management.

Graham and Kumar (2006) find that many investors, particularly elderly investors, prefer income assets investments. Similarly, Krishnamurthy (2001) studied the spread between the newly issued 30-year Treasury bonds and the old 30-year bonds; and finds that investors have a preference for a liquid asset and some investors like to use old bonds as a liquidity vehicle. Philpot and Hearth, et al. (1998) believe that unlike equity funds, bond mutual funds do appear to enjoy economies of scale, but a bond funds’ previous performance does not predict future performance.

Yang (2006) states that in 2006 more Chinese investors preferred to invest in products which have investment terms of less than one year. Short-term and fixed-interest investment products have become investors’ favourites. Yang also acknowledges that more and more Chinese investors prefer to invest in international fixed-interest products rather than in domestic ones.

Zhang (2007) believes that female investors are different from male investors when making investment decisions. Female investors usually like to focus on short-term profits and benefits while tending to ignore long-term
projects and goals. Zhang also believes that female investors enjoy following others rather than making their own decisions. Females don’t believe in their own investment decisions; they tend to ask for somebody else’s comments and recommendations. Female investors prefer to invest with defensive or conservative strategies while many male investors do not. Zhang points out fixed-interest products like bonds and debentures are female investor preferences. Similarly, Morgan Stanley (2006) research shows that female investors prefer to invest in conservative portfolios while major male investors prefer stock markets which offer a higher return with high risk.

Campbell, Viceira and White (2003) point out that long-term investors prefer to invest in long-term assets like equities, while short-term investors have a bias towards short-term debt instruments such as T-bills or short-term bonds. Sangvinatsos and Wachter (2005) draw conclusions as to one important consequence for the portfolios of long-term investors; they state that long-term investors always like to hold or allocate some of their wealth in long-term bonds – an effect that persists out to a horizon of 20 years.

According to the New Zealand high OCR (official cash rate), New Zealand fixed interest investments have been popular for quite a while. Equity Investment Advisors and Sharebrokers Limited (2006) list bond rates such as ANZ National banking group bond, rating AA, maturity date 17th February 2009, current annual yield 8.71 percent.; New Zealand Government bond, rated AAA, maturity date at 15th July 2008, current yield 7.43 percent (more in http://www.equity.co.nz, to date June 15, 2006). Both short-term and long-term bonds are quite attractive to domestic and international investors, especially as the New Zealand OCR has been to an eight-year high at 8.25
percent. ANZ financial advisory (2008a) advocates that New Zealand fixed interest investments should currently over-weight allocation of investors’ investment capital, because of the high rate relative to returns in other asset classes at the time.

2.3.3 Alternative Asset Investments

In recent decades, some types of investments, for example hedge funds, private equity, options & futures, and collections, have become investment alternatives to stocks and bonds. Those investments often maintain a rate of return on investments that compares favourably with or exceeds investments in stocks, bonds and other traditional investment assets. Hone (2003) advocates that investors invest in alternatives; they do not have to focus on traditional investment assets when the world economy is changing due to the changing climate, changing population, changing political situation and changing consumption patterns.

Brueckner (1997) says that many household portfolios involve any asset that yields consumption benefits such as housing, art or jewellery, stamps and other collections. Burton and Jacobsen (2001) even believe that wine also can be an alternative investment asset just like art and other collectible assets. Peers (1997) encouraged investors to put wine in their investment portfolio, for example, a case of Chateau Latour of 1982 has jumped nearly 50% in the fourth quarter of 1996. Stinchcombe (2000) indicates that to diversify investment portfolios, investors may consider some knowledge about alternatives. Hodgson and Vorkink (2004) view Canadian art, for example paintings, to be an alternative investment asset. Worthington and Higgs (2004) believe that a painting is a significant investment in an investor
portfolio. After analysing the financial market during the period 1976-2001, Worthington and Higgs point out that art, especially major paintings, has a low correlation with other investment assets, like stock, US treasury bills, government bonds and others; and indicate that art can be a valuable investment alternative asset in investment portfolios.

Foreign exchange is one alternative investment; it is also called FOREX or FX. Foreign exchange is the largest financial market in the world, its daily trade volume reaches $US 3,200 Billion. FX can be traded on 24/7; it has high liquidity and high volatility (Forex, 2007).

Goldberg, Godwin, Kim and Tritschler (1998) identify that many investors like to use derivatives to hedge or reduce risk exposure to interest-rate and exchange-rate fluctuation. The motivations of investors in using derivatives are reducing risk and adding value to their investment portfolio. Derivatives should improve the performance of portfolios relative to other comparable portfolios that do not use derivatives; derivatives are always treated as high-risk and speculative investments (Koski and Pontiff, 1999).

Alternative assets like private equity, hedge funds, options & futures and collections as investments may offer investors more opportunities to achieve their investment goals. As opposed to traditional investment classes, alternative investments require investors to have special skills or knowledge.
2.4 Investors’ Other Investment Behaviours

Faced with choosing between income and alternative investment assets, investors may have varied investment behaviours to deal with different asset classes. Investors have to think how to distribute their limited funds among the various investment opportunities. Before investments are made, investors should consider their investment time horizon, investment preference and strategies. Investors exhibit different investment behaviours because every investor has a unique situation.

2.4.1 Wealth Level, Investment Horizon and Age to Investment Preferences

Investors have various investment preferences; some literature believes that a relationship exists between investor preferences and their wealth levels.

Ng and Wu (2005) examine Chinese individual investor preferences and show how Chinese investor preferences vary depending on wealth levels. Wealthier individuals tend to prefer stock with high liquidity and volatility, greater state-ownership, high growth potential, and strong past performance. Less-wealthy individuals like stock with high beta (Beta is a method to measure investment risk), high liquidity, and poor past performance, low price, and small capitalisation. Robinson and Cottrell (2007) find evidence that less-wealthy investors prefer to invest relatively small amounts of capital close to home; while wealthy individuals like to pursue a broader range of investment.
Jain (2005) says individual investors are quite different from institutional investors. Jain also notes that institutional investors do not prefer dividends while individuals do, particularly, elderly investors. Jackson (2003) recognises that individual investors like to trade stock with high volatility. Furthermore, Goetzmann and Kumer (2005) believe that many young, less wealthy and less sophisticated individual investors, and other investors who have a preference for specific styles and industries, exhibit great under-diversification in their investment portfolios; and point out small portfolio sizes, transaction costs, and search costs do not influence an investor's diversification. Graham and Kumar (2006) studied the stock holdings and trading behaviour of more than 60,000 households and noted that retail investor stock holdings indicate a preference for a dividend yield that increases with age and decreases with income. In other words, older investors prefer dividend yield stocks more than young investors do, and wealthy investors like to invest on dividend yield shares while low-income investors do not. Mason and Shelor (1998) find that institutional investors prefer to invest in large size firms, while individual investors do not.

Edwards and Gaon (2003) point out that since the 1940s, many investors – mainly wealthy individuals – have preferred to invest in hedge funds. This trend occurs because hedge funds not only diversify portfolios significantly but also offer higher returns than other asset classes like bonds and stocks. Grinblatt and Keloharju (2001b) find that investors are reluctant to realise losses. Furthermore, Grinblatt and Keloharju find that life-cycle trading plays a role in the pattern of buying and selling. Investors prefer to sell early in life, to buy stock in the prime earning years of middle age, and to sell stocks in old age. Dammon, Dunn and Spatt (2001a) and Zhang (2001) state an investor's optimal asset allocation depends upon the investor's initial asset holdings, embedded capital gain and age. Dammon, Dunn and
Spatt (2001b) identify that investors optimally allocate their entire tax-deferred wealth to taxable bonds and combine these with investment in equity in the taxable accounts to achieve optimal overall risk exposure.

Samuelson (1969) and Merton (1969; 1971) demonstrate that investors prefer to increase their portfolio by holding onto risky assets with an increasing investment horizon. Gil-Bazo (2006) finds that an investor’s portfolio allocation may vary with different investment horizons and investors favour risky assets over long-term investment horizons. Similarly, Kritzman and Rich (1998) believe investors prefer more income assets for a short-term investment horizon while they prefer the risky assets for a long horizon. Barberis (2000) extends this analysis and suggests that investors prefer to invest in stocks for long-term investment horizons.


Today, many governments, including the United States, Canada, Australia, New Zealand, Japan and more than 20 countries world-wide, require that investment professionals must be qualified, such as by being a CFP (Certified Financial Planner), or a CFA (Chartered Financial Analyst). This researcher, in the following sub-section, tries to find whether individual investors would prefer to use investment professionals to help them to achieve their own goals.
2.4.2 Non-professional Investment Behaviours

Lucey and Dowling (2005) identified that investors often invest in a manner consistent with their feelings. For example, investors will or will not invest in a company depending on how they feel about it (i.e. whether they like or dislike it). This is called mood effects. Lucey and Dowling conclude that mood affected investors’ choices are not consistent with efficient equity pricing, which means that these investors do not usually use academic theories or analysis to choose equity investments.

Based on a comprehensive analysis, Luders and Peisl (2001) conclude that most investors do not know the risk of an asset when they choose their investments; they expect the final value of the asset to be determined by past performance. Investors generally make their investment decisions according to their preferences; that is, investments are determined by investor preferences. Gruber (1996) and Zheng (1999) suggest that investors have the ability to select mutual funds. Ferreira and Matos (2006) point out institutions have a strong preference for large stocks while individual investors do not. Lynch and Musto (2003) suggest that investors like to chase those funds which have good past performance, which means well-performing funds tend to attract more new investment. Lacey (2006) likewise states that many investors focus on the returns that a business has generated in the past, therefore investors believe past returns may be likely to provide good returns in the future. Individual investor trades exhibit strong systematic patterns, including negative feedback trading and substantial persistence (Jackson, 2003; Nelson, et al. 2003).
Adviser Today (2001) notes that many individual investors, chasing the latest hot vehicle, get there too late and pay too much. They chase a hot stock but only catch it when its past success has already driven up its price; while on the other hand, investors with advisers do better. Blandon and Ward (1979) point out that, in practice, investors always like to estimate future risk with recent time series. This is because investors are unable to move easily from a consideration of the price behaviour over time to the assessment of risk, and as very few of them like to follow professional advice or analysis, their investments are often at risk.

Lin and Swanson (2003) investigated trading behaviour and the investment performance of foreign investors in the Taiwan stock exchange. Their research evidence shows that most foreign investors employ momentum trading by buying past winners and selling past losers over short-time horizons. Foreign investors prefer large-size company stocks, and they like to trade on form-specific information rather than herd on market consensus. Foreign exchange hedging is widely used by institutional investors rather than individual foreign investors (Campbell et al. 2003b). Musto (1999) argues that individual investors make investment decisions depending on fund managers’ disclosures, which means fund managers “window dress”, which in turn may influence investors’ investment decisions. After examining the performance and diversification properties of active Australian equity funds, Brands and Gallagher (2005) find that investor preferences are high-return investment products. Blume and Friend (1978) argue that individual investor portfolios are lacking in the diversification of stocks; for example, many individual investor portfolios only contain one or two stocks. These investors only choose stocks which they are extremely interested in. Through a series of analyses of Danish mortgagors, Nielsen and Poulsen
(2002) find that not many individual mortgagors use much diversified portfolios, while institutions do.

Odean (1998) says that most investors tend to hold losing investments too long while sell winning investments too soon. These investors, according to Odean (1998), demonstrate a strong preference for realizing winners rather than losers. Geist (2003) also demonstrates that the retail investors’ mistake rate is 50 to 60 percent. As a result, most individual investors are in a negative or “don’t care” mode, too frightened to think of putting money into the market. In a similar paper, Yam (2002) states that “do-it-yourself” investors often make bad investment decisions and professional advisers can help them do better. Morgan (2004) found that not only did those investors who were assisted do better than those who weren’t, but that investors also often blame their advisers for poor performance, which is unrealistic. Shapira and Venezia (2001) compared the behaviour of investors making independent investment decisions with those who were assisted by professionals. They find that both professional and independent investors exhibit the diversification effect, although the effect is weaker for independent investors. Bondt (1998) presents survey evidence on the behaviour of small individual investors who manage their own equity portfolio and finds that many of these small individual investors do not properly diversify. Similarly, Polkovnichenko (2002) finds that many householders do not diversify their portfolio very well and that they often allocate over-weight equities in their portfolios. McRae (2007) finds that for Chinese investors the main issue is to educate them about the risks associated with returns.
2.5 Conclusion

Since the 20th century the market has consisted of various investment assets such as stocks, property, bonds, fixed interest, collectives, options, futures and other alternatives. Investors may ask what returns can be expected from equities, expected bond performance, and the expected risk and returns of their preferred investment assets.

Dimson and Marsh et al. (2000) studied the financial market of last century and state that first, stocks have performed best, however, they have the highest risk, and second, bond markets have had a very disappointing performance. Finally, Dimson et al. concluded that inflation was a major force in the last century, and point out that many investors were afraid and would follow or chase past performance (highest return on the stock market) without any diversification or risk analysis. In reality, equity markets still remain risky; it may not be the most appropriate investment for some, and this will depend upon their individual situation.

The global economy has strengthened over the past few years and is now entering a more mature and slower phase of the economic cycle. The main cause of the slowdown will be the US economy. The US housing market has been a key player in this (Whitney, 2007); equities will continue to be an attractive investment relative to bonds, property and other alternatives.

Faced with the slowing global economy, investors are always told to diversify their portfolios by investing in more asset classes and evermore exotic products in order to improve the relationship between the expected
return and the risk taken to achieve it. Portfolio diversification lies at the heart of investment success, because this is the best way to avoid unnecessary losses and secure wealth. Klement (2006) points out some people today have started to invest in art, wine or jewellery based on the observation that these investments' should improve the stability of the portfolio. Investing in ever more asset classes brings a risk of over-diversification (Klement, 2006); the maximum portfolio efficiency is reached if the wealth is distributed among seven to nine different broad asset classes. Not only stock, property, and bonds but also non-traditional asset classes such as hedge funds, real estate, and commodities or collectives (art, wine and jewellery) can be part of an investors’ portfolio.

As well as the literature on investors’ preferences, investors’ motivations reviews have been covered in the following chapter. The next chapter discusses why some investors like to invest in overseas markets.
3.1 Introduction

The preceding chapter reviewed the relevant literature which discusses investor preferences, that is, what kind of investments investors prefer. In order to investigate the motivations of Chinese migrant investors, this chapter objective on relevant literature review that study investors’ motivations which drive investors to invest in foreign markets.

The global financial market has become increasingly internationalized by the merger between developing world and developed economies, by the development of international financial system, by the range of investors from international companies and institutions through to fund managers and to individual investors. The fast increase in international capital flows is one of the most significant developments in the global economy in recent decades (Mishra and Daly, 2006). The global economy offers investors more opportunities with a more competitive financial environment (Sharpe, Kelly and Whitley, 2002). Today, Globalization is a new phenomenon with greater financial and investment flows from one country to another, from one limited market to global-wide markets (Chui, Levine and Pearlman, 1998).

International investment, or offshore investment, has become a common phenomenon in the investment or financial world. The global foreign
investment sum total reached US$8.9 trillion in 2004; this figure has been rapidly increasing (Wang and Li, 2005). To attempt to discover the motivations or reasons many investors like to invest their money or funds into overseas markets rather than the domestic market or a familiar market nearby, the researcher analyzed the relevant literature on investors' international investment motivations.

When seeking opportunities from international and uncertain overseas markets, investors expect potentially higher returns, however they also face different types of risk (Erbenova and Vagstad, 1999). Wang et al. (2005) believe that many factors may influence foreign investment, such as per capita income and country risk indicators, market size, economic and cultural ties, and exchange rate volatilities. A stable industrial relations climate could be a very important factor for many foreign investors (Tcha, 1999).

Barber (1992) points out there are several reasons investors prefer to invest in overseas markets:

- Poor domestic investment performance;
- Increased domestic tax, leading to a search for a tax haven;
- Lack of domestic financial security;
- A search for higher secrecy and confidentiality.

Besides the above opinions from Barber (1992), other reasons such as investment diversification, immigration, and spread of risk have also been mentioned in various literature. All these reasons are the motivations which drive investors to invest their capital into overseas markets; therefore, this chapter is important for this research to find Chinese migrant investors’ motivations.
The remainder of this chapter is structured as follows: Section 3.2 presents international market opportunities that attract investors to invest offshore; Section 3.3 focuses on tax haven reasons; Section 3.4 includes a discussion of international investment portfolio diversification; and Section 3.5 comprises the other reasons which make investors choose offshore markets; Section 3.6 organizes research questions and section 3.7 concludes the chapter.

3.2 Opportunistic International Investments

When local economic growth is below its trend level or slower than its counterparts, and other economies in the rest of the world remain robust, many investors tend to go to overseas markets to find more investment opportunities. Investors always like to seek investment opportunities by entering foreign markets (Sharpe, Kelly and Whitley, 2002). Mason and Harrisont (2002) and Thompson (1989) note investors always seek untapped opportunities in other markets when their previous investment markets cannot provide good returns. Wellershoff (2007a) gives this example: when the US economy only just escaped stagnation in the first quarter of 2007, with a growth rate of 0.6 percent, many American investors, including individual and institutions turned their investment attention to outside the country. Wellershoff (2007a) also points out this happened when US economic weakness had just begun, with the housing slump at the start of 2006, and housing recession had so far only caused a stagnation, but not yet a decline in construction employment; US gross domestic product (GDP) still could be forecast at around 2 – 3 percent a year in 2007 and 2008.
While the US economy is declining, other markets’ opportunities attract many investors. The European economy became robust at the start of 2007 in spite of higher indirect taxes, a stronger Euro and weak US growth. Euroland’s GDP grew by an annualized 2.5 percent quarter-on-quarter in the first three months of 2007, with Germany springing another decidedly positive surprise. The European Central Bank had been expected to hike rates to 4.5 percent so as to avoid any risk of the economy overheating, which is also a sign of very solid growth in Europe. Wellershoff (2007a) does not believe Europe is the only destination to attract US investors; the Asian economy has an even stronger appeal to more and more investors. Double-digit growth rates in China are now taken for granted, and China’s GDP was expected to reach 10.4 percent in 2007 after a rate of more than 11 percent in the first quarter. Japan’s GDP growth eased to 2.6 percent in the 2007 first quarter after reaching over 5 percent at the end of 2006, but it remained very sturdy. The big emerging markets outside Asia also are in the midst of an upswing. Wellershoff (2007a) points out that the world economy is no longer dependent on any one country, no matter how big it may be. Investors always seek investment opportunities globally, and like to turn to other countries or markets when one economic entity slows down. Giannoulis (2008) finds that there are few New Zealand investors planning to invest in the U.S. markets in the near future due to the US recession, which seems to have led to more investors looking towards Asia to ensure that they are operating diversified portfolios in an attempt to limit their exposure to individual market fluctuations.

Zhang (2000) believes that investors often seek potential opportunities from those countries which are near their domestic market; in other words, investors are more likely to invest in their neighbours’ markets. Zhang gives the example of China. China has become the largest recipient of FDI
(Foreign Direct Investment) among developing nations and second only to the United States. But Zhang finds that the United States’ direct investment in China is small, while Hong Kong and Taiwan have made a huge amount of direct investment in China, and points out that location and language will be a very attractive factor in overseas investment. Compared with Taiwan and Hong Kong, the US is remote from China and language is another barrier stopping some US’ direct investment in the Chinese market (Zhang, 2000).

Having a large market size in the host economy may allow investors to enjoy economies of scale and engage in horizontal integration; these markets give foreign investors other opportunities which cannot be found in their home markets (Meyer and Green, 1996; Rugman, 1980). Chung and Song (2004) believe many foreign investors investing in overseas markets aim to find opportunities which cannot be found in their home nations: for example they may seek a new technology opportunity in some high-tech nations, e.g. Japan or the United States, or invest in some resource based industries which are not available in the home country.

Since the 1978 Chinese economic reform, China's economy has gradually opened to the rest of the world; after joining the World Trade Organization (WTO) in 2001, China's economy grew closer to world integration. The large population and rapidly increasing economy have provided increasing investment opportunities to the world (Wen, 2007). Zhu (2005) points out that these multinational investors today are increasingly pursuing opportunities in China. Gassmann and Han (2004) note that China, the world’s largest emerging economy, has become the most important investment destination market for international investors. Since 2003, China has taken the U.S. position and become the biggest recipient of foreign direct investment (Guerin, 2006). Both foreign investment and
foreign portfolio investment flows are attracted to a host country with large markets and a high level of development (Guerin, 2006). Wen (2007) highlights that China has become the largest host country for foreign direct investment; the average annual foreign direct investment inflows jumped from around US$1.936 billion during the period 1979-83 to US$53.505 billion in 2003. Zhang (2001) summarizes that China has some advantages in attracting foreign investment: market size, the huge (1.3 billion) population being a potential market for foreign investors; China has provided some special favorable measures for foreign investment taxation; and cultural links between China and foreign investment sources such as Hong Kong-Guangdong and Taiwan-Fujian promote investment; the two not only are geographically adjacent but also speak the same language.

While foreign investors turn to China, Chinese investors have also moved their investment, interest to outside their country due to its unstable economy and undeveloped regulations. Overholt (2005) believes that China’s political economy has gained international respect; however, the current Chinese political system could be a potential risk and bring disadvantage to the Chinese economy. Henley, Kirkaptrick and Wilde (1999) point out that bureaucratic barrier are a big problem in the Chinese economy; the quality of provision of assistance to potential investors is so poor that it is one of reasons for damaging investors’ confidence. Henley, et al. also say China has a poor reputation for transparency and bureaucracy; in China, it is widely acknowledged that the major losers are primarily state-owned enterprises.

Inward foreign investment in the European Economic Area (EEA) has grown rapidly in the last two decades. Hubert and Pain (2002) point out that the growth of foreign investment has occurred at a time when financial
capital movement across border controls has been relaxed, and European economies have become a single market. Hubert and Pain also believe market location has become a significant determinant of foreign investment; for example in the German market, after foreign investors successfully invested there, they would spread their investment to the whole European market due to the integration of European economies.

Pain and Wakelin (1998) highlight that host countries attract new investment capital from abroad due to many benefits; at the same time, some countries such as the European nations expand outward investment as well. That outward investment capital may lead to “job exporting” which helps to reduce unemployment in destinations (OECD, 1995). Similarly, Athukorala and Menon (1995), Zhang and Song (2000) and Zhang and Felmingham (2001) find that foreign investment promotes the host country's exports. Furthermore, some countries have emphasized attracting foreign investment as a strategy. Wheeler and Mody (1992) highlight that many governments in recent years have actively competed to attract inward investment, because inward investors bring externalities which may benefit destination countries.

Cyrus, Iscan and Starky (2006) believe overseas or international investments are partly driven by investors’ desire to benefit from outside and overseas markets. Many host governments often offer financial incentives to induce international investors to invest in the local economy (Haaland and Wooton, 1999), such as tax benefits, and trading costs and market size can be attractive elements to these investors. The host country’s foreign investment tax competitiveness is found to have a potentially large effect on the impact of inward foreign investment (Hubert and Pain, 2002), thus tax
incentives can be defined as a direct and obviously visible way to attract foreign investment.

### 3.3 Overseas Tax Havens and Tax Rates

Host countries use tax instruments such as non-tax on Foreign Direct Investment (FDI) to attract foreign investment (Wildasin, 1989; Keen, 1991; Devereux and Griffith, 1996; Lahiri and Ono, 1998). Barber (1992) notes that tax haven countries become the nucleus of the offshore world. Barber (1992) defines a tax haven as any country having a low or zero rate of tax on all or certain categories of income and offering a certain amount of banking or commercial secrecy. These tax haven nations fall into two categories: non-tax havens and low-tax havens.

Non-tax or low-tax countries like to be named as tax havens, and even though professionals use the name, it is not a precise one. Some countries, like Switzerland, are neither a non-tax, nor a low-tax country, but their sophisticated banking facilities and tradition of conservatism and confidentiality makes that an important feature of the international market.

Barber (1992) believes that for a country to be called a tax haven it must have some of the following advantages which may attract overseas investors. The first important thing for a tax haven, Barber thinks, is its tax structure. Many tax havens have a two-tax system, one for residents and the other for non-residents. Non-residents may have a lower tax withholding rate, which makes the country attractive for offshore investors; for example in New Zealand, a non-tax resident may choose the 2 percent Approval Issue Levy (AIL) rather than pay withholding tax rates, when they invest in fixed-interest products (New Zealand Inland Revenue, 2006).
When a non-tax resident deposits his or her money in any New Zealand bank, he/she enjoyed the high interest rates - New Zealand OCR was 8.25 percent (Reserve Bank of New Zealand, 2008c), while he or she only paid 2 percent AIL. Ignoring the exchange rate risk, New Zealand cash investments can be regarded as a low-risk and high return investment, because most of the New Zealand major banks (ANZ, National Bank, ASB, Bank of New Zealand and Westpac) are ranked above A (Smith, 2008). Political and economic stability is another important factor when international investors choose a tax haven. International investors prefer to invest in a continually steady business climate which can be ensured by both political and economic stability. For example, Switzerland is regarded as a tax haven; one of its advantages is political and economic stability.

One of the other characteristics of a tax haven country is that these countries allow free flow of currency between countries. One expression, “flight capital”, means when a government restricts its citizens from freely moving their money out of the country and when its citizens are fearful of future prospects (Barber, 1992). Hong Kong, especially before 1997 being returned to P. R. China, is a perfect example. Most tax haven nations do not have currency exchange controls or have very minimal restrictions, which is quite important to international investors who are going to transfer funds in and out of tax haven countries. Barber states that no currency exchange controls at all are the best situation.

Flight capital is another form of money that goes offshore when a country’s economy and government become unstable, causing its citizens to lose confidence. To protect their wealth or assets safely, citizens move their money offshore. Certainly, all this depends on their financial ability to escape. Barber (1992) points out that Hong Kong, Latin America and communist countries are the main source of flight capital. This scenario
has been repeated throughout past century: Germany in the 1940s, Iran in the 1970s, Mexico in the 1980s and Hong Kong in the 1990s. A significant amount of flight capital goes offshore, these assets rarely returning to their homeland (Barber, 1992).

Another important element of a tax haven is valuable banking services between bank branches and correspondents. Because some offshore investors often conduct banking transactions in another country, tax haven countries usually have a high quality professional service for these offshore investors; these banks help offshore investors establish an account in the jurisdiction where they are chartered. Barber (1992) says that if a tax haven country does not have adequate professional services, offshore investors may easily bank elsewhere to suit their needs.

Barber (1992) states most of tax haven countries are based on English common law; these countries used to be British colonies whose external affairs are still handled and protected by England. Confidentiality in financial transactions is customary practice and required under common law. Some of those countries have specific bank secrecy laws protecting account holders from financial information disclosure; and some have very tight secrecy laws that bear strong penalties if breached (Barber, 1992).

Barber (1992) points out that people believe that location is important to offshore investors. These investors usually like to save or invest their money close to their home country; they prefer that their tax haven is only a couple of hundred rather than several thousand miles away. Or, they would like to choose a tax haven where they had been, or know it, rather than an unfamiliar place. Maniam, Tuey and Chatterjee (2003) specifically point out that the timing of such foreign investment is affected by taxation, exchange rate differentials and the stage of the business cycle; which position was
supported by Dutta, Theis and Su (2007).

When talking about tax haven countries, it is necessary to talk about illegal money. Significant sums of money flow through tax havens around the world (Barber, 1992). People hide financial assets which stem from activities such as robbery, theft, kidnapping, extortion and increasingly, proceeds from dealing drugs or money from large political corruption; this is called “laundering money” (Bartram and Dufey, 2001).

Regardless of why legitimate and illegitimate businesses go offshore, the common denominator is that both want secrecy, discretion, and confidentiality (Barber, 1992). Erbenova and Vagstad (1999) mention that the taxation policies of destination countries are always significant to foreign investors; investors are afraid governments will increase taxes on foreign investment after investments are made. This point of view is similar to Rugman (1980); possible tax benefits encourage international investors to transfer their funds to tax haven countries.

Taxation policies are made by each individual government, so tax laws are national, and individual countries determine the tax rates on returns from investment securities and portfolio investment, such as interests, dividends and capital gains (Bartram and Dufey, 2001).

With the exception of tax havens, most countries tax investors residing in other countries on interest, royalties and dividends, which are known as “withholding tax”. The United Kingdom and a number of its former dependencies, like Singapore, tax returns from foreign securities held abroad only when repatriated (Barber, 1992); rules of this kind obviously attract offshore investments.
Bartram and Dufey (2001) point out that tax havens benefit from a financial industry that caters to investors from abroad, these tax havens always make themselves more attractive by adopting laws of confidentiality provisions. Obviously, tax havens used by overseas investors do not exempt returns from foreign investments; investors are usually likely to forget to declare their overseas returns.

Barber (1992) points out some governments like to cut investors’ offshore investment tax, to minimize residents’ tax burden when they invest on international markets. New Zealand, in 2006, amended the Income Tax Act 2004 to provide new rules (starting from 1st April, 2008) for taxing offshore portfolio investment. The main changes are that the “grey list” exemption in the foreign investment fund rules has been removed and a new FDR (Fair Dividend Rate) method – which broadly taxes five percent of a portfolio’s opening value each year – when the investors own less than ten percent of a foreign company (New Zealand Inland Revenue, 2006).

Under this rule, investments in listed Australian-resident companies, such as the All Ordinaries Index, are taxed the same as New Zealand domestic investments: they are only taxed on the dividend, not the capital gains. A NZ $50,000 minimum threshold applies to an individual investor’s offshore investment. If the original cost of the offshore investment totals NZ$50,000 or less, the foreign investment fund rules do not apply to the individual; in other words, the new offshore tax rules only applies when an individual’s offshore investment is over NZ$50,000.

New Zealand residents under the new rule should be taxed on their world-wide income; while the previous tax rules for offshore portfolio investment in shares favored investment in the eight “grey list” countries (Canada, Japan, Norway, Spain, the United States, the United Kingdom,
Germany and Australia) Investments in companies which are resident in these “grey list” countries were taxed only on the dividend (New Zealand Inland Revenue, 2006). Dividend-only offshore taxation was an inappropriate tax base because many offshore companies do not pay dividends or pay very small dividends; furthermore, investors today seek more opportunities far from the “grey list” countries in such as Asia areas or Latin America. The new tax rules could give New Zealand investors higher income or more significant scope to minimize their tax burden by investing offshore.

Under the new FDR (Fair Dividend Rate) method, natural person investors (including family trusts) are taxed on five percent of the value of offshore investment they hold at the start of an income year. Three examples (ING, 2007 a) below give more details for the FDR method.

Example one:
Jack holds offshore investments that have a market value of $100,000 at the beginning of the income year. At the end of the year, Jack’s investments are worth $115,000; he also achieves a $10,000 dividend. Jack’s return for the year is $15,000 capital gain and $10,000 dividend; total return for Jack is $25,000. However, under the fair dividend rate method, Jack’s taxable income for the year is limited to five percent of the opening value of his investments. So Jack’s taxable income should be $5,000 for that year.

Example two:
Assume Jack’s investments are only worth $102,000 at the end of the year; he also gets a $1,000 dividend. Jack’s total return for the year is $3,000 which is less than 5 percent of the opening value. In this case, Jack’s taxable income is $3,000 rather than $5,000.
Example three
Assume Jack’s investments are only worth $75,000 at the end of the year, and the dividend he receives is just $10,000. Jack’s total return for the year comprises the dividend of $10,000 and a capital loss of $25,000, his net return is a loss of $15,000. Because Jack has got a negative return from his offshore investment, he does not have to pay tax under the FDR.

The above only shows generally how to use the FDR, more complex cases such as opening cost method, quick sales, and investments purchased and sold over different income years may be found in more detail from New Zealand Inland Revenue -- Taxation Act 2006. However, the new FDR or new offshore portfolio investment rule does incentivize investors to chase offshore investment opportunities.

In October 2007, the New Zealand Government changed the way tax is paid on investments for many investors in New Zealand managed funds by introducing a new investment vehicle called a Portfolio Investment Entity (PIE). PIE investments have features that make them more attractive than traditional managed funds in some circumstances.

For many years, unit trust and superannuation funds had been at a tax disadvantage compared with individuals investing directly. Unit trusts and superannuation funds were taxed on both capital gains and income at 33%, regardless of the investor’s tax rate.

Investing in a PIE means investors will generally pay less tax than they otherwise would have. In a PIE investment, investors will pay no capital gains tax on New Zealand and most listed Australian shares. Also, the
investor’s share of the taxable investment income from the New Zealand shares and any cash holdings is taxed at their Prescribed Investor Rate (PIR). This means that investors will pay less tax than in a traditional managed fund. It also means that if a PIE invests in Bank deposits, investors on 33 percent or 39 percent marginal income tax rates will pay less tax than if they invested in the deposit directly as the maximum tax rate in a PIE is capped at 30 percent.

An investor’s Prescribed Investor Rate (PIR) is the rate at which the investor’s share of the income in a PIE will be taxed; it is similar to an individual’s personal tax rate, though worked out in a different way. Depending on individual circumstances, the PIR can be 0 percent, 19.5 percent and the top is 30 percent (UDC, 2007). When New Zealand governments cut investors’ investment tax and minimized residents’ tax burden, New Zealand became a more popular investment destination for both domestic and international investors.

The United Nations Conference of Trade and Development (UNCTAD, 1998) and the Organization for Economic Co-operation and Development (OECD, 1989) suggest that the effective rate of foreign investment may have become an important influence on foreign inward investment capital. Elschner, Lammersen, Overesch, et al. (2006) find tax rates of host countries influence the attractiveness of foreign investment. Effective tax rates play a major role for the foreign investment and are important for the choice of location once investors decide to invest abroad (Hines, 1996; Devereux and Griffith, 1998; Head, Ries and Swenson, 1999; and Sleuwaegen and Pennings, 2006). Gough (1995) says that diversifying across countries may help investors to hedge against risks, while tax is a major concern for investors when investing in overseas markets.
3.4 Graphic Diversification

International investment not only offers have tax efficiency, it also helps investors to reduce currency risk and political risk (Bartram and Dufey, 2001). International investment has become a significant part of investors’ portfolio decisions. Seeking better returns and avoiding unnecessary risk by diversifying an investment portfolio becomes a very important factor in the motivations of overseas investors. Investment abroad involves additional costs and potential barriers; however, the benefits of international diversification have been recognized over the past four decades by economists and investors understand that offshore portfolio investment reduces the exposure to the volatility of local market portfolios (Errunza, Hogan and Hung, 1999). Similarly, Lessard (1973), Solnik (1974), Errunza and Rosenberg (1982) and Ojah, Seitz and Rawashdeh (1997) believe that international portfolio investment will benefit investors by reducing their risk exposure.

In 1911, the US magazine World's Work emphasized the importance of a portfolio view on investments:

“A business man in the Middle West recently read an advertisement headed ‘Diversify your investments’. At the first opportunity, he went over his own investments, to find out whether he had too many eggs in one basket. Analysis disclosed that every security he had was issued by a corporation of one state; that in a general way they were nearly all of a kind so far as marketability was concerned …” (ANZ, 2007a, p.4).

It seems that over the past 100 years the situation has not changed much for many investors. However, Klement (2007) states that recent studies have confirmed that about a quarter of all households hold just one stock in their portfolio. The average number of stocks in a portfolio is only about three to five.
In 2001, approximately 60 percent of Australian’s total investments were in offshore markets such as the United States and the United Kingdom; and, Australian investors have recognized the advantage of international portfolio investment diversification (Mishra and Daly, 2006); the global wide markets offers investors more opportunities than a limited local market does.

Lintott (2006) points out that is significant to invest part of their portfolio into the international market, not to put all their eggs into one basket. Diversification is one of the most fundamental rules of investing and allows investors to take a middle road through the highs and lows of market performance, allowing investments the opportunity to grow regularly with fewer fluctuations along the way. Diversification is the most effective means of managing risk. Investors will be less affected by losses in any one investment and losses may even be offset by gains in other investment. Lintott (2006) points out that any economy may have been a great place to invest in at specific a period. The trouble is, it is only a part of the world’s investment market, which means that investing only within a particular market eliminates other investment opportunities. Similarly, Su (2005) sees the advantages of international investment as:

- Reducing risk through diversification – improving the chance of capturing the equity risk premium;
- Filling in the gaps – gaining exposure to sectors and industries not represented domestically;
- A world of investment opportunities – investment in the success of the world’s top ranking brands;
- Short term experience hides the benefits of – international markets have less long term volatility.
Lane (2000) points out that many investors like to invest in overseas countries with large domestic financial markets, for example the United States, Japan or U.K. Similarly, La Porta and Robert (1997) suggest that the size and breadth of domestic capital markets may enhance the strength of the legal environment, which is an attractive factor to international investors. Meyer and Green (1996) conclude that investing in several foreign destination markets allows investors to efficiently diversify their investment capital. Investors themselves expand abroad to avoid single market failures or single market risk (Chung and Song, 2004); they also seek to obtain greater returns from outside markets.

Economies through the world have become more closely linked when more and more businesses and investments cross borders (Bartram and Dufey, 2001); investment opportunities are no longer restricted to the home market and financial capital can now seek opportunities from the wider international markets. There are a number of benefits from international portfolio investment; investors can participate in the growth of other economies, hedge their investment against the currency exchange rate risk, and take advantage of market segmentation on a global scale. Developed economies are always attractive to foreign investors due to stable investment climates, while developing markets are also becoming more and more attractive investment alternatives to investors around the world.

The highest annual economic growth usually goes hand-in-hand with countries’ capital markets and thus always attracts investors from different nations. International portfolio investment provides investors with opportunities to participate and enjoy the fast growth of other countries via investment in foreign countries’ securities in capital markets (Bartram and Dufey, 2001). In recent years, emerging markets like China and India have
shown rapid economic growth; however, investors focus not only on the high growth in developing markets, they are also interested in well-developed countries like the US, Japan, the UK and others, because these developed economies not only provide investment opportunities, but are also politically more stable. Bartram and Dufey point out the global financial markets are not fully integrated and still lack market efficiency because of market imperfections such as investment restrictions, taxes, foreign exchange regulations, and others. Emerging markets provide high growth opportunities for foreign investors; however, they may have an unstable economic climate, whilst corporate governance still is a major issue for foreign investors in developing economies.

Risk-averse investors always prefer to invest in less risky investment assets. Therefore, they always try to select securities with a low risk correlation in their investment portfolio. When investors only select investment securities from the domestic market, they exclude the large set of foreign bonds, stocks and other securities. As such, investors limit diversification and forgo further reducing portfolio risk by including in their portfolio foreign securities that exhibit low correlation with domestic securities. Bartram and Dufey (2001) believe that the correlation of returns between solely domestic securities to be higher than between foreign and domestic securities; this point can be proved from international stock markets.

International portfolio investment not only provides benefits to investors, it also brings some unique risks like currency risk and country (or political) risk. A portfolio of foreign assets is usually exposed to unexpected changes in the currency exchange rates. These currency changes can be an extra risk to portfolio investors, however, by the same token can reduce risk for those investors as well. However, Bartram and Dufey (2001)
believe that currency risk can be diversified by investing in assets denominated in many different currencies (or countries). Country risk embraces the possibility of expropriation of assets, tax policy change or any changes in the business environment of the country. Country risk also includes the uncertainty regarding political and economic development in the foreign nations and some default risk due to government policies or actions. To avoid country risk, investors need to assess host countries’ prospects for economic growth and their political development (Bartram and Dufey, 2001). Furthermore, diversification tends to allocate resource more efficiently (Vaughn, 2002).

Cyrus, et al. (2006) summarize that international investment, in the short term, enables individuals and institutions to diversify their portfolio; in the long term, international investment improves allocation efficiency by equalizing rates of return across borders.

Bartram and Dufey (2001) believe that international capital flows are driven by the population trends of developing and developed nations. Today, mature countries face aging populations with needs for significant private capital accumulation; while those developing countries with relatively young populations need huge investment in order to create social wealth to raise living standards. The above provides incentives for the growth of international capital flows between global economies. Both academics and investment strategists have realized international portfolio investment has become more significant for both individual and institutional investors (Bartram and Dufey, 2001).

Traditionally, international diversified portfolios only involve those foreign assets that only trade abroad; a locally constructed international diversified portfolio includes financial assets which trade in the domestic market.
Generally speaking, investors today do not have to go abroad to seek investment opportunities; some international funds, bonds and other financial securities can be purchased on the home market. Errunza, et al. (1999) find investment in assets that trade only abroad would not be necessary to gain the benefits of international diversification, and home-made international diversification portfolios also can obtain the same benefits.

According to Giannoulis (2008), New Zealand investors increasingly look to diversify their investment portfolio across international markets. The top three overseas investment markets for New Zealand investors in the 2007/08 period are Australia (60 percent), the United States (49 percent) and the United Kingdom (26 percent); and the great attitudinal increases for the near future are for China (8 percent) and India (10 percent). Giannoulis adds that, for New Zealand investors, the free trade agreement between China and New Zealand may shine a spotlight on Chinese market; when New Zealand investors consider investing internationally, they will consider investment in China within their portfolios.

3.5 Other Reasons Drive Foreign Investment Motivations

Besides the above reasons which drive investors to invest their capital in overseas markets, there are some other factors which motivate investors’ international investments.

Illegal money has to be laundered, so it can be re-invested as clean and become legitimate money. Due to this reason, secrecy is most important for illegal money owners; secrecy becomes a shield so that investigators cannot find it (Barber, 1992). Legitimate money also wants secrecy for similar reasons. Legitimate money holders want to invest their money in
the direction they desire. As their money flows, they are engaging in sophisticated tax reduction strategies orchestrated by professionals, i.e. professional advisers, lawyers and accountants. That money may be secretly invested anywhere in the world, and money owners don’t want anybody else to know about it (Barber, 1992).

The people and institutes who are engaged offshore certainly don’t want anyone to know. Its secrecy gives immeasurable power and security to the people who control those funds through layers of banks, trusts and corporations (Barber, 1992).

A tax haven that thrives on offshore business because of its strict bank secrecy laws, its corporate laws allowing complete autonomy, and its golden reputation cannot allow itself to be tarnished or destroyed. Trust is an all-important factor offshore. The adverse effects will ripple through the offshore world if a client gets burned by a host country’s negligence, or if a tax haven is perceived as being too lenient with foreign regulators and information snoops.

Barber (1992) points out that many governments find it difficult to thwart the swelling tide of offshore funds and to continue investigating and collecting offshore taxes. The following statement is from U.S. Assistant Attorney General (Tax Division) Ferguson in 1985:

“As you might expect, evasion of United States taxes through sham business transactions involving foreign entities is difficult to detect, hard to recognize when found, and, where foreign witnesses and documents are crucial, sometimes impossible to prove in court. Even the most transparent transactions are likely to have sufficient documentation to satisfy a surface inquiry by an auditor and enough complexity to discourage a deeper look. Furthermore, being dependent on form and multiplicity of steps, such transactions will utilize entities in tax haven jurisdictions offering business and banking secrecy to conceal their lack of substance.”
The illegal or criminal money that goes offshore is generally a small percentage of the sum of offshore investment. The underground economy flourishes offshore because it is difficult to detect (Barber, 1992).

Barber (1992) states that offshore money comes in several colours. Americans are most familiar with greenbacks, but there are two other distinct colors: black and gray. Black money is derived from criminal activities; while gray comes from laundering funds from so-called soft crimes such as avoiding tax and economic sanctions, skirting around currency control laws, and engaging in graft and covert government activities. Barber also points out gray money is a $1-trillion-a-year racket. In a report from *Chinese Management News* (2006) the amount of laundered money in China in 2005 is estimated to be 1.1 trillion USD. A significant amount of black money has been transferred to overseas markets with different methods which include banks, financial institutes and some illegal underground financial institutions (Li, 2005).

Barber (1992) believes that the root of major offshore criminal business is money laundering. The only way to “clean” that black or gray money, then re-invest it in the global market, is to “wash” it. Barber also says that the “wash cycle” is a complex series of transactions that span the globe and entail laying groundwork and relying on various participants to conclude each phase successfully. In 1986 the US Congress passed the Money Laundering Act to thwart activities associated with laundering and curb the cleansing process; some countries, like China, did not have these kinds of Acts or laws to prohibit the black money wash cycle.

Barber (1992) believes that the nature of offshore business and tax havens attracts all kinds of people, and of course, their money. It is not surprising that the system harbors corruption, and the sum is huge and growing.
Yang and Tu (2004) point out many investors never register or report their international or offshore investment to their home government; which makes it very difficult for the home government to keep track of their investment. For those investors, the significant benefit of failing to report their overseas investment to the government is to reduce their tax burden. In any country, investment income is a part of person’s taxable income; if an investor fails to report his or her investment income, he/she not only avoids paying the tax on their offshore investment, the investor may also get some benefit from his or her domestic tax payment. Yang and Tu state that though there are penalties for failure to report overseas investment to the home government, it would be very difficult for home nations to collect tax on investors’ offshore investments because international investment banks have specific secrecy laws to protect account holders from financial information disclosure.

Furthermore, high exchange rate volatility usually leads to an adverse effect on those foreign investments (Broll and Marjit, 2005); many foreign investment ventures choose different investment destinations to diversify the currencies risk. Cantwell and Bellak (1998) point out that foreign investment today flows between the so called “old” investment destination countries like the US, the UK and Japan to “young” investment destination nations (i.e. emerging markets and New Zealand); these “young” investment destination countries produce new opportunities, whilst the flow figures are adjusted by exchange-rate movement. Tcha (1999) believes that Australian investors prefer to invest their funds in large economies; foreign investors’ funds coming into Australia are only affected by foreign countries’ current account balances and real exchange rates.

Sazanami, et al. (2003) believe there is a strong impact of exchange rate
on foreign investment. Froot and Stein (1991) conclude that the depreciation of the host currency leads to more foreign investments after empirical analysis from the United Kingdom, the United States, West Germany, Japan and Canada. Sazanami et al. find the appreciation of home country currency (a depreciated host currency) encourages more foreign investment funds from the investing countries to recipient countries.

Kiyota and Urata (2004) point out that a depreciated host currency is attractive for foreign investors because the currency depreciation lowers the value of assets in the depreciated recipient country, in other words, the depreciated host currency makes host assets cheaper compared with the home currency, enhancing investment in that currency’s purchase capacity. When two currencies’ exchange rate movement is stable (which means the exchange rate risk is low), foreign investment can be attracted by a host market, but this is not always the case (Kiyota and Urata, 2004). The appreciation of the host currency discourages foreign investment, while low volatility in real exchange rates attracts foreign investment: summarised by Kiyota and Urata (2004), this opinion is also supported by Xing and Wan (2006). Gorg and Wakelin (2002) also find that depreciation in the host country currency encourages inward investment; appreciation of the home country currency against the host currency increases the relative wealth of investors, therefore may increase the attractiveness of the host country for foreign investment as investors can acquire assets in the destination country relatively cheaply.

The volatility and level of exchange rates between host country and home country will have significant effects on foreign investment (Pain and Welsum, 2003); a stable level of exchange rate may stimulate foreign investment, but the main factor driving the decision to invest abroad is the
investment climate rather than lower currency volatility, especially in large economies. Melvin and Ormiston (1991) point out that floating exchange rate does not increase the riskiness of international portfolio investment; however, most investors prefer fixed exchanged rates when they speculate in foreign exchange markets.

Both Chui and Kwok (1990) and Mok and Hui (1998) believe that foreign investors may know some inside information about the host investment destinations before they invest their funds into those countries; in contrast, Su and Tong (2000) and Chakravarty, et al. (1998) argue that foreign investors could not have more information than local investors due to different accounting standards and language barriers. However, Nastasi and Reverberi (2007) and Markusen (1995) note that an incumbent foreign investor may hold superior information on the host market, because foreign investors always like to establish relations with local government. These investors won’t enter foreign markets unless they hold some information or they think they have some information.

Moner-Colonques, et al. (2007) believe that host markets must have asymmetric information between domestic investors and foreign investors. Asymmetric information means foreign investors hold less information about the local market (Markusen, 1995; Hirsch, 1976). After analysis from Smith (1987), Horstmann and Markusen (1987, 1992) and Motta (1992, 1994), Moner-Colonques, et al. summarize that to avoid having less information than local investors, to become successful in foreign markets and in order to acquire more knowledge about the host markets, foreign investors intend to invest abroad. This theory is called the Strategic Learning Effect by Moner-Colonques, et al. After experiencing investment in host markets, foreign investors can get information equally as well as domestic investors in their destination markets (Moner-Colonques et al.
2007), thus investors might be more comfortable investing their capital into foreign markets due to their strategic benefits.

Griswold (2003) points out migrants leave behind the country of their birth when migrating to a new land and these migrants promote great trade and investment ties between origin and destination countries. The new destination lands gradually become the migrants’ investment markets; certainly, many migrants settle permanently in their new land, and treat the land as their home. Amery and Anderson (1995) state migrants take their capital into their immigration countries when they cross the international boundaries. O’h Uallachain and Reid (1992) conclude that foreign investors like to take their investment behavior or strategies from their original countries to their immigration destinations.

Anyanwu (2006) concludes there are a number of reasons which may affect international investment capital inflow to host countries. Anyanwu points that out one special reason why foreign investors are reluctant to invest in some countries, even though those countries have profitable opportunities, is the high degree of uncertainty. Instability in macroeconomic variables as manifested by double-digit inflation, large external deficits, excessive budget deficits, and foreign accounts has limited the host country’s attractiveness to foreign investors; generally, the investment climate is very significant to international investors. Similarly, Brunett and Weder (1998) regard that a lack of rule of law and policy, volatility in exchange rates and high corruption are the greatest factors in deterring international investment capital. Foreign investors prefer to invest in those countries which have very good legal and judicial systems (Anyanwu, 2006). A lack of policy transparency is an additional factor in reducing the incentives for foreign investment (Dupasquier and Osakwe, 2003).
Hillman and Ursprung (1999) point out that the host government's policies always influence foreign investors. Investors seek a liberal trade policy which may give the prospect of protection. A stable economic climate is always attractive to foreign investors (Tcha, 1999). Agarwal (1985) points out that one important motivation of foreign investment is that foreign investors always seek greater freedom from their home countries which have restrictive foreign exchange regulations. Political stability is a significant factor in determining foreign investment flows; overseas investors are always keen to invest their funds in these stable political environments (Stevens, 1969; Weigel, 1970; Levis, 1979; Root and Ahmed, 1979; Schneider and Frey, 1985; Wei, 1997; and Biswas, 2002).

Agarwal (1985) believes seeking a mature investment climate is the main reason for outward investment from third world home countries to developed countries. But foreign investors like to invest in countries which have similar population of size, and similar ethnic and cultural background; the similarity of ethnicity and culture is correlated with similarity of the demand of host and home countries (Agarwal, 1985); foreign investors generally avoid investing in countries at very great distances and with very different cultural and political conditions and economic situations.

Furthermore, Anyanwu (1998) believes that small market size is not an attractive factor in foreign investment. Negative reports or images from the media or internet also reduce attractiveness to foreign investment capital (Anyanwu, 2006). Large capitalization and liquidity levels of markets, which always drive developed-countries investors, have “home-bias” motivation; this “home-bias” motivation discourages those investors from investing their funds into small or lower-liquidity markets (Anyanwu, 2006).
Investors always prefer to put more domestic equities and bonds into their investment portfolio, despite the observable benefit from international diversification (French and Poterba, 1991).

International investors prefer to put more assets in more transparent markets; moreover, they are more likely to rush out from opaque markets during volatile times (Gelos and Wei, 2005; International Monetary Fund, 2001). Furthermore, foreign investments are more likely to be attracted by the host country relative to size and employment gains (Barros and Cabral, 2000); foreign investment may help the host country to create more jobs, transfer advanced technology and substitute imports, so governments are likely to intervene to attract as much foreign investment as possible. Host countries attempt to offer foreign investors the most favorable investment environment. Similarly, Berkoz and Turk (2008) highlight many countries attract foreign investment capital in order to obtain benefits such as new technology, management skills, job enhancement and export opportunities. Hubert and Pain (2002) believe some factors, such as market size, agglomeration economies and currency volatility, are potential determinants for foreign investment.

There are effects on foreign investment with factors such as market size, tax rates, the host country’s investment climate and investment cost (Wang and Swain, 1995; Clausing and Dorobantu, 2005). Wheeler and Mody (1992) find the market size is a more important determinant of foreign investment decisions than investment cost or tax rates. Meyer (1995) also highlights that the market size is the primary factor to attracting foreign investment, and investment cost plays an insignificant role. Similarly, Lankers and Venables (1996) reinforce Meyer (1995) emphasizing the importance of economic and political stability in attracting foreign investment. Foreign investment is higher in host countries with low tax
rates, stable macroeconomic policies and large market size (Clausing and Dorobantu, 2005).

Gorg (2005) points out that if foreign investment capital flows easily inward to host countries, this can be a factor for foreign investors choosing the country as their investment destination. Furthermore, all illegal money, exchange rates, host countries’ policy, tax rates and market size are factors which attract foreign investors to invest outside their own home markets.

3.6 Research Questions

The objective of this study is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand. As the overall objective of this study is to address these research questions, it is fundamental that the research questions are taken into consideration when deciding what interview questions are asked, the main research questions are designed as following:

Question 1: What kind of investment assets do these Chinese migrant investors prefer?

Questions 2: Why do these Chinese migrant investors choose New Zealand as their investment destination?

A good source of research questions in studies is the ‘technical literature’ on the general problem area (Strauss and Corbin, 1990). Easterby-Smith, Thorpe and Lowe (1990) define research design as: what kind of evidence is gathered from where and how such evidence is interpreted in order to provide answers to the basic research question(s).
Prior to organize the interview for this study, this researcher made some relative interview questions which basing on the objective of this study. These interview questions have been approved by the University Ethics Department, and then they were issued to all interview participants.

In the context of this study, the research interview questions related to the two main research questions, which were to investigate the motivations and preferences of Chinese investors who migrate from mainland China. These interview questions include:

- Do you have any investments in China?
- What do you think of the Chinese investment market?
- Do you have any investments in New Zealand?
- What do you think of the New Zealand investment market?
- Why did you choose New Zealand as an investment destination?
- How did you bring money to New Zealand from China?
- What are your expectations from your investments?
- Give some idea of your investment strategy, please.
- What has been your experience of investment in New Zealand or China?
- Do you think professional advice is helpful for your investments?
- Why did you seek professional advice to help your investments?
- Who else, beside yourself, is involved in making investment decisions?
- Do you have any investment preferences? Or, if you could have things anyway you wanted, what would you choose?
- What do you think is a comfortable risk level for you?
- What kind of return do you wish with that level of risk?
- Do you think your investment portfolio strategy matches your risk level?
• Are you satisfied with your investment returns to date?
• What are your future goals or plans for your investments?
• What do you like /dislike about investing in New Zealand?

These are the main interview questions to all respondents but they are also elaborated by asking unique supplementary questions in each interview and they are specified in the analysis.

3.7 Conclusion

Investors prefer to invest their capital into offshore markets because of the many benefits of international portfolio investment. Even though the transaction cost and capital transaction are barriers for some countries, international investors’ offshore investment motivations can be driven by less or greater attractiveness.

Foreign investment determinants are concluded by Meyer (2001) as: market factors which consist of market size, growth potential and the ability to maintain market share; investment cost factors such as labour or supporting costs; economies of centralization for research and development (R&D) and marketing; artificial barriers such as capital control and exchange rate differentials; an investment climate of politically stable, general attitudes toward foreign investment; tax rates and regulations; cultural differences and similarities.

As well as the above conclusion from Meyer (2001), there are other determinants from the relevant literature quoted, which is summarized below:
• Investors always like to seek greater investment opportunities regardless of whether the domestic market performs well or poorly.
When the domestic market has poor performance, investors are more strongly incentivized to put their capital into overseas markets.

- Overseas tax havens always use tax instruments to attract foreign investment, which may help investors to reduce their tax burden and increase investment returns. Apart from flight capital and clean money, other colored currencies such as black and grey money owners particularly like tax havens. Tax haven countries’ monetary secrecy, discretion and confidentiality are significant factors attracting illegal money flows.

- As part of portfolio investment, international investment assets play a significant role in reducing investors’ currency risk and political risk. Seeking better returns and avoiding unnecessary risk by diversifying the investment portfolio becomes a very important fact in the motivations of offshore investors.

- A depreciated host country’s currency also attracts foreign investment; the volatility and level of exchange rate between home country and host country will have significant effects on foreign investment.

- The strategic learning effect theory by Moner-Colonques, et al. (2007): foreign investors who invest abroad aim to avoid holding less information than local investors, and to become successful in foreign markets, they need to acquire more knowledge about host markets.

- New migrants come and reside in a new country; they bring capital across boundaries, and promote international trade.

- Foreign investors prefer to invest their capital in those host countries which have a stable investment climate, such as stable political and economic policies and transparent transaction processes. Large host markets and free capital inward and outward flows also become a factor in attracting international investment.

All the above factors are the motivations which attract investors to invest
their capital in outside markets. These factors provide relevant information when this study objective on the motivation of Chinese migrant investors who choose New Zealand as their investment destinations.

This chapter focused on the relevant literature which discusses the motivations of foreign investors – why some investors like to invest in overseas markets. This links to Chapter Two which focuses on investors’ preferences – what kind of investments investors prefer. Chapters Two and Three comprised an integration of the literature review section; provide a literature review of the preferences and motivations of Chinese investors who have migrated to New Zealand. In order to better understand Chinese migrant investors’ preferences and motivations, in the next chapter, it is necessary to provide a background of Chinese migrants’ settlement history and present, methods of these Chinese migrants transfer their capital between their home and destination countries, and the Free Trade Agreement between China and New Zealand.
CHAPTER FOUR

CHINESE MIGRANTS IN NEW ZEALAND

4.1 Introduction.

The objective of this study is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand. In order to truly understand the objective, it is necessary to provide a background of Chinese migrants in New Zealand.

The estimated population of New Zealand is 4.26 million (New Zealand Statistics, 2008), which includes more than 100,000 Chinese migrants (Su, 2005). In New Zealand, every single person is either an immigrant or descended from one. In fact, people have come from more than 145 countries to this country they now call home. Maori people were the first residents who arrived here perhaps 600 years ago, followed in the 19th century by large numbers of English migrants. From the 1960s, more people from Pacific Islands nations began settling in New Zealand followed by Chinese, Korean and other nationalities in the 1980s (New Zealand Immigration Service, 2008a).

New Zealand is a migrant nation; immigrants affect the economy in different ways (Poot and Cochrane, 2004). Thus, migrant investors’ motivations, preferences and behaviours impact the New Zealand economy.
The objective of this research is to investigate the investment motivations and preferences of Chinese investors who migrate to New Zealand. Prior to discussing the research of relevant literatures and collected data from interviewees, the researcher would like to describe the history and present situation of Chinese settlers in New Zealand, Chinese business immigrants to New Zealand, the Free Trade Agreement between New Zealand and China and how Chinese migrants transfer their money into New Zealand; all these can provide a picture to help to illustrate this thesis.

This chapter comprises nine sections. Section 4.1 briefly introduces this chapter; section 4.2 presents New Zealand immigration; section 4.3 covers the history of Chinese settlers in New Zealand; section 4.4 focuses on Chinese business immigrants in New Zealand. Section 4.5 describes how migrant investors transfer their capital into New Zealand; section 4.6 presents the Free Trade Agreement between China and New Zealand and section 4.7 concludes this chapter.

4.2 New Zealand Immigration

Since the First World War, many people have left the home of their ancestors to settle in a new land, most of them destined for North America, Australia, Argentina and New Zealand (Griswold, 2003). Migration promotes trade and investment ties between their origin and destination countries, and also generates significant impact on both countries’ economies (Griswold, 2003).
Generally, the New Zealand Immigration Service accepts new migrants based on three categories: the skilled migrant category is the main path to residence in New Zealand. This category is designed to make sure the migrant has the skills or knowledge New Zealand needs. The family category – some people are already resident in New Zealand and their close family may apply to become residents in New Zealand as well. The third category is business and investment – when applicants establish a business or invest in New Zealand, they may apply to immigrate to this country (New Zealand Immigration Service, 2008a).

Poot and Philpott (1988) highlight that “lifestyle” is a very important reason for migrating to New Zealand; furthermore, migrants to New Zealand attach more weight to lifestyle than migrants to other countries. New Zealand Statistics (2006a) shows there are four broad ethnic populations in New Zealand: European, Maori, Asian and Pacific. There was a base population in 2008 of 4.26 million; this is 80,000 higher than the 4.18 million projected from the 2006 base and 138,000 more than 4.13 million in 2004. New Zealand statistics (2008b) also indicates that New Zealand Maori, Asian and Pacific populations will continue to grow, and faster than the European population. The Reserve Bank of New Zealand (2008b) indicates that 22,358 Asian permanent migrants arrived at New Zealand in 2007, 3,988 being from mainland China which is more than any other Asian ethnic migrant group:

“New Zealand European population is expected to reach 3.23 million by 2021, and further reach 3.43 million by 2026 from 3.07 million in 2006; while the Maori population will reach 820,000 by 2026 from 620,000 in 2006; and, the Pacific population is projected to reach 480,000 by 2026 from the 2006 estimate of 300,000; the New Zealand Asian population is projected to reach 790,000 by 2026, an increase of 3.4% a year over the 2006 estimate of 400,000 (New Zealand Statistics, 2006); the Asian working-age population is projected to increase from 300,000 in 2006 to 530,000 in 2026. By comparison, the slowest growth is European, and the fastest growth ethnic population is from Asian. The relatively rapid growth of Asian population is mainly driven by migration, the net Asian inflow of about
240,000 assumed over the next 20 years period; Asian ethnicity will increase to 16 percent in 2026 from 10 percent in 2006”.

(Source: New Zealand Statistics, 2008b)

Immigration affects the economy in a number of different ways and aspects, such as the impact on the labour market, international trade, technological change, social cohesion, the housing market and others. Poot and Cochrane (2004) point out that the economic impact of immigration is significant for New Zealand, given that 19 percent of the population was foreign born at the time of the 2001 census.

Borjas (2003) notes that an increase in the labour supply may be expected to put downward pressure on wages in a competitive labour market. In New Zealand, a positive supply increase from migrants in the labour market may be expected to lower the price of labour as well (Poot and Cochrane, 2004). According to many “lifestyle migrants” to New Zealand, those “lifestyle migrants” would accept lower wages; therefore, the price of labour may be pushed down (Poot and Philpott, 1988). However, Mare and Stillman (2007) point out that immigrant inflow to New Zealand only have a limited impact on the labour market.

Poot and Cochrane (2004) highlight ways that immigration can lead to economic growth: enhance openness of the host economy and increase the demand for new investment; promote innovation and consequential long-run changes in total factor productivity. Migrants bring assets, ideas and knowledge to destination countries; they also help to enhance the build-up of the economic relationship between home country and destination countries; immigration also increases the size of the economy, which potentially leads to more competition and efficiency.
Gould (1994) finds that immigration has a positive effect on trade between immigrants’ host and home countries. Migrants always enhance foreign investment to host countries including by direct investment or portfolio investment and other investments (Haigh, 2006); the total amount of foreign investment has increased from $96,726 million (Asia ex-Japan $17,394 million) in 1995 to $293,172 million in 2008 (Rosenberg, 1997; New Zealand Statistics, 2009).

Most migrants like to live in major cities; moreover, within cities, migrants have tended to seek affordable houses and the support of their network of friends or relatives (Gorter et al. 1998). In New Zealand, Auckland has become the main city to attract immigration, and that immigration is expected to have contributed to a housing boom and buoyant economic conditions (Poot and Cochrane, 2004). New Zealand’s volatile and large external migration flows generate significant year-to-year fluctuations in the demand for residential housing, “a migration flow equal to 1 percent of the population is associated with 8-12 percent change in house prices after a year and a slightly larger effect after three years” (Coleman and Landon-Lane, 2007, p.1).

Grealish (2008) notes New Zealand in March 2006 had a migrant population of approximately 927,000. This migrant population had a positive net fiscal impact of $NZ3.2 billion in the year to June 2006, while the New Zealand-born population only contributed a net fiscal impact of approximately $NZ2.8 billion based on 3.1 million people (Grealish, 2008). Furthermore, net fiscal impact per head was $NZ2,680 for recent migrants, $NZ3,470 for intermediate migrants and $NZ4,280 for earlier migrants, while New Zealand-born residents only contributed $NZ915 per head. Migrants residing in Auckland dominate the overall fiscal impact; there are
more than 45 percent migrants reside in the Auckland region. The growth of Asian migrant population is likely to generate more significant impact on New Zealand economy in the future.

4.3 Chinese Settlement in New Zealand

The Chinese were the third racial group to come to New Zealand after Maori and European. In 1840s, Chinese businessmen came to New Zealand to trade seal fur with Maori and European business people. There are the earliest known Chinese in the land (New Zealand Immigration Service, 2008b).

From 1865, Chinese goldseekers came to Otago (an area in the south of New Zealand); the majority of those Chinese were goldminers and lived on the West Coast. In the nineteenth century, the Chinese people totalled only 6% of Otago’s population towards the end of 1871, the numbering peaked at 5,004 in 1881 (Ng, 2001), which is about 1% of New Zealand’s non-Maori population in the 1881 census. After 1881, New Zealand increased immigration barriers and entry incurred a poll tax of 10 Pounds on newcomers, which led fewer Chinese to come to New Zealand. Between 1881 and 1900, only 1274 Chinese newcomers migrated to New Zealand. In 1901, the Chinese population had dropped to only 2,857 (Young, 2001).

In 1918-20, there was a new immigration wave; 1,374 Chinese males and 115 females arrived from China. However, the full-Chinese population decreased to 2,770 males and 316 females in 1926 and 2,233 males and 347 females in 1936. After the War II, the New Zealand government allowed
the refugees to stay and more families to come because of the civil war in China between 1945 and 1949, and so the Chinese in New Zealand again reached 5,000 in 1951.

In 1986, there were only 13,000 full and 4,000 mixed-blood Chinese in New Zealand. By 1986, 9,000 other Chinese came to New Zealand, Indo-Chinese refugees and mixed-blood Chinese-Pacific islanders. Since 1986, another 55,000 immigrants have migrated from Southeast Asia, Hong Kong, Taiwan and mainland China. The total Chinese population in New Zealand reached 82,000 in 1996, then rose by another net 22,000 to a total of 104,000 in 2001 (Ng, 2001). Chinese were 44 percent of the 238,000 Asians, 2.7 percent of the whole New Zealand population, while Asian as a group comprised 6.6 percent in 2001. To the end of 2006, the Chinese population had reached to 147,570 and become 3.5 percent of the whole New Zealand Population (Asianz, 2009). It is estimated that the Asian population will reach 9 percent or 370,000 of the New Zealand population in 2016 (Ng, 2001).

4.4 Chinese Business Migrants in New Zealand

New Zealand regards Chinese business immigrants as agents of opportunities for the country to upgrade business skills and international links (Ip, 2001); the government wants more Chinese businessmen to bring their wealth and skills into New Zealand (English, 2009b; Parker, 2009).

In 1986, New Zealand introduced a new immigration policy for business migrants to welcome entrepreneurs with “demonstrated ability and
investment capital" who could contribute to the development of new competitive industries and markets (New Zealand Immigration Service, 1995). Some Chinese migrated to New Zealand under the Business Investment Policy (BIP), which was renamed Business Investment Category (BIC) in November 1991. Up to 1995, more than 4 percent of the total number of new immigrants held Business Investment Residence Visas (lp, 2001).

Ip (2001) points out those business investment category migrants can not merely hold their investment fund in New Zealand banks; they were requested to actively invest their fund throughout the country. There were three types of investment specified:

1. A passive investment of $750,000 (bank account, trust funds or listed stocks); or,

2. An active investment of $625,000 in either Auckland or Wellington; or,

3. An active investment of $500,000 elsewhere in New Zealand.

In October 1995, the Business Investment Category was renamed again to Business Investor Category, which emphasised the personal qualities of investor migrants rather than the sum of investment. The new policy focused on the application's personal attributes, such as business experience and qualifications, accumulated earning funds, age and the minimum standard of English by sitting it at IELTS level 5 (New Zealand Immigration Service, 1995).
The changed policy stopped non-English speaking applicants (Ip, 2001). New Zealand Immigration Service (1997) reported, in that 1995-96 more than 19,260 Chinese migrants came to New Zealand. In 1996-97, Chinese applications had dropped to a few thousand, and further declined to a few hundred. In 1995-96, the Business Investment Category accounted for 4 percent (2,199) of all approvals; it sharply slumped to only 1 percent (299 people) in 1996-97 and became 0 percent in 1997-98 (New Zealand Immigration Service, 1998). Accompanying the fallen number of business migrants, the transferred capital decreased as well; from an annual high of NZ$461 million in June 1996 ($395 million from Asia), it fell to NZ$19.8 million ($4.8 million from Asia) in June 1998.

However, the New Zealand Immigration Service (1998) reported, from 1991 to 1998, 3,400 business investment category applications had been submitted, 76% of these from Northeast Asia; 2,580 business applications had been approved. These Asian business migrants transferred their funds or capital through the New Zealand banking system, the estimated total was between NZ$969.3 million and NZ$1,500 million. To 1996, most Chinese businesses in New Zealand had been small, including language schools, property agencies, stores, supermarkets, butcher and other food shops, travel and immigration agencies, furniture shops and restaurants. Medium and large businesses of Chinese migrants are still few in number (Ip, 2001).

At the end of 1998, a new “Long Term Business Visa” was introduced for business investor category applicants. Immigrants were expected to have an IELTS level 4 rather than Level 5, or pre-purchase English training by paying NZ$1,700 to $3000; the age limit of a business immigrant was extended from 65 to the 84 years old (Ng, 2001).
However, immigration policies change from time to time (William, 2006). William (2006) also points out that the changes to the investor category 2005 that put off potential millionaire migrants were:

- The investment amount newcomers bring must be over $NZ 20 million.
- The investment money must to be invested in a Crown account for a minimum of five years;
- The applicants must have a minimum of four years business experience;
- The applicants must be less than 55 years old.

New Zealand immigration data shows there have been only a few successful investor category applicants since the major policy change in 2005 (William, 2006).

Opening New Zealand up to more foreign investment is essential to create jobs (English, 2009 b). Unfortunately, a healthy flow of rich migrants from North Asia dried up almost overnight since the 2005 policy was introduced; the New Zealand Government has changed its business investor immigration policy again in June 2009 to attract more business investors (capital) into New Zealand (New Zealand Herald, 2009).

The new policy allows investors with $10 million to get residency in three years without any English skills or business experience. There is no age limit, and the migrants will have to stay in New Zealand only 20% of every year. Migrants willing to invest $1.5 million will also get residency, although they must meet language, age and business experience criteria, albeit at a lower threshold than before (New Zealand Herald, 2009).
Parker (2009) points out there is no doubt New Zealand needs foreign investment. Haier, a Chinese company, bought 20 percent of New Zealand’s Firsher & Paykel Appliances’ shares in return for $80 million to get the New Zealand company through its own debt worries (Sheeran, 2009). Lister (2009) points out Chinese investors have bought stock in some of the large banks or other large corporates in the US and Australia and he would like to see more Chinese investment in New Zealand as well.

4.5 Methods of Money Transfer

When many Chinese migrate to New Zealand to settle or invest, they need to bring their capital into their destination country. The Chinese Government has issued a regulation limiting their civilians’ ability to transfer money to other countries; in other words, Chinese individuals can only legally transfer a limited amount of money to their destination. However, more than a limited amount of money has been transferred outside of China (Li, 2005).

Both Du (2005) and Li (2005) point out there are some dubious methods which some Chinese use to transfer their money from China to other countries (certainly including New Zealand); the efficiency of money transfer methods influences both the New Zealand and the Chinese economy and banking systems.

In 1986, the US Congress passed the Money Laundering Act to thwart activities associated with laundering and curb the cleansing process.
Twenty years later, China passed the Money Laundering Act as well to prohibit black market money transfers aboard (Barber, 1992).

According to the IMF, the annual amount of globally laundered money is about USD18 trillion, or 5 percent of global GDP (Ma, 2007). *Chinese Management News* (2006) reports the amount of laundered money in China in 2005 is estimated to be 1.1 trillion USD, or 2 percent of Chinese GDP; most of the black market money is the product of corruption or fraud. A significant amount of black market money has been transferred to overseas markets with different methods which include banks, financial institutions and some illegal underground financial institutions (*Chinese Management News*, 2006).

Moving large sums of money outside one’s country is not easy, because any attempt may readily be detected. The Chinese government has capital control laws against money outflow to other countries. For instance, prior to 2008, the Chinese government only allowed one individual annual transfers of USD20,000 (or the equivalent amount in RMB) in total, to overseas accounts, according to capital control laws (Bank of China, 2008). In 2008, the Chinese government allowed individuals to annually transfer USD50,000 equally RMB through the Bank of China to overseas bank accounts (Bank of China, 2008). Currently, the Bank of China is the only Chinese bank that can help Chinese individuals to do it. Individual customers first need to deposit RMB into their accounts in the Bank of China, then the bank will help them to transfer the money into nominated overseas bank accounts using the spot exchange rate, and this transaction will take 4 to 5 working days (Bank of China, 2008). Currently, it is the safest and most efficient way to transfer money; however, the transfer amount is still limited.
Some international financial institutions have become the pipeline to help transfer money illegally aboard. For instance, between 2001 and 2005, Citibank and Standard Chartered Bank have assisted 4 executives of the China Southern Stock Exchange to illegally transfer USD780 million into the US (Li, 2005). Many foreign financial institutions have participated illegally in international money transfer, which is actually helping criminals to launder money (Li, 2005).

Thus, underground bank has become the easiest way to help common people to transfer money between countries; however, it is an illegal transaction method and has higher risk than other methods. Underground banks usually offer better exchange rates than other legal institutions, and may help people to transfer unlimited amounts of money into other countries; underground banks can quickly transfer currencies between countries, sometimes it only takes a few minutes, thus making underground banks popular many individuals and organizations.

Chinese underground banks mainly operate in some coastal cities where many international businesses and many individuals have overseas bank accounts or their friends or relatives are living in foreign countries. In other words, those companies or individuals have relationships with overseas organizations or individuals who need currency transactions between RMB and other foreign currencies (Quan and Xu, 2005). There are two kinds of businesses which Chinese underground banks operate in China:

1. To help individuals or companies to transact RMB and other foreign currencies, underground banks charge transaction fee between 0.15 and 0.3 percent.
2. Illegal depositing and lending, these underground banks offer higher deposit rates to the “public”; they also like to lend to those who are keen to borrow (Quan and Xu, 2005).

In the US, Canada, Japan and other countries such as New Zealand and Australia, the main business of underground banks is transferring RMB and local currency. Because of the strict capital control laws and increasing business activities between China and other countries, which provide opportunities for underground banks’ development (Du, 2005).

As opposed to traditional criminal money laundering, the source of a growing money laundering activity is corruption. Corruption has become the main problem of Chinese politics; how to resolve the corruption problem and re-build the Communist Party’s reputation with the public has become the major theme for the Chinese Government. Since the reform of China in 1978, China has had close relationships with foreign countries, and particularly in the last decade, increasingly Chinese people have migrated to other countries such as Canada, Australia and New Zealand (Du, 2005).

Transferring their money to a “safe” haven has become a public secret for these corrupt officials and wealthy businessmen (Quan and Xu, 2005). In New Zealand, wealthy Chinese international students are from high placed official or business families, so when they arrive in New Zealand, they already have a large balance in their bank accounts. Besides purchasing properties, some migrants also invest their laundered money in equity markets or via diversified investment portfolios; most of those investors were previously Chinese officials (Tian and Chen, 2005). According to New Zealand money laundering regulations, New Zealand banks and financial
institutions are requested to register all details of directors, trustees and partners of companies, trust and partnership; however, this regulation is not restricted to individual investors (ANZ, 2009a).

Underground bank operators usually open many bank accounts in their own names, their relatives’ or friends’ names in different banks, and they also borrow, rent or buy other companies’ or individual’s bank accounts for their underground currencies transactions; some underground banks have more than 2000 bank accounts. To avoid the Chinese government or police following their business tracks, underground banks always change their bank accounts; some bank accounts are only used once or twice (Du, 2005).

Underground banks must have two related but separate segments: domestic “branches” and overseas “branches” (Tian and Chen, 2005). Underground banks have some “branches” in domestic cities, and also have some “branches” in overseas countries such as New Zealand, or they have business partners in other countries. When a China domestic customer wants to transfer RMB to New Zealand, the customer must deposit RMB into a nominated bank account, or pay by cash or cheque to the underground “branch”. Once the underground bank confirms the RMB deposit, it will contact a New Zealand “branch” or business partner to deposit NZD into the customer’s nominated New Zealand bank account based on an agreed foreign exchange rate and brokerage rate. Likewise, when a New Zealand customer wants to transfer some NZD to his or her Chinese relative (or account), he or she just transfers money into the underground’s (or New Zealand branch) bank account; then the New Zealand underground branch will contact its Chinese branch or business
partner to deposit RMB into the customer’s nominated account based on an agreed exchange rate and brokerage rate (Tian and Chen, 2005).

Generally, an underground bank’s headquarters is set up in a foreign country such as Australia or New Zealand where the owner is living. One underground bank usually only deals with two currencies – RMB and the destination currency; for example, the underground bank establishes its head office in New Zealand, and its main business is currency transaction of RMB and NZD. Both domestic and overseas business partners keep these deposit and transfer receipts in order to regularly check their accounts; and make their accounts balance (Tian and Chen, 2005).

Chart 4.1 below shows how Chinese customer A uses an underground bank to transfer his RMB into NZD to his New Zealand bank accounts.

Chart 4.1 the Transfer between RMB and NZD via Underground Bank

(Source: Designed for this study)

1) Step one: Customer A gives cash or a cheque to the Chinese Underground bank or deposits money into its nominee bank account
and shows it the deposit receipt. (RMB does not leave China but remains available for Chinese in Auckland to remit money to China).

2) Step two: The Chinese underground bank will contact its NZ branch or business partner to deposit NZD into A’s nominee NZ bank account with an agreed exchange rate and brokerage. (The New Zealand branch or business partners allow withdrawal of NZD from their accounts as such money is from deposits of Chinese in Auckland wishing to send money to China).

3) Step three: Following the Chinese partner’s instruction, the NZ underground bank deposits the agreed dollar value into A’s NZ bank account.

4) Step four: Customer A will confirm the deposit by internet banking or his NZ banker.

When the underground bank finds its domestic and overseas accounts are not balanced, they may swap to other underground banks which have mutual trust. Alternatively, some big underground banks even take cash cross the border between mainland China and Hong Kong. For an unknown reason, those underground bank operators even use a particular van to transport cash with police guards. Hong Kong is a free-market port, once the money arrives in Hong Kong; these underground bank operators can transfer their money (Hong Kong dollars or RMB) into any overseas bank account without any capital control regulations.

Generally, underground banks offer a better exchange rate, and the currency transaction process is much faster than government owned banks. Their main customers are small-to-medium foreign companies or export businesses and many individuals; underground banks’ transaction may help
them to avoid bank, Inland Revenue and other official departments’ investigation.

*Auckland Chinese Yellow Pages* (2008) listed about 20 Chinese finance companies (underground banks or links to underground banks) which are advertised in the newspaper to help individuals or companies transfer money out of or into New Zealand.

Among the public, underground banks have got many supporters who believe underground banks have good credit and reputation, fast transaction processes and low transaction costs while Chinese state-owned banks offer worse service with high costs, poor service and other bureaucratic problems. Underground banks look like a very efficient method to many individual or small-to-medium businesses which want to transfer money between China and other countries (Tian and Chen, 2005). However, it has two main risks: there have been quite a few Chinese underground bank failures when they have become bankrupt in the last few years where the underground bank owner took millions of customers’ dollars away; and, the Chinese Government is still trying to discover those under-ground banks. Once an under-ground bank is discovered, all the depositors’ money will be confiscated by the Chinese government (Du, 2005).

In 2003, the Chinese government found that these underground banks annually “help” to transfer a minimum of RMB200 billion to other countries, including RMB 70 billion from smuggling, RMB 50 billion from corruption, and other companies and individuals’ money (Wang, 2003). Generally, it takes about an average of 3 minutes to complete an international currency
transaction business, which is far more efficient than a state-owned bank (Wang, 2003).

China’s 2004 report of first time money laundering shows the Chinese government, up to 2004, discovered 86 underground banks in total, froze 290 bank accounts, and confiscated black market money valued at more than RMB 1 billion (Lao, 2004). Chinese People’s Bank statistics report that the Chinese Government discovered RMB 249 billion and USD $77 billion in total from underground banks between April 2004 and September 2005 (Fang, 2006). Yin (2006) accorded to the Chinese People’s Bank’s 2006 releases to point out that the government has discovered seven underground banks and confiscated RMB 14 billion illegal money in 2006.

Following China’s passing of the Money Laundering Act in 2006, China also issued the following acts: the regulation of financial institutes money laundering in January 2007 and the regulation of financial institutes money transactions in March 2007 (Dan & Miao, 2006), thus the Chinese government is controlling capital outflow to other countries more strictly.

An efficient money transfer system not only has significant impact on Chinese investors, it also is critical for the global economy, certainly including the New Zealand and the Chinese economies. In 2007, the Free Trade Agreement had been signed between New Zealand and Chinese Governments to promote international businesses in both countries. In order to support businesses between New Zealand and China, two Governments might in the future upgrade capital transaction regulations respectively.
4.6 Free Trade Agreement

Chinese migrant investors regard both New Zealand and China as their home. In order to study the preferences and motivations of these Chinese migrant investors, it is necessary to state the Free Trade Agreement between New Zealand and China because this Agreement between their two homes certainly has a significant impact on their investment behaviours and business trading.

China has taken part in the process of economic globalization (Chow, 2006). Since 1978, China has encouraged free trade and abolished trade restrictions step by step; the total volume of foreign trade increased from 20.64 billion US dollars in 1978 to US$1.155 trillion in 2004, when it grew at the rate of 36 percent annually (Chow, 2006).

“The world is becoming more globalized; there is no doubt about that. While that sounds promising, the current form of globalization, neoliberalism, free trade and open markets is coming under much criticism. The interests of powerful nations and corporations are shaping the terms of world trade. In democratic countries, they are shaping and affecting the ability of elected leaders to make decisions in the interests of their people. Elsewhere they are promoting narrow political discourse and even supporting dictatorships and the “stability” that it brings for their interests. This is to the detriment of most people in the world, while increasingly fewer people in proportion are prospering” (Shah, 2007, p.1).

The rest of the world has benefited from China's great leap forward, through cheaper goods and increased business opportunities. As a new member of the WTO (World Trade Organization), China is seeking to develop a free and open economy. New Zealand is the first Western country to accept China as a free open economy (Williams, 2008).
“The World Trade Organization, (WTO), is the primary international body to help promote free trade, by drawing up the rules of international trade. However, it has been mired in controversy and seen to be hijacked by rich country interests, thus worsening the lot of the poor, and inviting protest and intense criticism” (Shah, 2007, p.1).

Since China joined the WTO, its economy has become an ever more influential factor and an important determinant of Asian growth (Pu, 2006).

New Zealand and China signed the Free Trade Agreement (FTA) in Beijing in 2007. New Zealand is poised to benefit economically from China’s surge. According to New Zealand Trade and Enterprise, over the next 20 years the FTA is expected to lift New Zealand exports to China by between 30 and 39 percent, over and above what would have occurred without an agreement (Williams, 2008).

The NZ-China FTA aims to reduce barriers to trade in services. This will support New Zealand companies conduct business in China. Services cover areas such as tourism, education, construction and transport. This Agreement is important for these Chinese migrant investors:

“The NZ-China FTA contains measures to encourage and promote the flow of investment between New Zealand and China. The parties will also work together to increase the security of investments in each country.

Both countries have agreed to treat investors and investments of the other country at least as well as they treat their own investors (‘national treatment’). The obligation is subject to an exception for existing non-conforming measures (existing laws and regulations that are not in conformance with the FTA), although it includes a ‘ratchet’ mechanism under which any improvement in such measures is automatically locked-in for Chinese investors. The scope of the obligation is also limited to the best treatment contained in existing bilateral investment agreements with Hong Kong SAR and China.

Both countries have also agreed to give Most Favoured Nation treatment to investors and investors of the other country, except in respect of fisheries and maritime matters. This means that any better investment treatment that New Zealand extends to third countries must also be extended to China. The obligation does not extend to the treatment that New
Zealand gives to its existing FTA partners (Australia, Thailand, Brunei, Chile, Singapore and the Pacific Islands).

As in the case of services, the obligations on investment do not apply in respect of subsidies or government procurement.

The FTA contains additional protections for investments, including:

- International law standards of fair and equitable treatment.
- Compensation for losses arising from war, armed conflict or similar situations.
- Protection from the funds of an investor being arbitrarily expropriated or nationalised.
- These protections are in line with New Zealand's existing regulations and practice.
- The FTA also provides a framework for the settlement of disputes between foreign investors and the government of the country in which the investment is made. This framework includes opportunities for consultation and negotiations. If no settlement is reached, the dispute can be heard in the domestic court system of the country concerned or can be taken to international arbitration”.

(Source: New Zealand Government, 2008, p.1)

Giannoulis (2008) believes for New Zealand investors, the free trade agreement between China and New Zealand may shine a spotlight on the Chinese market; when New Zealand investors consider investing internationally, they will consider investment in China within their portfolios. Amidst fears of a U.S. recession, across the region there are fewer investors who plan to invest in the US market in the near future. This seems to have led to more investors looking towards Asia to ensure that they are operating diversified portfolios in an attempt to limit their exposure to individual market fluctuations (Giannoulis, 2008).

The free trade agreement came into effect just one year after the signatures; it shows a big success: New Zealand exports to China increased 61 percent (more than $NZ3.3 billion) than the previous year (Twose, 2009).
4.7 Conclusion

New Zealand is a migrant nation, and many Chinese have come to reside in New Zealand. They bring to New Zealand their knowledge, resources and investment capital. New Zealand immigration policies are very significant to those migrants, certainly including Chinese migrants. Also, the growth of the Chinese migrant population is likely to generate a significant impact on the New Zealand economy.

Chinese have been coming to New Zealand since 1865 and the Chinese population in New Zealand has increased from 5000 in 1881 to more than 100,000 in 2006; the Chinese population is likely to grow up to 370,000 in 2016 which is 9 percent of the total New Zealand population (Ng, 2001). Since 1986, New Zealand has issued business immigration policies to attract these investors and entrepreneurs to migrate to New Zealand. Between 1991 and 1998, 76 percent of business investor migrants were from Asia; they brought their funds and capital of between NZ$969 million and $1,500 million. New Zealand’s business investor category immigration policy has been changed from time to time; however, New Zealand (English 2009; Parker 2009) would like to see more Chinese capital come into New Zealand.

The Chinese government has very strict capital control laws; investors need to transfer regulated amounts of capital into overseas markets. Banks, financial institutions and illegal underground banks have become the main methods which Chinese investors use to transfer their capital into New Zealand and other overseas markets.
New Zealand and China signed the Free Trade Agreement (FTA) in Beijing in 2007. New Zealand has become the first western country to recognize that China is an open economy. The FTA may give more opportunities for both countries' investors, so that when New Zealand or Chinese investors consider investing internationally, they may consider investment in China or New Zealand within their portfolios.

This chapter introduces the background of Chinese migrants present and history, the capital transfer methods and the FTA. To investigate the preferences and motivations of Chinese migrant investors, it is significant to use an appropriate methodology in this research. The grounded theory methodology used is now discussed in more detail in the following chapter.
CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 Introduction

The preceding chapters review the research background and the literature which are relevant to investors’ motivations and preferences. This chapter focuses on the methodology employed in this research. The objective of this study is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand; the researcher 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). This chapter outlines why and how, in this research, grounded theory has been chosen as a methodology.

The previous chapters have discussed WHAT this research explores and WHY this research should be undertaken. This chapter provides details of HOW this research is carried out. Paradigms in finance research, research design and data collection processes of the grounded theory are discussed.

This chapter is structured as follows: Section 5.2 explores relevant methodologies adopted in other accounting and finance studies; Section 5.3 discusses grounded theory; Section 5.4 details of the process of grounded theory building; and Section 5.5 concludes the chapter.
5.2 Research Paradigms

Before discussing grounded theory, it is necessary to provide a clear picture of the research paradigm underlying this study. The following section provides an overview of the prevailing research paradigms in relevant accounting and finance research.

Kuhn (1970) defines a paradigm as the entire set of beliefs and expectations that guide the research, defining what questions are important, and designating the proper way to go about answering them. A research paradigm is also defined as the broadest unit of consensus with the research community and the exemplars, theories, methods and instruments that exist within it. Paradigms advance assumptions of the social world and therefore paradigms in human and social sciences may help people to understand phenomena. Creswell (1994) says paradigms cover how research should be conducted, and what constitutes legitimate problems, solutions and criteria of proof. There are two pertinent paradigms in finance and accounting research: the positivistic and interpretive paradigms (Chua, 1986).

Creswell (1994) identifies four basic assumptions that underlie a social science research paradigm: ontological, epistemological, axiological and methodological. Both Laughlin (1995) and Parker and Roffey (1997) point out that researchers should evaluate and make assumptions explicit prior to embarking on the research. Chua (1986) further notes that failure to do so may lead to theoretical inconsistencies.

Ontology refers to the subject of existence and the nature of reality. Ontological assumptions are always chosen by researchers with respect to
the nature of reality. Researchers may believe reality exists external to research, alternatively, they may believe that reality is a product of individual cognition and therefore exists as a product in the researcher’s mind. Epistemology is another basic assumption which relates to how humans come to know reality (Potter, 1996). Some researchers believe that reality can be objectively discovered by man, others believe that researchers use different methodologies to understand social science. Burrell and Morgan (1979) claim that reality can only be known subjectively through human senses. Axiology is the study of value or quality. Axiological assumptions relate to whether facts are viewed as value-free or as value-laden.

Methodological assumptions are reached by researchers based on their position in relation to the afore-mentioned assumptions. Methodology refers to more than a simple set of methods; rather it refers to the rationale and the philosophical assumptions that underlie a particular study.

In a properly conceived methodology, a researcher will explain his or her fundamental approaches to reality. Creswell (1994) identifies two competing methodological assumptions; quantitative and qualitative methodologies.

Baker and Bettner (1997), similar to Chua (1986), acknowledge that the positivistic paradigm and the interpretive paradigm are the two basic perspectives which co-exist in finance and accounting research. According to the positivistic paradigm, accounting is a technical process of recording and reporting reality. Following this stance, accounting or finance is considered as an objective function which is free of human intervention and is structured by some form of generalized law. Thus, accounting or finance is viewed as an historical record, then as an information system,
and currently as a commodity.

Alternatively to the positivistic paradigm, the interpretive paradigm treats accounting or finance as a social process consisting of social interactions among humans. Tinker (1980), Chua (1988), Jonsson and Macintosh (1997), Sikka (2001) and Power (2003), all note that the process of accounting is considered as social interaction between different actors involved in the accounting process. According to this perspective, accounting or finance can be a process of legitimization, image making, political, or institutionalization of individuals (Power, 2003). It is also a process that can shape individuals’ preferences which support and give meaning to decision making.

Creswell (1994) has summarized the differences in the basic assumptions that led to the emergence of the positivistic paradigm and the interpretive paradigm. Creswell’s summary table is Table 5.1.

In a qualitative perspective, accounting or finance researchers may be divided into two groups: interpretative and critical researchers. Both interpretive and critical researchers share the ontological perspective of what accounting or finance is, but differs in their research aims. Critical researchers focus more on seeking reasons for change (Laughlin, 1995), and as Jonsson and Macintosh (1997) state, these researchers aim to uncover the struggles between participants and interest groups operating beneath the surface of what seems to be a stable social reality.

Interpretative researchers try to discover the meaning and interpretation of accounting or finance processes by researching those involved in the processes. Their purpose is to provide an understanding of social processes without any preconceived intention of changing the status quo.
Jonsson and Macintosh (1997) acknowledge that interpretative researchers are more concerned with the different cultures that organize social action and interactions of accounting process.

Table 5.1 Quantitative (Positivistic) and Qualitative (Interpretive) Paradigm Assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Questions</th>
<th>Quantitative (Positivistic)</th>
<th>Qualitative (Interpretive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontological</td>
<td>What is the nature of reality?</td>
<td>Reality is objective and singular, apart from researcher</td>
<td>Reality is subjective and multiple as seen by participants in a study</td>
</tr>
<tr>
<td>Epistemological</td>
<td>What is the relationship between researchers and researched?</td>
<td>Researcher is independent from that being researched</td>
<td>Research interacts with that being researched</td>
</tr>
<tr>
<td>Axiological</td>
<td>What is the role of values?</td>
<td>Value free and unbiased</td>
<td>Value-laden and biased</td>
</tr>
<tr>
<td>Methodological</td>
<td>What is the process of research?</td>
<td>Deductive process Context free Generalization leading to prediction, explanation and understanding</td>
<td>Inductive process Context bound Patterns, theories developed for understanding</td>
</tr>
</tbody>
</table>

Source: Creswell (1994)

The distinction between these two groups of research thought originates with the great German philosopher Immanuel Kant. Laughlin (1995) overviews the position of Kant, which is that all discoveries and findings are mediated via human beings, and thus the insights generated are always subjective and conditional. In 1995 Richard Laughlin developed his “middle range thinking” theory. He maintains that even though knowledge
is subjective, the ideal exists and can be discovered or created. In other words, reality is subjective but there is an ideal reality which could differentiate understanding from misunderstanding.

5.2.1 Middle Range Thinking

Richard Laughlin (1995) summarized different accounting methodologies such as Marxism, German critical theory, French critical theory and Kuhn’s scientific paradigm to produce his “middle range thinking” theory.

Burrell and Morgan (1979) create a two-by-two matrix based on a twin bipolar continuum. One continuum posits alternative approaches from “subjectivist” to “objectivist”; the other continuum covers the different nature of societal assumptions from the “sociology of range regulation” to the “sociology of radical change”.

Five concerns have been implicated from various approaches of empirical research: ontology -- a position on being; human nature - on the role of the investigator; society -- on perceptions of society; epistemology - on perceptions on understanding; and methodology -- ways to investigate the world. Burrell and Morgan (1979) cluster these five concerns under three categories:

- “Theory” involves deciding on a view about the nature of the world;
- “Methodology” involves taking a position on an amalgam of the nature and the role of the observer in the discovery process; and
- “Change” includes taking a position on whether the investigation is internationally geared to achieve change in the phenomena being investigated.

The theory dimension refers to the level of prior theorizing and prior
theories which are used in empirical investigations. This can be linked to the ontological assumptions held about the nature of reality. High levels of prior theorizing suggest it is assumed the material world exists external to the researcher, which tends to bring high levels of generality and order to research in previous studies. On the other side of the polarity, low levels of prior theorizing points the world is not material and generalities are impossible. Burrell and Morgan (1979) and Creswell (1994; 2003) describe the theory dimension which relates to both the ontological and epistemological assumptions.

The methodology dimension refers to the role of the human being in the research process. A high level means that the researcher is completely irrelevant to the process, therefore, human subjectivity is not considered in the research process and human biases are eliminated. With the low level dimension, the individual researcher is involved in the research process (Laughlin, 1995). The change dimension refers to the propensity of the researcher to seek changes as a result of the research findings. With a high level change dimension, the researcher may believe that everything in the research process is in need of change. A researcher at the low level of the change dimension may denote a strong support for the status quo.

Laughlin (1995) points out that both the high and the low positions carry their own respective weaknesses in research. To avoid the two polar weaknesses, Laughlin (1995) advocated his middle range thinking theory which purports to preserve the strengths of the very high and very low and tries to avoid the weakness of both. Middle range thinking presents a case under theory, methodology and change. Laughlin (1995) believes the “medium” position achieves a balance in its attitude and situation. Laughlin’s middle range thinking position is outlined in Table 5.2 below:
Table 5.2 Key characteristics of the dominant school of thought

<table>
<thead>
<tr>
<th>Theory Dimension:</th>
<th>High/high/low*</th>
<th>medium/medium/medium*</th>
<th>Low/low/low*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontological belief</td>
<td>Generalizable world waiting to be discovered</td>
<td>“Skeletal” generalizations possible</td>
<td>Generalization may not be there to be discovered</td>
</tr>
<tr>
<td>Role of theory</td>
<td>definable theory with hypotheses to test</td>
<td>“Skeletal” theory with some broad understanding of relationships</td>
<td>Ill-defined theory -- No prior hypotheses</td>
</tr>
</tbody>
</table>

**Methodological Dimension:**

<table>
<thead>
<tr>
<th>Role of observer and human nature belief</th>
<th>Observer independent or irrelevant</th>
<th>Observer important and part of discovery</th>
<th>Unstructured, ill-defined, qualitative approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of method</td>
<td>Structured quantitative method</td>
<td>Definable approach but subject to refinement in actual situations/invariably qualitative</td>
<td>Longitudinal, case study based. Heavily descriptive.</td>
</tr>
<tr>
<td>Data sought</td>
<td>Cross sectional data used usually at one point in time and selectively gathered tied to hypotheses</td>
<td>Longitudinal, case study based. Heavily descriptive but also analytical</td>
<td>Ill-defined and inconclusive conclusions but empirically rich in detail</td>
</tr>
<tr>
<td>Conclusion derived</td>
<td>Tight conclusion about findings</td>
<td>Reasonably conclusive tied to “skeletal” theory and empirical richness</td>
<td>Meanings: researched</td>
</tr>
<tr>
<td>Validity criteria</td>
<td>Statistical inferences</td>
<td>Meanings: researcher +researched</td>
<td>Meanings: researched</td>
</tr>
</tbody>
</table>

**Change Characteristics**

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Medium</th>
<th>Low/low/low*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on changing status quo</td>
<td>Emphasis open to radical change and maintenance of status quo</td>
<td>Emphasis on changing status quo</td>
<td></td>
</tr>
</tbody>
</table>

* Theory, methodology and changing ordering
Chua (1986) and Laughlin (2004) both believe that a research approach encompasses many different aspects, namely, the role of theory, the role of the observer, methodology, and types of data and data collection methods. The choice of a specific approach must, first of all, be consistent with the purpose of the research. If the research aims to seek understanding on certain phenomenon, without any rigid restriction on specific variables (as in the positivistic paradigm), or any preconceived intent to promote change to the status quo (as in critical paradigm), the choice should be the interpretive paradigm. This study aims to achieve a thorough understanding of the motivations and preferences of Chinese investors who migrate to New Zealand from Mainland China. Therefore, the interpretive paradigm with a structured approach, or middle range thinking, is an appropriate methodology choice.

Laughlin (1995) claims that, except for in his “middle range thinking”, there are no comprehensive approaches to understanding the empirical world. Before discussing the alternative methodologies within the interpretive paradigm, empirical research methods are overviewed.

5.2.2 Empirical Research Methods

Laughlin (1995) acknowledges that since the 1970s some researchers have started to use empirical research methods in accounting and finance studies. In the 1980s accounting and finance empirical studies were common and used a variety of theoretical and methodological approaches. Christenson (1983) and Lowe, Puxty and Laughlin (1983) point out that arguments between the “economics” and “behavioral” wings regarding whether researchers should use empirical studies in finance and
accounting research have been present since the early 1980s. In recent years, however, these arguments are beginning to diminish due to the proliferation of “behavioral” approaches to empirical research.

Empirical research methods are regarded as a class of methods in empirical observation or data collection. In some cases, research is conducted to develop theory, for example the grounded theory approach (Moody, 2002).

There are two categories of empirical research methods, quantitative and qualitative. Quantitative research methods collect numerical data and analyze data using statistical methods. Qualitative research methods collect qualitative data drawn from interviews, observations, and documentary evidence and analyze data with qualitative data analysis methods.

Qualitative methods seem to be more appropriate for theory building. Quantitative research seems to be more appropriate when theory is well developed, and for the purpose of theory testing and refinement. Yin (1994) argues that there is no entire qualitative research method or entire quantitative research method in practice. There are many examples of combined approaches. A survey may collect qualitative data using open-ended questions as well as collecting quantitative data through closed questions. An experiment may include observations of participant behavior and also collect measures of response time and accuracy. Case studies may incorporate qualitative data like system usage statistics and qualitative data such as interviews with users.

Quantitative methods tend to get their results from scientific evidence; such evidence is difficult to get in a real world setting. A difference between
quantitative methods and qualitative research methods is that qualitative methods tend to be more easily applied in real world setting.

5.2.3 The Interpretive Paradigm

From the above discussion, the interpretive paradigm with a structured approach is considered an appropriate choice for this research. As such, before focusing on the chosen methodology, the ensuing discussion elaborates on the alternative methodologies within the interpretive paradigm.

Chua (1986) notes the interpretive stance is valuable in studies of behavioral accounting. This view is reinforced by Baker and Bettner (1997). Chua (1986) points out that the interpretive paradigm enables researchers to capture, in their natural setting, the lived experiences of the actors being studied.

The interpretive paradigm has a different purpose from the positivist paradigm. The positivist paradigm focuses on the WHAT question and aims to discover relationships which are between organizations. The interpretive paradigm aims to assist the researcher to develop an understanding of HOW the interaction constitutes the process in order to describe the way researchers interpret the behavior of others (and their own behavior), both in interviews and in action. Interpretive research begins with a focus on a problem which is related to the culture and meaning of human behavior studied in context. Johnson (1991) claims that culture can either be defined as shared values, meanings, beliefs and ideologies, or as idiosyncratic and located in the heart and minds of people. Parker and Roffey (1997) conclude that interpretive research essentially enriches our understanding of the underlying meanings of our action.
Ertmer (1997) states there are four kinds of interpretive research methods. These methods come out of discipline traditions in Law, Anthropology, Sociology and Philosophy. They are:

- Case study
- Ethnography
- Phenomenology
- Grounded Theory

**Case study**
Case study method aims to help researchers to understand a single “case” in-depth in order to further understand the phenomenon or person investigated. Abdul-Rahim and Goddard (1998) assert that case studies provide pertinent information to the more elaborate hypothesis testing. Abdul-Rahim and Goddard further state that case studies allow researchers to develop theoretical explanations of accounting practices. Proponents of the case study method claim that information on the role, functioning, pressures exerted, and interests served and undermined can only be obtained through an in-depth analysis of organization as in case studies (Humphrey and Scapens, 1996). Yin (1994) identifies that case studies may help a researcher seek knowledge in five areas:

- Explaining the causal links in real life interactions that are too complex for a survey to uncover;
- Describing interactions and the real-life context in which they occur;
- Illustrating certain topics;
- Exploring situations where there are multiple outcomes; and
- Investigating a specific issue using Meta analysis.

Yin (1984) states the case study method is an empirical inquiry that
investigates a case or a phenomenon within its real-life context. Multiple sources of evidence are used in case study method and there are no clear boundaries between context and phenomenon.

Yin (1984) acknowledges techniques which may help to organize and conduct successful case study research. Certainly, there are some others who do not favor the case study method. They believe that one, or a limited few cases, cannot offer grounds to establish reliability or generalisability of findings.

Lowe, et al. (1983) illustrate how an intensive case study can be used to explicate the critical role of accounting or finance in mediating social networks in modern organizations. Lowe et al. advocate the use of actor network theory (ANT) which analyses the human and non-human, social and technical factors as a system. The ANT approach extends the prior use of case studies in accounting and finance research which mainly focus on the human element and emphasize the cultural practices of accounting or finance.

Nevertheless, critics of case studies raise concerns over the inability of case study research to generate "new" theory (Otley and Berry, 1994). This claim suggests that the potential of case studies has not been fully exploited by researchers (Humphrey and Scapens, 1996). Humphrey and Scapens also note that accounting and finance are not only processes of social interaction, they are also social and political activities which can be uncovered using a case study approach.

**Ethnography**

Ethnography is a research method which focuses on the sociology of meaning within a community. Ethnographers try to understand sociology
through selecting informants who have an overview of the community or observe socio-cultural phenomena. Ethnography aims to understand the relationship between behavior and “culture”. Ethnography researchers believe that the principal interest of ethnography research is to understand cultural communities. They also believe that they are capable of gaining an different understanding of the culture to the general population, having mastered the language of the culture and having comprehensive knowledge of the culture. Chua (1988) points out that ethnography explores how individuals go about seeing, describing, and proposing their everyday activities. Consequently, the method focuses on everyday life.

**Phenomenology**

Phenomenology may be used to study human experiences and the psychological processes behind human action; it is also used to examine experiences from the opinions of participants. The basis of phenomenology is its emphasis on human experiences and the participants actual constructs of the phenomenon under study. Goulding (2002) says that evidence for studies adopting this methodology comes exclusively from interview data. Potter (1996) notes that, in phenomenology, researchers try to get inside the mind of the participants in order to understand how individuals construct reality and why each behaves as they do. Cicourel (1964) suggests that phenomenologists believe that all of society, sociology itself, and its theories and methods, are human constructions. Lately, despite researchers being interested in studying the psychological processes of accounting or users of financial information, phenomenology has not been used in accounting research. One reason phenomenology may not be currently being used is due to a drawback of the method. Phenomenology requires prolonged interview sessions with target respondents in order to get the respondents to relay their experiences in-depth. The methodology also requires the target
respondents to be from a similar group. A good example of a study using phenomenology methodology in business is the study of the meaning of advertising experiences for adult consumers (Mick and Buhl, 1992).

The selection of an appropriate research method is a key element in the success of a research project. The selection of a research method must, therefore, be driven by the research question and the state of knowledge in the particular field of study. An appropriate research method may help the reader get a more comprehensive understanding of a phenomenon.

Case study, ethnography, and phenomenology are located within the interpretive research paradigm. Each of them has its own features and characteristics which must match the intended focus of the research. Grounded theory is another methodology under the interpretive paradigm. Details of the grounded theory approach are given in the following discussion. Grounded theory uses a three-step coding process to generate a theory that links participants’ perspectives to general social science theories; this means grounded theory methodology helps researchers to develop theoretical understandings underpinning the researched phenomenon. This research seeks to understand the motivations and preferences of Chinese investors who have migrated to New Zealand from mainland China. The grounded theory methodology suits this research purpose. The next section explains the grounded theory methodology and provides details of the data collection process.

5.3 Grounded Theory Methodology

Grounded theory is a research method first advocated by Glaser and Strauss (1967). Strauss and Corbin (1990) define grounded theory as a qualitative research method which uses a systematic set of procedures to
develop and generate a derived theory about a phenomenon. Goulding (2002) states that grounded theory is a methodology for generating theory which is grounded in the systematic gathering and analyzing of data from the field. From the above, it is clear that grounded theory is quite different from the methodologies discussed above. Grounded theory aims to generate a theory, rather than test theory. Grounded theory requires an inductive research approach which allows theory to emerge from the experiential accounts of participants. The approach has a set of established guidelines both for conducting research and for interpreting data. It is an interpretive mode of inquiry which is rooted in symbolic interactionism, hence, discourse, gestures, expressions and actions are all considered primary to the experience. Grounded theory is used in studies that focus on human behavior which can sometimes be best explained by theories from multiple disciplines (Goulding, 2002).

The focus of grounded theory studies is the study of individuals, groups, or collectives' actions and interactions in managing, handling, carrying out or responding to a phenomenon. Chamberlain (1995) identifies that the theory must be grounded in data; that is, theory must emerge from the data. Grounded theory has a set of established guidelines, both for conducting research, and for interpreting the data. Grounded theory requires an understanding of related theories and empirical works in order to enhance theoretical sensitivity (Goulding, 2002). Grounded theory is a methodology which can be used to build new understandings in a new field or new project. Pandit (1995) notes that the grounded theory approach is applied in a research project which attempts to generate a theoretical framework based on phenomena.

Usually, research employing a grounded theory approach commences with identifying an initial problem which is of interest to the researcher. The
following steps are data collection and data analysis. The interpretive research process involves constant comparison between data collection and data analysis, which enables the researcher to build a theoretical perspective. Researchers develop an understanding of the problem, which enables them to build a theoretical model to explain the phenomenon.

Grounded theory helps researchers, including financial analysts, policy makers, managers, accountants and others, to find how, when, and why things are done, and to find out how people and organizational units interact. Gibbins, Richardson and Waterhouse (1990) and Parker and Roffey (1997) believe such knowledge is priceless in applied research where changes in policies, organizational structure, environments, operating systems, and activities are anticipated. Gurd (2004) claims that grounded theory has 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), meaning this methodology has no research assistant, no dues, no secret handshakes, and no research grant is needed.

For this research grounded theory is deemed the most appropriate methodology. This is due to the following reasons:

- This research aims to understand the motivations and preferences of Chinese investors in New Zealand. As a new research project, this study does not set out to test any prior hypothesis, but seeks to provide an understanding of the phenomena. Grounded theory is the most appropriate methodology to fit this requirement.

- Grounded theory can be traced to symbolic interactionism and the methodology is best suited for studies looking at actions and interactions. Such an interaction process, between the investment adviser and clients, exists in this research.
- Grounded theory has been proven to be applicable to the study of human behavior, which is the theme of this research study.
- This study has twenty communication processes with different background respondents, grounded theory allows for these multiple perspectives to be incorporated into the analysis.

Based on the above explanations, grounded theory is the most appropriate methodology for this study. This grounded theory is used to build up a theory to explain the preferences and motivations of Chinese investors who migrate to New Zealand.

5.3.1 The Elements of Grounded Theory

A grounded theory is a theory that is derived from the phenomenon it represents and meets four criteria: fit, understanding, generality, and control (Strauss and Corbin, 1990). Fit means that the theory must fit the data; understanding means that the theory must be comprehensible to all involved in the area of study; and generality implies that the theory should be applicable in a variety of contexts. Control implies that the theory should provide control with regard to action concerning the phenomenon.

There are three basic elements of grounded theory; these are concepts, categories and propositions. Concepts are the basic elements of analysis because it is from conceptualization of data, not the actual data per se, that theory is developed. Corbin and Strauss state that:

“"Theories can’t be built with actual incidents or activities as observed or reported; that is from "raw data". The incidents, events, happenings are taken as, or analyzed as, potential indicators of phenomena, which are thereby given conceptual labels" (Strauss and Corbin, 1990, p.7).

The second element of grounded theory, categories, is clearly defined by
Strauss and Corbin (1990, p. 7):

“Categories are higher in level and more abstract than the concepts they represent. They are generated through the same analytic process of making comparisons to highlight similarities and differences that is used to produce lower level concepts. Categories are the ‘cornerstones’ of developing theory. They provide the means by which the theory can be integrated.”


The generation and development of concepts, categories and propositions is an iterative process. Strauss and Corbin (1990) state:

“Grounded theory focus to derive a theory from phenomenon it represents rather than testing a theory. That is, discovered, developed, and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore, data collection, analysis, and theory should stand in reciprocal relation with each other. One does not begin with a theory, and then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge” (Strauss and Corbin, 1990, p.23).

5.4 The Process of Grounded Theory Building

As discussed above, 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. Four research quality criteria are comprised in these stages: construct validity; internal validity; external validity; and reliability.
Pandit (1996) defines each of these quality criteria:

“Construct validity is enhanced by establishing a clearly specified operational procedure. Internal validity is enhanced by establishing causal relationships where certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. In this sense, internal validity addresses the credibility or ‘true value’ of the study’s findings. External validity requires establishing clearly the domain to which the study’s findings can be generalized. Finally, reliability requires demonstrating that the operations of a study—such as data collection procedures—can be repeated with the same results” (Pandit, 1996, p. 3).

The Figure 5.1 (next page) overviews these stages and gives a picture of the process of grounded theory building. In Figure 5.1 (next page), after setting up research questions and theoretical sampling (the research design stage), it is time to use methods (e.g. interviews) to collect data (the data collection stage). The data analysis stage is comprised of: open coding – the part of the analysis which includes identifying, naming, categorizing and describing phenomena found in the research data; axial coding – a follow on from open coding, the process of relating codes to each other; and selective coding – which requires the choosing of one category to be the core category and relating the other categories to this core category.

After these stages are completed, a theory may be generated. If the theory is not saturated, the researcher has to get further data from samples until the theory is saturated. The following sections provide details of the grounded theory building process in this study.
5.4.1 Research Design

Sampling in grounded theory is guided by the process of theory generation (Goulding, 2002). The sampling technique is termed theoretical sampling and is classified as purposive sampling. Theoretical sampling is used in qualitative studies, particularly in grounded theory, because it allows the researcher to develop theory from empirical data in the most efficient manner. Strauss and Corbin (1990) note that theoretical sampling cannot be planned before embarking on a grounded theory study. The specific sampling decisions evolve during the research process itself.

The idea behind purposeful sampling is to make calculated decisions to
sample a specific group according to specific criteria (time, space, identity or power) developed during the data collection stage (Strauss and Corbin, 1990). The primary aim of sampling is to develop theory, not to achieve a representative sample (Strauss and Corbin, 1990). More than 200 interview invitation letters had been sent to Chinese investors who migrated to New Zealand, regardless of the respondents’ gender, age, portfolio size or other factors.

Based on the research expectation, respondents from different backgrounds were suitable for this research. The twenty respondents had different backgrounds – and this matched the research expectation. Because every investor has a unique situation with a different investment portfolio and expected return, every interview has been analyzed individually. Such variety in respondents is important to develop a grounded theory model. The information gathered helps to find each respondent’s motivations in terms of strengths, weaknesses, opportunities and threats, and then draw such commonalities together to generate an understanding of the motivations and preferences of Chinese investors.

The interviews of the sample took place over 15 months. It comprised a range of people of different ages (Table 5.3); and different migration statuses such as: student visa holder, New Zealand permanent residential visa holder, and New Zealand citizens (Table 5.6). This sample also included 13 men and 7 women (Table 5.4), a range of people of different social classes (Table 5.8), with different qualifications (Table 5.7), and the different migration terms (Table 5.5).
### Table 5.3  Age Composition of Sample

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-20 years</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>20- 40 years</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>40-60 years</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>60 +</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Total N=20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Designed for this study)

### Table 5.4  Gender Composition of Sample

<table>
<thead>
<tr>
<th>Gender</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Female</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>Total N=20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Designed for this study)

### Table 5.5  Migration Length Composition of Sample

<table>
<thead>
<tr>
<th>Length Range</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>5-10 years</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>10 + years</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Total N=20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Designed for this study)

### Table 5.6  Migration Status Composition of Sample

<table>
<thead>
<tr>
<th>Status class</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Visa Holder</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Work Permit Holder</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NZ Permanent Resident</td>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>NZ Citizen</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Total N=20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Designed for this study)
5.4.2 Data Collection

Glaser and Strauss (1967) advocate, in theoretical sampling, no one kind of data or technique for data collection is necessarily appropriate. A researcher may use one technique of data collection primarily, and theoretical sampling for saturation of category allows a multifaceted investigation, in which there are no limited to the techniques of data collection, or the types of data acquired.

- In-depth interviews

The primary aim of this study is not to test or prove a theory but rather to
generate a theory; an inductive analysis of a social activity (Woods, 1999). Accordingly, the primary mode of inquiry is interviews since they capture human experience as described from first person accounts (Kvale, 1983). Consistent with the grounded theory approach, the interviews are conducted face-to-face using open-ended questions and without any prior hypotheses; this is designed to provide respondents with the maximum opportunity to elaborate on their experiences and opinions about their investment preferences and motivations.

The objective of an interview is to gather data that is rich and thick with explicit detail of participants’ experiences in order to enable the researcher to answer their research questions. In this study, interview was used to collect detailed accounts of the meaning of investment motivations and preferences from Chinese investors who migrate to New Zealand. Parker and Roffey (1997) believe that interviews will enable the researcher to gain understanding through the viewpoint of the subjects or actual participants.

The twenty interviews were conducted at the respondents’ addresses, which should make respondents feel comfortable. All the interviews were face-to-face, and a written record was kept. The interviews ranged from one to three hours in length, an average of two hours. Some field notes were also taken during interviews, such as of interviewees’ actions, attitudes and something which may express their thoughts. The researcher also made interview memos which were written after each interview. What is unique about these interview records is that as the respondents are Chinese, the interviews are undertaken in Chinese. Therefore, all interview records have subsequently been translated to English.
Data analysis can be central to grounded theory building research. The principles of grounded theory are based on the premise that theory can be developed from empirical findings. Embodied in the approach is a systematic process of data collection and data analysis which enables theory to be generated and provisionally validated (Straus and Corbin, 1990; Parker and Roffey, 1997; Goulding, 2002; Gurd, 2004).

Data analysis for each interview involves generating the concept through the process of coding which

“... represents the operations by which data are broken down, conceptualized, and put together in new ways. It is the central process by which theories are built from data ....” (Strauss and Corbin, 1990).

Both Goulding (2002) and Locke (2001) state that grounded theory processes have undergone some changes in the 90s resulting in two distinct versions of grounded theory. The first version is the Glaserian version which stresses the emergence of theory purely from data (Glaser, 1978). The other, called the Straussan version, emphasises a strict coding process regime (Strauss and Corbin, 1994). In the past few years the Straussan method has become the most common approach adopted, particularly in the field of management (Gurd, 2004; Goulding 2002). This study adopts the Straussan version of grounded theory which represents a more structured process in data analysis.

In the Straussan version, the basic idea of the grounded theory approach is to discover or label variables (called concepts, categories or properties) and their interrelationships. The analysis of data collected in this kind of
research is often referred to as “coding”. Data is coded differently depending on the purpose of the data and the stage of the project. There are three stages of coding: open coding, axial coding and selective coding. These coding stages are analytic types and it does not have to follow that the researcher moves from open coding to axial coding through selective coding (Pandit, 1996).

The first stage: open coding (naming every concept)

The first step in grounded theory analysis is open coding. Open coding is the initial stage in data acquisition and relates to describing overall features of the phenomenon under study. Open coding is the process of selecting and naming categories from the analysis of data and refers to the process of breaking the data into distinct units of meaning. The open coding process results in a number of codes being identified and extracted from the interviews conducted. Variables are identified, discovered, labelled, categorised and related together in an outline form.

The open coding process is carried out for each interview respondent. Meaningful parts of the interviews are extracted so only relevant information is analysed further. Phases or sentences are coded using a ‘code’ which represents a theme that describes them. This process continues until all of the concepts have been coded. In the open coding phase, all the expressions were entered accurately into a new file as codes, preserving the substance of the original expression. These open codes identify possible categories and dimensions. Once all the data are examined, these codes (or categories) are organized by recurring theme (Strauss and Corbin, 1990).

During the open coding process some rules were followed:
1. All the information gathered in the interviews is recorded so no significant information is missed. This is done until theoretical saturation is possible.

2. Focus is placed on what interviewees said, significant phrases or sentences can be used as ‘codes’.

3. Every concept is named; these names can be original words or sentences or researchers’ definitions.

4. Data is compared and similar incidents are grouped together and given the same conceptual label.

From the twenty interviews undertaken in this research, a large number of codes were generated. These codes were then re-analysed to refine the specific contents of each code. When codes were similar in nature they were merged into one code.

In this study, the open coding started with reading every sentence from these twenty interviews, collecting these codes together under one or more headings in order to capture substantive codes, and then cluster the data together in more abstract subcategories (Elgan et al., 2005). In this stage, the researcher seeks for interviewees’ words, particularly words which may be used as codes, then labels and categorizes those words or phenomena. The labelling and categorization are concepts which are the basic building blocks in ground theory construction. Open coding requires the researcher to ask questions and make comparisons. Data are broken into groups called conceptual labels. Substantive codes describing how Chinese migrant investors transfer their capital from China to New Zealand and viewed as relevant are, for example, HSBC, Chinese finance companies, overseas bank accounts, Hong Kong, cash and government capital control.
The second stage: axial coding (sorting into categories)

Whereas open coding fractures the data into concepts and categories, axial coding puts the data back together in a new way by making connections between categories and sub-categories (that is not between discrete categories which is done in the selective coding stage).

Axial coding is the second stage and occurs after open coding. It is the process of relating codes (categories) to each other via a combination of inductive and deductive thinking. Codes are re-analysed to refine the specific contents of each code. During axial coding the researcher develops codes by specifying the conditions, context, and action strategies. Researchers can also develop new categories as they emerge from the data (Goulding, 2002). In this process codes that describe similar things or items are grouped into one category, while subcategories or free codes are re-arranged into categories based on relationships amongst the categories. Miles and Huberman (1994), Strauss and Corbin (1990) and Goulding (2002) believe that the process of categorising under Straussan grounded theory is undertaken following the paradigm model in grounded theory. Strauss and Corbin also claim that the use of the paradigm model may promote the generation of more dense and precise grounded theory.

Open coding fractures the interview data into different concepts and categories, axial coding collects these data back together and finds the connections between a main category and its subcategories. In the axial coding stage, the researcher develops main categories and their sub-categories, these main categories can give a more comprehensive view of the respondents’ investment motivations and preferences.
The researcher identified associations between categories and their subcategories with connections and differences in order to cluster data together to a larger entity such as a pattern describing the conditions, actions/strategy, context, phenomena and consequences (Elgan, et al. 2005). Miles and Huberman (1994), and Strauss and Corbin (1990) believe that the process of categorizing is made following the paradigm model (figure 5.2) in grounded theory.

Using an example from this study, the researcher finds that when respondents answer the question “How did you bring your money to New Zealand from China?” Their answers can be briefly categorized into:

- “I transferred the money from a Hong Kong bank account to a New Zealand bank account”.

Figure 5.2: The Paradigm Model

(Closeup: Pandit, 1996)
• "I used a Chinese finance company to transfer my money from China to New Zealand"

• "I have overseas bank accounts in other countries; I could take my money to New Zealand any time."

• "I brought heaps of cash into New Zealand"

When these data are re-categorized together, the research shows that the Chinese government has a currency control policy (condition) which means an individual is not allowed to take a large amount money (more than US$6,000) abroad. When people migrate to other destinations, they need their money to support their new lives or business in new countries (context); few people have bank accounts in Hong Kong or other nations (condition), where they can easily transfer their money into New Zealand. Some people choose to bring cash (action) into New Zealand (phenomenon), which is very high risk because New Zealand Customs or Chinese Customs may take all their cash if they find them hiding very large amounts of cash. Most people (about 70 percent of respondents) chose to use some finance companies to transfer their money into New Zealand (phenomenon), but these finance companies (under-ground banks) have high risks, for example, illegal money transaction processes, default risk or bankruptcy risk. These investors only dare to transfer small amounts of money from China at a time (consequence).

Cheraghi, Salasli and Ahmadi (2008) point out that the coding paradigm was conducted with a focus on two aspects of the phenomenon: the conditions in which the phenomenon occurred, and the actions of the people in response to what was happening in the conditions.
The third stage: selective coding (core concept stage)

Selective coding is the process of choosing one code (category) to be the core category, and relating all other categories to that category. Selective coding involves validating relationships and refining and developing categories. Pandit (1996) points out that a story is simply a description of the central phenomenon of study and the story line is the conceptualisation of this study. When analysed, the story line becomes the core category (Strauss and Corbin, 1990).

The core category (that is, the central idea, event or happening) is defined as the phenomenon. Other categories are related to the core category according to the scheme. Finally, the researcher develops an essential idea or a single storyline and the grounded theory is arrived at.

The selective coding process involves the following steps:

1. Explication of the story line.
2. Relating subsidiary categories to the core category.
3. Relating categories at the dimensional level. This involves understanding the range of values that categories may have. For example, the category ‘motivation’ may have a range of values between not motivated and highly motivated.
4. Validation of relationships against data.
5. Further refinement of the storyline.

Once a core category has been identified, the storyline is generated as a restatement of the project in a form which relates to the core concept.
Validation is carried out by generating hypothetical relationships between categories and data. Categories and the storyline may be further refined. This process completes the grounding of the theory (Pandit, 1996).

In this study, the theory that occurred around the core category is a substantive theory that explains the motivations and preferences of Chinese investors who migrate to New Zealand. In the selective coding phase, subsidiary categories are also related to the core category according to the paradigm model (figure 5.3), the basic purpose of which is to enable the researcher to think systematically about the data and relate them in a complex way.

Causal conditions are the events that lead to the establishment of the phenomenon, while context refers to the particular set of conditions and intervening conditions. Action or interaction strategies refer to the actions that occur as the result of the phenomenon, and the outcomes are consequences (Pandit, 1996).

5.4.4 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) refer to the situation in which:

“No additional data are being 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 ... when once a category is saturated, nothing remains but to go on to new groups for data on other categories, and attempt to saturate these categories also” (Glaser and Strauss, 1967, p. 65).
As a general rule of grounded theory, core categories should be saturated as completely as possible. A theory is saturated when it is stable in the face of new data and when it is rich in detail (Pandit, 1996).

5.4.5 Literature Comparison

The relationship between theory and reality in a grounded theory study is a complex issue. Pandit (1996) states that social research involving humans is often directed in order to find, describe and understand the complex phenomena that humans engage in. Such descriptions and understandings are usually placed at a certain time and related to specific societies. Eisenhardt (1989a) suggests that the comparison between emergent theory and existing literature may enhance the internal validity, generalizability, and theoretical level of the theory.

5.5 Conclusion

This chapter has provided a outline of the methodologies which may be used in finance, accounting and other research studies. Compared with the positivistic paradigm, the interpretive paradigm can make a significant contribution in developing an understanding of finance or accounting within the context of its surrounding environment. Laughlin’s (1995) middle range thinking has been illuminated in this chapter. This thinking is a way forward for empirical accounting and finance research. From both Laughlin’s middle range thinking and empirical research methods, grounded theory has been identified as the most appropriate approach to fit the objectives of this study. Some statements concerning the adoption of a grounded theory approach in this study have been made.
This chapter has also illustrated the elements of grounded theory, and presented the four criteria of grounded theory. The grounded theory building process, namely the research design, data collection and data analysis process, was detailed further in the latter part of this chapter. Theoretical saturation was also identified as significant in the theory building process as the theory only can be completed once theory saturation has occurred. The theory, which is grounded from data, should compare with reality, which makes a better understanding of the theory. The presentation of research findings is provided in the following chapter.
CHAPTER SIX

RESEARCH FINDINGS

6.1 Introduction

In the preceding chapter, grounded theory was identified as the most appropriate approach for the objective of this study, to investigate the motivations and preferences of Chinese investors who migrate to New Zealand.

Grounded theory is a qualitative research method which was developed by Glaser and Strauss (1967); this method uses a systematic set of data collection and analysis to establish an inductively derived theory (Strauss and Corbin, 1994). Morse and Field (1995) point out that the primary purpose of grounded theory is to generate theories that are grounded in the data. Rich and solid data are required to elicit thorough, accurate and complete development of conceptual and analytic issues (Eaves, 2001).

To build a theory from collected data, the following stages should be followed: the research design stage which comprises research questions and theoretical sampling; the data collection stage – interviews have been employed to collect data; the third stage is data analysis, which is comprised of open coding, axial coding and selective coding steps. After the above three stages, a theory may be generated; if the theory is not saturated, the researcher has to get further data from samples until the theory is saturated (Pandit, 1996).
The objective of this study is to investigate these Chinese migrant investors' investment motivations and preferences which will provide an insight into the possible challenges faced by the Chinese community in general. This research is also necessary for the New Zealand market to understand Chinese investors, and vital for Chinese investors to understand the New Zealand market. As the overall objective of this study is to address research questions, it is fundamental that the research questions are taken into consideration when deciding what interview questions are asked, the main research questions are designed as following:

Question 1: What kind of investment assets do these Chinese migrant investors prefer?

Questions 2: Why do these Chinese migrant investors choose New Zealand as their investment destination?

In the context of this study, the research interview questions related to the two main research questions more interview questions details are in Chapter Three.

This chapter is structured as follows: Section 6.2 reveals the findings from interview data analysis and field notes. This section is also called the result sections with a theory being generated from collected data; Section 6.3 is a discussion section in which the researcher compares the emerged theory with the extant literature; and the final section 6.4 concludes this chapter.
6.2 Research Findings

The principles of grounded theory are based on the premise that theory can be developed from empirical findings (Strauss and Corbin, 1990). In this study of interview transcripts, respondents’ sharing behaviours or motivations or preferences are expressed in the findings. These findings are abstracted from participants’ experiences and perspective of failure or success, knowledge or lack thereof of investment fields, anxieties, weaknesses, confidence or ambitions, and their voices and attitudes (Hawley, 1998).

In this study, main categories have been developed from open coding and axial coding stage, then selects core category from these categories (or findings); to further develop the theory from grounded data. The following findings are the main categories which are selected from open codes and axial codes from twenty interview data analysis.

6.2.1 Research Finding One

Investors lost money on the huge Chinese market, and they have positive investment returns from New Zealand investment. Interestingly, those investors are still more interested in the Chinese market than the New Zealand market, because they believe they may get more speculative investment opportunities from the Chinese market than from the New Zealand market.

Findings from the participants’ comments revealed that China is a large market while New Zealand is a very small market.
“China is a large market”,

This is a very common phrase from these interviewees. The researcher analyse from interview data, field notes and memos that most interviewees don’t know how to measure the size of market.

“Chinese market definitely is much bigger than New Zealand, because of the huge population. A big market will provide investors with more opportunities.”

This indicates these interviewees believe the largest population certainly is the largest (or larger) financial market. Obviously, some of the interviewees have confused the difference between financial market and consumer market; as even for the consumer market, China is not the largest. The United States does not have the same size population as China, but it is the largest financial and consumer market. Agreeing with these interviewees, the researcher concurs that the Chinese financial market is bigger than New Zealand market; China has had one of the fastest growth economies in the last decade.

Most of the interviewed investors have had bad experiences on the Chinese market in the past decade:

“In past years, the Chinese share-market performed very badly; I actually lost more than 20 percent of my investment capital.”

Among the twenty respondents, more than half of them had investment experience in the China stock market; furthermore, most of them had bad investment experiences in China:

“I had done some investment on the Chinese share market; unfortunately, I lost every cent”
“It is very bad; the Chinese stock market is a big trap for individual investors. It is a nightmare.”

There are some investors who still hold some investments in China, such as:

- “I still keep investing in Chinese stock market online; I decreased the investment amount (in Chinese share markets), my current investment value (in China) is about US$300,000.”

Most investors realized the Chinese share market had a big recession between 1999 and 2004:

- “My parents have some investments in China; they have hardly got any profits from the share market in the last few years”;
- “It was a bear market during 2000 to 2005; I lost so much money on the stock market”.

Findings from interview data and contextual field notes reveal that some investors had even lost all their investment capital in the Chinese market. But one positive indication from those interviewees is they are keen to invest in IPOs (Initial Public Offer):

- “I heard IPOs are a great investment, but it is not easy to apply for”.

Interview data and memos from the participants’ observations revealed that those investors believe IPOs will never let them down.

Also, these interviewees realize that China is an emerging or developing market.

- “Because of its immaturity, its laws and regulations have much to develop. The Chinese financial market has many unstable elements or factors; some professionals’ ethics and knowledge is far from the international standard.”
Furthermore, those interviewees believe:

- “There are not many Chinese investors who trust Chinese fund managers, nor Chinese financial institutions”;

One reason is:

- “Those fund managers have bad management or investment skills, and made very low investment returns”.
- “The Chinese market is a perfect market for speculators”.

The interview data indicates that investors have realized China is still a developing market, this market has some problems to be solved, and it has great opportunities for speculation. Investors believe that:

- “China is a perfect example of a developing country”.

From interview data, memos and field notes, it was found that many of these Chinese investors are still keen to invest in their homeland market even though there are too many unstable factors influencing it:

- “Investors may find good investment opportunities when the market is fluctuating and unregulated.”
- “I think the Chinese market has heaps of opportunities for speculators, because that market is immature and has a long way to go to improve and develop.”

Another reason indicated by interviewees is, investors are familiar with the market and language, which cause some of them to still like investing in China.

However, these interviewees also have investments in New Zealand. All twenty interviewees have New Zealand company debentures.
"I have some investments in New Zealand debentures; these debentures have quite high returns and low risk."

"I particularly like New Zealand bonds, debentures, and other fixed interest products which offer good interest rates and are attractive to Chinese investors."

From the interview data, more than 80 percent of participants have property investments in New Zealand. Only a few interviewees have New Zealand funds investments. Three of twenty respondents still seek to invest in IPOs, unfortunately they did not make the expected profit from IPOs, and the outcome let them down:

"Only a few IPOs are available in New Zealand, it surprises me that some IPOs’ first trading prices are lower than initial prices."

Foreign exchange (FX) has also become some Chinese investors’ preference. Five respondents have more than $1 million investment value in New Zealand; Australian shares and Australian Unit Trusts (AUT) are also included in their investment portfolio.

Among the twenty participants, sixteen investors were satisfied with their investment performance; only four participants were not happy with their investment returns. One had a loss from his New Zealand IPO trading; one had a loss on a financial company debenture – he had a huge deposit on an unsecured second-ranking financial company debenture. The other two are unhappy with the return they got; however, their investment returns are far better than bank deposit rates.

With regards to the difference from the Chinese market, the main theme from interviewees is:
o “New Zealand is so small, which doesn’t have many investment opportunities for investors”.

Even though the New Zealand financial market is small, all the participants agree that:

o “New Zealand is a more developed financial market in comparison with the Chinese market”.

o One respondent said: “Different from the Chinese market, New Zealand is closer to the European and the US markets. In New Zealand, investors can freely invest their capital worldwide; in China, it is impossible. Generally, individual investors (in China) are not allowed to invest in overseas markets.”

o “The New Zealand financial market is more mature; it has more restricted regulations and ethics codes (than China)”.

The New Zealand market has had very good performances in past years (Chapter Four); the market has brought good investment returns to its investors. However, the interview data and field notes from the respondents’ observations revealed that some participants do not have much interest in the New Zealand financial market:

o “I personally do not have much interest in the New Zealand market.”

It was also commented:

o “The New Zealand stock market has small trade volume, the liquidity is low; I don’t think I can make a good profit from the New Zealand share market.”

The researcher finds that one respondent’s opinion can be the general view of all participants:


“The New Zealand market is quite stable, it provides good investment returns in the past years; however, it is so tiny, I don’t think Chinese speculators enjoy it.”

In this context, all participants emphasize that China is a big market while New Zealand financial market is very small (Chapter Three). Compared with the Chinese financial market, the New Zealand market is more mature and developed. Many respondents suffered loss from their Chinese investments; while most of them have had good returns from New Zealand investment in the past financial years. Interestingly, the researcher finds that those investors are still interested in the Chinese market more than the New Zealand market, because the New Zealand market is:

○“Too stable, too small for speculators.”

McChesney (2009) points out smart investors always eye China, not New Zealand; China’s leading 7.9 percent GDP growth illustrates why New Zealand investors like to invest their money into it.

6.2.2 Research Finding Two

Finance companies have become the common method to transfer capital from China to New Zealand.

Collective interview data indicates these respondents usually take the following four methods to transfer their capital funds into New Zealand from their home countries:

1. Via Hong Kong or other international ports;
2. Transactions between Chinese banks and New Zealand banks;
3. Via Chinese-owned New Zealand finance companies; and,


According to the interview data and contextual memos, 19 interviewees had answered the question -- how they bring their investment capital into New Zealand; one interviewee did not want to answer it. Among the 19 respondents, five interviewees used bank-to-bank to transfer their capital. Four have bank accounts in Hong Kong, and one has a business account in London. They realize bank-to-bank is the easy, simple, cheap and safe way to transfer capital; the pre-condition is they have to open bank accounts in a free port such as Hong Kong.

There were 15 respondents (one respondent also transfers Hong Kong Dollars from Hong Kong to New Zealand) who transfer 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; it commonly takes overnight to transfer money between New Zealand and China. When a client wants to transfer their funds from China, these finance companies ask the client to deposit their Chinese cash (RMB) into a nominee Chinese bank account with a referral number; after that, the client can get New Zealand dollars in New Zealand when he or she shows the finance companies the deposit receipt and referral number. Even though those finance companies offer better exchange rates, there are two main risks: there have been quite a few Chinese finance companies bankrupted in the last couple of years, where company owners had stolen absconded with customers’ millions of dollars; and the Chinese government is still trying to discover these
underground banks. Once an underground bank is discovered, all the depositors’ money will be seized by the Chinese Government.

One interviewee had tried to transfer her money via Chinese bank-to-New Zealand-bank prior to using Chinese owned finance companies.

- “It is very difficult to transfer money from Chinese banks to New Zealand banks. When I had just come to New Zealand, I thought I would use the legal way via banks (Chinese and New Zealand) to transfer my capital. Unfortunately, Chinese banks only allow each person annually to transfer a maximum of US$2000 to other countries. Because I have no money or bank account in other free ports such as Hong Kong, the only way I can use is these Auckland Chinese-owned finance companies.”

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.

When these data are re-put together the researcher finds, due to the restricted Chinese currency control policy, it is very difficult for individuals to bring capital into other destination countries. If those individuals have bank accounts or businesses in other international ports, such as Hong Kong or London, they may easily bring their funds into their destinations. Most people don’t have overseas businesses or bank accounts. These investors have to take the risky way of transferring their capital into New Zealand via Chinese-owned finance companies.
Interview data and field notes revealed when an investor who doesn’t have an overseas bank account or business wants to transfer a large amount of money from China to New Zealand, the only effective way he may choose is via Chinese-owned finance companies. But the researcher also discovered from the interview data that when those investors transfer small amount of cash between countries, such as $1000 or $2000, they also like to use finance companies. The obvious reason is finance companies offer better rates than New Zealand major banks or Western Union (which is an international currency transaction organization available globally). These investors certainly understand the potential risks they are facing; however, they don’t think they would have such bad luck as to meet those events, such as companies being bankrupted or the Chinese Government discovering the underground bank when they are using those financial companies to transfer their money.

6.2.3 Research Finding Three

Taking New Zealand as an investment destination because they are resident in this country, additional factors can be high interest rates, tax effectiveness, a growth economy and financial secrecy.

Every respondent mentioned that the high New Zealand interest rate is quite attractive; nearly every one of the interviewees (one interviewee suffered loss from a bankruptcy of a finance company) enjoyed investment profit from New Zealand fixed interest products:

- “New Zealand interest rates are so high, which brings good investment returns for me. I also have some finance company debentures which provide good returns as well.”
The New Zealand official cash rate is second highest to Iceland (in the OECD), and remained at 8.25 percent for quite a while, with many investors and professionals overweighting their assets allocation with cash (ANZ Financial Advisory, 2008a).

New Zealand bank deposits and company debentures offer high interest rates to investors. Many Chinese investors not only enjoy the high interest returns, they also gain tax benefits for themselves.

- “When my parents come to New Zealand, I will ask them to help me to invest in some debentures. I heard that I have to pay a minimum of 33 percent on the interest earn when I invest in debentures; whilst my parents are non-tax residents, they may apply for 2 percent AIL (Approval Issue Levy). For a debenture with a 10 percent annual return, with my name, I only can get 6.7 percent net return after tax; my parents can have 9.8 percent net return; which is a huge difference. As I know, many of my friends had asked their non-tax relatives to deposit cash in banks or invest in fixed interest products.”

When asked how to do it, this investor explained:

- “When my parents arrive in New Zealand, they will go to a bank to open a bank account; then I will transfer my money, which is in China, to their New Zealand bank account (there is no gift duty in China); after that, my parents can invest ‘their’ money in some New Zealand debentures with 2 percent AIL; finally, my parents will authorize me to manage ‘their’ investment when they are away from New Zealand.”

Furthermore, some interviewees revealed that in the Chinese culture personal credit and relationship-trust are much higher than bank credit:
“In China, not many individuals can borrow from banks because they do not have a bank credit record. The home mortgage is a very new phenomenon in China. In the past thousand years, people always borrowed money from friends or relatives; borrowing from banks or private banks is the last resort. Most people do not use any written agreements when they borrow or lend money to somebody they trust; they trust each other, which can be called Chinese social credit.”

An extra factor is:

“Chinese residents don’t have tax identification such as a New Zealand IRD number; generally, people only pay income tax when their monthly salary is higher than RMB 2000 (approximately NZD 350, 2007-2008 exchange rates), they don’t consider withholding tax. Furthermore, I don’t think any Chinese realize tax payment is their obligation.”

“When my sister comes to New Zealand, she likes to help my investment with her name. She is happy to do it for me, which is a big help for me, while costing her nothing”, an interviewee said.

This researcher was told the same story when he asked investors who had invested their money with third parties:

“When my father came to New Zealand to visit me, I took him to open a bank account and became his third party authority, so I can access his account and use the money in that account anytime. I also have a power of attorney agreement with my father. When he was away from New Zealand, I could do any deposit with my father’s name. My father only came here briefly; he definitely is a non-tax resident in New Zealand.”
From the interview data, that has been found that those interviewees are very proud of these fixed-interest investments with 2 percent AIL payment. Obviously, these investors above do not know that their relatives or friends whose names they have used should pay global withholding tax to China’s Inland Revenue Department.

Besides high interest rates and tax benefits from fixed interest investment, the past good financial market performance is also an attractive factor for these investors:

- “An important thing is the New Zealand market has performed well in past years.”

New Zealand’s investment confidence has risen by 15 percent over the past 12 months, over the same period the New Zealand stock market’s benchmark index rose by more than 20 percent, and the national median house price rose more than 12 percent last year, according to the Real Estate Institute (Bennett, 2007b). According to contextual memos, the rising investment confidence simulated those investors to put more capital into the New Zealand market.

Three interviewees mentioned that New Zealand’s bank and financial professional secrecy protected account holders from financial information disclosure. The interview data and contextual memos reveals that most of these respondents realized that in New Zealand there is respect for an individual’s right to privacy in financial affairs. The interview data shows that most of the interviewees are housewives or househusbands, and do not
have jobs in New Zealand. However, more than 60 percent of interviewees own a million dollar plus house. They hide their wealth, with interview field notes from the participants’ observations revealing that most of the respondents had brought a large amount of capital from their homeland.

From the interview data, none of these investors started their New Zealand investment before they were resident in New Zealand. After these investors arrived, stayed and became residents in New Zealand, they started to invest their capital in the New Zealand market. These data and notes revealed that these investors did not choose New Zealand as their investment destination until they became residents in the country. One interviewee said:

- “I came to New Zealand in 2000 on an investment-category permanent residential visa application which requests applicants to deposit a minimum of $1 million into any New Zealand major bank. I got a New Zealand permanent residential visa in 2002; I don’t have to keep the $1 million in bank, neither do I want to take the money back to China; one of my friends told me some debentures offer better returns than banks do, so I invested my capital in finance company debentures.”

Moreover:

- “I am a New Zealand resident, living here and preparing to retire in this country. I brought all my money into New Zealand without concern for currency exchange rate fluctuations; therefore, I invest to accumulate more money for my retirement.”
In this context, the interview data indicates that these investors choose New Zealand as their investment destinations only when they become residents in this land. New Zealand has become their investment homeland. In addition, other incentive factors such as high interest rates, tax effectiveness, a growth economy and financial secrecy attract investors to consistently invest on New Zealand.

6.2.4 Research Finding Four

Most respondents believe they are low-to-medium risk level investors; however, they expect high investment returns and prefer high-risk investments.

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

Referring to Figure 2.1 (Chapter Two), both risk and return increases from cash to bonds to property to shares further than alternative assets. In the fundamentals of investment, the relationship between investment return and investment risk can be concluded as: higher investment returns will be accompanied by high risk, while low risk investments will produce a low return. Many low-risk preference interviewees do not prefer any cash or bonds; they prefer to invest in IPOs, international shares, properties and foreign exchange, which is one of the alternative investment assets.
Moreover, low risk and high return investments are not likely to co-exist, in fundamental financial theory.

Summarizing interviewees’ expected investment annual returns, investment preferences, and the risk tolerance level which they believe they may take comfortably, which is devised on table 6.1 (next page). In this table, there are only two respondents who believe they are high-risk taking investors, the rest believe that they only have low-or-medium risk investments. On the right side of the table: the most highly preferred investments are IPOs, foreign exchange, international shares, property and New Zealand finance company debentures; furthermore, three respondents want to investments with low risk and high returns.

However, in the past two years, there have been 19 finance companies failures in New Zealand (Bennett, 2008c). Most New Zealand finance companies do not have any rating from international independent rating organizations such as S & P, and Moody’s and Fitch. S&P only rates four finance companies in New Zealand; UDC Finance with a rating of AA, Marac Finance and South Canterbury Finance, rated at BBB-; and Geneva Finance which has the investment grade “CC” (Bennett, 2008). Lee (2008) points out it is a difficult time for many New Zealand finance companies. As such, New Zealand finance companies debentures should not be categorized as low-risk.
Table 6.1 Summary of Interviewees' Expected Investment Returns, Investment Preferences and Risk tolerance Level

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

(Source: Designed for this study)

Only one respondent wanted his net return simply to be positive (respondent 16) and one wants to have an average investment return of 2 percent higher than cash brings; the other 18 respondents want to have an average net investment return higher than 8 percent. Morningstar research
has summarized average gross (before tax and fees) annual returns from historical New Zealand investment data, see Table 7.2 below:

Table 6.2 Morningstar Investment Benchmark Assets Allocation

<table>
<thead>
<tr>
<th>Portfolio Type</th>
<th>Assets Allocation (Growth/ Income)</th>
<th>Gross Returns per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0/100</td>
<td>5.66%</td>
</tr>
<tr>
<td>Defensive</td>
<td>20/80</td>
<td>7.25%</td>
</tr>
<tr>
<td>Conservative</td>
<td>30/70</td>
<td>7.82%</td>
</tr>
<tr>
<td>Balanced</td>
<td>50/50</td>
<td>8.91%</td>
</tr>
<tr>
<td>Growth</td>
<td>70/30</td>
<td>9.71%</td>
</tr>
<tr>
<td>Aggressive</td>
<td>90/10</td>
<td>10.43%</td>
</tr>
</tbody>
</table>

(Source: ING, 2008g, Morningstar Research)

In the above Table 6.2, a defensive portfolio matches low-risk investors’ investment structure; a balanced portfolio matches medium-risk investors’ investment structure, while high-risk investors academically should choose an aggressive investment portfolio. For an investor with a high-risk taking level, an aggressive investment portfolio only can offer a long-term average annual gross return of 10.43 percent, after tax the net return should be 8.5 percent (assuming a minimum withholding tax rate of 19.5 percent). Following the same assumption, a medium-risk investor can expect an average net annual return of 7.26 percent, while a low-risk investor can only expect an average net annual return of 5.9 percent. The researcher finds all respondents expect much higher average annual investment returns than the market can offer. When an investor receives 33 or 39 percent withholding tax rates rather than 19.5 percent, his expected average net annual investment return should be much lower.
From the interview data and field notes, which indicate all respondents understand the relationship between risk and return, that is high returns must be accompanied by high risk; while low-risk investment usually produces low returns. However, in reality, these investors always seek low-risk investments with high returns. Some respondents probably misunderstand their preferred investment products, such as:

- “IPOs would be my favourite investment, IPOs offer very good return in a short term, and have very low risk.” Similarly,
- “I like to invest in IPOs; I think IPOs are the easiest way to make a high profit.”

Finance debenture is another popular preference for these respondents:

- “I think New Zealand finance company debentures are a good investment for me; many finance company debentures have very good historical performance, and are very secure”, and,
- “New Zealand finance company debentures are good, they offer good rates, and are easily understood.” Similarly,
- “Finance company debentures are a great investment, they are free of charge, with no management fee and good returns.”

From interview data and field notes, most respondents believe IPOs, finance company debentures, property and international shares, and even foreign exchange are low-risk investments. It is thought that they learn this information from advertising, unprofessional promotions or their own assumptions.
6.2.5 Research Finding Five

“DIY” investment behaviour is preferred to professional assistance

Lee (2008) states that a number of people have set themselves up as financial advisors with no experience in money markets, nor any experience in share-markets and investment markets, which is a widespread problem.

From the interview data, eight respondents agreed that they do not have any experience or knowledge of investment; three participants think they have very little understanding of investment; three respondents believe they have enough experience to understand the importance of diversification; two respondents believe they have experience with all investment sectors and understand the various factors which influence performance; and, four respondents believe they could understand that the markets fluctuate and that the different market sectors offer different income, growth and taxation characteristics. More than half of these respondents (11 out of 20) know little or nothing of investment markets and sectors.

The interview data and field notes indicate that every respondent has or had Chinese-speaking investment professionals such as financial planners, investment advisors or share-brokers to assist his or her investment in New Zealand. The most common reason given for using investment professionals is the language barrier, such as:

- “I had to find an investment advisor to help (my investing); my English is not good enough to understand many investment details or get any investment information”, and,
o “I think my English is no problem for communication, but unfortunately, I cannot understand some particular investment terms”.

Language assistance has become the main reason for Chinese investors to find an investment professional who speaks both English and Chinese Mandarin. Besides the above language reason, six respondents also said:

o “I only know little about the investment market; I found a Chinese investment advisor to assist me to invest, he is a professional and knows the New Zealand investment market much more than I do”.

Even though others did not mention if they had sought an investment professional, the interview data and collective contextual field notes revealed these investors sought professional investment advice from their advisors, planners or brokers, at least in the beginning of their investment in New Zealand.

Of the twenty respondents, only three were not satisfied with the service from their investment professionals. One respondent had a big loss (more than $1 million) from his share trading, but interview data revealed this respondent managed his own investment capital and his share broker only provided him with stock market information. The second unsatisfied interviewee lost money on an unsecured finance debenture, although his financial advisor had told him that the finance company he had invested in was unrated and high-risk. The third unsatisfied respondent has had a negative investment portfolio return on his first year investment in New Zealand, although he understand the markets fluctuate and the different market sectors offer different income, growth and taxation characteristics.
The interview data and field notes indicate that most respondents are satisfied with the service provided by their investment professionals and their previous investment returns in New Zealand. Surprisingly, interview data and field notes also indicate only a few respondents are keen to consistently have assistance from their investment professionals; if language was not a problem, the others perhaps never would seek help from professionals. Furthermore, some respondents said:

- “I don’t think investment advisor is important for my investment. I don’t trust anybody”;
- “Now, I am only investing in New Zealand finance debentures. Debenture investment is very simple and easy, I don’t need investment professional anymore”;
- “I make all my own investment decisions. The only thing the share broker does is provide me with market information. She does not have an important role in my investing”;
- “After a couple of years investing in New Zealand, I have understood this market. My university major was in finance; I do not need an investment advisor anymore.”
- One respondent told this researcher: “To be honest, I think an investment advisor may give some help. But you know, they never offer free advice. Last year, I stopped the agreement with my previous investment advisor, and manage my investment myself. When I come across something which I cannot understand, I can still ring him for some free advice.”
From the contextual notes, language difficulty is a main context condition determining whether these Chinese migrant investors like to seek Chinese-speaking investment professional to assist their investment. Consequently, many investors are satisfied with the service provided by investment professionals and their investment returns from previous investment years; however, those investors who speak English will not seek assistance from investment professionals.

6.2.6 Research Finding Six

Short-term, undiversified and high-risk investment remains the theme of their future investment strategies and plans

According to the interview data, the twenty respondents appear to understand financial investment:

- “Firstly, I will keep my investment in a long-term strategy; secondly, I also like to diversify my investment assets; finally, I try to find investments which match my risk tolerance level, and try to understand those investment products before I put my capital into them.”

Keeping long-term investments, diversification -- Do not put all your eggs in one basket -- and understanding the relationship between risk and returns, which sounds reasonable and in reality.

However, this researcher finds contradictory evidence from the interview data and field notes:

These respondents' “long-term” means a maximum of two to three years; none of them likes to hold an investment longer than five years.
Some interviewees only diversify their eggs into different but similar baskets, such as:

- “I plan to diversify my capital into various New Zealand finance company debentures. I understand ‘don’t put all your eggs in one basket’.”

Many of them believe that two or three different asset allocations can be effective diversification.

To match their low-risk tolerance levels, these respondents seek “safe or secure” investments from their own understanding:

- “The New Zealand dollar is quite high at the moment. I think the dollar is definitely going to drop shortly, I just opened a foreign exchange trading account to short Kiwi dollar”;

- “The New Zealand property market has had a fabulous performance in previous years. I have eight rental properties. I know the rental doesn’t cover the high mortgage payments; however, the good capital gain will bring me good returns. The New Zealand property market is definitely going to climb to further high levels; property investment should be called the lowest-risk investment in New Zealand.”

Outside of New Zealand, quite a few respondents have taken their capital back to the Chinese stock-market, because

- “The Chinese share-market is booming now. It is a unique opportunity for investors. You can pick up any shares; they would not let you down. The Shanghai stock index has jumped to 6000 from 1000 just in one year. The Chinese government will not let the share-market collapse before the Beijing Olympic games.”
A phenomenon among these Chinese investors is that they believe that investment is only for wealthy or rich people:

- “Investment could be for the future when I have enough money”, and,
- “For small investment amounts, even if you got a high return, you could not get big returns due to your tiny amount of money”.

The interview data and field notes reveal that all the respondents resisted telling their investment capital amount in their interviews, and much other financial information has also been hidden. Many wealthy investors only take a small part of their capital into the financial market, and keep a sizable portion in bank savings accounts; they do not care much about the investment performance, and enjoy seeing how their investment advisors play their money.

In this context, less wealthy investors don’t believe investment can help increase their wealth, while wealthy investors only bring a small amount their money into the financial market to play. Most respondents still make short-term, undiversified and high-risk investments; however, they think their investments are long-term, low-risk and well diversified.

6.3 Discussion

The objective of this research is to investigate the motivations and preferences of Chinese investors who migrate to New Zealand. The objective can be divided into two parts: one is Chinese migrant investors’ investment preferences; the second is the motivations driving these
Chinese migrant investors who choose New Zealand as their investment destination.

All the interview questions were designed for this research objective; therefore, the above findings clearly reveal these Chinese migrant investors’ investment preferences and motivations. Using the constant comparative method, seven main categories were developed and saturated. It was only after using the same comparative method repeatedly, using constant analysis, that a category could be defined (Strauss, 1987; Hawley, 1998); that is, there are relationships between the categories to identify the core problems.

- **Home-bias investment behaviour** – that is mainly China and New Zealand
- **Following past performance/ herding behaviour**
- **Seeking speculative opportunities** – high return, high risk
- **Over-confidence**
- **Taxation evasion**
- **Financial privacy**

The above six categories are the phenomena surrounding these Chinese investors’ preferences and motivations. Considering the above main categories and the research findings, this researcher has developed two themes concerning Chinese migrant investors’ investment preferences and investment motivations.
One theme is “speculative investment”, it is characteristic of Chinese migrant investors’ preferences; the second theme is “migration destination further becomes investment destination”, it is the characteristic of these Chinese migrant investors’ motivations – why choose New Zealand as their investment destination. This researcher has taken these two themes to test against the full data of all 20 interviews, and finds that these two themes hold up well to the full-scale test.

Speculation or speculative investment preference is involved in twelve out of twenty interviews; the other eight interviewees did not state they prefer speculative investments, however, the interview data and contextual field notes indicate those eight respondents still have the same speculative emotions when they invest. When testing the second theme, this researcher finds none of these twenty interviewees regarded New Zealand as their investment destination until they arrived in or migrated to New Zealand. Thus, the two themes are completely tested against the full data from interviews.

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). The above two themes are fully involved in these full samples. To consider all interviewees’ relevant investment situations and conditions, this researcher refined these two themes further.

After all the themes had been tested and shaped analysis of through all the interviews, the refined themes are: one, “Chinese investors do not understand investment, they seek speculative investment opportunities exemplifying unprofessional opportunistic behaviours”; the second theme,
“Chinese migrant investors do not choose New Zealand as their preferred investment destination until they arrived there”.

Considering the above two themes and six findings, it is possible to conclude that Chinese investors’ investment preferences are derived from their own previous investment experience or other Chinese influences and their cultural background. Based on this conclusion, it is easy to understand their investment characteristics such as home-bias behaviour, speculation behaviour, over-confidence, taxation evasion and financial privacy. Furthermore, a better life-style is the main reason attracting Chinese to come to New Zealand; investment is not the most significant factors in their immigration motivations. Because New Zealand is a multicultural nation, facilitating the growth of cross-cultural contacts and cultural diversity; such factors encourage and promote Chinese investors to migrate to New Zealand.

Further concerning to above discussions and other inferences derived from interview data and contextual memos and the frequency of occurrence of pertinent themes, this researcher realizes the basis theme or core category (developed theory) in the study is:

Exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations.

These investors have taken their investment behaviours from their Chinese market experience. The Chinese financial market is an emerging or developing market, and Chinese investors learn from it. Even though many respondents do not agree they have immature investment behaviours and motivations, their behaviour and interview data have revealed they are
immature investors. All these characteristics embedded in these investors: home-bias investment behaviour, following past performance, speculation, over-confidence, tax evasion and financial privacy.

Thus Chinese investors’ historical investment experience is based on that they learn from the immature Chinese market (Figure 6.1). Therefore, the overall interpretation of the findings, as previously delineated in greater detail, is that Chinese migrant investors bring their own learnt Chinese financial market experiences to New Zealand.

Figure 6.1 Relationships among characteristics based on Chinese investors’ investment experience

(Source: Designed for this study)
As demonstrated in Figure 6.1, all these characteristics are caused by exaggerated Chinese financial investment experience; in other words, to reveal Chinese investors' exaggerated investment experience, which all the characteristics function together is equally and effectively to core category. Consequently, the researcher devised the following relationships of a theoretical explanation of the above Figure 6.1.

The characteristics around the core categories function equally and effectively; every characteristic is a function of these Chinese investors' historical exaggerated investment experiences. Also, it is the basic core category of all the findings of this research. Chinese migrant investors' investment behaviours and motivations are derived from it.

Simply, these Chinese migrant investors learnt 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 behaviours or motivations for their investments. Their investment behaviours, strategies and motivations exactly reflect the exaggerated investment experiences which they gained from the Chinese financial market.

As in Figure 6.1, this researcher has taken investors' investment characteristics to establish a theory which is grounded in the findings and phenomena. Many Chinese investors still believe the Chinese financial market may provide them a higher or better return, which reveals that they don't understand investment; the language difficulty also drives them to home-bias investment, knowing the language enables them to invest easily. The Chinese financial market began in the late 1980s; the market is still developing and this is the environment in which many Chinese investors are
learning their investment activities. Even though these Chinese investors came to New Zealand and had begun investing in New Zealand, it was hard to fully understand investment here due to the language difficulty. The language barrier, lack of further investment education, an immature Chinese financial market and their original homeland experiences became the elements or conditions driving these Chinese investors to prefer investing on the Chinese market rather than in New Zealand.

When this researcher studied investors’ behaviour when transferring their money from China to New Zealand, the researcher found that many investors think they will be lucky and not get caught. The Chinese Government currency control limits free trade in currencies, which provides an opportunity for those Chinese finance companies that help people illegally transfer money to New Zealand. Investors realize there is a risk in the money transfer process via finance companies; however, they are still keen to use those finance companies to transfer their capital because they do not think any unlucky event would happen to them. Similarly, when many Chinese investors invest in New Zealand finance company debentures, they also realize many finance companies have become bankrupt, but they believe the one they are investing in is secure. The above speculative investment behaviours these investors exhibit show their investment strategies are not matured; their speculative strategies are based on their speculative strategies are based on their previous investment experience.

The interview data and contextual field notes also indicate the interviewed investors follow past performance, and are over-confident – they trust their own judgement rather than professionals, and they are very particular over financial privacy. All these behaviours or habits came from their previous
investment experience in the immature Chinese financial market as well. Even though they gained some investment knowledge or experience after they invested on New Zealand, their original experiences still dominate their investment preferences, motivations and strategies.

6.4 Conclusion

In order to investigate the preferences and motivations of Chinese migrant investors who migrate to New Zealand; the grounded theory methodology was used to analyze interview data to establish a theory from the data.

After three coding stages – open coding, axial coding and selective coding, the researcher abstracted findings from interviewees’ experience, knowledge or unknown fields, anxieties, weaknesses, confidence or ambitions, their speaking and attitudes, and the interview contextual field notes and memos. Generally, these findings are:

- 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 than from the New Zealand market.
- Finance companies have become the main method of transferring capital from China to New Zealand.
- The main reason they 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.
- Most respondents believe they are low-to-medium risk level investors; however, they expect high investment returns and prefer high-risk investment assets.
o These investors prefer to rely on themselves rather than professional assistance.

o Short-term, undiversified and high-risk investment is still the theme of their future investment strategies and plans.

To further refine these above findings, six Chinese investors’ characteristics have been identified:

- Home-bias investment behavior -- that is mainly China and New Zealand
- Following past performance/ herding behavior
- Seeking speculative opportunities – high return, high risk
- Over confidence
- Taxation evasion
- Financial privacy

Two themes have been developed in the interview data analyses, the two themes are:

1. Those Chinese investors who migrate to New Zealand don’t understand investment, they seek speculative investment opportunities exemplifying unprofessional opportunist behaviors; and,

2. These Chinese investors who migrate to New Zealand 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 following Chapter Seven is the final chapter of this study. In Chapter Seven, this researcher compares the developed theory and findings with previous literature, and examines what is similar, and what is different (Pandit, 1996). Finally, the following chapter explains the limitation of this study; and the significance of the findings and developed theory. It also mentions possible opportunities for further study.
CHAPTER SEVEN

CONCLUSION AND FUTURE STUDY

7.1 Introduction

Chapters Two and Three are literature review chapters, which cover previous literature which discusses investors’ preferences – what kind of investments investors prefer, such as equities, properties, bonds, cash or derivatives, and motivations – why some investors decide to invest in international markets. Chapter Four provides background of this study such as Chinese migrants’ settlement in New Zealand, methods of these migrant investors transferring money between home and destination countries, the Free Trade Agreement between New Zealand and China, which are relative to these Chinese investors’ motivations and preferences.

Grounded theory has been identified as the most appropriate approach to fit the objectives of this study; this researcher has illustrated the elements of grounded theory and presented the methodology in Chapter Five. Based on the data collected from twenty respondents, this researcher, in Chapter Six, uses grounded theory methodology to analyse this data and establish an academic theory.

This chapter is the final chapter of this study. This researcher compares his research findings and academic theory with data analysis from previous literature; concluding this study; and the final section explains possible opportunities for future study.
7.2 Literature Comparison

The relationship between theories in a grounded theory study is a complex issue. Pandit (1996) states that in social research involving people it is often difficult to find and describe the complex phenomena they engage with. Such description and understandings are usually based at a certain time and in specific societies. Eisenhardt (1989) suggests because the finding often rests on a very limited number of cases, it enhances the internal validity, generalizability, and theoretical level of the theory-building from the research, to test the emergent theory against existing literature.

This study finds that migrant investors prefer to invest in China rather than New Zealand; even though they made investment profits in New Zealand and losses in China. 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 believe investors prefer to over-weight their capital into their home markets. This is termed home-bias investment behavior. These investors still seek speculative investment opportunities from their home country – China, and they also invest their capital in New Zealand after they have arrived in New Zealand. Their migrant destination has become their home as well (see Chapter Two).

This study also finds that Chinese migrant investors are mostly likely to transfer their capital via finance companies (underground banks) from China to New Zealand. In Chapter Four, the researcher concludes there are usually three ways Chinese transfer their capital from their homeland: banks, financial institutions and illegal underground banks. Among the
three methods, the underground bank has become the most popular and efficient way for many individual Chinese, even though some countries such as the US and China, have passed Money Laundering Acts.

As a point of difference from other literature (see Chapter Three), this study finds the main reason Chinese investors prefer the New Zealand market is they that have residency in New Zealand; in other words, they first settle in New Zealand, then start investing in their home. Wellershoff (2007a) points out that diversifying their investment portfolio has become investors’ major global investment strategy; which concern with Rugman (1980), Meyer and Green (1996), Pain and Wakelin (1998) and Chung and Song (2004). In this study, this researcher has not found any indications that Chinese investors aim to diversify or reduce their investment risk from investing in overseas markets.

However, overseas tax haven benefits (tax efficiency) and financial secrecy are also 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), Wildasin (1998), and other literature (Chapter Three).

From this study, this researcher finds short-term, undiversified and high-risk investment has become the theme of Chinese migrant investors’ strategies. Both Barber and Odean (2000) and Brown and Chappel, et al. (2002) find more than half the household investors in the US and Australia prefer high-risk investments such as shares, even though these high-risk investments often perform poorly. Butler, Domian and Simonds(1995), Barberis and Huang (2001) and Brands and Gallagher (2006) find investors prefer those investments with a high mean (the average return of an investment during a period of time) and a high risk.
In practice, individual investors seek short-term benefits; these short-term investments provide investors more opportunities to speculate (Quill, 2001; Biais and Bossaerts, 2002; Oppenheimer, 2002; Wang, 2004; Derrien, 2005; Kim, Chi and Padgett, 2005; Peng and Xiong, 2005; Seiler and Harrison, et al. 2005). As stated in Chapter Three, Chinese investors seek short-term investments as well, however, they are keen to invest in IPOs ( Initial Public Offers ) because Chinese IPOs have provided investors very attractive initial returns – the average market-adjusted initial return on the first trading day was 127.31 percent ( Chi and Padgett, 2005).

Most individual investors do not trust professionals such as financial planners or advisors, however, “do-it-yourself” investors often make bad investment decisions (Blume and Friend, 1978; Blandon and Ward, 1979; Bondt, 1998; Mustto, 1999; Nielsen and Poulsend, 2002; Yam, 2002; Lin and Swanson, 2003; Morgan, 2004). This researcher also finds Chinese investors prefer their own judgement rather than professional assistance.

According to Finding Six (Chapter Six), Chinese investors often believe they are low-to-medium risk level investors, or defensive or conservative investors; however, they expect high investment returns and prefer high-risk investment assets. These Chinese investors do not want to lose any portion of their capital, they want low-risk investment assets; however, they are not satisfied with the returns which low-risk investments provide. In fact, these Chinese investors always put their capital in high risk investment assets such as shares. This finding indicates Chinese investors’ investment motivations do not match their investment behaviours; their theory was different from their actions when they made their investment decisions.
7.3 The Contribution of This Study

This study's findings and developed theory may have contribution to both Chinese investors and policy makers in New Zealand and China. Chinese investors and policy makers and other parties benefit in the following respects.

This research provides 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. From the research findings such as that many individual investors transfer their money via high-risk underground banks, the two governments may make appropriate regulations to prevent illegal money laundering, and also to promote efficient and convenient money transfer systems to support investors in transferring their money between China and New Zealand due to increasing number of Chinese migrants in New Zealand, and increasing number of New Zealand-China international businesses.

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, it could also be used for other studies which are relevant to investors of other nationalities.

According to these findings in this study, Chinese migrant investors will find they have many similar investment behaviours, preferences and motivations in common, such as home-bias and herding investment
behaviour. Therefore, they can better understand their investment behaviours and motivations. Chinese investors may realize that they always chase investment opportunities when the market peaks or closes; and speculation is different from investment.

These findings from this study will help Chinese investors understand the challenges and potential risks involved in the financial market, and that they need to update their investment knowledge or ask a professional to assist them in achieving their financial goals. The Chinese investors from this study will know the importance of having appropriate investment strategies to match their risk tolerance and investment returns.

From this study, Chinese investors could learn the significance of investment diversification in currencies, locations and industrial sectors. They could also understand the importance of international investment. This study could be a guide to help Chinese investors understand markets, understand themselves and help them to become successful. Furthermore, this study may contribute financial professionals to better understand Chinese migrant investors as well.

This thesis could be a literature or academic research relevant to the preferences and motivations of Chinese investors who migrate to New Zealand. Therefore, this study has significant meaning for Chinese investors, the economies of New Zealand and China, and policy makers in both countries.
7.4 Research Limitations and Future Opportunities

In the future, there could be more studies focusing on Chinese investors’ investment preferences and motivations; this study establishes a research framework appropriate to future studies involving Chinese investor participants. Future research may use this thesis as a reference for their academic literature reviews, in discussing Chinese investors’ preferences and motivations.

This study could benefit many parties such as the New Zealand and Chinese economies, policy makers and investors; however, it has some limitations encountered the research.

From the interview data and field notes, the researcher finds those Chinese migrate investors do not like to reveal to the researcher how much money they have or had invested, and much other financial information has also been hidden; which increases the difficulty of finding the motivations and preferences of those Chinese investors who migrate to New Zealand.

This study focuses only on individual Chinese migrant investors rather than institutions. Today, many Chinese institutional investors have investments in foreign markets, certainly including New Zealand. Institutional investors have many differences from individuals such as capital levels, background, and decision making process. This researcher does not know whether individual and institutional investors have different opinions or views when they select investment destinations and preferences. Institutional Chinese investors’ preferences and motivations, or the correlations between Chinese individual and institutional investors could be another interesting topic for future studies.
Some previous literature finds Chinese investors have various investment preferences when they have different wealth levels. Age and gender also are factors which affect investors’ investment preferences and motivations. However, the researcher in this study does not find any data showing Chinese investors have different preferences and motivations based on their wealth, age and gender. Therefore it could be an opportunity for future studies to focus on the relationships between Chinese investors’ preferences and their age, gender and wealth levels.

Grounded theory has been identified as the most appropriate approach to fit the objectives in this study, which is based on Laughlin’s (1995) middle range thinking and empirical research methods. However, this researcher does not judge whether other methodologies can be used in similar research studies. When quantitative methodologies are adopted in future studies to analyse Chinese migrant investors’ preferences and motivations, future studies might have different findings due to the differences of methodologies and collected data; however, survey data collection is difficult because of the Chinese desire for privacy and lack of response.

7.5 Conclusion

This researcher collected data from 20 Chinese migrant investor respondents in New Zealand. The collected data examined investors’ preferences and motivations concerning the investment assets they prefer and the reasons which drive them to invest in New Zealand or elsewhere.

Using grounded theory methodology, this researcher draws some conclusions from the data. In addition, using a constant comparative
method, this researcher develops a theory which explains Chinese migrant investors’ preferences and motivations.

The categories (phenomena) of Chinese migrant investors’ preferences and motivations are listed:

- Home-bias investment behaviour – that is, mainly China and New Zealand
- Following the past performance / herding behaviour
- Seeking speculative opportunities – high return, high risk
- Over confidence
- Taxation evasion
- Financial privacy

Considering these categories, this researcher re-tested and re-analysed all interview data; the two emergent themes are:

1. Chinese investors do not understand investment, they seek speculative investment opportunities exemplifying unprofessional opportunistic behaviours; and,
2. Chinese investors do not choose New Zealand as their preferred investment destination until they physically arrive here.

The research data and other inferences attribute six findings and two themes informed by Chinese investment experience and Chinese culture; finally, the researcher develops a theory from ground (findings and themes):

Exaggerated Chinese financial investment experiences are relayed to other Chinese, and influence investment preferences and motivations.

This research may have contribution to New Zealand and Chinese
economy, policy makers, Chinese investors and other parties. This research study also leaves academic opportunity to future studies which are relevant to Chinese migrant investors’ preferences and motivations.
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Appendix 1

Consent to Research Participation

Title of Project: The Motivations and Investment Preferences of Chinese Investors Who Migrate to New Zealand

Project Supervisor: Professor Keith Hooper & Dr. Andy Godfrey

Researcher: Roger Su

- I have read and understood the information provided about this research project (Information Sheet dated 30 November, 2005).
- I have had an opportunity to ask questions and to have them answered.
- I understand that the interview will be note-taken.
- I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- If I withdraw, I understand that all relevant records, or parts thereof, will be destroyed.
- I agree to take part in this research.
- I wish to receive a copy of the final report from the research: tick one: Yes O No O
- I understand that published data will not report the full names or affiliations of informants and will use generic Surnames only.

Participant signature: ........................................................................................................

Participant name: ........................................................................................................

Participant Contact Details (if appropriate):

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........................................................................................................................................
........................................................................................................................................

Date:

Approved by the Auckland University of Technology Ethics Committee on <30 November 2005>, AUTEC Reference Number <Ethics Application Number 05/159>
30 November, 2005

Information for Participants

Dear (Mr. / Ms./Mrs./Miss/ Dr./Sir) _____________________

I, Roger Su, am a Ph.D. Candidate in the Auckland University of Technology’s Business Faculty and am currently undertaking research towards my Ph.D. I am writing to request your assistance in this research project. The title of my thesis is <<The Motivations and Investment Preferences of Chinese Investors Who Migrate to New Zealand>>. My principal supervisor is Professor Keith Hooper and my second supervisor is Dr. Andy Godfrey, both of the Business Faculty at Auckland University of Technology.

The aim of this project is to find the motivations and preferences of Chinese investors who migrate from Mainland China. From government statistics, there are more than 100,000 Chinese in New Zealand. In recent years, more and more Chinese have started investing via New Zealand investment institutes. Thus Chinese investment has an important effect on New Zealand economy. To study Chinese investor’s investment motivations will be important for the development of New Zealand growing finance industry and for the equity market.

The findings are likely to benefit the parties in following ways.

- Provide information that will help you and other Chinese investors in general better understand the efficacy of their investment behaviours and motivation.
- Help to develop an understanding of what is currently regarded as best practice for Chinese investors in New Zealand.
- Share an understanding of the challenges and potential ways of managing such challenges with the aim of investment success.
- The research finding will add to theoretical knowledge by providing a clear picture of Chinese investors who invest in New Zealand.
- The research will establish a research framework appropriate to future studies involving you.
- The research will add to the academic literature on motivation and preference of Chinese investors who migrate from Mainland China.
- The research will better guide policy development with regard to Chinese and other ethnic investors who invest in New Zealand.
- The research will increase the potential for Chinese investors to become successful.

It would be much appreciated if you could participate in a discussion regarding your current investment situation. With your permission the research will also aim to collect information through participant observation and any other documents or information supplied by yourself from which a case study can be developed.

Although the target number of case studied for this research is 20, anonymity of each case will be assured. Ethical risks involved for you in the research have been considered. Although the research topic may involve the gathering of financially sensitive information, this will not be used in such a way as to compromise the reputation, social standing or culture of you.

The FPIA Code of Ethics will be followed in the relationship between the researcher and you. All confidential information will be safeguarded in accordance with the AUT Ethical Guidelines. All of you will be given the opportunity to verify the research finding from the ethical perspective and to have any information that would comprise their reputation omitted. You also be offered the option of withdrawing form the research at any point.

You are unlikely to experience any discomfort, embarrassment (physical, psychological, and social) or incapacity as a result of the procedures.

Professor Keith Hooper, Dr. Andy Godfrey and Roger Su are the only people may access to the data. There is no future use of this data beyond this thesis. All the data will be stored in Professor Keith Hooper's office for 6 years. After six years, that all the data files from the computer and other devices where they may be held will be destroyed.

Consent forms will be stored in Business Faculty secretary's office in AUT for six years. These forms will be shredded after six years.

Should you decide to participate in the project, the interview will be arranged. The interview will be approximately 2 hours. You may also spend a small amount of time procuring relevant documentation for the study; follow-up interview of approximately 30 minutes may also be required and should be able to be conducted by telephone.
Should you be happy to offer your comments, you are assured of complete confidentiality. Raw data (interview records) will be kept secure. The research data will be available only to my supervisors and myself. Results of the study will be published in aggregate form via the doctoral thesis, academic papers and conference presentations. Participants will be identified only by code reference without disclosing participant's name. A copy of any publications arising out of my research will be sent to you for your comment prior to submission for publication. Where amendments need to be made based on the comments received, a copy of the final version will be sent to participants upon your request.

This study has ethical approval from the Auckland University of Technology Ethical Committee (AUTEC reference no: <Ethics Application Number 05/159> dated <30 November 2005 >).

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Keith Hooper, khooper@aut.ac.nz, telephone: 0064 9 917 9999-5758.

Any concerns you may have regarding the conduct of the research should be notified to the Executive Secretary, AUTEC Madeline Banda, madeline.banda@aut.ac.nz, telephone 09-921 9999 - 8044.

If you are happy to be a participant to assist me completing the interview, please give your name and signatures on the Consent forms (both English and Chinese) and send it back to me. The pre-paid envelope is enclosed. When getting the mail, I will organize the interview time with you.

Thank you very much.

Kind regards,

Roger Su
PO Box 186
Auckland 1040

Email: shooterchina@gmail.com
Reception: 09-362 0880
Facsimile: 09-362 0885
Appendix 3

ETHICS APPROVAL

MEMORANDUM

To: Roger Su
From: Madeline Banda, Executive Secretary, AUTEC
Date: 26 January 2006
Subject: Ethics Application Number 05/159 The Motivations and Investment Preferences of Chinese Investors Who Migrate to New Zealand

Dear Roger,

Thank you for providing written evidence as requested. I am pleased to advise that it satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC) at their meeting on 10 October 2005. Your ethics application is now approved for a period of three years until 26 January 2009.

I advise that as part of the ethics approval process, you are required to submit to AUTEC the following:

- A brief annual progress report indicating compliance with the ethical approval given using form EA2, which is available online through http://www.aut.ac.nz/research/ethics, including a request for extension of the approval if the project will not be completed by the above expiry date;

- A brief report on the status of the project using form EA3, which is available online through http://www.aut.ac.nz/research/ethics. This report is to be submitted either when the approval expires on 26 January 2009 or on completion of the project, whichever comes sooner;

You are reminded that, as applicant, you are responsible for ensuring that any research undertaken under this approval is carried out within the parameters approved for your application. Any change to the research outside the parameters of this approval must be submitted to AUTEC for approval before that change is implemented.

Please note that AUTEC grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to make the arrangements necessary to obtain this. Also, should your research be undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply within that jurisdiction.

To enable us to provide you with efficient service, we ask that you use the application number and study title in all written and verbal correspondence with us. Should you have any further enquiries regarding this matter, you are welcome to contact Charles Grinter, Ethics Coordinator, by email at charles.grinter@aut.ac.nz or by telephone on 921 9999 at extension 243.
On behalf of the Committee and myself, I wish you success with your research and look forward to reading about it in your reports.

Yours sincerely

Madeline Banda

Executive Secretary

Auckland University of Technology Ethics Committee