Keynote Address
The Hon John Brumby – President, Australia China Business Council (ACBC)

Event: ACBC QLD’s Luncheon - Growing Business Opportunities with China through Tourism and Education
Date: Wed 28th September 2016
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China and Australia

At the end of 2014, Nobel Prize winning economist Joseph Stiglitz wrote:

‘When the history of 2014 is written, it will take note of a large fact that has received little attention: 2014 was the last year in which the United States could claim to be the world’s largest economic power. China enters 2015 in the top position, where it will likely remain for a long time, if not forever. In doing so, it returns to the position it held through most of human history.’

Australia’s two way trade with China is currently at $150 billion.
- This is nearly 25 per cent of our two way trade, which is nearly double that with Japan, our next biggest trading partner.

And this is before we experience the effects of the new China Australia Free Trade Agreement:
- Over 85 per cent of the value of Australia’s goods exports to China will now enter duty free, rising to 93 per cent after four years and 95 per cent when ChAFTA is fully implemented.

So there’s never been a more important time in the Australia-China relationship—or the Queensland-China relationship:
- Last financial year, QLD’s two way trade with China was around $18 billion.

Today I want to talk about why I think that number can be much bigger in the years to come.

Slowdown?
If the old mistake was to underestimate China’s rise, the new mistake is to overestimate China’s ‘slowdown’ and its impact on Australia.
- While the rate of China’s growth is slowing, its base is much, much bigger.
• The absolute size of the Chinese economy has doubled in the last ten years.

• This means that a percentage point of growth now represents more than double what it did then.

• In 2006, when China’s growth rate was at its highest at 12.6 per cent, US$460 billion of nominal growth was added to its economy.

• Last year, when growth had fallen to a ‘low’ of 6.7 per cent, US$552 billion was added.

• China is creating a new economy the size of New Zealand’s every 90 to 100 days.

The middle class
But the real story of China today lies in the rise of the middle class:

• By one very conservative estimate there are now 109 million middle class adults in China.

• ANZ predicts that by 2030, 93 per cent of China’s population will fall into this category.

• This is driving China’s shift to from investment- to consumption-led growth.

• According to McKinsey, consumption in China now rises much faster each year than GDP.

• ANZ predicts that consumption will rise from 36 per cent of GDP in 2014, to 50 per cent in 2030.

• China’s services sector is still growing at around 10 per cent.

The Long Boom
The Australia China Business Council recently commissioned ShineWing and the Australia Centre for Financial Studies at the Monash Business School to find out what this change in China’s growth profile would mean for Australia.

Earlier this month I released their report, which is called ‘The Long Boom: What China’s Rebalancing Means for Australia’s Future.’

It tells a very exciting story.

Over the next ten years, under a relatively conservative scenario for Chinese growth:
• Tourism employment in Australia could increase by more than 50 per cent (65,545 total growth in tourism jobs);

• More than 100,000 new jobs could be created in financial services;

• More than 200,000 in education and training;

• Almost half a million in healthcare and social assistance;

• And 177,000 new jobs could be created in the construction sector by 2026 thanks to a growing need for new hotels and tourism infrastructure, new educational facilities, and more.

China’s shift to consumption is good news for Australia, not bad. Future China-driven growth will be spread more evenly throughout the economy, and across the country.

I’d like to briefly outline some of the opportunities beyond Australia’s traditional ‘rocks and crops’ trade with China.

**Tourism and education**

In May this year I released another ACBC report called ‘Enter the Dragon: How the China Tourism Boom is Transforming Australia.’

• Last year, Chinese visits to Australia hit one million per annum.

• We’ve seen 19 per cent annual growth since 2011.

This will only increase with our lower dollar and a revised air services agreement with China.

• By 2025 the potential economic impact of Chinese visits to Australia could be $140 billion.

But it’s not just about numbers—it’s about personal engagement.

• 46 per cent of Chinese visitors to Australia are repeat visitors.

• 50 per cent of visitors say they ‘probably or definitely will pursue deeper economic engagement’.

• Of those who intend to engage, 85 per cent said their visit was influential or very influential in their decision.
This is good news for Queensland.

- Last year, visitors from China spent more than $950 million in Queensland—this was a more than 50 per cent increase on the year before.

- China is Queensland’s fastest growing inbound tourism market;

- And of course—as Study Gold Coast is well aware—Queensland’s largest source of international students.

- A recent study from the University of Queensland showed that Chinese students value regional and ‘outback’ experiences—and take their parents to these places when they come to visit.

**Infrastructure**

The Asian Infrastructure Investment Bank also raises new opportunities for Queensland and Australia.

- 57 Prospective Founding Members signed Articles of Agreement which came into effect December 2015.

- Asia is expected to need $US8 trillion worth of infrastructure between 2010 - 2020.

A related initiative is One Belt One Road:

- OBOR is a regional infrastructure and integration framework involving 60 countries.

- It includes a $US40 billion ‘Silk Road Fund’.

- The projects will be both 'hard' infrastructure (transport, communications, water, etc) as well as 'soft' infrastructure (health and education).

**Direct investment**

China is also Queensland’s second largest source of proposed foreign investment, behind the US.

- But according to KPMG, just 9 per cent of China’s investment in Australia in 2015 came to Queensland, and 88 per cent of that was in mining.

As a country built on foreign capital, we need to engage more closely with the world’s largest source of capital.

- According to DFAT, China’s investment in Australia last year was only 2.5 per cent of the total.
R&D
When President Xi Jinping visited Queensland in 2014, he singled out scientific research as a big strength for the state in engaging with China.

At Davos last year, Premier Le Keqiang said ‘Mass entrepreneurship and innovation, in our eyes, is a gold mine that provides a constant source of creativity and wealth.’

- China now spends $US200 billion per year on innovation—second only to the United States.
- The OECD expects China to be the largest spender on R&D by 2019.
- Almost 30,000 Chinese students gain a PhD in science or engineering every year.
- China now leads the world in patent applications. If the trend continues, China's State Intellectual Property Office (SIPO) is set to become the first office to receive a million patent applications in a single year.

There are real opportunities for Queensland to pursue R&D partnerships with Chinese institutions and businesses.

Threats and challenges
And there are many other opportunities for Queensland and Australia in health and aged care, agriculture, clean energy, financial services, sustainable development, and more.

But there’s no room for complacency.

Australia is hugely sensitive to changes in China’s growth profile—we’re in the top 20 countries worldwide when ranked by export exposure to China.

The last nation we were exposed to in this way was the UK in the 1950s.

Challenges and threats include:
- Higher FIRB application fees
- Higher state stamp duties and land taxes on foreign investors
- Policy uncertainty re FDI
• Lending restrictions by Australian banks on offshore buyers
• ATO requirements on withholding tax for foreign sellers

In a sluggish world economy, coupled with increased global competition for FDI, tourists and students, we need to be mindful that policy uncertainty, regulatory barriers and increased taxes and charges will inevitably mean less investment, fewer projects and lower levels of tourists and students than would otherwise be the case.

Businesses supplying the China of tomorrow will need to realise that while the old ‘rocks and crops’ trade did not need to adapt much according to its export destination, services are different.

Selling to China means understanding China, and businesses need strategies to cater to specific new customer tastes and requirements.

One example is e-commerce:
• In 2009, China's e-commerce sales surpassed those of the US.
• By 2018 they are expected to surpass the US and Europe combined - at $610 billion.
• 70 per cent of Chinese internet users now shop online.
• Jack Ma, founder of Alibaba said: ‘In America, there's Walmart, there's KmArt. Retailers are everywhere, so e-commerce is just like a dessert. In China, e-commerce is the main course.’

ACBC
Speaking of Alibaba, on Wednesday October 19 the Australia China Business Council is running a joint event with Alibaba called: ‘The Alibaba Group: an E-Commerce Ecosystem.’

• This is for exporters wanted to engage in e-commerce, and tourism operators working with Chinese tourists.
Alibaba has announced it will open an Australian office later this year. This is a great opportunity to hear about their plans—and learn how to engage with their e-commerce platforms.

And it’s just one way ACBC is working to help businesses engage more closely with China in what is still the Asian Century.

Thankyou.