

AUSTRALIA-CHINA AGENDA 2013

The Australia-China Business Relationship: Past, present and future

FRANK TUDOR

Frank Tudor is Managing Director of Horizon Power and, since 2009, has been Chairman of the Board and National President of the Australia China Business Council (ACBC). He lectures in oil and gas economics and law at the University of Western Australia and is the Vice-Chairman of the Chamber of Commerce and Industry's (CCI) Energy and Resources Forum. Frank has held executive management roles over the last twenty-five years in the European, Asian and Australian oil, gas and power industries with BP, Woodside and Horizon Power.

THE AUSTRALIAN Centre on China in the World engages with the public and policy discussion of relations with the People's Republic of China and the Chinese world. Australia-China Agenda 2013 is our contribution to this important election year and the on-going consideration of the bilateral relationship.

This is a relationship that touches on virtually every aspect of our national life. A mature and beneficial engagement of such breadth and depth requires the leadership and support of government at all levels, as well as public stewardship, media understanding, educational enhancement and the strategic involvement of the business community.

Australia-China exchanges are also profoundly influenced by regional and bilateral relationships. Australia and China trade in goods as well as culture, politics and people, ideas and education, community and personalities.

Australia-China Agenda: 2013 brings to the attention of the public and the media, politicians and specialists some reflections and policy ideas authored by specialists with a professional interest and involvement in the relationship.

—Geremie R. Barmé
Founding Director, CIW

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AUSTRALIAN CENTRE ON
CHINA IN THE WORLD



Australian
National
University

ANU College of Asia & the Pacific
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2013

JANUARY 一月

FEBRUARY 二月

MARCH 三月

APRIL 四月

MAY 五月

JUNE 六月

JULY 七月

AUGUST 八月

SEPTEMBER 九月

OCTOBER 十月

NOVEMBER 十一月

DECEMBER 十二月

二〇一四年

AUSTRALIA HAS been a huge economic beneficiary of China's re-emergence and development. Our large per-capita resource endowment, open world-class mining capability, proximity and long standing diplomatic relationship with the People's Republic of China has brought enviable growth on the back of Chinese urbanisation and resource demand.

The question asked by many is whether this growth, and our dependence on resource sales to drive this growth, will be a curse or blessing in the long run?

While it would be a gross exaggeration to suggest that 'rocks' sell themselves it would not be untrue to suggest that the competition for the Chinese consumer market, which is set to become the world's largest by 2015, will be intense without any one country enjoying the benefit of natural advantages such as an endowment of natural resources. For example, the US can boast twelve meetings between presidents Hu and Obama over the last four years and is aggressively pursuing what it perceives to be a US\$250 billion a-year opportunity to service the Chinese middle class.

So, for Australia to be successful, the marketing of intellectual property, management expertise and other services – all of which are also offered or able to be developed by other competing countries – requires risk-driven innovation, co-operation across government and industry and a long-term focus.

Do we have the co-operation and long-term focus on both sides to implement such a strategy?

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In the case of China, the country has pursued a successful growth strategy overseen by a single-party state that has adapted to stay in power for a long period of time and focussed on publishing a very explicit and comprehensive growth strategy in the form of successive five-year plans.

In the case of Australia, our democratic system relies on a bipartisan growth strategy being adopted and followed by rival political parties. Reliance on a strong, technocratic public service that provides institutional memory and continuity across successive transitions in government is fundamental. The Australian growth strategy naturally tends to be more fragmented and portfolio driven.

Recent government initiatives to position Australia in the Asian Century are laudable but subject to some uncertainty. It is hoped that many of the worthwhile initiatives in the derivative country strategy for China can be patiently progressed with a consistent focus over time despite our multiparty democracy.

Whilst the Chinese are sophisticated observers of the Australian political scene – and can differentiate between messages delivered for popular domestic consumption and those delivered to set foreign trade policy – the current political debate is confusing, inconsistent and potentially damaging. Both sides of politics advocate the finalisation of a Free Trade Agreement (FTA) but talk about further constraining investment through Foreign Direct Investment (FDI) threshold adjustments or channelling FDI through joint ventures. The common concept of reciprocity suggests that ‘what they want is linked to what we want’ and, as such, should the restrictions mentioned above be implemented, they will come at a price Australia can ill afford to pay in a world of increasing competition.

Needless to say, there are many things that would improve the relationship, and only help better or level playing fields for Australian firms. But for this essay, I’ve narrowed it down to what I think are the eight most important things for the in-coming administration to implement:

Eight Chinese Takeaways

1: Free Trade Agreement (FTA)

Research done by the Australia China Business Council estimates that \$150 billion in value over a twenty-year period can be delivered to both sides through a FTA.

Australia already has a very open trading environment (average applied tariffs in 2008 were a low 3.2% with nearly 52% of tariff lines being duty free), and China has been pursuing trade liberalisation post-WTO entry as part of a wider economic reform (average applied tariffs in 2008 were about 11.6% with only 9% of tariff lines being duty free). Hence, given the disparity in tariff levels and bilateral trade as a proportion of each country’s GDP, Australia has much to gain.

Two-way investment is similarly unbalanced in China’s favour. In the last few years Australia has been China’s largest FDI destination outside Hong Kong, whilst China receives only 3% of Australia’s FDI. This perhaps says something about the difficulty that Australian service companies experience in entering and navigating the Chinese market through the central, provincial and local levels of laws, policy and regulation. The

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regulatory and jurisdictional uncertainty arises from the fact that laws and regulations are drafted so as to allow considerable discretion in implementation at the local level. It also says something about Australia's preference for investing in countries with similar cultures as evidenced by the fact that over 65% of our FDI is directed towards the US, UK, Canada and NZ. These countries can hardly be accused of stellar growth in recent years.

In respect to services, Australia has done much domestically to deliver services: last year to some 500,000 Chinese tourists and some 130,000 students enrolled in tertiary institutions. And the growth in China's banking presence in Australia over the last five years – with the number of Chinese banks operating in Australia increasing from two to nine – has been a welcome development.

But the perception of reciprocity and balance in the bilateral trade and investment relationship is paramount. Hence, whilst China has done much to reform its financial sector, equal treatment for foreign and domestic financial service providers within China in respect to licensing, corporate form, regulation and permitted service offerings across the country would be welcome as part of a negotiated FTA.

Either way, the delivery of a FTA would be a critical enabler for firms on both sides. And the symbolism of friendly nations compromising and navigating sensitivities to deliver a FTA would in itself be as powerful a message as the economic outcome.

2: Community engagement

The Australia-China resource partnership has moved from trade in resources to direct investment in projects. This is natural as the relationships initially built through trade provide the confidence and trust required, and it is welcomed given that Australia's investment requirements have exceeded its domestic savings capacity throughout most of its history. China's investment has progressively moved upstream into Australian projects but has neither significantly moved into supporting infrastructure (such as ports, rail, energy and other utilities) nor into the domain of economic and social infrastructure required to support the regional towns/cities associated with natural resource development in Australia.

Herein lies a 'win-win' opportunity because China has expressed an interest in infrastructure development in Australia, and because there is an enormous infrastructure deficit across Australian resource projects and regional communities. I would also

venture to say that China is almost uniquely placed to provide the capacity to deliver major infrastructure projects and price the relevant supply chain risks associated with their development.

As regional communities have traditionally struggled to attract funding and services, the opportunity for long-term Chinese investors to effectively engage with local communities would engender enormous goodwill and build considerable support at a grass roots level. The Pilbara Cities initiative supported by the Barnett Government in Western Australia, and managed by the Minister for Regional Development, Brendon Grylls, is an excellent example

3: Infrastructure investment

Economic growth depends on trade which, in turn, is dependent on export corridors encompassing roads, rail, ports and airports. Australia is, however, experiencing clogged ports, congested roads and other bottlenecks. Infrastructure Australia, in its report to the Council Of Australian Governments (COAG), identified more than \$80 billion of nationally significant infrastructure priority projects.

The question as to how these will be funded needs to be addressed. Innovative funding solutions must be found using all relevant experience and with potential recourse to FDI.

The lack of long-term strategic planning, co-ordination, integration and cooperation between levels of government remains a serious constraint on Australia's infrastructure. Australia has an extremely fragmented regulatory and planning framework and there are many vested interests at national and local levels, each having different and often conflicting interests.

There is clearly huge scope for infrastructure ventures in both countries. Indeed, Australia has signed at least two Memoranda of Understanding (MOU), at state and federal levels, with China to facilitate investment in infrastructure. But little progress has been made advancing deals under such MOUs despite Australia's pressing infrastructure needs.

Similarly, while Australia's resource base provides obvious opportunities for China to co-invest – securing much-needed finance and market security – there are many mirror opportunities for Australia to invest in China encompassing big ticket items in energy, housing, transport and aviation.

Economic growth depends on trade which, in turn, is dependent on export corridors encompassing roads, rail, ports and airports.

There are barriers to this outward investment inherent in China's complex regulatory terrain and significant regional differences. These barriers can be overcome or removed through increased engagement. Accordingly Australia should:

- Harmonise infrastructure planning and regulation through improved co-operation and collaboration between all levels of government, business and the community
- Develop long-term infrastructure visions and plans that accommodate projected economic growth and population increases
- Encourage private sector and FDI funding for infrastructure and, where infrastructure delivery models include the private sector and FDI, have the appropriate allocation of risk to deliver the best project outcome
- Establish independent planning infrastructure advisory groups to provide advice on infrastructure priorities and provide infrastructure planning and funding advice at the state level
- Secure reciprocal access for companies in major infrastructure projects as part of any bilateral infrastructure memorandum of understanding or FTA
- Establish a formal government to government infrastructure working group with representation from the business community
- Strengthen policy and legislative mechanisms to support a greater role for Chinese capital in major infrastructure projects.

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4: Innovation and manufacturing

China spent about one trillion yuan (\$160 billion) in research and development (R&D) in 2012, accounting for a little less than 2% of its gross domestic product. About 74% of that investment was made by businesses. And China's investment in R&D has increased 20% each year for the past six years.

Clearly, Australia has much to gain as China transforms its own manufacturing base from one geared at servicing traditional export markets and their appetites for consumers goods to one based on higher value, low carbon and high technology industries (as outlined in China's most recent five-year plan).

While concerns over intellectual property rights (IPR) have long stood in the way of further collaboration, as China develops patents through investment by domestic companies they will in turn put pressure on the system to reduce the level of IPR infringement to be consistent with international standards and the needs of an inno-

vative economy. This will in turn provide greater opportunities to Australian companies seeking to develop strategic partnerships with Chinese companies and academic institutions.

I believe Australia needs a manufacturing base which supports a healthy ‘industrial commons’ through university capacity/capability, engineering knowledge, R&D and

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application. Manufacturing is the practical bedrock of innovation which drives productivity, which drives wages, which drives a higher standard of living. It is also important to note that manufacturing’s share of world trade has remained relatively constant at 75% over a long period of time.

In this context government policy should not be about picking winners but about laying the foundation to nurture capability and maintain a healthy ‘industrial commons’. In addition, government support should be afforded to those companies willing to export to emerging

markets or form strategic partnerships with parties able to invest in new skills and research targeting Asian markets.

Australia should:

- Create nationwide momentum towards an advanced manufacturing initiative by setting up an Australian equivalent to the US President’s Council of Advisors in Science and Technology led by the CEO of General Electric
- Consider the introduction of government subsidies and incentives to high-tech and low carbon manufacturers prepared to enter local joint ventures with Chinese companies
- Increase the Export Market Development Grant for manufacturers in high-tech and low carbon industries
- Provide additional funding via Australian Research Council (ARC) linkage grants to universities that develop partnerships with Chinese counterparts in high-tech and low-carbon industries
- Develop a comprehensive fully funded export and investment promotion strategy utilising shared networks of Enterprise Connect and peak business bodies such as the ACBC and AusChams.

5: Special development zones

As China opened its doors to the outside world it used the idea of ‘special development zones’ to attract foreign capital, resources, know-how and export distribution channels so as to fast track development in a controlled way.

In a similar vein, Prime Minister Kevin Rudd announced a sweeping plan for northern Australia, including a special economic zone with company tax cuts, if his government is re-elected on 7 September. Mr Rudd called for a ‘strong’ northern Australia and said that imagination was needed to grasp the economic potential of the area.

I would note that various state governments having been sponsoring the development of regional areas through uniform tariff policies for power and water, and direct funding of economic and social infrastructure in targeted areas for regional development.

The concept of combining these initiatives in a comprehensive plan to promote the development of all of northern Australia above a certain latitude makes a great deal of sense. A big-thinking co-ordinated whole-of-Government approach which links state and federal initiatives to position this area as one that is truly a ‘regional development zone’ open to foreign investment also makes sense given the proximity of this region to Asia, the prevalence of resources which are of great interest to Asian buyers and the huge capital requirements required to develop and connect infrastructure in an inhospitable environment over long-distances.

6: Broad-based dialogue

Given the negative perceptions that may exist on both sides there is an on-going requirement for open dialogue between Australian and Chinese businesses, governments and communities.

The Australia-China Economic and Trade Cooperation Forum (now in its fourth year) and the Business Council of Australia CEO Roundtable are great examples of business dialogues which help reduce misconceptions and promote commercial endeavours. As these mature, it is hoped that conversations will become more frank and that they will be supported by feeder events (smaller working forums tailored to specific issues or sectors) which can be used to explore different points of view and future directions.

The US and China provide a model for co-operative dialogue which Australia could learn from and the commitment to regular meetings between the Chinese Premier and the Australian Prime Minister in April 2013 is a welcome development that provides a platform for strategic and economic dialogue that should not be lost. Adding a business dimension to the Joint Ministerial Economic Committee hosted by the Chinese Minister of Commerce and the Australian Trade Minister would be seen as a welcome development.

The various not-for-profit peak bodies (for example, the ACBC and AusChams) that represent business, universities and individuals alike provide a valuable service in raising awareness, brokering relationships, highlighting impediments and advocating for change but often struggle to fund initiatives. More financial support along the lines of the grants recently awarded by Austrade and the Australia China Council are critical to their on-going success and Australia's translation of the Asian Century into real business opportunities.

7: Education and tourism

Two service sectors that are already exporting to China, and which are well positioned to do so in the future, are education and tourism. To provide context, education (in total) is worth about \$A15 billion per annum in direct export revenue to Australia and tourism is worth about \$A25 billion (in total).

Education also provides intangible benefits such as the exchange of ideas and helps foster cultural relationships between the two countries – most likely with future leaders. Hence, the long-run intangible benefit of education dwarfs the immediate direct and indirect benefits of servicing Chinese students.

Chinese visitors also play a key role in the Australian tourism export market. Tourism is an area that is labour intensive and has the potential to deliver jobs and incomes in various sectors of the economy such as retail, entertainment, accommodation, food and transport. Australia attracted some 500,000 Chinese tourists last year and is set to attract one million per annum by 2020. This is a significant increase but not in the context of the 100 million Chinese who currently travel abroad each year.

In servicing the Chinese tourist it is paramount that their experience is a pleasant one that meets their expectations. To fail will ensure that word of mouth sullies Australia's reputation and imposes a damaging, hard-to-rectify long-run opportunity cost. The experience for Asian tourists outside some capital cities and obvious tourist destinations is unlikely to be satisfactory.

Australia has much to do in building infrastructure, orienting service delivery to customers' expectations, and preparing itself for the Chinese tourism boom. The Welcoming Chinese Visitors program is a positive initiative between industry and Government – focussed as it is on service delivery, cultural awareness and operator preparedness.

Education and tourism are the mainstays of the cultural dimension of the bilateral relationship – suffice it to say that the business and political dimensions will struggle without a broad and deep-based cultural connection.

8: Agricultural trade and investment

Agriculture unquestionably occupies a very special place in both the Australian and Chinese psyches. Australia was said to have developed on the sheep's back. In the case of China it was the emergence of rural-based Town Village Enterprises (TVEs) in the 1970s-1980s that liberated the Chinese entrepreneurial spirit and drove early growth in the economy. In recent times, rural China has not fared as well in the development process, and the rural communities of Australia have struggled to attract investment and retain services. This is important context to bear in mind as both sides consider further co-operation in agriculture.

With the push towards modernising Chinese agriculture there is huge potential for trade and technology exchanges with the Australian agricultural industry. Australian agriculture is run according to the highest world standards of health, and uses innovative farm management practices closely supported by university based R&D across the country.

Greater Chinese FDI in Australian agricultural enterprises would breathe life back into rural communities and co-operatively engage with local stakeholders. Proposals which demonstrate long-term commitment to local, often remote, communities, and which provide access to new markets and foster links to universities and R&D must surely be welcomed. Again, the positive perception that is created in rural Australia through carefully prosecuted deals, by good corporate citizens, that bring the community along cannot be overestimated.

A good case study is the announcement by the West Australian Government on 29 May 2013 of a finalised deal with Kimberley Agricultural Investments (KAI) to invest \$700 million in 13,400ha of irrigated farmland and associated infrastructure.

Chinese investment can play an important role in developing Australian agriculture, providing capital, markets, technology and a long-term vision which can be used to facilitate a strategic partnership at the grassroots level with local communities. Large-scale investment from China will most likely be linked to market access, economies of scale and increased productivity. Whilst China is already investing in Australian agriculture it is facing strong public concern and the issue has become emotive. Anything, therefore, that makes consideration of these investments more objective will be welcome: including a foreign property register, the viability of small holdings without consolidation and a realistic view of the alternative scenarios and opportunity costs without access to capital and FDI.

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Conclusion

These eight ‘takeaways’ – and the many other ideas that have been outlined by myself and others in various submissions to the Australia in the Asian Century White Paper – show that any Australian government has a wide array of options that it can implement quickly to improve relations between Australia and China. And an improvement in relations will benefit not just business, but all Australians. I’d urge the government not to think of these Chinese takeaways as a quick feed, but rather as a long banquet, one we can all enjoy.

AUSTRALIAN CENTRE ON CHINA IN THE WORLD

The Australian Centre on China in the World (CIW), College of Asia & the Pacific (CAP), The Australian National University (ANU) is an initiative of the Commonwealth Government of Australia in collaboration with ANU, a university with the most significant concentration of dedicated Chinese Studies expertise and the publisher of the leading Chinese Studies journals in Australia. CIW is a national research centre that is jointly managed by a body of academics that includes scholars of China at universities in Adelaide, Brisbane, Hobart, Melbourne and Sydney.

The Centre is a humanities-led research institution that is engaged with the broad range of social sciences to produce academic work that, while relevant to the full spectrum of demands of international scholarship, also relates meaningfully to those in the public policy community, and to the broader interested public, both in Australia and overseas. It values a New Sinology, that is an intellectual, cultural and personal involvement with the Chinese world (be it in the People’s Republic, Hong Kong, Macau, Taiwan or globally) that is underpinned by traditions of academic independence, local fluency and disciplinary relevance.

CIW sites

<http://ciw.anu.edu.au>
<http://www.thechinastory.org>

CIW publications (also available online)

China Story Yearbook 2013: Civilising China, October 2013
China Story Yearbook 2012: Red Rising, Red Eclipse, August 2012
Stephen FitzGerald, *Australia and China at Forty—Stretch of the Imagination*, 澳大利亚与中国已届四十年—舒展的想象力, February 2013
Australia and China: A Joint Report on the Bilateral Relationship 中国和澳大利亚：关于双边关系的联合报告, with the China Institutes of Contemporary International Relations (CICIR), February 2012

CIW journals

China Heritage Quarterly
(<http://www.chinaheritagequarterly.org>)
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