

## **Barton Deakin Brief: China-Australia Economic Relationship**

**11 September 2015**

In June Australia's Minister for Trade and Investment Andrew Robb AO MP and Chinese Commerce Minister Gao Hucheng signed the China-Australia Free Trade Agreement (**ChAFTA**). This agreement represents a major development in Australia's economic and trade relationship with China. In August the Minister Robb led a delegation of senior businesspeople to China to explore opportunities created by the ChAFTA.

This Barton Deakin Brief outlines significant elements in the China-Australia economic relationship.

### **China-Australia Relationship**

In 1972 the Australian Government and the People's Republic of China established diplomatic relations. Since that time the China-Australia relationship has developed into one of Australia's most significant trade partnerships.

In recent decades the exponential growth of the Chinese population has led to a corresponding need for trading partners across a range of sectors and industries. Chinese demand for resources was a major stimulant of Australia's 'mining boom' in the 1990s and early 2000s.

China remains Australia's largest trading partner measured by both imports and exports, while Australia is the sixth largest source of imports into China, and its 14<sup>th</sup> largest export destination.

#### **Australian Exports to China**

- In 2014 (most recent confirmed data) Australia represented 4.6 per cent of China's total imports, a total value of \$90,061 million;
- Minerals and resources dominate Australia's exports to China. Exports of iron ore and concentrates were worth \$50,579 million;
- Other major exports include coal, gold and copper;
- Australian exports of services to China were worth \$8,212 million, 13.6 per cent of the total value of Chinese service imports; and
- Australia has invested \$57,884 million in China.

#### **Australian Imports from China**

- As of 2014 exports to Australia represented 1.7 per cent of China's total exports, totalling \$52,078 million;
- Major imports from China include Telecom equipment and parts, clothing, and IT products;
- Australia imported 3.1 per cent of its services from China, valued at \$2,178 million; and
- China has invested \$64,525 million in Australia (2014 estimates), making it the 9<sup>th</sup> largest investor in Australia.



## **Export Opportunities**

Although the tapering of Chinese demand for raw minerals has meant the end of Australia's 'mining boom', there remain many opportunities for Australian business in China. Increasing wages combined with the expanding Chinese middle class will mean a continued demand for Australian exports. The Chinese and Australia Governments also predict that ChAFTA's entry into force will facilitate greater economic and trade ties in a variety of industries.

### **Education**

The growth of China's middle class and competition for well-paying jobs brings with it an increased demand for quality education products. Australia already exports more than twice as much in education-related travel to China than non-education related travel. Between 2011 and 2012, Australia granted almost 50,000 student visas to Chinese citizens, the most granted to any foreign country. The high regard with which Australian education services are held in China indicates a strong continued demand for these services, particularly in the higher education sector. However the Australian sector recognised it must continue to offer value in this area in an increasingly competitive market.

### **Resources**

Despite the slowing of growth, China remains one of the world's leading consumers of minerals. As its own demand continues to exceed domestic production China must rely upon imports. Australia's geographical proximity and established resource export infrastructure mean that it is still well placed to benefit from China's resource needs, albeit not at the levels that have been seen in previous years.

China also remains the world's largest producer of a number of resources including coal, aluminium, lead and zinc. The Chinese government has increased funding for IT, environmental protection and scientific research, which may provide opportunities for experienced Australian providers of resource project to act in China's domestic market.

### **Financial Services**

Australian financial services firms and banks are well placed to take advantage of capital and credit available in the Chinese market. ANZ, Commonwealth Bank, Westpac and the National Australia Bank currently have operations in China, as well as numerous financial services firms and smaller banks. There is significant potential for financial engagement in China, particularly given the areas of fund management and securities. In May 2014 there were 91 foreign fund management firms managing total assets of over RMB \$5.17 trillion. Over half of these firms are non-Chinese.

The Chinese Government mandated developments in transparency and accountability in the financial markets have also increased Australian confidence in the Chinese financial sector; however accusations of inappropriate business practices persist.

### **Agricultural**

China is the world's largest agricultural food producer. However as with resources, China's demand for food remains greater than its domestic production. This provides many opportunities for



Australian food and agribusiness. In particular the growth of the Chinese middle class had led to a heightened demand for ‘western’ food products such as quality beef and lamb, dairy products and tropical fruit. Australian expertise in the agricultural sector remains a significant export opportunity, particularly in the areas of environmental management, veterinary and bio-security services and supply of genetic material and breeding cattle for dairy and beef.

### **Wine and Spirits**

Australia’s reputation as a wine producer and its geographic proximity to China has allowed a boom in the Chinese market’s demand for Australian wines. Current trends show that while there has been a decrease in recent times in the volume of Australian wine imported to China the average cost per bottle imported grew. This trend is expected to continue, suggesting a growing market for quality wines.

Australia remains the second largest exporter of wine to China by value holding 12.4 per cent of the market. France dominates the market with a 42 per cent. The high tariffs on wine entering China are expected to be significantly reduced with the enactment of ChAFTA, which is forecast to stimulate the market demand.

### **Health and Biotechnology**

China has indicated its intention to significantly develop in the biotechnology sector. Australian firms with expertise in biotechnology design and production can take advantage of this government-backed push. It is currently the world’s largest producer of antibiotics, vitamin C and glutamic acid. ChAFTA includes provisions that would eliminate tariffs on pharmaceutical and health products on both sides of the trade exchange.

One of the biggest areas of opportunity is in the supplements and vitamins market. These have shown to have great appeal to Chinese markets and the increasing affordability to the Chinese middle class will drive demand higher.

### **Infrastructure**

China’s geographical area, the second largest of any country by land area, necessitates continued infrastructure development. Regional infrastructure development, particularly in the under-developed west of the country, is a significant opportunity for Australian firms. In particular, transportation, natural gas reticulation and environmental management projects will continue to grow in China, and experienced Australian firms are well placed to engage in these projects.

To access AusTrade’s Doing Business in China page click [here](#).

### **ChAFTA**

On 17 November 2014 the Australian Prime Minister the Hon Tony Abbott MP and President Xi Jinping of China announced that the decade long negotiations around ChAFTA had concluded. The agreement was signed by Australia’s Minister Robb and Minister Gao Hucheng on 17 June 2015. The agreement is subject to enabling legislation to enter into force, which has not yet been passed by the Australian Parliament.



The Australian Government has stated that upon enactment more than 85 per cent of the value of Australia's exports to China will be duty free. This number will rise to 95 per cent upon the completion of progressively introduced tariff elimination.

To access Barton Deakin's brief on ChAFTA click [here](#).

## China's Economic Overview

China is home to the world's largest population (1.3 billion) and has the second highest gross domestic product (GDP) in the world behind the United States. Since its market reforms in 1978 China's economy has grown at a dramatic rate, averaging around 10 per cent growth a year. However, by 2016 the Organisation for Economic Co-operation and Development (OECD) has forecast that growth will fall to around 6.7 per cent.

China's increasing population means it faces a number of economic challenges in the near future. Chief among these is providing well-paying job opportunities for the burgeoning middle class, reducing corruption within the government and businesses, and facilitating the transition of the population from rural areas to metropolitan and urban centres. More than 274 million citizens moved from rural areas into cities to find work in 2014, putting strain on infrastructure, housing and jobs. The rapid expansion of cities has also focused attention on China's pollution and environmental challenges. The Chinese Government has been taking steps to pursue renewable alternatives to coal and gas and limiting carbon dioxide emissions. These policy challenges will influence to a great degree Australia's future trade relationship with China, and both nations will attempt to facilitate transitions in their economies to reflect them.

## Further information

To access the Department of Foreign Affairs and Trade China-Australia factsheet click [here](#).

To access the Department of Foreign Affairs and Trade's factsheet 'China-Australia FTA (ChAFTA): Myths' versus realities click [here](#).

To access Barton Deakin's Brief on Australia Week in China click [here](#).

Barton Deakin has published several Briefs detailing Australia's economic relationships with its major trading partners –

To access Barton Deakin's Brief on the Singapore-Australia Economic Relationship click [here](#).

To access Barton Deakin's Brief on the Korea-Australia Free Trade Agreement click [here](#).

To access Barton Deakin's Brief on the Australia-India Economic Relationship click [here](#).

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