CHINA

What’s happening in this economy

Mainland China is the world’s second largest economy, with official GDP growth forecast to be around 6.0 per cent in 2019. China’s economy is increasingly driven by domestic consumption. This presents significant opportunities for Australian exporters and service providers.

As disposable incomes rise, China’s growing middle-class aspires to safe food and a higher protein diet, quality healthcare and education, more sophisticated financial services, more liveable cities, a cleaner environment and the opportunity to travel. The healthcare industry is undergoing significant changes as China addresses an ageing population, greater consumer demand for quality care and significant gaps in coverage between provinces.

Rapid technological advances are helping to restructure the Chinese economy. Over 802 million Chinese are connected to the internet, exceeding the population of Europe. Of these users, approximately 98 per cent access the internet via mobile devices.

China has rapidly developed into a global leader in e-commerce and mobile payment systems. Chinese e-commerce, internet services and fintech companies now rank among the world’s most valuable, including Alibaba, Baidu, DiDi Chuxing, JD.com, Meituan-Dianping and TenCent.

China has invested heavily in infrastructure. Over the past decade it has built the world’s longest high speed rail network, stretching to 29,000 kilometres in 2018. Since 2008, it has more than doubled its highway network to 142,000 kilometres - also the world’s longest. By 2017, China had 234 airports operating with the goal to expand to 260 by 2020.

A Chinese government priority is to fight pollution. China has become a leader in renewable energy technology. A low-carbon pilot cities program has been expanded to 100 cities.

Chinese outbound investment has surged over the past decade. It contracted globally in 2017-18 on the back of capital controls and new overseas investment regulations, but is likely to continue to grow in the medium to long term, driven by the needs of China’s economy and in part by Belt and Road projects.

Trade, investment, and commercial opportunities and activities

Current and emerging commercial opportunities

- Resources remain the backbone of the Australia’s trade with China, with ongoing opportunities for iron ore and energy exports, as well as related opportunities in Mining Equipment, Technology and Services.
- China remains a top market for Australian exports of grains, meat, dairy, wine, seafood, fruit and nuts. Demand for cold-chain logistics capacity is growing in an effort to ensure consistent quality supply.
the rapid increase in the number of direct flights between China and Australia (currently around 200 per week to 16 Chinese cities) provides opportunities to expand fresh produce exports.

- The continued growth of e-commerce platforms and preferential cross-border e-commerce policies have created new channels for Australian exporters:
  - as China becomes a higher value-added market, Australia’s more sophisticated product mix brings greater behind the border regulatory challenges.

- In 2018, China overtook New Zealand as Australia’s largest inbound visitor market, with 1.4 million Chinese visitors in the year ending March 2018, an increase of 13 per cent:
  - China has been Australia’s most valuable inbound tourism market since 2011
  - Chinese visitors to Australia spent a record $11 billion in 2018 and visitor numbers are expected to continue to grow.

- Australia attracts the second highest number of Chinese international students behind the US:
  - in 2018, 205,000 Chinese students studied in Australia, making China our largest source market.

- Changes in China’s healthcare sector create opportunities for Australian firms across the supply chain, including in:
  - aged care
  - clinical trials
  - digital health
  - medtech, and
  - medical services.

- Australian fintech and blockchain firms are beginning to make connections in China, capitalising on the rapid disruption of China’s financial services sector.

- The Greater Bay Area initiative (which promotes economic integration between the Pearl River Delta cities, Hong Kong and Macau) will drive further opportunities for Australian firms in South China.

**Outbound and inbound investment opportunities**

- Overall, China is a growing source of foreign investment globally and in Australia:
  - the stock of total Chinese investment in Australia is nearly eight times the level it was a decade ago.

- In 2019 China topped the US for the first time in terms of companies on the Fortune 500 list (129/121 respectively):
  - 43 per cent of global unicorns come out of China.

- Australia is an attractive investment destination for Chinese firms due to:
  - economic complementarity
  - proximity, and
  - Australia’s reputation as a safe investment destination with strong legal, political and business institutions and low sovereign risk.

- Chinese investment in Australia is diversifying from its traditional resources focus to new sectors including:
  - agriculture
• While challenges remain, openings in the financial services sector and the upgrade of China’s healthcare sector may create further opportunities for Australian firms.

Upcoming major events
• In November 2019, Shanghai will hold the second China International Import Expo (CIIE), a major foreign policy priority for China.
  – CIIE is a unique opportunity for Australian firms to engage with our largest trading partner.
• From May to June 2020, as part of the second Festival of Australia activities, a range of business and consumer activation events will take place around China following the annual AFL match played in Shanghai.
• China will host the 2022 Winter Olympics, creating opportunities for Australia to contribute expertise and services.

Trade policy and negotiations
• The China Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. There have since been five rounds of tariff cuts. Many Australian goods will enter China tariff free following the next round of cuts on 1 January 2019.
• ChAFTA has high utilisation rates of over 85 per cent in both directions. It also has a built-in agenda of reviews and committee meetings.
• The Regional Comprehensive Economic Partnership (RCEP) is an ASEAN-centred regional free trade agreement that builds on Australia’s relationships with 15 Indo-Pacific countries. These account for almost a third of world population and GDP and more than half of Australia’s two-way trade:
  – at the third RCEP Leaders Summit in Bangkok on 4 November 2019, Prime Minister Morrison and leaders from 14 other RCEP countries announced the conclusion of RCEP text negotiations, and the essential conclusion of market access negotiations.
• Australia is also engaged with China through ongoing negotiations in the World Trade Organisation, including on e-commerce and investment facilitation.

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