CHINA

What’s happening in this economy

Mainland China is the world’s second largest economy and has an official growth forecast of 6.5 per cent for 2018.

With investment easing from the heights of the stimulus package at the start of this decade, China’s economy is now increasingly driven by domestic consumption.

Growth continues to be sustained by high leverage, with non-financial corporate debt accounting for the majority of this. Household debt has also started growing but remains low by international standards.

As disposable incomes rise, China’s growing middle-class aspires to safe food and a higher protein diet, quality health care and education, more sophisticated financial services products, more liveable cities, a cleaner environment and the opportunity to travel.

The health care industry is undergoing significant changes as China addresses its ageing population and greater consumer demand for quality care.

Rapid technological advances and new service models are helping to restructure the Chinese economy.

Over 800 million Chinese are connected to the internet, exceeding the population of Europe. Of these users, about 98 per cent access the internet via mobile devices.

China has developed rapidly as 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 25,000km in 2017. Since 2008 it has doubled its highway network to 136,000km – also the world’s longest. In 2017 China had 229 operating airports. Its vision is to expand this number to 260 by 2020.

A major government investment priority is to reduce both pollution and China’s carbon footprint. China has become a leader in renewable energy technology as it seeks to reduce its dependence on coal. A low-carbon pilot cities program has been expanded to 100 locations.

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

Key facts and figures

- GDP growth: 6.6% (2018)
- GDP per capita: USD 10,087.8
- Two-way trade: AUD 183.4 billion including:
  - exports: iron ore, coal, LNG, wool, education, tourism
  - imports: telecom equipment, computers, furniture, toys
- Stock of Australian total investment in China: AUD 77 billion
- Stock of Chinese total investment in Australia: AUD 65 billion
Trade, investment, and commercial opportunities and activities

Current and emerging commercial opportunities

• 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 to ensure consistent quality supply. The rapid increase in the number of direct flights between China and Australia (currently around 200 a week in the summer peak period from 17 Chinese cities) provides opportunities to expand fresh produce exports.

• The growth of e-commerce platforms and preferential cross-border e-commerce policies have created new channels for exporters. While the vision of China becoming a value-added market for Australia is being realised, a more sophisticated product mix brings greater behind-the-border regulatory challenges.

• China has overtaken New Zealand as Australia’s largest inbound visitor market, with 1.43 million Chinese visitors in the year ending August 2018 (up 8.8 per cent). China has been Australia’s most valuable inbound tourism market since 2011, with visitors spending a record AUD 10.9 billion in the year ending March 2018. Continued growth in visitor numbers is expected. Australian tourism to China is also growing rapidly and now exceeds 581,000 (up 13.1 per cent).

• Australia attracts the second highest number of Chinese international students behind the US. In 2017, 184,000 Chinese students studied in Australia, making China our largest source market.

• Changes in China’s health care industry are creating opportunities for Australian firms, including in aged care, clinical trials, digital health, medtech and medical services.

• Australian fintech and blockchain firms are also making connections in China, capitalising on the rapid innovation in its 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.

• China’s Belt and Road initiative—as well as Australia’s memorandum of understanding with China on cooperation in third markets—may also provide opportunities for Australian firms.

Outbound and inbound investment opportunities

• 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.

• Australia is an attractive investment destination for Chinese firms. As well as our complementary economies, Australia is favoured for its proximity, reputation as a safe investment destination, our 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, renewable energy, health care, infrastructure and construction.

• While challenges in China’s business environment remain, recent improvements to its investment market access negative lists, openings in the financial services sector and the upgrade of China’s health care may create new opportunities for Australian firms.
Upcoming major events

- China will host the 2022 Winter Olympics, creating opportunities for Australian expertise and services.

Trade policy and negotiations

The China Australia Free Trade Agreement (ChAFTA) came into force on 20 December 2015. There have been four rounds of tariff cuts. Many Australian goods including wine, most fruit, infant formula, honey and other products will enter China tariff free following the next round of cuts on 1 January 2019. At the same time, all remaining Australian tariffs on Chinese goods imports will be eliminated.

ChAFTA implementation has gone smoothly, with high rates of use by business of preferential tariffs. It is also a living agreement with a strong built-in agenda of reviews and committee meetings. During Premier Li Keqiang’s 2017 visit to Australia, leaders agreed the next phase of ChAFTA would begin with reviews of the services and investment chapters. The first round of these meetings was held in October 2017.

Australia and China are both participating in Regional Comprehensive Economic Partnership negotiations.

Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.