

**3rd Australia - China Economic and Trade Forum
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Keynote address

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Distinguished guests, ladies and gentlemen

It is a pleasure to address you today.

Let me start with remark made to the Australian Financial Review last week by one of China's leading officials in the financial services sector, Mr. Fang Xinghai, the Director General of the Shanghai Financial Services Office. He is behind Shanghai's ambitious plans to make Shanghai an International Financial Centre by 2020

He was reported as saying that *"Australia should have a bigger ambition and a bigger influence on ideas and institutions, rather than just influencing the region through trade."*

Needless to say, this remark has caused comment in Australia.

Many have taken it as a "call to arms" – a call for Australia to think more widely about its role in the regional. This is of course not surprising given the discussions that are being generated by the *Australia in the Asian Century White Paper* that Minister Emerson has just spoken about.

I was fortunate to have dinner with Mr Fang 2 nights ago at Bo'ao Forum and was able to discuss his comments with him.

He was talking in the context of the role that Australia might play in the internationalisation of the RMB and specifically whether Sydney should be positioning itself to be a regional RMB hub.

This is of course extremely pertinent given the announcement by Prime Minister Gillard yesterday that the Australian Dollar is to become the third currency in the world, after the US Dollar and Japanese Yen, to be directly convertible with the RMB.

Mr Fang's point was that Australia's Financial Services Sector is underplaying its strengths, and that Australia's financial institutions have the potential to play an even more significant role in the region and within China.

Many of our banks and policy makers would say that Australia is already pushing hard to engage regionally. All of our banks are already in China, our regulators, such as

ASIC, meet regularly with their counterparts and Australia is active in the main regional forums.

But sometimes perceptions, whether accurate or not, become the reality.

Forging a new relationship

It is therefore in our mutual interests that we do what we can to remove some of the misconceptions and to present a more contemporary view of the relationship. In this endeavor I was encouraged by Xi Jinping's remarks at Bo'ao on Sunday when he said that it was now time to take the Australia – China relationship "to a new level".

For the last few decades we have emphasized the commercial and economic nature of the relationship.

With a two-way trade flow of over A\$120 billion last year it is no wonder we have tended to measure the strength of the relationship in financial terms.

We do of course have a vibrant cultural relationship, growing people-to-people links and strong government ties, but much of what we say and do is represented as colourless trade and investment statistics.

There is now a very clear strategic imperative for Australia and China to forge a different sort of relationship – one which is underpinned by notions of partnership and collaboration. There is also an imperative for a sustained and consistent effort in deepening and strengthening our personal connections.

Regional and global inter-connectivity and inter-dependence mean that our decisions must be now influenced by higher-order issues relating to long term issues such as food, energy and water security - and the need for strong integrated financial markets.

That process has already started but I think it is time to heed the advice of President Xi and Prime Minister Gillard and inject a sense of urgency into reframing the way we think about, and describe, our bi-lateral engagement.

To do this requires a greater understanding of where we are each coming from. It requires us to understand the changes that are occurring and what it means for us in the longer term.

The efforts that China is making to open up of its services sector as part of a clear strategy to boost domestic consumption and move China up the value chain, provides Australia's services sector – in all its dimensions and areas of activity – a unique opportunity to work with China, to partner - for mutual benefit.

Given the scale of China's transformation I'd like to offer the optimistic suggestion that the mutual benefits coming out of the opening up of China's services sector and the growth of China's domestic consumption may well eclipse our commodities trade in the decades ahead.

Let me conclude.

The meetings and dialogues taking place this week, and on many other similar occasions, allow us to consider the foundations of the relationship built over the last 40 years, and to consider where we want to take it in the years ahead.

China's rise is often described as a story about scale and pace of change, but it is really about a new model for China's growth and how this affects growth in Australia and globally.

It's about long-term policy choices of countries in our region, the regional institutions that regulate financial markets and the shape of global governance.

It's also a story of an ageing population, of the growing demand by the middle classes for high-quality products and services – particularly education, tourism and business services.

To take advantage of these opportunities requires a new generation of business leaders – in both Australia and China - who can build into their organisations a determination to respond to economic, social and technical change, to adapt, to strike new alliances, to work together, to collaborate.

Thank you.