中国事务 China Matters

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Session II: Has China's government lost control of core areas of the economy? What are the implications for Australian business? How should Australia respond?

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In 2013 an ambitious reform agenda, in 2016 a sense of crisis

President Xi Jinping put his stamp on an ambitious economic reform agenda in November 2013. It was designed to unleash new sources of growth to replace China's investment-led but increasingly inefficient growth model. The plan highlighted the need to strengthen the role of markets, improve the investment environment, create more space for private firms, reform financial markets and prioritise innovation in manufacturing and the services sector.

Many analysts at the time were optimistic that Xi and his technocratic Premier, Li Keqiang, would move on these reforms with purpose and urgency.

Since then, growth has continued to slow. We saw a spectacular stock market crisis in mid-2015. Then a devaluation and adjustment to *renminbi* (RMB) trading rules that, together, spooked global markets. At the same time an ongoing anti-corruption campaign that is popular with the public has slowed decision-making in government and state-owned enterprises (SOE).

In Australia, the decline in commodity prices adds to uncertainty about the immediate and medium-term prospects of the Chinese economy as well as our own. The China-Australia FTA provides plenty of opportunities for Australian business at the macro level but firms are faced with lots of challenges to capture them in such an uncertain environment.

What does it all mean?

One view is that China's growth is slowing more dramatically than unreliable Chinese economic statistics suggest. Beijing re-states its goal of decreasing dependence on investment-led growth but every crisis is met by the same response – more infrastructure spending – as witnessed by Premier Li's announcement of a stimulus package at the March 2016 National People's Congress meeting in Beijing.

Recent setbacks might suggest that the quality of economic policy-making in Beijing is deteriorating. The primacy of Communist Party leadership has been re-emphasised. Space for debate on policy and social issues has contracted as independent voices are muted and more explicit loyalty to the party is demanded. According to this argument, the reform agenda of 2013 is badly compromised if not doomed.

But even a China that grows more slowly matters. Six percent growth in 2015 meant US$1.2 trillion in extra GDP, about the size of the Australian economy.

Overall growth figures for China mask dynamic change and ongoing reform in many sectors:

- In 2015, services grew faster than manufacturing and accounted for half of GDP; consumption growth remained strong with a 10% increase in retail sales;
- E-commerce sales surpassed US$600 billion in 2015; cross border transactions now exceed US$40 billion every year. Internet users increasingly buy packaged and even fresh food online.
- Regulators have committed to allow 100% foreign ownership of fund management firms in the Shanghai Free Trade Zone and issued new banking licenses to disruptive technology companies, Alibaba and Tencent.
- Foreign investment and know-how is warmly welcomed in health and aged care which have become top government priorities, while strong measures are being taken to cut capacity in heavy industry and increase energy efficiency.

For all of this progress, a new tension in policy making is evident. Politics could undermine the next wave of intended reforms in a way not seen for over two decades.

However, as Stephen FitzGerald recently commented, we do need to get past certain ways of looking at China: that economic problems mean the Chinese economy will crash, that an authoritarian one-party-state by definition can't understand a market economy and therefore can't know how to manage it (as we all do, of course), or finally, that the Chinese political system is headed for collapse.

Issues for Australia and Australian business

As the complexity of China grows, we need to invest at a national level to understand China's economic decision-making processes. At an industry or sectoral level, policy development in sectors of potential for Australia must be better understood.

Mechanisms are needed for firms to share insights across industry and with government. We need to understand the lessons of those who have built substantial businesses within China – say, *Bluescope* in manufacturing and *Seek/-Zhaopin* in services. We need to push back against the impulse to outsource China market development to Chinese-Australians because it is all too complicated and they 'get it' naturally. Companies need better insights into policy trends and risks to inform decisions about long-term China investments.

Questions:

- Are Beijing's decision-makers able to manage China's economic problems? Can the Communist Party manage an innovative consumer-led economy?
- If they can, (or: If they can not,) what are the implications for Australian business? If uncertainties grow, should Australian business spread risk away from China?
- How well does the Australian Government share its insights into policy trends in China with business? How could it do better?