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Australian businesses need to help shape our China strategy



China's economy is already the second largest in the world, with a GDP of \$US11 trillion. Rick Stevens

by Andrew Parker and Bates Gill

Australian business community, we need to talk about China.

Since the Permanent Court of Arbitration handed down its judgment on the case brought by the Philippines against China's activities in the South China Sea on July 12, 2016, the overwhelming focus in Australia has been on the security and geopolitical implications of the decision. Little has been said about the potential economic consequences of an escalation in tensions.

The South China Sea, as well as the current deliberations over the Ausgrid sale, present us with case studies in the changing strategic picture for Australia and its relations with China – both on the economic and security fronts. It provides a trigger for all interested parties – including Australian businesses – to talk about the risks and the opportunities for Australia's relationship with China.

While not playing down the priority of security, it is essential that Australian economic interests also factor prominently in our strategic deliberations.

China's economy is already the second largest in the world, with a GDP of \$US11 trillion (\$14.3 trillion), behind the US at \$US17 trillion. And while growth is slowing as its economy makes a difficult transition, even at a rate of 6.5 per cent China is on track to add more than \$US700 billion to its GDP this year.

Our economic relationship with China has flourished. Two-way trade reached \$155 billion in 2015 making the country our leading trading partner by far – the next largest is the US at \$70 billion. China is our fifth largest supplier of capital with a \$35 billion stock of foreign direct investment, most of it accumulated in the last decade.

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Change is in the air

The nature of our economic relationship is changing. The World Bank has estimated that China will have a staggering 850 million middle-class consumers by 2030. As China's services sector and consumption grows, our trade relationship will become less transactional in nature and more reliant on people-to-people contact and our "brand".

Weaker commodity prices have resulted in the total value of our exports to China declining in each of the past two years. While our export of goods has declined, our services exports have increased from \$7.1 billion in 2013 to \$9.8 billion in 2015. Our services exports to China exceed the value of our iron ore exports to Japan and Korea combined.

International education and tourism are our third and fifth largest exports respectively. Together they generated export revenues from all countries of \$35 billion in 2015. These sectors employ more than half a million Australians.

With an estimated 141,000 Chinese students in Australia, China is by far the largest source, double the next largest group from India.

China is also expected to become Australia's largest source of tourist arrivals, eclipsing New Zealand in 2017-18. Already our largest market if measured by total expenditure, Chinese visitors in Australia will account for 43 per cent of the growth in arrivals and 60 per cent of the growth in visitor expenditure over the next decade, according to Austrade.

China has made it clear in a number of ways that "friendship" has economic benefits. Conversely, there are economic costs associated with actions that are seen as "unfriendly".

Stakes are high

Up to now, our economic relationship has been largely separated from our security and geopolitical relationships in the region. Business gets on with doing business and our elected representatives and public servants in Canberra deal with issues of national security and geopolitical matters. Now, business needs to do more to articulate the economic story.

The stakes are high and we must get this right. We can no longer separate our economic and security interests – they go hand in hand in this new world.

China is changing and so is our relationship with it. We face new circumstances, new challenges and new demands. This requires a new way of thinking and a wider strategic conversation.

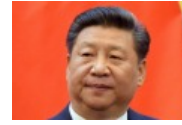
The business community – traditionally at arm's length from our strategic and security decision making – urgently needs to be heard in explaining our strategic economic interests to the Australian public and government leaders.

There might be times when our policymakers have to make a tough call, but they should not have to go it alone. The national debate should be as fully informed as possible, given the critical importance of Australia's economic relationship with China to our long-term national interests.

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