

Australia must reshape links with China

THE AUSTRALIAN, 1 APRIL 2017
BATES GILL, LINDA JAKOBSON

The week's events aside, Australia and China have never had such a promising relationship as today. Chinese tourists are the largest group of visitors from abroad and the biggest foreign spenders in Australia. Up to 90 direct flights arrive in Australia from China every week, with more to come. China is the largest buyer of Australian wine. Nearly one-fifth of Chinese students abroad choose Australia as the place to pursue their studies. Australian exports meet 54 per cent of Chinese demand for iron ore.

But Australia's future prosperity will depend heavily on an economic relationship with China that is markedly different from today's. The lucrative days of dependence on simple transactional relations — dropping off the goods at China's doorstep — are behind us. Resource exports will remain important, but a new model of economic engagement is required. Australians need to respond to the demand in China for a wide range of services.

Australia also needs to entice much more investment from China. The change is under way, with Austrade reporting that export of services to China rose from \$7.1 billion in 2013 to \$10.7bn last year. Services exports to China exceed the value of our iron ore exports to Japan and South Korea combined.

But there is an even greater upside ahead. Research conducted by the Brookings Institution estimates that by 2030 the Chinese middle class will have grown by 850 million people. As China's demand for services and consumer goods increases, the trade relationship will become more reliant on people-to-people contact and the Australian brand.

With the China-Australia free trade agreement in force, the two countries will have greater access to each other's economies. That is good news, but far more needs to be done to improve Australian competitiveness in services.

The Australian tourism sector is unprepared and will struggle to make the most of it. Language ability, cultural awareness and greater understanding of Chinese expectations are needed. If perceptions grow within China that Australia cannot absorb the rising flow of tourists and provide a valuable experience, those travellers will look elsewhere. Some Chinese tourists complain about a lower standard of accommodation and infrastructure than in many other holiday destinations in the region.

Australia ranks far down the list of preferred destinations for Chinese visitors on package tours, behind countries such as Vietnam, Indonesia and Russia.

Australians should not presume that Chinese-Australians can fill all the roles that require China conversancy and Mandarin proficiency.

A lack of enthusiasm among most Australians to learn Mandarin holds the country back. In 2015, 4000 Australian students graduated from Year 12 with Chinese-language qualifications, roughly 0.1 per cent of the total number of primary and secondary school students, and a mere 400 of those were not of Chinese heritage. The number of non-Chinese background pupils studying Mandarin at Year 12 declined by 20 per cent between 2007 and 2015.

Chinese also represent by far the largest proportion of foreign students in Australia. For this to continue, educators will need to do more to ensure Chinese students return home with a high-quality degree, a positive experience and an affinity for Australia. At present many, if not most, of these students have little contact with Australian society. Government surveys reveal that Chinese students' satisfaction with opportunities to interact with Australians is consistently almost 10 per cent lower than the rest of international students in Australia.

Troublingly, their ability to converse in English tends to deteriorate while in Australia because they interact so little with English-speakers. For most students returning to China, their last contact with their university is graduation day. This is a lost opportunity. These students represent a potentially vast reservoir of goodwill and alumni support. Great opportunities lie ahead for Chinese investment in Australia. But Australians seem ambivalent about the prospect. With a relatively small population, Australia has always depended heavily on foreign investment for its prosperity. The need for Chinese investment is clear, yet news stories about the latest Chinese investment bid can send shockwaves around the country, even though China accounts for only about 2.5 per cent to 3 per cent of Australia's total stock of foreign investment. However, the targets of Chinese investment — real estate, infrastructure and agriculture — often are deemed politically sensitive.

This is important because the composition of Chinese investment in Australia is shifting. According to Austrade, as late as 2013, 95 per cent of Chinese investment in Australia was in metals and energy; by 2015 that figure had dropped to 30 per cent, as investors began to diversify into real estate, agriculture, transport, tourism and health. As of 2015, there was also a general tightening in China of capital controls. No state has felt the impact of

this shift more than Western Australia. In 2012, WA received 56 per cent of Chinese direct investment in Australia, principally in mining and energy. By 2015 that number had collapsed to 1 per cent.

Australian prosperity is at risk if this major provider of capital is alienated on poorly considered political grounds. Agriculture is a good example. The shortfall between Australia's available domestic capital and what is required in agriculture will likely reach \$850bn by 2050. Despite this, Australia is the fourth most restrictive place to invest in agribusiness out of 35 OECD countries. Remarkably, roughly 86 per cent of our farmland is Australian-owned and Australia produces enough food to feed 60 million people. Chinese investors rank fifth behind those from Britain, the US, The Netherlands and Singapore in terms of foreign ownership of Australian agricultural land and hold less than a 0.4 per cent share.

But there is no mistaking the demand from China: for the fiscal year 2014-15, China for the first time was the largest source of foreign investment in agriculture. Nevertheless, public opposition to foreign investment in this sector is firm, with 69 per cent of Australians "strongly against" the foreign acquisition of farmland, according to a Lowy Institute poll.

One or two high-profile Chinese investments, especially if mismanaged and resulting in overhyped public reaction, can create the perception that Chinese investment is unwelcome. The inconsistencies in federal and state policies are only adding to the miasma surrounding Chinese investment in infrastructure, real estate, agriculture and northern development. If Australia really is open for business, the federal government needs to make sure all potential investors know and believe this.

Uncertainty over how China will exercise its power and influence in the region will undoubtedly exacerbate security concerns. Australians also are concerned, rightly, about preventing the infiltration of improper Chinese business practices at home and abroad. Nonetheless, Chinese capital is not only important for Australia's future prosperity — having "skin in the game" here could also encourage China to have a greater stake in good relations with Australia and Australia's long-term success.

China Matters: Getting it Right for Australia by Bates Gill and Linda Jakobson (La Trobe University Press) was published this week.