



Speaking Notes for China Matters Opening Dinner 19 November 2015

Andrew Parker, Deals Partner and Asia Practice Leader, PwC

Professor The Hon Gareth Evans, Chancellor of the Australian National University, Mr Dennis Richardson, Secretary of the Department of Defence, Mr Chris Moraitis, Secretary Attorney Generals Department, Mr Richard Maude, Director General, Office of National Assessments, distinguished guests, ladies and gentleman, Good evening.

I would like to begin by firstly paying our respects to the traditional custodians of the land we are meeting on today, the Wurundjeri People of the Kulin Nation. We wish to acknowledge and respect their continuing culture and the contribution they make to the life of this city and this region.



My name is Andrew Parker and I head the Asia Practice at PwC. I am also a partner in our Deals business in Sydney. On behalf of my fellow partners and the staff at PwC, I would like to welcome you here tonight and thank you for joining us for this dinner to celebrate the second national meeting of China Matters.

In our report, *The World in 2050*, we predicted that four of the world's five biggest economies in purchasing power parity terms will be in Asia by 2030. On that measure alone, Chinese citizens hold more purchasing power today than any other nation on earth.



And they unleashed it in spectacular style last week on Alibaba's " Singles Day " where consumers spent \$A20 billion in a single day, every Yuan of it online, and nearly three quarters on a mobile device. To put this in perspective Australia's Boxing Day sales last Christmas were around \$A2 billion, the majority in store sales.

Alibaba is the poster child of the staggering size of the market, uptake of technology and innovation in online retail in China. Few had heard of Alibaba before the Global Financial Crisis – as a company they are just 15 years old. Now they have a market capitalisation twice that of Australia's largest company, the Commonwealth Bank of Australia and their business is 100 per cent online.



Asia is increasingly home to world class companies. Our recent Strategy& Innovation 1000 Study shows that ten years ago the top three locations for Research and Development (R&D) spend were North America followed by Europe and then Asia in third place.

We have just published our 2015 report and the results are remarkable. In just a decade Asia has climbed from third place to number one. North America has dropped to second spot and Europe is now number three. In many ways this is a proxy for the new world economic order.

Developments on this front in China are particularly noteworthy. We have tracked the origin of companies that made the list over the past decade. In 2005 there were eight Chinese companies and two Australian companies in the 1000.



In 2015, there are 123 Chinese companies and only 5 Australian companies.

Confidence in business growth has fallen to a record low among the CEOs of Asia Pacific companies, according to our 5th PwC Asia Pacific APEC CEO Study that we released on Monday.

Only about one quarter (28%) of the 800 leaders polled are 'very confident' they will see revenue increase in the next 12 months, down from 46% a year ago.

This is the lowest level since we started tracking the confidence of this group in 2012.



The polling was run over a number of months and whilst market volatility is the new normal, the step down in confidence is very stark in July and August. This was when conversations about the US raising interest rates for the first time in nine years were in full swing.

It also coincided with concerns about the health of the Chinese economy followed by repeated interventions by the Chinese government to stem a rout in stock prices. These factors clearly spooked business leaders.

And their concerns aren't just economic. Cyber security, exposure to natural disasters and regional geopolitical tensions are among the top threats to business growth – all have a significant China dimension.



APEC CEOs are optimistic on free trade. As regional integration proceeds on several fronts, they believe a free trade area in Asia Pacific could be a reality by 2020. For more CEOs, the ASEAN Economic Community is the 'mega regional' game changer, while there are also hopes that the Trans-Pacific Partnership (TPP) will boost exports and fuel regional growth.

Significantly this agreement excludes China and I believe that it's a very substantial shadow on the TPP.

China's contribution to world growth, trade, commodity and energy demand is well documented. On any measure few would argue that China's influence on the fortunes of Australia and the region we live in are significant, very significant indeed.



And yet we suffer from a poorly informed public dialogue on China. For sure China is different. And for many, it is uncomfortably so.

As China grows in power and influence, so do popular concerns, not only about security but also about investments. One need only look at the politics surrounding the ratification of the China Australia Free Trade Agreement, recent commentary about Landbridge's 99 year lease of the Darwin Ports and I fear a brewing storm over the NSW Electricity sales.

At our first meeting, I expressed a view that the quality of analysis available to the public is too frequently superficial. It lacks the deep and nuanced understanding that is needed to cut through the complexity. And that remains the case today.

But I think that business needs to pay a lot more attention too.



By some estimates, around 30% of the world's \$19 trillion of seaborne trade passes through the South China Sea. On that measure, I would suggest that it is a very important issue for our business community to engage on.

So this can't be a satisfactory platform from which our community looks at our largest trading partner and a key supplier of capital that supports much needed investment in Australia.

The reality is that we actually do not really understand China.

I believe that China Matters can make a real difference here. I am particularly encouraged to see the participation of business, the different spheres of government and academic institutions because this makes for a fuller and richer exchange of views and ideas.



As a community, we need to invest a lot more in organisations like China Matters to develop our understanding of China.

Quite simply - we have to do better – we just can't afford not to.

There is actually some hard work and serious business ahead of us tomorrow so I would like to invite you now to make some new acquaintances, catch up with old friends and enjoy your evening.

After the main course is served around 7.35, Linda will say a few words about China Matters and then introduce our key note speaker for the evening, The Hon Gareth Evans.

Thank you and enjoy the meal.