CHINA

Business Conditions Snapshot

• Mainland China is the world’s second largest economy, with official GDP growth forecast to be around 1.9 per cent in 2020 and 8.2 per cent in 2021. China’s economy is recovering well from the impact of COVID-19 and is expected to be the only major economy to grow in 2020.

• Expanding domestic consumption is a government priority, described as the ‘dual circulation’ strategy. This presents potentially large opportunities for Australian exporters and service providers.

• As disposable incomes rise, demand will increase among China’s growing middle-class for safe food and a higher protein diet, quality health care and education, more sophisticated products and services, more liveable cities, a cleaner environment and the opportunity to travel.

• The healthcare industry is undergoing significant changes as China addresses an ageing population, greater consumer demand for quality care and significant gaps in coverage between provinces.

• China has rapidly developed into a global leader in e-commerce and mobile payment systems. Chinese e-commerce, internet services and fintech companies now rank among the world’s most valuable, including Alibaba, Baidu, DiDi Chuxing, JD.com, Meituan-Dianping and TenCent.

• China has invested heavily in infrastructure. Over the past decade it has steadily improved the competitiveness of its logistics chains. China is a world leader in 5G deployment, ranking behind only South Korea at the beginning of 2020. Investment in emerging technologies will grow strongly over the next five years, as China moves up the global value chain with strong government support.

• A Chinese government priority is to reduce air pollution, particularly in the major cities. China has announced it will reach peak carbon emissions by 2030. China is a leader in renewable energy technology.

• Chinese outbound investment has slowed from its peak in 2016. It contracted globally in 2018 and 2019 on the back of capital controls and new overseas investment regulations. Investment however will likely continue to grow in the

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1 IMF World Economic Outlook, October 2020

Key facts and figures (2019)

- Population: 1.4 billion
- GDP growth: 6.1 per cent
- GDP per capita: US$ 10,276
- Two-way trade: $252 billion
  - Exports: iron ore, coal, LNG, beef, wool, education, tourism
  - Imports: telecom equipment, computers, refined petroleum
- Australian total investment in China: $85 billion
- Chinese total investment in Australia: $78 billion
medium to long term, driven by the needs of China's big companies to grow and diversify beyond their home market, and in part by state-driven ‘Belt and Road’ infrastructure projects.

Trade and Investment Opportunities

Current and emerging commercial opportunities

- Resources remain the backbone of Australia’s exports to China, particularly iron ore and energy bulk commodities like LNG and coal.
- China is a top market for Australian exports of meat, wine, wool, fruit and nuts, seafood, grains and dairy.
- The Australian Government has been working to resolve a number of impediments to trade, which have impacted barley, meat and other exports, particularly in agriculture.
  - China imposed anti-dumping and countervailing tariffs of 80.5 per cent on Australian barley in May 2020, and is investigating alleged dumping and illegal subsidisation of Australian wine.
  - Australian businesses should consider the changing market risks when making commercial decisions to export to China – see Austrade trade updates for the latest information.
- Cold-chain logistics capacity continues to grow beyond first tier into second and third tier markets, creating opportunities for premium Australian fresh produce and food product exports.
- The continued growth of e-commerce platforms and preferential cross-border e-commerce policies have created new channels for Australian exporters:
  - Australian brands are often top performers in China’s 11:11 Singles Day shopping event.
  - In 2019 and 2020 Australia was the fourth most popular source country for imported products during the event.
- Services exports in education and tourism made up an increasing share of Australia’s total trade with China before the closure of international borders due to COVID-19:
  - Consumer sentiment toward Australia remains high in both sectors, a positive indicator for recovery once international borders begin to re-open.
  - China was Australia’s largest and most valuable inbound tourism market, with 1.4 million Chinese visitors spending A$12.4 billion in the year ending December 2019.
  - In 2019, 203,000 Chinese students studied in Australia, making China our largest source market for education services.
An aging population, rising incomes and capacity shortages in China’s healthcare sector create opportunities for Australian firms across the supply chain, including in areas such as aged care, clinical trials, digital health, medtech, and medical services.

Australian fintech and blockchain firms are beginning to make connections in China, capitalising on both the gradual opening of China’s financial services sector to foreign firms and disruption to the sector caused by the digital economy evolution.

Outbound and inbound investment opportunities

China remains a major source of foreign investment globally and in Australia.

- The stock of Chinese foreign direct investment in Australia has grown at an average rate of nearly seven per cent a year over the past five years.

Australia is an attractive investment destination for Chinese firms.

- The countries complement each other economically.
- We share geographic proximity.
- Australia’s reputation as a safe investment destination with strong legal, political and business institutions—and low sovereign risk—is noted.

Chinese investment in Australia continues to be welcomed in a diverse range of sectors.

Major events

- The third China International Import Expo (CIIE) was held in Shanghai in November 2020, which was an opportunity for China to signal the country’s openness to imports.
  - CIIE is a unique opportunity for Australian firms to engage with our largest trading partner.

- Austrade’s Festival of Australia program, which ran from September to November 2020, promoted Australia’s high-quality products and services with a mix of offline and online events, and was supported by a complementary digital promotional campaign Australia – Still Extraordinary.

- China will host the 2022 Winter Olympics, creating opportunities for Australia to contribute expertise and services.

Trade Policy and Negotiations

- The China Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. There have since been six rounds of tariff cuts. Almost all Australian goods can now enter China tariff free.
  - ChAFTA has high use rates in both directions. It also has a built-in agenda of mandated reviews and committee meetings, although there has been no committee meeting since 2017.
The Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020 with 15 Indo-Pacific countries including China.

- RCEP provides a single set of rules and procedures for trade across all 15 members, and includes greater access to China’s services sectors, including professional, financial, education and health services.

- Australia is also engaged with China through ongoing negotiations in the World Trade Organization, including on e-commerce, services domestic regulations, and investment facilitation for development.

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This Insight is current as at December 2020.