

Doing business with China

A bilateral relationship in trade and investment

Trade

China and Australia trade relationship have grown very strongly in recent years. According to the Australia statistic 2007, the trade between China and Australia reached A\$58 billion, 12.9% of the total value of Australia trade, in which trade value for goods was A\$52.8 billion, for services was A\$5.2 billion. China has become Australia's largest trade partner and Australia was the ninth trade partner of China. According to the Australia last financial year (2006-07), major Australian exports to China are iron ore, wool, copper, ores and coal. Major Australian imports from China are clothing, computers, telecommunications equipment, toys, games and sporting goods.

Traditionally, Australia has been an important supplier of China's industrial raw materials and foodstuffs need. Around two-thirds of Australian merchandise exports to China are primary products - principally iron ore, alumina, wool, barley, coal, copper ores and oil and gas products. In recent years, there has been a strong increase in exports of Australian manufactures such as electrical machinery and appliances and telecommunications equipment.

China is Australia's largest source of imports, led by clothing and footwear, computing, toy and sporting goods. There is a significant growth for higher value-added import products such as computers, household electrical goods and telecommunications equipment, which reflects China's increasing presence in regional and global manufacturing chains for these items.

The combination of rising incomes and reform of services sector in China has significantly boost trade services between Australia and China. Joint trade in services has increased from A\$1.47 billion in 2000 to A\$5.19 billion in 2007. China was Australia's 6th largest export market in 2006, up from 13th largest in 1995. China is now Australia's number one source of overseas students and rank fifth for source of tourists.

The Investment performance between two countries

Bilateral foreign investment has remained fairly modest relative to overall growth in joint trade between Australia and China. Until June 2007, Australia's investment project in China accumulated to 8,374, total real investment was US\$5.2billion. Australia's investment in China focuses on manufacturing, mineral exploration, legal, banking and education services. Australian banks, law firms and insurance companies have an increasing presence in the Chinese market. Small to medium sized Australian companies have successful businesses in China in the niche market sectors such as engineering, building, mining and agribusiness. There is still increasing number of these successful Australian businesses in China.

In 2006, the investment of China (mainland) in Australia was about A\$3 billion. China's largest Australian investments are in the resources, manufacturing and real estate sectors. Although China investment in Australia has a rapid increased, but the total value was still very limited.

Advantages of China and Australia

Advantage of China:

As the largest developing country in the world with over 1.3 billion population, China has the following advantages and opportunities:

1. Consecutive rapid economic growth under reform;
2. Ample labor resources, especially the skilled labor;
3. Continuous improvement of the overall investment climate; guaranteed by open policy through regulatory, legal, financial and taxation reforms;
4. Largest growth of consumption market;
5. Demand driven by urbanization and industrialization;
6. Business opportunities brought by the change of life style – the middle class population in China is approximately 250 million and it is still growing. The middle class's good earnings will allow them to enjoy and have better life style;
7. Largest manufacturing station in the world.

Advantage of Australia:

Australia offers strong economical credentials, backed by highly skilled and multilingual workforce, dynamic services sector, sophisticated telecommunications and IT systems, and open regulatory environment. Australia also has technology and expertise in mineral and energy, agriculture, environmental protection, water conservation, and services industries.

China's investment policy and direction

The target of utilization of foreign investment in the 11th Five-Year Plan

The 11th Five-year Economic Growth Plan is an important guideline to direct the state economic development. This Plan draws a broad-brush panorama of the economic advancing in 5 years. There are two quantitative goals for the period of the Plan, which are the GDP per capita in 2010 will be double than that in 2000 and the energy-consuming index of GDP per capita will reduce 20% in 2005.

In this period, China's utilization of foreign capital has new changes:

- **From regional structure** – the rising cost of production in the eastern, central and western regions will usher in a good opportunity for foreign investment. In order to achieve a smooth transfer of the utilization level, foreign investment plays an important task in central and western regions.
- **From the industrial structure** – this period is an important period for China's reform and development of the service industry. Foreign investment in the service industry; in particular, modern service industry will be speeded up.
- **From the scale of investment** – investment in domestic traditional manufacturing industries have emerged saturated trend. The increase constraints in domestic costs and energy resource will have substantial impact on the increase of the cost and the growth rate of foreign investment.
- **From the utilization of foreign capital** – continuously improved national and enterprise credit, the RMB exchange rate formation mechanism and promotion for the reform of other related institutions. Large-scale foreign exchange reserves and growing of domestic investment

banking industry provide fundamental support for China to multiple the ways the utilization of foreign capital and reduction of financial risks. Domestic distribution of traditional industries have basically completed, the new M&A investment became an important way for foreign investment.

Therefore, in this period, overall strategic objectives are:

- To further promote fundamental change from "quantity" to "quality" in the utilization of foreign investment;
- Focus of foreign investment on the effective introduction of advanced technologies;
- Management experience and high-quality personnel, pay more attention to ecological construction, environmental protection, energy saving and comprehensive utilization of resources instead of offset insufficient foreign exchange and capital.

By 2010, management system for the use of foreign capital will be more rational effective, better coordination between foreign investment and domestic economic and social development.

Investment Industrial Guidance Catalogue of 2007

New Foreign Investment Industrial Guidance Catalogue of 2007 became effective on 1 Dec 2007.

The new Catalogue reflects the following features:

1. Further expand areas for opening up.
2. Further improved transparency of foreign investment policy.
3. Promote optimism and upgrade of industrial structure. Upon the requirement of national economic development, modern agriculture, high technology, modern service, high end manufacturing process, infrastructure, energy saving and environmental protection have been listed in the encouragement category, which indicates the active measures taken by Chinese government in promoting optimism and upgrade of industrial structure.
4. Adjust the guiding policy of purely encouraging export. The government no longer implements the guiding policy of purely encouraging export.
5. Promote balanced economic development from area to area.

All advantageous industries as well as characteristic industries in Central and West or in Northeast China traditional industrial base will be incorporated in the *Guiding Foreign Investment in the Dominant Industrials of the Central and Western Regions Catalogue* in future revision. For the first

time, the 11th Five-year Economic Growth Plan brings up the new mechanism of mutual development across areas, which means forming the mutual development between the east and the west, reinforcing the advantage, accelerating each other and reaching the new situation of development together. This means on going development improvement in the west, inspiring the traditional industry areas such as in northeast, improving the growth of central regions, encouraging the east to the lead in development. It also defines the “four mechanisms” for harmonious development, which are market mechanism, cooperation mechanism, mutual aid mechanism and supporting mechanism. This mechanism plays an important role for speeding up civilization in different areas which provides each region with many advantages and opportunities to attract different investment.

What happened under that direction in 2007?

In 2007, Chinese absorption of foreign capital kept growing and maintained a good status of optimized structure. Foreign-invested enterprises pay more attention to R&D, energy saving and environmental protection. The national direct foreign investment across-the-board (including bank and securities industry) data showed that 37,888 foreign-invested enterprises were newly established in the whole nation. The actual utilizing of foreign capital reached USD\$82.6b, an increased of 13.8%. The following features emerged:

1. Manufacturing industry absorbed less foreign capital;
2. Rapid growth in service industry.
3. Growth of foreign capital in Central China was substantial;
4. The percentage of wholly foreign-invested enterprises further increased;
5. The main investment was still in green land;
6. National Economic and Technological Development Zone has developed quickly;
7. Foreign-invested enterprises have good performance in operation.

What is in placed for year 2008?

At the National Business Work Conference in China, one of eight tasks for this year is to improve the quality of utilizing foreign capital, the keys of which are to attract foreign capital to boost the growth of modern service business and optimize regional layout of foreign investment and create new modes of foreign capital utilization.

The proposed focus points indicates that the China's strategic aims to attract foreign capital had changed from mainly making up "Two Gaps" to optimizing capital allocation, propelling technical development and perfecting market economic system. This is to direct foreign investment from scale and speed-orientation to quality and efficiency development in order to advance and adjust foreign capital structure.

Provinces in central China including Anhui, Hunan, Hubei and Jiangxi, where next to Pearl River Delta and Yangtze River Delta, hope to bring their regional advantages into action and make vigorous preparations to seize opportunities for changes. At present, many measures issued will effectively promote the regional layout optimization given that foreign investors are encouraged to invest in central, western and northeast old industrial areas in China.

Investment solicitation for outsourcing service has become a hot topic. With the "bottlenecks" of environment, resources and land, outsourcing service has stood out as the best way to utilize foreign capital for structural adjustment because of its features such as good technical value, high added value and low resource consumption. It will not only benefit the improvement of utilization level of foreign capital, but the required upgrade of industrial structure and change of trade growth. The international outsourcing service in China has a variety of range in fields of software, digital processing, biz intermediation, animation production, design and R&D.

The Ministry of Commerce (MOFCOM) has put emphasis on global outsourcing service. By the end of Dec 2007, 11 cities were recognized as "Center City for Outsourcing Chinese Service", including Dalian, Xian, Beijing, Shanghai, Wuhan, Suzhou Industrial Park and Wuxi Taihu Lake Protection Area.