Week in China

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Sino-Australian economic ties

A win-win vision?

Australia's boom has been China-driven. Can it continue?

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Back with a boom

Back in the 1850s most of the Chinese coming to Australia would have known it as *Xin Jin Shan*, or New Gold Mountain. Thousands of Chinese arrived in the gold rush years, mostly to Victoria and New South Wales, with dreams of making their fortunes.

Once gold fever had subsided, the number of Chinese in Australia dwindled sharply, largely at the design of government policies intended to keep China at arms length.

But today the Chinese are back, and with an appetite for much more than gold. They're being welcomed, too: in this latest boom, it's the Australians who look like they have struck it rich.

What do the deepening trade and investment ties mean for the Australian economy? In our 32-page Focus edition, we look at some of the major trends, including:

- *Supercharged returns*: we ask if Australia really has China to thank for its unprecedented 20-plus years of growth.
- *Tailor-made for China*: we talk to a Melbourne-based wool broker about merino wool, one of Australia's oldest exports, and ask why most of it is being sold to the Chinese.
- *Capital opportunity*? Some high-profile Chinese bids for Aussie firms have fallen through. We meet a firm that introduces Chinese investors to Australia.
- *A matter of degrees*: Australia's number one services export is higher education. We talk to an expert about what the Chinese study, and why they do so in Australia.
- *Also in this Focus edition*: a review of Australia's leading commodity exports; an interview with a superfund specialist on how the financial services industry is looking to China; and a chat with two HSBC executives on the burgeoning Sino-Australian trade flows they are witnessing.

Photo Source: Reuters

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The Odd Couple?

A new era: Australia Prime Minister Julia Gillard and Chinese Premier Wen Jiabao toast to mutual success...

Energy, Resources and Tourism might look like a strange mix for a ministerial portfolio. But the department – created only five years ago – has become a mainstay for mapping out Australia's economic future.

"We call it the Ministry for China," a columnist at a leading Australian newspaper quipped to WiC last month.

It was a flippant remark but it had more than a grain of truth. China must now feature front-and-centre in Canberra's thinking, as Australia looks to cash in on some of the hottest prospects in the global economy.

Ironically, this follows more than a century in which official policy was to cold-shoulder the Chinese, keeping them at a wary distance.

In fact, the Chinese first arrived in Australia long before its emergence as a nation (after federation in 1901). The first large-scale contact came in the 1850s, when news of gold discoveries in Victoria sparked a series of gold rushes. Many of the newcomers were Chinese, especially in Victoria, where the Chinese share of the population peaked at 6% in 1857.

But the influx also bred local resentment, especially when Chinese prospectors seemed to do better at exploiting their claims, reworking abandoned ground until the full resource was exhausted.

Anti-Chinese feeling grew and the Victorian parliament demanded a levy of £10 a head on all the Chinese entering the colony. To get around the tax, thousands of new arrivals landed instead at Robe in South Australia and slipped across the state border, walking 200 miles to the goldfields.

This sense that the Chinese weren't welcome was given more formal expression in 1901 with the passing of the Immigration Restriction Act (widely referred to as the White Australia legislation) in which all migrants were required to pass a language test. In practice the tests were used to bar Asians from getting resi-

542,000

Number of Chinese nationals visiting Australia in 2011

Photo Source: Associated Press

Gunboat diplomacy: a Chinese destroyer docks in Sydney

dency and the Chinese population dwindled from 29,900 in 1901 to 6,400 by 1947.

Mao's victory in 1949 then deepened the Australian determination to block wider contact, with anti-Communist anxiety breathing new life into deeper-rooted prejudices. Barriers to Chinese migrants were bolstered, even as efforts to attract new migrants from Europe and the UK were stepped up.

"We have 25 years at most to populate this country before the yellow races are down on us," warned Arthur Calwell, minister for immigration.

Contrast that kind of sentiment to today, as Australia competes to bring China's tourists to its shores and Chinese students to its universities. In total there were 542,000 Chinese arrivals in 2011 (the Chinese are also the second largest tourist group but the biggest spenders), according to data from the Australian Bureau of Statistics (ABS).

More widely, almost one in four Australians are now born overseas, with many of the newer migrants from China.

The most recent ABS estimates (for 2010) suggest that there are now 380,000 Chinese-born Australian citizens, a group that has grown by 10% a year over the last decade. That means that – together with Australians also claiming Chinese ancestry – the Chinese-Australian community makes up about 3% of the population, a proportion similar to the gold rush days more than a century ago.

Despite these trends, most of the commentaries on Australia's China relations still focus on the Chinese less as citizens, and more as customers.

Primarily, of course, this is a commodity story. Buyers of Australia's wheat and wool for years, the Chinese have transformed the prospects for industrial commodities, especially coal and iron ore. Such is the scale of this transformation that Australia gets frequent mention as the Lucky Country (a label originating in the 1960s but often interpreted incorrectly since: see next page).

But, indeed, Australia does now find itself in a fortunate position, with abundant natural resources, as well as signs of sustained demand from its Asian neighbours. China is at the front of the queue, as the leading destination for Australian exports last year, with more than a quarter of the total in value terms. For some of the hard commodities, the share is much higher. At least 70% of the iron ore mined in Australia ends up with Chinese buyers, for instance.

This tightening relationship also means that Australia's fortunes have begun to move more in step with China's economic rhythms. Its stock markets now react as much to news from China as they do to events in the US. If the indices that survey Chinese manufacturing activity come in weaker than expected, the Australian dollar is one of the first currencies to react.

One challenge for Australia is how best to advance into more of an Asian future when so much of its heritage is rooted in a European past. Its leaders insist that Australia has a place in both worlds, and no longer has to choose between its history and its geography. But there are still areas where Australia can look hesitant, including takeover bids, when the preference sometimes seems to be for

Fearful of Asian migrants: Arthur Calwell, former minister for immigration

Photo Source: Reuters

Living on its luck?

Pick a newspaper article on Australia's current mining boom and there's a good chance there will be a 'Lucky Country' mention.

The phrase comes from Donald Horne's book, *The Lucky Country*, first published in 1964. But much to Horne's annoyance, the label has been widely misinterpreted, sometimes in celebration of Australia's weather and beaches, but more recently at its good fortune in natural resources.

Far from it: Horne meant the phrase ironically, arguing that Australians had grown too accustomed to living on the ideas of others and were enjoying a prosperity that looked unlikely to last. 'Lucky Country' mentality made for an insular, complacent nation which lacked entrepreneurial verve and spent too much time looking back at Britain for its inspiration."Australia is a lucky country, run mainly by second-rate people who share its luck," Horne warned.

What about a more literal interpretation of 'Lucky Country' status today? Certainly, it's hard not to see a little happy coincidence in the discovery of such a range of commodity resources, as well as their relative proximity to such a voracious new customer in China.

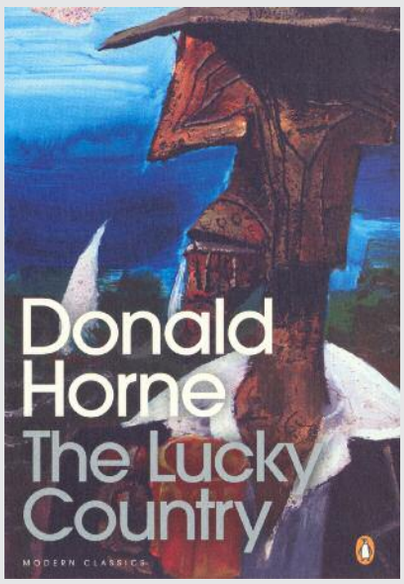
The prospects also look good for long-term returns. After the bonanza in coal and iron ore, Australia hopes to cash in on sales of natural gas too.

Against that view – and also argued in the Economy section on page 14 – this is much more than a case of natural largesse falling into Australia's lap. Capitalising on nature's boon has required economic reforms, investment and hard work – all attributes that Horne himself would have commended.

China itself doesn't get too much mention in *The Lucky Country*, apart from a few references to Australian anxiety about the Communist threat. But Horne's wider observation on Australians in the 1960s – that they were largely ignorant of Asia, as well as shut off from playing a greater role in the region – was prescient.

Almost 50 years on, much of this malaise seems to have been shaken off, as Australia forges a new role in Asia, increasingly in lockstep with China's own economic prospects.

Shortly before he died in 2005, Horne seemed to accept this too, although he warned that there was still a risk of complacency, and that his homeland might grow too comfortable for its own good.



China as a customer rather than as an investor.

Similarly in security policy, where Canberra's instinct to align with Washington can create underlying tension for Sino-Australian commercial ties.

These are the types of challenges that have led to the commissioning of a White Paper on 'Australia and the Asian Century' – to be published later this year – as a first step to rethinking Australian policy in the years ahead.

And as you might expect, relations with China came up frequently in the submissions to the White Paper's authors.

One repeated warning was that Australia needs to boost its China "literacy" if it is to squeeze the full potential out of deepening commercial and economic ties.

That means more Australian consulates and trade promotion agencies in Chinese cities (and not just in the leading locations like Beijing and Shanghai). It calls for more of Australia's corporate executives to have experience of working with Chinese customers. And it also needs more Australian students to study Mandarin (just 4,600 were doing so in their final year of secondary school in the most recent survey, and the vast majority of this group already spoke Chinese as a first language).

The consistent theme is that Australian ties with China are substantive ones. But also that Australia has to invest more in its relations with the Chinese if it is to seize the full opportunities that the new era will bring. ■

3%

Percentage of Australia's population that is ethnic Chinese

"A true friend is one who can be a *zhengyou*, that is a partner who sees beyond immediate benefit to the broader and firm basis for continuing friendship."

Kevin Rudd, in a speech at Peking University in 2008. His meaning was that true friends speak freely to one another, even on matters where they may disagree.

Welcome to Australia?

Xiaoxin daishu: 'Be careful of kangaroos'

"A dishonourable woman" was the verdict from Xinhua, the Chinese state news agency. "She loved the money in Chinalco's pocket but she did not love the man himself".

It might sound like the review of an episode from last night's television. But this was actually a business editorial marking a low point in Sino-Australian investment ties: the break-up of state metals firm Chinalco's $19.5 billion bid for a larger share of Rio Tinto, the global resources firm (see box).

The following day Xinhua was still seething. "There is only one rule in the international dealings," it ruminated. "That is, there is no eternal friendship, only eternal profit."

It was dramatic stuff and soon had officials in Canberra publicly deny allegations that Australia was closed to Chinese investors.

Others wondered if that was really the case. Also in 2009, a bid from China Minmetals for assets owned by Oz Minerals was blocked on national security grounds. The deal eventually went ahead but not until part of the original bid – the Prominent Hill mine – was removed from the transaction.

In the same year, state-owned China Non-Ferrous Metal offered $252 million for a controlling stake in Lynas Corp, a rare earth miner in Western Australia. Although the bid was approved, the Chinese partner was told to reduce its stake to 49% and accept representation of less than half the board seats.

It withdrew its offer.

It all made for a strained political mood between two countries that were paradoxically being drawn into ever-closer trade ties. The Chinese had money to spend and wanted to buy Australian resources. But Canberra seemed reluctant to

Photo Source: Reuters

Blame it on Rio?

It seemed a strange falling out, with China by far Rio Tinto's biggest market, accounting for about a quarter of its $40 billion in annual revenue. But the backdrop was the bruising battle between the Chinese steelmakers and the Big Three iron ore producers (BHP and Vale, along with Rio) on contract pricing for ore, which the Chinese side was to lose in rather humiliating fashion.

Stern Hu, one of Rio's top managers in China, was then arrested on corruption charges only a month after Chinese firm Chinalco's bid to acquire a major stake in Rio collapsed. He is still in prison in China, serving a 10-year sentence.

For the record, the FIRB didn't formally block the Chinalco bid. As discussions dragged on, opposition from other Rio shareholders grew. Then the market conditions improved, which made Rio less keen on Chinalco's proposal, especially when BHP came in with a counter offer.

For the Chinese, it was a bitter pill to swallow, especially with their steelmakers already feeling hard done by as customers of the two companies.

Although the Australian authorities consented to the bid, Chinalco was told that it would not be permitted a full board seat, and that it would have to seek further approvals if it increased its shareholding in future.

It didn't matter: by then Rio had told Chinalco the deal was off.

Once owned by Manassen in Australia; now sold to Bright Foods of Shanghai

accept their cash, fearing that it would also be ceding too much control to its customer-in-chief.

Are there grounds for such concerns? Data from the Australian Bureau of Statistics at the end of 2010 seemed to suggest not, with China accounting for not even a full 1% of the stock of foreign investment in Australia, far less than the 28% from the US or the 24% by the British.

For Chinese policymakers charged with a "go global" mission, the groundswell of opposition to some of the transactions rankled. Especially annoying was the suspicion that Australia wanted China as a customer for its commodities, but not as an investor in its mines and quarries.

More recently there have been rumblings too about an impending Chinese grab for Australian farmland and agribusiness. But again, the evidence is thin on the ground. Land ownership is hard to track but the best estimates suggest that 11% of Australian territory is owned by foreigners. Only a fraction of that will be in Chinese hands.

Similarly, Chinese buyouts of agribusiness firms are still at an early stage. Bright Foods has bought a controlling stake in Manassen, the owner of a range of Australian food brands, and state giant COFCO took majority control of Tully Sugar mill in Queensland last year. But Chinese interests are dwarfed by the involvement of foreign groups like Glencore and Cargill in Australia's grain sector, and Parmalat and Fonterra in its dairy industry.

According to John Larum, the author of a Lowy Institute report on Chinese investment in Australia last year, Chinese bidders suspect that they are coming in for special scrutiny.

In particular they express frustration with the Foreign Investment Review Board (FIRB), the agency that advises the Canberra government on foreign bids, and its imprecise definition of "national interest", as well as the absence of hard rules on permitted ownership levels. The gripe is that this makes it difficult to predict the outcome of the FIRB's assessments, which seem to be reviewed on a case-by-case basis.

Another sticking point: although proposed deals below A$231 million ($241 million) can proceed without FIRB approval, they still need to be referred if the acquirer is more than 15% state-owned. Of course, most of China's leading firms fall into this bracket, which deepens their impression that they are being singled out.

Australia's response has been robust, pointing to its regular ranking as one of the world's most open economies, as well as its traditional reliance on foreign capital. Larum's report also highlights the FIRB's record in approving more than $60 billion in Chinese investment since 2007 in 280 separate deals. All but six were accepted without conditions, and none were rejected outright (although as Larum notes, applications were sometimes withdrawn on the expectation of trouble, or perhaps not even submitted because of unwillingness to accede to FIRB oversight).

More positively, there are signs that both sides have moved on from those tenser moments three years ago. There have been no new flare-ups in the Chinalco-Rio mode. Instead, the talk is of Chinese companies learning from their previous experience, and the FIRB doing more to signal the likely outcome to prospective bidders before deals are officially announced.

Chinese firms also seem more disposed towards bidding for smaller (and politically more acceptable) shareholdings in Australia, as well looking for a wider focus on joint ventures rather than outright M&A.

Tully Sugar: bought by COFCO

A case in point from 2010: the announcement that Chinalco and Rio Tinto would be working together to invest in the Simandou iron ore project in Guinea in west Africa. Chinalco paid $1.35 billion for a 47% stake, with a portion of the project's output guaranteed for China. The deal would prove a "complementary and powerful union", Chinalco bosses told media at the time.

A year on, the dishonourable woman appeared to have been forgiven.

Coals to China...

ASF Group is an investment holding company based in Sydney that specialises in introducing Chinese firms to Australian investment opportunities.

WiC asked chairman Min Yang how ASF works with Chinese investors to buy Australian assets, and what she thinks about the current Sino-Australian investment mood.

What does ASF do?
We started out in Australia as a trading and investment house in 2005, supporting two-way business flow with China. We've grown from a background primarily in property development. In fact, we were one of the first companies to broker Aussie real estate to high net worth individuals in China. Then our operations widened and we listed on the ASX [the Australian Stock Exchange] in 2008. At the moment our primary focus is on commodities projects.

Dealmaker: ASF's Min Yang

So mining is your core business?
Yes, that's the direction that we have taken. In part, that is because of the huge surge in Australian commodities being shipped to China, like iron ore and coal. There's a real synergy over raw material flows at the moment. But Chinese companies don't just want to be customers for these commodities. They also want to invest in the projects that dig them up.

The key point is that ASF does more than act as a broker for Australian assets. We do offer some advisory and broking services but we are more of an investment holding company, owning a share of each business ourselves.

So we buy up mining tenements and then develop them from their early stage. Then we bring in a Chinese partner to assist in advancing them further.

Last year we did a series of deals. For example, we partnered with Chinese conglomerate Guoli Energy via ASF Resources on a series of thermal coal tenements in Western Australia. We have also sold a majority interest to Kaili Holdings, another investment firm, in two coal tenements in the same region. In Tasmania, we're working with mining firm China Coal Geology in a coal, base metals and iron ore project.

As these businesses mature, we plan to spin them off, selling most of our stake but retaining a percentage so that we can share in future growth.

Our strategy is to develop a pipeline of opportunities – we've recently purchased new coal tenements in Queensland and Victoria – and then act as an incubator, taking them through to stock market listing and beyond.

What types of Chinese investors are you working with?
We have different types of partner. For example, we've worked with China Huaneng Group, a major state-owned enterprise. Its interest was more as a power producer, in securing another source of coal.

Then we have ventures with mining companies like China Coal Geology, which have specific experience in resource exploration and mining.

Or there are partners more like Guoli, which has investment interests in a range of energy assets and wanted to expand into Australia and coal.

When we are developing a new project, we look for the type of partner we think is going to be the best fit. And for us, having a mix of partners is a good thing: we've worked with coal business entrepreneurs from Inner Mongolia who take decisions quickly but we have also teamed up with state-owned enterprises, with deep pockets and strong business networks.

Property gold on the Gold Coast?

How about Chinese attitudes to investment in Australia in general?
When we started in 2005, most Chinese didn't think much about Australia as an investment destination. But that has changed. As personal investors, the Chinese often don't expect a huge profit in Australia but what they do want is a stable, predictable return. For higher risk and higher reward, they can try their luck at home in China!

Also, there is often a lifestyle angle to what they buy. Take property: they might be buying apartments for their children who have come to Australia to study. Or there might be a longer-term goal of residency in Australia, for their kids or even for themselves after they retire.

Of course, at the corporate level the attitude is different. Investments need to generate a business return. They can also be much higher profile, and some have generated negative publicity like Chinalco's failed deal with Rio Tinto in 2009.

A lot of the bad feeling surrounding the Chinalco case was stirred up by the media in both countries. If you look at the approval process on a wider basis, very few of the proposed investments have been blocked. And in our own experience, we've had no problems like this.

Having said that, there is always the potential for misunderstanding. Some of the Chinese companies that talk to us about investing in Australia don't have much experience of how deals are conducted overseas. They don't understand that they will have to behave differently outside China. For instance, sometimes they'll think there's no need to bother about shareholder concerns if the top bosses or officials have already agreed to a deal! Or they won't see the point in spending time communicating with the press or the local community. In their experience, that's not how things are done.

In Australia, it can be very different and part of our job is to bridge the divide between the two business cultures. This is our advantage. We take the time to explain the investment process, the regulatory system and the business climate in general. We're also very careful about who we pick as Chinese co-investors. We want to make sure that they are people who will be able to adapt to business overseas. We're conservative in who we select as partners.

So what's the wider outlook for Sino-Australian commercial ties?
My view is that the outlook is very positive, although I think the tone needs to be set in Australia from the top, at the policy level. And not just on investment – things like the rules on visas and migration matter too. Travel and tourism between China and Australia, and especially the flow of Chinese students coming here, helps to improve mutual understanding and deepen ties. I came to Australia myself for the first time in 1988 as a language student!

More recently, it has been harder to get visas and the options for work permits also seem to have been reduced.

$60 billion

Total amount of Chinese investment in Australia since 2007

Photo Source: Shutterstock

In the same way, some of the Chinese businessmen that I speak to have the perception that Australia is more welcoming to small-scale investors than to larger ones. One told me that it's easier to come to Australia if your plan is to open a small turnover business but that it's much more of a struggle to make larger, extended investments in resources assets.

But that's exactly what many of our prospective clients want to do. They are already running billion-dollar businesses in China – they don't want to open a fish and chip restaurant or start up a coffee shop! Government policy needs to address that. Countries like Canada and the USA are competing strongly for Chinese investment too, so it's important that Australia doesn't miss out. ■

"Of all the important relationships that Australia has with other countries, none has been more greatly transformed over the last 10 years than our relationship with China."

Former Prime Minister John Howard at a press conference in 2006, where he was announcing a deal to supply Beijing with Australian uranium

A highly resourceful nation

Heading for a Chinese port? The biggest market for Australia's minerals and metals is China

"A bigger vision for our economic future than being China's quarry and Japan's beach." That was the promise made by Kevin Rudd, when he campaigned against John Howard to be prime minister five years ago. As it turned out, Rudd (a Mandarin speaker and Sinophile) didn't get much time to see through on his promise, having been booted out of office by his own party two years ago.

But does the quarry jibe hold up? Omitting the reference to the beach-bound Japanese (and many Australians have moved on from the Japanese too, with China now taking on the bogeyman mantle), the gravitational pull on Australia's resources from the north has been growing.

In fact, the latest official data saw China's share of Australia's commodity exports hit 40% in the year to June last year, up from just 7% in 2001. In the process, Australia has become China's largest source of mineral ores, its largest provider of coal, and its second largest source of liquid natural gas (LNG).

Getting most of the attention is the cross-ocean conveyor belt of iron ore (A$40 billion of almost A$58 billion in total iron ore exports went to China in 2010/11), as well as the flow of coal (a smaller A$4.5 billion out of almost A$44 billion in exports globally).

But Australia sends large amounts of its resources to other countries in Asia too. For instance, Japan is the leading destination for its coal. It also has a more diverse resource endowment than coal and ore alone, with plenty of miners of min-

Photo Source: Shutterstock

erals like gold, bauxite, copper, nickel and zinc. These are also being exported to more than just the Chinese. That makes the 'over-reliance-on-China' argument look harder to sustain.

More topical in the commodity debate is whether prices can maintain their upward momentum. especially as many are warning that prices have already peaked, and that this is a boom that cannot go on forever. It has already lasted much longer than shorter mining industry upswings in the late 1960s and early 1980s.

Factor in a surge of investment in new mining projects (see page 15) and the fear is that extra capacity is going to arrive at the same time that global demand shows signs of faltering, especially for the pacesetters like coal and iron ore.

The gloomiest predictions are usually for iron ore, with one forecaster even warning of prices dropping to as low as $70 a tonne by 2016 (the record spot price was more than $200 a tonne in March 2008, although the highest price over a 12-month period was $168 last year).

Not that any of this seems to bother Fortescue Metals – Australia's purest-play iron ore bet – which has just announced a $2 billion bond issue to fund a tripling of its production volumes. Rival miner BHP is also steaming ahead with expan-

70%

Percentage of Australia's iron ore exports that go to China

Data mining

Terms of trade move in Aussie's favour

Critics of Australia's hugely influential mining sector say that it accounts for a relatively low share of Australia's GDP, and a disproportionately small number of its jobs. Another rebuke is that people may be getting rich from mining, but that not enough of them are Australians. Yet figures from the Reserve Bank of Australia (RBA) suggest that about half of receipts from mining operations in Australia flow back to Aussie residents in one way or another. About 10% stays onshore in higher salaries in the sector itself, while a further 25% flows through into services industries like property, transport, law and insurance. On top of that, 15% is captured in taxes and royalty payments, as well as up to 10% more in after-tax profits earned by Australian shareholders.

Of course, this is looking at direct benefits only. The wider point is that the mining boom has also been good for Australian consumers at large. Strong demand for Australia's ore, coal and metals has meant a stronger dollar, which has the added benefit of keeping prices of imports lower for Australian shoppers.

Philip Lowe, the deputy governor at the RBA, has acknowledged that these gains are sometimes "hard to see". But he insisted that they are still real enough. Prices paid by Australians for manufactured goods are, on average, no higher than a decade ago, but household incomes are up by more than 60%.

Two years ago Glenn Stevens, Lowe's boss at the RBA, made a similar point about Australia's new purchasing power, albeit with a more populist touch. Five years before, Stevens noted, a cargo of iron ore leaving Australia would have been worth about 2,200 flat screen TVs arriving in the other direction. But by late 2010, the same shipload was worth 22,000 TVs, in part because television prices had been falling but mostly because of a six-fold increase in the price of the ore itself.

Pile it high

Stevens was simplifying for effect. But his meaning was clear enough: higher terms of trade were leading to a general increase in living standards. This was a "once-in-a-century event" and "the biggest gift the global economy has handed Australia since the gold rush of the 1850s," he concluded.

Photo Source: Shutterstock

sion plans of its own, despite acknowledging last month that industrial demand seemed to be slowing.

"The Chinese economy is shifting, it's changing. Steel growth rates will flatten and they have flattened," the president of BHP's iron ore division told media.

But for the bulls the longer-term story is still one of optimism, especially their view that Asia's urban and industrial transformation has a long way to run. The supporting case would include forecasts from the Reserve Bank of Australia (RBA), which estimate that each Chinese apartment requires almost six tonnes of steel to construct, or that every 10 kilometres of new subway requires an even weightier 75,000 tonnes of steel.

Then it's usually a quick round of export maths. On average, a tonne of new steel consumes about 1.7 tonnes of iron ore, as well as more than half a tonne of coking coal. And Australia is in the fortunate position of having a low-cost, high-quality supply of both, the RBA notes.

Two Aussies, talking Chinese

Iron ore

Top exporters:	BHP Billiton, Rio Tinto, Fortescue
Major locations:	Pilbara (Western Australia)
China's share of Australian exports:	More than 70%

Iron ore is the key input in the production of steel. It is found in two main forms (hematite and magnetite) but almost all of Australia's iron ore production to date has been from hematite, which is a real advantage because steel mills prefer its higher iron grade. The ore is blasted off rock faces, crushed into lumps and then transported to ports for shipment to China.

In 1938 Australia actually banned iron ore exports, believing it was short of domestic supply. The embargo was finally overturned in 1960, when ore was discovered in the Pilbara. It overtook coal as Australia's leading export two years ago and industry executives now talk of a billion tonnes of exports a year by 2020.

Coal

Top exporters:	BHP Billiton, Anglo-American, Rio Tinto, Xstrata
Major locations:	Bowen Basin in Queensland, Hunter Valley in New South Wales
China's share of exports:	About 20% for coking coal

Coal is supplied either as thermal (steaming) coal or coking (metallurgical) coal, with coking coal used in steel production, and thermal coal for electricity generation.

Again, Australia is fortunate, with its coal regarded as high quality (with lower ash and sulphur content) and often recoverable through less-expensive, open-cut operations.

In fact, China has more than double Australia's coal reserves but only about a quarter is coking coal. Most of it is mined in the north and west of the country, meaning it has be shipped south via the eastern seaboard or through congested road and rail routes. That means that price, supply and transport times can all fluctuate, with Australian imports often seen as a more reliable alternative.

6 tonnes

Amount of steel needed for an average apartment in China, as estimated by the Reserve Bank of Australia

Liquid Natural Gas (LNG)

Main exporters:	Chevron, Shell, Exxon, Woodside
Major locations:	Carnarvon Basin (off the coast of Western Australia)
China's share of exports:	more than 15%

China received its first LNG shipment from Australia in 2006 but the industry now stands on the verge of major expansion with the Gorgon and Wheatstone projects (two huge, new fields about 130km and 225km off the coast of western Australia respectively) due to start delivery from 2014.

Photo Source: Reuters

Tyranny, no more

Australia's geography now works in its favour

Whalers, sealers and clipper skippers: they all contributed to an Australian destiny "stamped by sailors," according to Geoffrey Blainey in his 1966 classic *The Tyranny of Distance*.

Might the captains of the dry bulkers that now haul coal and iron ore to Asia be added to an updated version of his list?

Like Donald Horne, author of *The Lucky Country*, Blainey first made his name in the 1960s, describing the forces that had shaped the Australian character.

But for Blainey, it was distance rather than good fortune that was at the heart of the analysis (see page 4, for Horne's take).

One of his main arguments was that – despite the early decades in which the colonists only avoided starvation with the help of visiting ships plying the trade routes up to ports like Calcutta and Canton – Australia depended overwhelmingly on British goods, markets and migrants for its survival. Culturally, politically and commercially, Australians looked back to a country as far away as almost any other in the world. By contrast, Asia was almost an irrelevance.

Still, even back in 1966, Blainey saw signs of a loosening of the umbilical cord between the former colony and its mother country. "The Antipodes were drifting, although where they were drifting no one knew" is the conclusion on his final page.

Next stop, Shanghai?

Maybe we have a better idea today. Contrast that distance of the past with what some now call Australia's "power of proximity" – its relative closeness to many of the world's fastest-growing markets, including China.

A single example: Australia-based iron ore producers like Rio Tinto and BHP Billiton now take about two weeks to ship their ore to Chinese buyers, compared to almost six weeks for their main competitor, Brazil's Vale. As a result, shipping costs for ore from Brazil are as much as two-and-a-half times higher. In response, Vale has launched a fleet of new 400,000-tonne mega-tankers to offset some of the disadvantage. So far it has proved a disastrous ploy, with the Chinese authorities refusing to let the tankers unload at their ports.

Distance is still proving a little tyrannical – but only as far as the Brazilians are concerned...

A natural hedge against dropping demand for dirtier fossil fuel like coal, the offshore LNG fields are expected to become Australia's largest resources projects, pumping A$40 billion into state tax coffers over the next 30 years.

LNG is drilled from the seabed and delivered via sub-sea pipes onshore, before being liquefied and transferred into LNG carriers for shipment. Currently about 60% of China's consumption of LNG is used as heating stock for chemical production, especially fertiliser. Residential consumption and power generation make up the remainder. National energy targets mean that much of the increased LNG supply is likely to go into residential consumption. ■

40%

China's share of Australia's commodity exports

"I'm glad I wasn't born a panda. Suck on that"

Alexander Downer, Australia's Foreign Minister, on hearing that the pandas loaned to Adelaide Zoo in 2007 would be in the mood to mate for just four days a year. Downer later claimed he was misquoted.

Photo Source: Shutterstock

A generation of growth

"It's the old cargo cult mentality of Australia that she'll be right," was the warning from then Australian Treasurer Paul Keating. "This is the lucky country, we can dig up another mound of rock and someone will buy it from us, or we can sell a bit of wheat and bit of wool and we will just sort of muddle through..."

The year was 1986, and Keating was offering his famously bleak diagnosis that Australia was in danger of becoming a "banana republic".

"We must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in," he went on. "It's the price of our commodities – they haven't been so bad in real terms since the Depression..."

Contrast the gloominess of a generation ago with Australia's current economic mood, as it enters its 21st consecutive year of uninterrupted growth, a feat unmatched by any other developed economy in that period.

WiC travelled to Sydney to talk to Paul Bloxham, who joined HSBC two years ago as Chief Economist for Australia and New Zealand after almost 12 years working as an economist at the Reserve Bank of Australia.

We asked him for some background on Australia's economic health, as well as his views on how China had contributed to its current vigour.

So almost a generation of uninterrupted growth for Australia: does it have China to thank?

Well, China has certainly been a factor. But it isn't the only reason. Australia has done a lot of things right in terms of economic reforms, especially in the Hawke and Keating years, which have meant that our export industries were in a position to cash in.

In effect, the economy was "marketised": the dollar was allowed to float, tariff barriers were dismantled, and interest rates were set by the central bank. That put us in a good position when Chinese demand for a number of our resources started to surge about a decade ago.

But it's also true that we've seen China's impact at specific times, especially during the global financial crisis. Once Lehman failed there was a sudden fall in commodity prices and Australian firms braced themselves for a tough time. But China's own policy response – its huge stimulus spending on infrastructure – meant that coal and iron ore prices soon recovered. In fact, the mining boom only seemed to pause for a few weeks. I'd call it a two-week blip. And then Australia rode out the global financial crisis better than any other developed economy (see insert).

Paul Bloxham

Which China data do you watch most closely?

At HSBC, we monitor a wide range of indicators but I tend to focus mostly on the Purchasing Managers' Index data (which HSBC collates), the industrial production figures and the fixed asset investment numbers.

All of these provide a read-through to Chinese demand for Australia's main commodity exports like iron ore and coal, and are worth watching closely.

For example, there might be news that China's headline GDP growth has slowed a little. But we would also want to drill down further, to look at what is happening to fixed as-

Photo Source: Associated Press

set investment. If the those numbers look more robust, it's normally a positive for Australia as it suggests continued demand for commodities.

Of course, another way of thinking about forecasts for Australia's wider economic data is to use commodity prices themselves. Most of these are set by markets at spot prices, so we track them closely too.

So commodities are the key story?

Three in particular – iron ore, coal and gas – seem to get the most focus (see page 12) but Australia actually sells a much wider range of resources. In most cases Asian demand has been crucial, with prices in general now at three and a half times the level of a decade ago in US dollar terms.

But it's not just a story about what Australia has been digging up and selling. Also a boost for growth is that huge sums of capital are being invested in the country's mining-related infrastructure. Simply put, the price gains for many of Australia's commodities have motivated a huge surge in investment. About A$232 billion worth is being spent on projects that are already underway – projects like the A$43 billion Gorgon liquid natural gas field off the coast of Western Australia. Then there is another $232 billion of investment that is in feasibility study stage but will shortly be spent too. Plus there's as much as A$500 billion more investment being talked about based on current commodity prices, and the expectation of future appetite from China and India.

These are multi-year projects and the investment is usually 'baked in'. By that, I mean that once the projects get started, there's not much that can stop them. And that means that there is about A$900 billion worth of investment – or close to 70% of Australia's annual GDP – potentially flowing into mining projects.

This has huge long-term implications for future growth, as well the wider structure of the Australian economy.

"Commodity prices may have peaked for the foreseeable future"

The resources curse?

Foretellers of the resources curse warn that Australia's mining boom is not to be trusted.

For one thing, although mining looks like a spectacular success, the sector doesn't employ many Australians (less than 2% in 2010, according to government data, compared to almost 11% in the retail trade). And for another, in the long run most of the mining profits won't stay in Australia (the industry is 80% foreign-owned).

Paul Cleary, a writer at The Australian and a researcher at the Australian National University, has also suggested that much of the spending on mining projects ends up offshore, citing the example of Chevron's Gorgon project, for which only 7,500 of 260,000 tonnes of steel were fabricated in Australia (the estimate is from the Australian Steel Institute, an industry body).

But the standard concern about resource-cursed economies is that they become too reliant on exports of a particular commodity. Probably the best recent example is the Pacific island of Nauru, once the richest country in the world on the back of a phosphate mining boom, but now largely dependent on foreign aid for its economic survival.

The theory? That as the boom progresses, investment drains away from other sectors of the economy, many of which can't stay competitive under the artificially high exchange rate. In Australia's case, manufacturing, tourism and educational services are said to be suffering the most.

So is Australia at risk? Unlike Nauru, it is hardly dependent on a single commodity.

Plus, many have predicted that there will be plenty of demand for these resources from the emerging economies of Asia for years. That means less exposure to the short-term fluctuations in the economic cycle that pose the greatest danger to resource-cursed economies. In effect, Australia will have the time to manage the process of structural change, leading to enduring benefits for the economy as a whole.

Also thought to be a positive in Australia's case: those same Asian economies now buying its coal and iron ore will get wealthier and provide opportunities for other sectors, like tourism and educational services (see page 22). The hope here is that, even in the event of a slowdown of the mining boom, other sectors of the Aussie economy will be able to take up some of the slack.

Liquid natural gas: soaking up billions of investment dollars

Any downsides here? What about the problems of a 'multi-speed' economy? True, the surge in mining investment has been depriving other sectors of capital. The strong Aussie dollar is also making some of our other exports look less competitive. Hence commentators are talking about a multi-speed or patchwork economy in which the mining companies prosper but many other firms struggle.

It's also why some people talk about Australia as having a "resources curse" (see insert). They are warning that we will live to regret the changes we are seeing within our economy if commodity prices suddenly drop.

The manufacturing sector tends to get most coverage and it does look like low-value add manufacturing businesses will struggle to survive in Australia. Manufacturing made up about 30% of the economy in 1950s and is now down to 7%.

But the sector was declining long before the most recent chapter of the commodities-and-China story. Australian firms have to concentrate on value-add exports in areas in which they can be more competitive. One example would be mining equipment.

So is there a resource curse? I don't think so and I certainly can't see much of an alternative for Australia but to maximise its commodity receipts. Commodities offer us a comparative advantage, so why would we not try to grab it? When there is an opportunity like this, you've got to respond and capitalise on it.

There is also a debate on whether policymakers should be doing more with Australia's commodity largesse, by 'putting something aside for rainy day'. Personally, I wonder whether the government has missed an opportunity to do something more with a mining tax. As I mentioned, commodity prices are three and a half times what they were 10 years ago but our tax system works off commodity volumes, and not their value. It's not unreasonable to ask for higher taxes on higher prices, especially as these are finite resources that belong ultimately to the state governments.

So I think a higher mining tax should have been considered, with some of the proceeds going into a sovereign wealth fund. Plus a higher tax might have slowed the torrent of investment into mining, and diverted some of it into other areas of the economy. That would have meant a slower pace of structural change for the economy as a whole, as well as encouraging more businesses to think beyond the commodity super cycle.

Photo Source: Reuters

Surviving the GFC

"All about China" is one way of explaining how Australia was able to ride out the global financial crisis (GFC), notching up yet another consecutive year of economic growth.

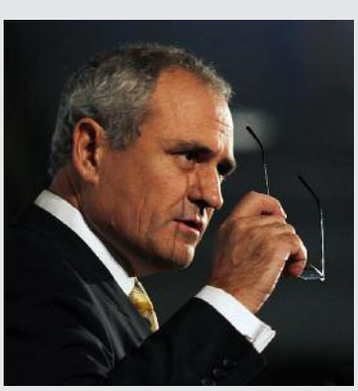
Certainly, Chinese demand for Australian coal and iron ore exports was a factor (as HSBC's Paul Bloxham notes in our main interview). But it wasn't purely a case of the Australians being thrown a lifeline by the Chinese steel industry. The counter argument is that they should get a lot more credit for avoiding the worst that the GFC threw at them.

Why? In part because Australia was in better condition than most when the storm hit. A series of budget surpluses under the former Howard administration left the government with no net debt. The Australian financial sector was also on much firmer footing than its European and American peers: there were no bank runs and there was no real estate crash.

Even so, when the crisis came Australian policymakers also acted decisively, says Peter Hartcher at the Sydney Morning Herald, who credits Canberra with one of the largest stimulus campaigns of the developed economies at 2.9% of GDP (China's own stimulus spending is estimated to have been about 3.1%).

Much of that came as part of a "go early, go hard and go households" policy – as then Treasury Secretary Ken Henry put it – in which more than A$8.5 billion was handed out before Christmas 2009. Consumers were soon out spending and the subsequent slowdown turned out to be milder than many expected.

The Herald's Harthcher calls it the first of the major fiscal stimulus moves by any government, and one which also pre-dated the launch of China's own stimulus plans.



Henry: early, hard and household

Where many Aussie exports end up

How sustainable is Australia's boom?

In terms of the shorter-term outlook, we think commodity prices may have peaked for the foreseeable future. In part that's because of reduced global demand, with economic weakness in Europe and North America also being felt by the Asian manufacturers.

At the same time, the wave of mining investment that I mentioned earlier is going to boost commodity supply. Having flat demand at the same time as increase in supply suggests that prices may dip. That would then feed through into the Australian economy. Unemployment could pick up.

I am also worried about Australia's productivity performance, which has petered out after many years of improvement. Perhaps it's inevitable that there is some slacking in good times – it's almost the price of our recent success. But I think this is an issue that we should be addressing at a policy level. We need to look again at tax reform, at industrial relations and at investment in our domestic infrastructure. If not, growth rates will drop over the longer term.

Still, HSBC's economics team believe that Chinese demand for some of Australia's main exports is going to be a multi-year story. One data point that we have been using is capital stock investment in China on a per capita basis. Despite all the recent spending on roads, railways and airports, the amount of capital per head in China is still only at 8% of US levels. That suggests that there is still more scope for investment ahead, which also means lots more demand for Australian iron ore and Australian coal. We're also moving aggressively into LNG in expectation of strong demand from China.

So that outlook is pretty positive for Australia. Similarly, as Asians get wealthier, there are other opportunities for us to profit. There will be new markets for some of our agricultural exporters as dietary preferences evolve. More middle-class tourists will come to Australia, and more Asian students will study here. It isn't just about commodities – Australia has much more to offer. ■

"It is not the bad qualities, but the good qualities of these alien races that make them so dangerous to us. It is their inexhaustible energy, their power of applying themselves to their new tasks, their endurance and low standard of living that makes them such competitors"

Alfred Deakin, Attorney General during the drafting of the White Australia legislation, in 1901. Deakin, who went on to become Australia's second Prime Minister, was speaking in support of restrictions on Asian immigration.

Photo Source: Reuters

A good yarn, thanks to China

About to get fleeced: most of Australia's wool goes to Chinese buyers

The A$200 billion mark had been passed, the Sydney Morning Herald celebrated last month, in an article looking at investment in liquid natural gas projects. Australia was on track to quadruple its LNG exports by the end of the decade, the newspaper thought.

In days gone by, talk of large-scale investment would have focused as much on land area as capital, to include sheep stations like Mount Margaret in Queensland. At 6,000 square kilometres, Mount Margaret is twice as big as Luxembourg and almost six times the size of Hong Kong. Large enough, in fact, to require its own airstrip for access.

Yet the station – Australia's largest – was sold for just A$12 million two years ago, an infinitesimal amount compared to the sums now being invested in projects like the Gorgon gas fields or the mines of the Pilbara.

Perhaps as a result, Australia's 'softer' commodity exports – the agricultural ones – generally get less media attention than their energy and mineral peers. That's despite Australia's farms earning the country $32.5 billion last year, with wheat, beef, wool, wine, dairy, sugar, barley and lamb all bringing in more than A$1 billion in export receipts.

Sales to China also showed some of the most robust growth, up by almost a third over the year (according to the most recent annual trade data). That followed a gain of 19% the year before.

We've picked wool for a closer look. The wool trade was Australia's first major export business, important enough that the nation's economic fortunes were once said to be "riding on the sheep's back". And although wheat and beef are bigger export contributors on a global basis, wool comes out top in terms of sales flow

33%

Rise in Australia's agricultural exports to China last year

Photo Source: Shutterstock

Matthew Hand and Jonathan Lillie, wool brokers at Fox and Lillie

to China, with revenues exceeding A$2.2 billion.

WiC visited Fox and Lillie, a wool broker headquartered in Melbourne, and spoke to Jonathan Lillie, managing director of Fox and Lillie Rural's direct buying business in Australia, and Matthew Hand, who runs Fox and Lillie's export arm.

Can you give some background on Australia's wool exports?

Matthew Hand: Wool is our third largest agricultural export, after wheat and beef. In the last fiscal year, the industry earned more than A$3 billion in export revenues, with China taking the large majority of our wool. In the final six months of last year almost 70% of it by dollar value was going there. The next biggest market was Italy, with a little below 9%.

Jonathan Lillie: We started to see demand growing for Australian wool in China in the late 1980s. Before then, Fox and Lillie had been selling wool into Hong Kong for a long time, almost 40 years. But much more of it was starting to end up in mills in Guangdong province just over the border, where the textile sector had taken off. So we had a solid background for going direct into China, with the right experience and the right contacts.

Our problems were more at home, with the pricing system – the (RPS) Reserve Price Scheme. The Australian Wool Corporation (AWC), which was backed by the federal government, created a reserve price for all wool sold in Australia. If the wool for sale didn't make the reserve price it was then bought by the AWC as stock. But they set the minimum price far too high, which helped create a huge surge in production. It was crazy. At the prices they were reserving wool, they were pretty much guaranteeing every farmer a Rolls Royce.

Then the Communist bloc collapsed, Russian demand slumped and prices plummeted. The AWC had to buy and stockpile almost all of Australia's wool for two years. They ended up with a billion kilos of wool in stock, more than a year's production!

Of course, this wasn't sustainable and the reserve price system imploded. But then we had to work through this massive stockpile of wool. It has only been in the last 10 years – with the supply distortions removed, and market pricing becoming the norm – that prices have strengthened significantly.

It meant we lost out on a lot of the potential return, even as Chinese demand was growing. Back then, the Australian government was paying farmers $10 for every sheep they shot! Now we see sheep being sold at $80 a head.

A$3 billion
Australia's export revenues from wool

So what are Fox and Lillie's main activities in the wool trade?

Lillie: We have a broking arm that works with the Australian woolgrowers, where we collect, test and catalogue the wool on their behalf so that it is ready for auc-

"We have export sales of about A$220m globally. About 50% of that business in volume terms goes to China"

Jonathan Lillie

tion. Then we sell it and charge a commission. About 85% of Australian wool is still sold through auction.

We also link some of that business to our export trade through contracts made with the wool mills. So basically we are linking the farms directly to overseas buyers. We have export sales of about A$220 milllion globally.

About 50% of that business in volume terms goes to China, with a small portion ending up at our own wool-combing plant in Jiangsu province. We don't do any spinning ourselves but we do some of the earlier-stage processing at the plant, which is a joint venture with two Chinese partners. The wool is then sold to high-end knitwear makers, who blend it with cashmere and angora.

So you've moved away from wool processing in Australia?

Lillie: We used to have three processing plants in Victoria. But we had to close them down. In fact there are only three or four plants left in Australia now. There used to be dozens of them but they just couldn't compete on a cost basis. They've disappeared or moved to China to establish ventures similar to our own plant.

Are your sales currently affected by the strong Aussie dollar?

Hand: A little bit, but in the wool industry we've had such strong growth in demand that we've not felt the impact of the strong currency as much as we might have. Having said that, if the dollar had been at 77 US cents rather than above parity, our sales performance might have been spectacular.

We've also benefitted from tightness of supply. That dates back to the 1990s slump, when a lot of farmers gave up on sheep farming after losing confidence in the outlook for wool prices following the collapse of the RPS. Sheep stocks in Australia are still being replenished today.

How is Australian wool regarded in China?

Hand: Wool counts for just 2.5% of the global market for apparel fibres so the industry knows that it needs to position itself at the luxury end.

Plus it has to compete with man-made fibre, of which China is the leading producer.

Fortunately, Australian wool is the Merino variety, which is top quality (see adjacent box). It's both warm and cool to wear, it breathes – so to speak – and it is soft to touch. And it doesn't retain dampness from sweating. All of those attributes make it suitable for high-end fashion. As a result, the best overcoats and the super-fine suits are all made from Australian wool of 17.5 microns and finer.

Hugo Boss, Canale and Zegna suits: they all start out on Australian sheep.

So the industry watches fashion trends closely?

Hand: Yes, and we see the growing Chinese interest in luxury labels as a major positive. It's hard to know exactly how much of the wool we sell into China ends up being sold as apparel to Chinese customers rather than being sent overseas for export. But we do know that the share of domestic sales is going up. Demand for fine wool products is on the up and there's scope for the market to grow further: spend per capita on clothing in the BRICs is only about 10% of the average

Photo Source: Shutterstock

Lambs, not lions

Donald Horne, writing in *The Lucky Country* in 1964, lauded merino wool as one of Australia's really significant world innovations. Merino rams were a worthy symbol of national integrity, he thought, hence generations of Australians had been taught to venerate sheep, rather than lions or eagles.

Horne also warned that changes in the marketplace – particularly the emergence of synthetic fabrics – meant that Australian wool farmers had to focus on quality and standards, as well as spend more on marketing and research.

He was right, of course. But even Horne could not have foreseen quite how much the wool industry would come to look at Chinese demand as crucial for its future prospects.

in developed markets and Chinese wool consumption per capita trails that of most other countries.

Lillie: It's a change of mindset for us, too. Back in the early 1990s, when we were trying to reduce our stockpile of unsold wool, the saying was that we could sort things out if we put a pair of socks on every Chinese citizen.

Now we want to put a suit on them!

It's an exciting prospect, although we still have to compete with other wool producing countries, including China itself. Fortunately Chinese sheep farmers produce wool of a lower quality. It goes into low-end knitwear, carpets and furnishing textiles, which isn't really an area that we compete in. They're trying to develop similar Merino bloodstock to our own (when times were tough in the early 1990s some of our farmers sold them stock) but it will take a long time to get close to our quality.

That means we've got to market ourselves correctly, at the top end.

In the same way, I'm also excited about our aquaculture business, where we are also looking to develop more of a luxury label – in this case for abalone.

We've invested in abalone farming in Australia and also manage Ausab, a company that acts as a single marketing arm for seven Australian abalone farms, selling over 400 tonnes of abalone annually. More than half the current production of frozen abalone is going to Japan. It's sashimi grade, and they eat it raw. But our focus now is on developing a new abalone brand for China, where we are looking for a partner, someone experienced in branded food distribution.

At the moment, much of China's abalone consumption is being met with their domestic production but we think there's a big opportunity to sell to a higher-end market. Our farmed abalone is also produced sustainably and we are growing it in the Southern Ocean, one of the most pristine marine environments in the world. So our market positioning needs to be right.

It's a similar story to the wool – we have to sell at the top end.

How about the view that Australia needs to be wary of Chinese activity in its agribusiness sector?

Hand: Well, there are some signs of Chinese interest in Australian farming land. But Middle Eastern countries have been active too and further back it was the Japanese doing most of the buying. More recently, there was a Chinese bid for a signature farming property in western Victoria and some people expressed their concern.

Lillie: But look, anyone buying businesses here has to operate within Australian laws. And farming's not easy: it's not as if the Chinese are going to come down here and gives us a lesson in how to do it.

Anyway, for wool our relationship with the Chinese is pretty good. It has been built up over time and we've both developed greater familiarity through trading together. We also make the effort to travel up to China frequently every year. So I think that means we're more comfortable with all the talk about Chinese investment here, maybe more so than some of the other agricultural producers. ■

Korean War wool boom

The last time that Australia was talking about a commodity boom quite like the current one was in the early 1950s, when wool rose to a record price per pound. Industry profits rose to unprecedented levels, sparking an inflationary crisis across the wider Australian economy.

The reason was American buying prompted by the Korean War, much of which was fought in bitterly cold winter temperatures. As the Americans rushed to stockpile military uniforms, the wool price tripled almost overnight and was soon supporting terms of trade (see page XX) not witnessed again in Australia until the present day.

Unlike the current boom, the surge was short-lived with prices peaking in 1951 before plunging by half the following year as US buying tailed off. By then, inflation was running at 22%. Later in the 1950s, wool dropped in price again, especially with new competition from synthetic fibres like nylon and polyester.

Did China play much of a role in wool's brief moment in the sun? Yes, although only in an indirect sense, as a combatant in the Korean conflict. Thousands of Chinese troops crossed the Yalu River in October 1950, engaging UN forces repeatedly until the signing of an armistice in mid-1953. Estimates today are that at least 400,000 Chinese troops were killed during the hostilities.

"This will be the first time since the rise of the Spanish Empire 500 years ago that a non-Western power will be the dominant global economic power..."
Kevin Rudd, predicting this year that China will have the world's biggest economy by the end of the decade.

Photo Source: AKG

Set for the next wave?

Bondi beach: one of Australia's iconic spots for visitors

While commodities make up the largest share of Australia's exports to China, the industry usually featuring in third place in value terms (or sometimes fourth, depending on the price of gold) might well surprise a few WiC readers.

It's educational services, or the sale of educational courses to international students.

In fact, Australia's services industries in general matter hugely to its economic health, contributing a much higher share of GDP (almost 80%) versus resources and manufacturing combined, as well as accounting for four in five jobs.

Other service industries like tourism – another leading export, like education – have also done well over the last decade in targeting the Chinese as customers.

But over the last two years both industries have run into headwinds, with the strong Australian dollar usually singled out for blame. Simply put, it has become much more expensive to come to Australia on holiday or to study.

Yet policymakers see rosier times ahead, prompting Canberra's staging of a "Australia-China 2.0" trade mission last year to push for the next act of commercial engagement with the Chinese. The plan is to broaden the Middle Kingdom's interest beyond its current commodity focus, in hope that millions of newly middle-class Chinese will develop a wider interest in what Australia has to offer. That might be a family holiday overseas, the buying of a beachside apartment for retirement, or even a university education for the kids.

Additionally, professional services firms in areas like banking, financial management, legal services and logistics are all hopeful of picking up more business as the Chinese economy further matures.

How do some of these industries see China as an opportunity? WiC talked first to an expert in Australia's education industry, which has relied on large numbers of Chinese students for much of its growth. Then we spoke to a specialist from the financial services industry, asking whether there were signs of Australia's huge pension fund industry taking more notice of China as an investment destination.

80%

Services contribution to Australia's GDP

Photo Source: Shutterstock

Taking Chinese classes

Simon Marginson is a Professor of Higher Education in the Centre for the Study of Higher Education (CSHE) at the University of Melbourne. He specialises in higher education policy and international higher education, and is one of the most highly cited researchers in these fields.

WiC met Professor Marginson in Melbourne to ask him about the surge in Chinese students choosing to study in Australia, as well as his thoughts on the prospects for the sector.

How has the foreign student sector evolved?

Australia has run a large international intake since the late 1980s, when government funding for higher education was cut back. Universities knew they had to find new income to fill the hole and foreign students were the proposed solution. So we went furiously into marketing mode.

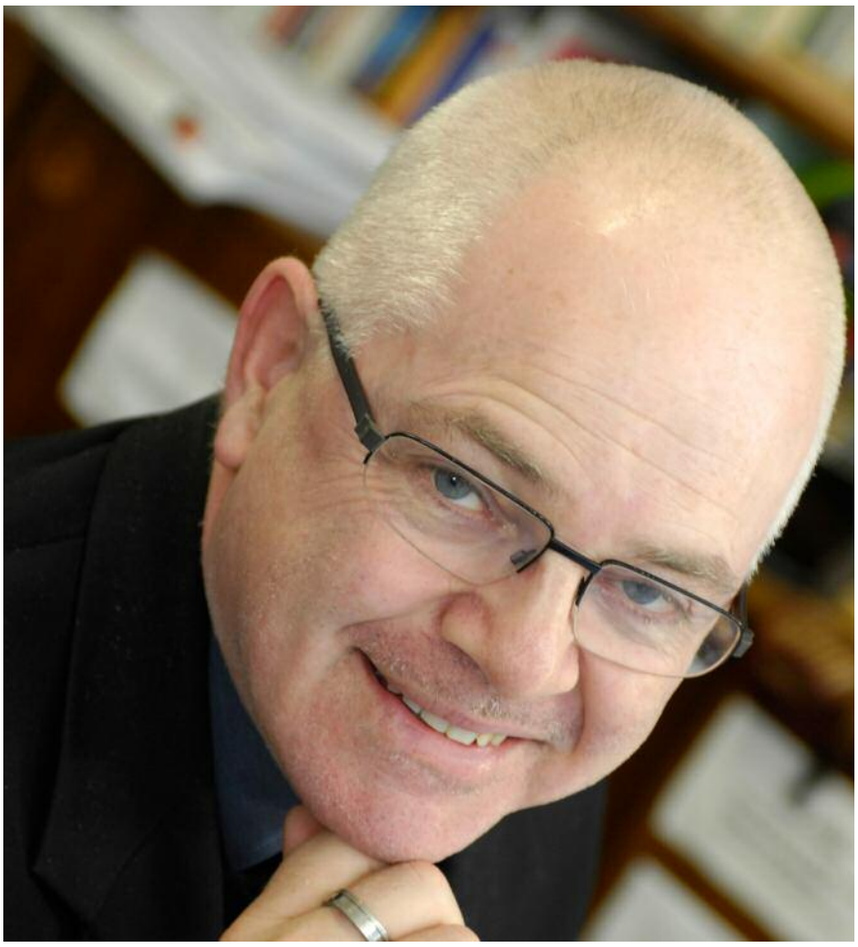
Generally, most of our universities are not regarded as being as academically strong as those in the UK and US. But we've proved very good at providing mass, executive-level education, having retooled ourselves almost as quasi-corporations.

Last year there were 550,000 international students in Australia, and between 1990 and 2009 the annual increase compounded at a rate of 17%.

That is pretty significant growth: 17% per year for 20 years, until 2010 when student numbers suddenly dropped.

And Asia has been a target market?

The first few thousand Asian students came to Australia in the 1950s as part of the



Professor Simon Marginson: studying Chinese, but not the language

Colombo Plan. Essentially this was a scheme designed to attract students from former British Empire countries, with an anti-Communist purpose. They were a strong group academically, studying for degrees in subjects like medicine and law. They were paid for by government subsidy.

Later on there was more of a pick-up in students coming from Singapore, Malaysia and Hong Kong, often to study business studies or technologies. Many were ethnic Chinese. By the late 1970s this was the biggest group of overseas students, although they paid their own way in tuition fees.

Then, as I mentioned, universities suddenly had to start filling the funding hole from the late 1980s onwards, which is when the commercial phase really kicked in. This time it was students from the PRC [People's Republic of China] who would become the major source of new arrivals, although India was also another major market. I estimate that ethnic Chinese made up about half of the foreign student numbers last year, the largest group coming from mainland China.

A potential client

Why do the Chinese choose Australia?

Aside from getting the academic qualifications, all the evidence says that they want to experience the Aussie way of life. Another primary objective is to improve their English language skills. Actually, many students report being disappointed on both counts. They don't get the full immersion in the language nor the culture that they hoped for – because they didn't mix much with Australians and hung out more with other Chinese instead.

There are three main types of study on offer: higher degree education, vocational & educational (VET) training, and shorter English language training. Most Chinese tend to go into higher education courses. By comparison, more of the Indian students opt for vocational courses. Sometimes students will also opt for English language training, often as a foundation year before starting higher education proper. But that adds another year of expenses. For students coming from a provincial Chinese city, it may not be something that they can afford. So a typical pattern is to come straight into the first year of higher education degree.

Sounds daunting: how do they get on?

Most arrive with a reasonable reading standard, as well as moderate writing skills. But they struggle with English language conversation. A lot of students never reach fluency, although their understanding does develop with time. We should be doing more to help them on the English language side. But their fees are going instead into funding degrees for domestic undergraduates, as well as subsidising university research efforts.

Those first three months are always a tough transition for the new arrivals. Fortunately they're all pretty bright. I am often amazed at what they manage to achieve.

Are they marked to the same academic standards?

Some of my colleagues will tell you that there's no compromise and that all students are marked the same, irrespective of nationality. But the institutions also know that they rely on international students for much of their funding. And others say it's fair to make some allowance for those who don't have English as a first language. Of course, it's easier to offer a little more leeway in the sciences or in courses like accounting rather than in some of the subjects where expression has to be more of a factor.

Which subjects do the Chinese prefer?

Mostly, they study engineering, technology and especially business studies. If they want to pursue the humanities, it's more likely they will go to the UK. The US also gets more applications for pure sciences than we do here.

The overwhelming majority of PRC students in Australia are opting for business studies. This is where our universities have chosen to specialise: in high-volume, medium-quality business courses, designed to meet market demand.

What do they do next?

Increasingly we've seen graduates staying in Australia. They now have access to working visas granted post-graduation. Working here offers a chance to offset

Photo Source: Shutterstock

some of the costs of their education, as well as being seen as way of improving language proficiency levels or getting the type of work experience required to apply for permanent residency.

In fact, immigration policy is crucial to the industry's health. The 20 years to 2008 were generally supportive, with many foreign students gaining permanent residency because they graduated in occupations on the government's preferred occupations list; for example, in accounting.

The mood changed during the 2010 national elections, when both the main political parties turned away from the skilled migrant narrative to one that looked more anti-immigration in design.

It was a real rollercoaster effect. There was a 40% cut in the annual intake of 250,000 short-term migrants – many of who were coming into Australia to study. Student visa processing was slowed and tough financial support tests were imposed. Students had to show they or their families had A$18,000 for each year of study, something that wasn't being enforced elsewhere.

The rules allowing for migration after graduation also changed, making it more difficult to get permanent residency. The preferred occupations list was dropped, closing special migration-related programs in areas such as hairdresser training. There were tougher tests on language proficiency, and a new requirement for post-graduation work experience in an occupation related to the programme of study. And all of this happened over the same 12-month period, meaning that both applications and enrolments from overseas students plummeted.

An Aussie education is getting more costly as the dollar appreciates

How about the impact of a stronger Aussie dollar?

Well, it's been an issue but my own view is that it has not been as influential as the changes to the visa and work permit rules. Certainly, it's making our course fees more expensive which means it will be harder to win back lost business.

After the downturn started, Chinese numbers held up a better than other national groups, mostly because there were fewer Chinese students doing the VET training that was being most curtailed, like the hairdressing and pastry making courses. But then applications from China began to fall as well. They were down about 20% in the second half of last year, compared to the same period in 2010.

We rely on agents in China for 80% of our student volume but it has been taking three months to get a visa, compared to about a month for applications to the US schools. With the delays and the financial test, agents started sending more Chinese students to the UK and, especially, to the US, where numbers from China have been hitting record levels. A lot of that is business that we've lost. It has been re-routed.

20%

Decline in applications to study in Australia by Chinese last year – largely because of more onerous visa requirements

So the government realised that it was losing 'export' revenue?

Well, it noticed that student enrolments were dropping. Unfortunately, I think that policymakers still see the sector less in terms of its export contribution and more as part of their effort to get the budget balanced.

In September last year, there was another change of approach. Because the government doesn't want to spend more money itself on higher education, it has made the immigration rules more permissive again in an effort to attract more overseas students. The message is now that university applications should be fast-tracked. The A$18,000-a-year requirement has been dropped and the work visa options for the post-education period have also changed, with graduates now having access to a new 2-4 year visa, depending on programme of study. PhD graduates get four years.

So now we're being encouraged to push for overseas enrolments once more, even though it will take time to regain the same momentum.

Educational exports rate consistently as one of Australia's leaders, normally in third or fourth place. But does the industry get the attention it deserves? I think if there had been a comparable slowdown in other areas of the economy – mining revenues dropping 15%, for instance – there would have been much more of a policy panic. But education isn't treated in the same way, despite the fact that it sustains 125,000 jobs, plus another three times that indirectly. Here in the city of Melbourne, it is easily our biggest export, with benefits spilling over into areas like property and retail.

Photo Source: Shutterstock

What's next for the sector?
A policy rethink is overdue because what has helped us in the past in pulling in students is no longer quite as helpful today.

When Australia's education brand was first promoted, we didn't position ourselves strongly enough as a high-quality academic experience.

Instead, the selling points tended to be mixed in with the wider tourism benefits, the beaches and the lifestyle, and student safety.

The message worked well in attracting interest but we've become a bit imprisoned by it. Today, it means that our top universities are not taken sufficiently seriously offshore. They're not seen as the premium tier in the way that universities in the UK and the US are regarded. We're classed as a notch below, though we have four universities in the world top 100 and seven in the top 200. Only five other countries are ahead of us on those measures.

But our brand matters in competitive terms if we are going to convince students to come to Australia rather than to other countries. In relation to the US, even if your kids are going to Florida State they are still going to a market boosted by the reputations of places like Harvard and Princeton. Oxbridge has a similar effect for UK institutions. But we're still seen too much as a mass trainer with beaches, when we should be looking to bolster our reputation by investing more in what we can offer, recruiting on the basis of academic quality, and then marketing ourselves strongly from that perspective.

For instance we could be targeting many more Chinese students of the highest quality, who could potentially become high-value migrants at a later date. And we could be partnering with more of the leading Chinese universities, which would be easier if we made more of our academic reputation.

4

Number of Australian universities ranked in the top 100 globally

Money talks, but are Aussie investors listening?

During WiC's trip to Australia last month we talked to Martin Goss, a senior investment consultant at Towers Watson's Australian practice, which advises super funds, foundations, endowments and life insurance clients.

Australian pension (superannuation or 'super') assets are among the developed world's fastest growing, totalling US$1.3 trillion last year. We asked Towers Watson whether Australia's super funds are now looking at opportunities to invest more in China.

You organised a China tour last year?
Yes, we took our own senior team, as well as a number of our clients from the local markets (China and Hong Kong) and overseas. Australian clients were particularly well represented.

The trip was arranged because China kept coming up in discussion. We were also aware that Chinese fund managers were receiving frequent visits from offshore investors and we wanted to go there ourselves and look at China from the inside, rather than from an Australian, American or British viewpoint.

So we visited Shanghai, Beijing and Hong Kong, talking to people from a range of backgrounds, including regulators, representatives of state-owned enterprises and some of the larger fund managers.

Certainly, all of our clients now see China as a massive growth story. But what's less obvious as an outsider is how best to buy into it and make productive investment decisions. Sure, in ten years time, the opportunities may well open up more widely. But at the moment, it's tougher to see the openings in the same way that you might look at more traditional developed markets, especially for more passive or conservative investors.

The trip was designed to address some of these issues, to understand more about the different asset classes that are available and to think about how best to shape decisions on China in future.

Has a pension plan: Martin Goss

Australian investors: not yet focused on China

So, not much Australian superannuation money is China-focused yet?
There isn't so much direct investment happening. Generally the super funds will pick a global manager for emerging markets and China will be a component of that investment choice rather than as a standalone or specific market allocation.

Most of these emerging markets specialists are based in the leading financial hubs. So any discussion between super funds and their preferred fund managers about China is more likely to be happening in places like London and New York, than in Australia or in China itself.

There are a small number of cases in which more specific mandates might be starting to emerge, where a super fund might pick a manager that it likes and then ask for the portfolio to be more slanted in a chosen direction or theme, like asking for more BRICs coverage.

And occasionally an individual fund manager may pitch an idea to a super fund client to address a particular opportunity. Perhaps a private equity option in real estate, for instance. Macquarie tried something similar before the global financial crisis, based on a Chinese property theme.

But, generally, most of our super fund clients are not looking at micro-level investment decisions for China. Instead, they're thinking first about the types of investment they want. So they'll pick an asset allocation – split between listed equity markets, fixed income, and alternative investments like property, infrastructure or private equity. Within that allocation there will often be a discrete emerging markets allocation in listed equities, potentially a small amount of emerging markets debt and potentially a standalone exposure to emerging market currencies. Investments in China then fit into this more diversified approach based on the decisions made by the fund managers within these emerging market allocations, as well as via the developed market allocations (to the extent that a fund manager has an all-country mandate).

$1.3 trillion

Size of Australia's superannuation (i.e. pension fund) assets

That sounds like China-specific investments could come quite low in the pecking order?
Well, some of the larger funds might then take more of a thematic view in which China features as a preference. That could mean that they go looking for a manager who encompasses a similar view.

That was really the purpose of our trip to China with some of our clients last year, to help them look at the China theme and understand the different asset classes on offer.

Do you invest (or allow your fund managers to invest) in Chinese equities listed in Hong Kong, Shanghai or Shenzhen? Are you going to consider H-shares or red-chips? What should you know about QFII investment quota or *dim sum* debt? What private equity options might be on the table? For the people running the top super funds it's all about drilling down into China as an investment opportunity and then perhaps selecting a fund manager based partly on his or her aptitude in a particular area.

Photo Source: Reuters

Investing in China: a bridge too far

Are there concerns that super funds may have about investing in China?
There are governance issues that the leading Australian funds have to consider. Do they feel like they're on a level playing field when they invest in China? Are they getting access to the same information in the marketplace?

Also, a decision to allocate 3% of your portfolio to China would be a big bet, especially when most super funds already have solid exposure to the China theme through their holdings of some Australian companies.

For instance, if you already own some of the top Australian resources firms, you already have China exposure there indirectly, via Chinese demand for commodities like iron ore, coal or natural gas. Super funds need to be aware of this portfolio risk, as well as the need to stay diversified.

That means that investors are also thinking more about how to model China risk within their overall risk management approach. But it's a hugely complex task to map the correlations between the Chinese and Australian economies, and then to infer what these relationships might mean for different asset classes and equity prices. Instead, investors seem to be assessing it in more of a qualitative way, by looking for the more obvious linkages and triggers, and then trying to gauge the overall impact if Chinese growth falls or there is some kind of slowdown or shock.

How about areas where Australian funds have expertise, like infrastructure investment? Chinese spending has been huge in this sector.
There's not too much going on in investment in Chinese infrastructure at the moment. The problem is that investors want to buy into projects with long-term, stable cash flows. But finding mature, reliable assets can be a challenge. To be fair, that's not just for China. It's been hard enough in other markets, including Australia too!

There's also the question of which countries actually need the capital for infrastructure investment. Places like the US and Europe have governments and banks needing to raise capital for projects that governments are struggling to finance. But capital seems more readily available in China, so the government doesn't need to look overseas for it. And even if projects do come up for foreign investors, they need to be structured in a way that the participants are comfortable with the forecast for returns, as well as their own shareholding rights. This is still an area that many investors need to get more comfortable with.

More widely, what's your take on Australia's chance of becoming a financial hub in Asia?
Well, it's going to be a challenge. The major obstacles are scale and distance. Travelling from Australia to Asia isn't too different to travelling from London to Asia. Yes, there's a time zone advantage. But not a travel time advantage.

Also, the pool of capital sitting in Australia isn't going to be as big as some of

> **"If you already own some of the top Australian resources firms, you already have indirect China exposure"**
>
> **Martin Goss**

Photo Source: Shutterstock

the other Asian hubs, which also look like they will enjoy faster growth in the years ahead. Where could Shanghai be in 50 years, for example?

Having said that, it's true that our financial sector has been more robust than others in coping with the global financial crisis. It helped that our banks were more conservative pre-GFC, plus we've had our resources sector keeping us going through the worst of it. But in future I believe that the Australian financial sector's focus is likely to remain primarily domestic. And the longer-term trends mean it will be tough to compete with Asian financial hubs for a greater share of regional business. ■

"Until the Chinese government succeeds in hauling its standards up to those of the West, the precautionary principle would dictate that one not consume foods made in China."

Bob Carr, blogging on China before his recent appointment as Australian Foreign Minister. Carr said later that the views he had expressed were made as a private citizen.

At the coalface

WiC concluded its trip to Australia with a visit to two of HSBC's executive team in Sydney.

We asked Ken Tay, Head of the China Desk, and Andrew Skinner, Head of Trade and Supply Chain in Australia, how they were seeing deeper Sino-Australian trade ties at work in their respective roles at HSBC.

How have you seen trade between China and Australia evolve?

Andrew Skinner: I've been working in trade finance in Australia for more than 20 years and I remember the early days in which China was almost a mystical market, something to aspire to rather than to trade with on a daily basis.

But then China started to come more onto the commercial radar. Some of the first signs of that were in wool exports, when the mainland Chinese began to purchase directly and in large volumes. Before that Japan, Taiwan and Europe were taking most of the Aussie wool.

Then a wider range of goods started to be traded. Initially there were teething problems with trade documents and payment cycles but now the process has improved significantly, with China centre-stage for Australian exports in a number of categories. In the past five years especially, the growth in export turnover with China has been huge, reaching just over A$64.5 billion in 2011, according to data from the Australian Bureau of Statistics.

Ken Tay: I joined HSBC in 2005, initially in a corporate relationship management role. The following year I opened my first commercial account for a Chinese state-owned enterprise and I have been working closely with Chinese companies ever since. I am now running the China Desk in Australia, where much of my work is supporting inbound investment into Australia. I also work closely with the HSBC international desk in Shanghai that oversees client activity in China.

What are the key trends as far as Australian firms are concerned?

Skinner: Some businesses in Australia are still taking the view that trading with China is too complex or that it's risky to move goods or capital cross-border. But it really isn't as hard as they think. Plenty of Australian companies are already doing it and banks like HSBC can provide supply chain solutions to mitigate the risks, as well as finance the working capital cycle.

Tay: One trend in particular has stood out in HSBC's biannual Trade Confidence Index (TCI) survey. Although China has been cited as the most promising market by Australian importers and exporters in every survey since the TCI was launched, our companies have been lagging behind on one of the most important new developments: the internationalisation of the renminbi.

Take the most recent results: only 7% of the Australian firms surveyed said that they expected to use the Chinese currency for trade settlement in the following six-month period. That is below traders in other regions like the Middle East and Southeast Asia, who seem to be grasping the renminbi story faster. It's also a worry when only 7% of Australian respondents are thinking about the renminbi as a trade currency but a

Only 7%

Australian companies who expect to transact in renminbi (RMB)

Andrew Skinner encourages more Australian firms to branch out into China

Ken Tay: making the introductions between Chinese and Australian clients

much higher 48% of respondents in China report being renminbi-ready.

If that doesn't start to change, the risk is that some Chinese firms might move towards customers or business partners who are more comfortable with the renminbi.

Given this, we are making a point of talking to our Australian clients about considering the renminbi more. At the very least they should be looking at getting invoices quoted in it as well as in dollars, with the potential for 5-7% in savings in transaction costs in many cases.

I think it's fair to say that historically Australian firms have tended to be conservative in this area. Perhaps the rapid evolution of currency policy in China has also left them a little uncertain, preferring to wait for the new practices to bed down. But the rules are already clear enough for the core trading, settlement and cash management tasks. Finance bosses should be considering the renminbi as an option.

Where has HSBC been most active in helping its Australian clients?

Skinner: With the major uptick in the resources business, letters of credit (LCs) are a key growth area. Because of our global connectivity, we are in a good position to see changing trends and can support our clients accordingly.

One example is the increasing usage of term LCs rather than sight LCs. Traditionally, the letters of credit issued have predominantly been sight LCs. Basically the buyer has to pay once their bank receives compliant documents. Under term arrangements, the documents and payment terms are accepted but the purchaser doesn't have to pay immediately.

Normally under the sight arrangement it might take up to 14 days for documents to arrive, get processed and for payment to be made. But recently we've been seeing Chinese importers asking for 90 or 120 or even 360-day terms from Australian suppliers.

In part, that highlights tighter credit conditions currently in China. But for the types of commodity flows in which Australian exporters are active, it can also reflect things like infrastructure bottlenecks at ports, where it might be taking a Chinese buyer longer to get the imported product off the boat, into the warehouse and through to the final customer. As a result, buyers may need a longer cycle to collect payment before they can pay the Australian exporter.

In our commodities trade business we are also seeing more demand from buyers for stockpile financing, in cases when they may need to accumulate bulk shipments. Perhaps that's because there is seasonality in the supply of a particular commodity or it might be due to the impact of weather conditions on the

360 days

The payment terms now being requested by some Chinese buyers

supply chain. Ports in northern China can freeze in winter, for instance.

Obviously, we look at all of these arrangements closely, working with our colleagues on the ground in China to make sure that the terms granted are the appropriate ones.

Another trend we are seeing is that companies are reducing the amount of business conducted through middlemen. For Australian firms that means trading less through Hong Kong into China or via mainland agents, who might charge as much as 14% for the service. Also, more Chinese firms have been looking to set up in Australia themselves and trade directly. Both trends mean that our clients need more of the specialist advice that we can provide, as well as the working capital support and risk mitigation required for higher-volume trade flows.

Some of the Chinese companies looking to make infrastructure investments or commit to longer-term sales contracts may also want to use Chinese banks that aren't well known to the Australian counterparties. So we are sometimes asked to front these deals by issuing bank guarantees. It's a strong growth area for us.

In Western Australia we've also added structured commodity trade resources to provide bespoke offerings for larger clients in both hard and soft commodities through the whole supply chain. This is a huge opportunity for us, with 40% of Australia's exports now coming out of Western Australia.

Golden opportunity for Aussie wheat?

Is there much going on outside of hard commodities?

Skinner: Yes, we're also seeing growth in agricultural commodities like wool, grain and meat. Everyone knows the bigger picture story here. As Asia grows in population and wealth, we're seeing changes in diet and lifestyle. Australia seems well positioned to capitalise on the growing middle class and the need for food security.

We also believe that HSBC is busier than most in trade flow terms, thanks to our extensive presence in China. The most recent data from the Australian Bureau of Statistics suggests goods and services exports to China grew by 23.5% last year in value terms. But HSBC Australia's outbound trade business has been increasing faster than that, helped by our China footprint. Our record in operating over a long period there is respected in the Australian marketplace.

Tay: There are definite advantages when the same bank is on both ends of a trade flow. An obvious one is that HSBC will only need to look at the trade documents once if we're on both sides of the deal, so a vendor in Australia can expect to get paid faster.

Having a presence in both markets also means that we are active in helping Chinese clients source a particular good from Australia. Our China Desk helps to facilitate this by making introductions for companies that we know in China to suppliers that we are familiar with in Australia.

For us, having pre-existing relationships with both sides to a business deal also makes credit decisions more immediate and straightforward.

We can help with business development from the opposite direction too. For instance, we assisted a junior miner in Australia recently that was looking to ramp up production but wanted to find an off-take partner to buy the additional output first. We made the introductions through our client roster in China.

We're in a good position, We have a much larger network than the other Australian banks in China, but we also have wider coverage here in Australia than the Chinese banks.

That works to our advantage – and to the benefit of our clients. ■

"To speak Chinese is not to know China. Many examples can be found of people who speak Mandarin to a high level but who do not understand how China works. They may have learned their Chinese shut up in their study reading the Analects."

Geoff Raby, then Australia's ambassador in Beijing, speaking to the press in May last year. The comments were widely interpreted as a dig at his boss Kevin Rudd, who was serving as Foreign Minister.

Photo Source: Reuters

How well do you know China?

Week in China is an easy-to-read publication that's specially designed to help the busy executive better understand China and its 1.3 billion consumers. Each week it offers an unbiased, insightful and efficient digest of what's happening in China.

The main focus is business: *Week in China* covers over 20 industries and sheds light on what has led to success and failure – both for local tycoons and multinationals. However, the magazine also analyses important social trends and offers occasional insights on subjects as diverse as the origins of Chinese tea and the battle strategies of Zhuge Liang.

Thanks to a team of locally-based researchers, *Week in China* publishes content you won't read in your morning newspaper. And by scanning the local press, *Week in China* is often first to pick up on a big policy change that could affect your industry. Now in its fourth year, *Week in China* can be read in a variety of formats: via an iPad app, on an iPhone or on a Blackberry, as well as online.

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Week in China