

BEHIND THE HEADLINES: WHY AUSTRALIAN COMPANIES ARE STILL DOING BUSINESS WITH CHINA

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Executive summary

The political relationship between Canberra and Beijing started going off the rails in 2016. The first casualty was a diplomatic freeze. In 2020, political tensions spilled over to disrupt around a dozen Australian goods exports. The Australian government responded by loudly urging businesses to diversify as geopolitical risks jumped.

Yet despite the apparent odds, this report documents that Australian executives are still keen on doing business with China and fully intend to continue to do so. This chimes with data from the Australian Bureau of Statistics showing that more Australian businesses are engaging with China than ever before and the annual value of total two-way trade continues to bounce off record highs, \$267 billion at latest count.

'When the tariffs [on Australian wine] happened, everyone said you have to take China off your game plan. But I was like, 'No, it stays on there'. We remain committed to China, we are just going to work out a different way to achieve it...We continue to have strong engagement across the board with China.'

Tim Ford

Chief Executive Officer, Treasury Wine Estates

We hear directly from business leaders themselves about why their interest and commitment to the China market remains. These are the people who have interacted with China on a daily basis for many years – an experience which is often much longer than the ministerial careers of the politicians of the day. These are also the people with most to lose if things go wrong. Trade strikes have certainly been a wake-up call and business leaders recognise that geopolitical risks have increased. They see benefits from market diversification. The old days – described by one executive as a 'gold rush' – are over. But this is only part of the picture.

1. The opportunities in China haven't disappeared. From natural resources like iron ore and liquefied natural gas (LNG), to quality food products and cutting-edge healthcare, the basic economic complementarities between Australia and China kept shining through. No other market is building more infrastructure or adding more people to its middle-class each year.

'The growth of Fortescue is intrinsically linked to meeting the iron ore supply gap in China. Today our Chinese customers remain our key market, accounting for almost 90 percent of our FY21 revenue.'

Elizabeth Gaines

Chief Executive Officer, Fortescue Metals Group

2. China is not just a market. It's a key supplier and collaborator on innovation too. An exposure to China as a market raised awareness around opportunities more generally. Many Australian business leaders no longer see their relationship with China solely through the prism of sales. Rather, it's viewed as a vital full-spectrum partner.

'We see China as an enduring partner for our LNG business and also for future development of clean energy and other low-carbon offerings, such as hydrogen.'

Kristine Leo

China Country Manager and Chief Representative, Woodside Petroleum

3. Engaging with China helps with diversifying to new markets. The Chinese consumer and the e-commerce platforms they make purchases on were identified as the most sophisticated in the world. The speed of change in the China market is unparalleled and hard for many in Australia to fully appreciate. This meant lessons gained from the China market could be deployed elsewhere to raise the chances of success.

'In Blackmores we talk about 'the China speed'. Things in China can happen very fast. You can lay out the best processes and systems as a company, but you have to make sure you are in touch with the consumer and their changing demands.'

Alastair Symington

Chief Executive Officer, Blackmores

4. Recognising and managing risk is part of what businesses do naturally. Geopolitics is one risk amongst many.

Sudden regulatory changes or supply chain disruptions driven by the COVID-19 pandemic often ranked higher on the priority list of risks needing attention. Agricultural exporters have long had to deal with floods and droughts and their goods being unexpectedly stopped and sometimes rejected at borders. And not only in China. Dealing with uncertainty goes with the territory and breeds resilience.

'The [Chinese] market is much more competitive [today] than it was five years ago or even three years ago...Political and bilateral relationship risks are often relatively minor in the risk matrix [of companies doing business with China]. In reality, factors such as supply chain, foreign exchange and customer acquisition are much more 'mission critical' to many Australian companies engaged with China.'

Peter Osborne

Taiwan-based business consultant and former Managing Director Asia for Blackmores

5. Market diversification is a priority but not the only risk mitigation strategy. Most interviewees assessed that the amount of exposure they had to China was 'about right'. Also emphasised was the value of relationships with Chinese business partners and customers that had been built over many years. Having a steady eye on a long-term time horizon further served to put current risks of all sorts into perspective. Others were deliberate with the amount and manner that capital was deployed, conscious that one day a sudden adjustment might be necessary. For some, the logic of diversification applied not only to markets but the product range being sold too.

'One thing we have been very conscious of China from the start. We didn't go out... and make it 80 percent of our business. That's not even about China. We don't think it is smart to be overly dependent on any country anywhere in the world.'

Sean Hallahan

Chief Executive Officer, Costa Group

These insights from well-placed executives point to Australian business engagement with China being far more durable and resilient than is commonly appreciated. As some observers in this report have said, the strength of the business ties between Australia and China may be the key to its future.

'There is a lot in common between the Chinese people and Australians. I would like to see the relationship improve. There are opportunities from a business perspective but also opportunities from an engagement perspective as well. It is naïve to think that others will give up that opportunity. The US is not giving up that opportunity.'

Sue Kench

Global Chief Executive, King & Wood Mallesons



Image credit: Supplied

Foreword by Warwick Smith

Australia and China have been trading with each other since the 1800s when the Australian states imported Chinese tea, rice and silk and China imported Australian copper, gold and silver.

Post-World War II saw wool emerge as a key Australian export to China.

Trade with Communist China gradually opened up after the Whitlam government recognised Beijing in December 1972.

Business ties grew with the support of successive prime ministers including Prime Minister Bob Hawke who was instrumental in getting Chinese investors to invest in the iron ore deposits of North Western Australia, and his successor, Paul Keating, who expanded ties with Asia.

In 2005, the Howard government began negotiations with China for a free trade agreement. Chinese President Xi Jinping came to Australia in November 2014, signing a memorandum of understanding for the free trade deal with Prime Minister Tony Abbott, and addressing the federal parliament in Canberra.

The China-Australia Free Trade Agreement (ChAFTA) was formally signed in June 2015 and came into force in December that year, paving the way for a phase-out of tariffs on many Australian exports.

Australian exports of wine, dairy, education services and tourism thrived.

China became by far Australia's largest trading partner, surpassing Japan, with two-way trade reaching a record \$267 billion this year.

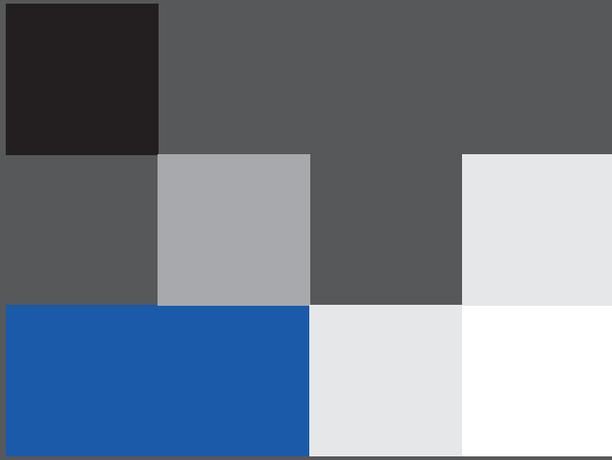
But political ties between the two countries have become more strained in recent years due to forces at play in both countries, with increasing speculation on what that might mean for trade and business ties.

With actions by China against Australian wine, barley, coal, beef, copper and timber, there are questions now over the future of Australia's trading relationship with China.

But, behind the numbers, and less evident to the public, is an extensive network of business ties which have been developed between Australia and China, including thousands of personal relationships dating back many years, sometimes decades.

It's a network I have seen first-hand, over many years travelling to China as a politician and as a business leader.

The two economies – Australia and China – have a complementarity like no other.



The Chinese economy continues to open and its consumers are still eager to buy high-quality Australian goods. Australia has resources such as iron ore and liquefied natural gas (LNG), food, healthcare products and other services which are useful to China and Chinese consumers, while Australian companies still rely heavily on inputs and raw materials from China.

As this detailed report by journalist, *The Australian's* former China correspondent and Australia-China Relations Institute Adjunct Industry Fellow, Glenda Korporaal, shows, China is a rapidly changing market in many ways. The political risks have gone up – but the Chinese consumer market is still growing at one of the fastest rates anywhere in the world. China's steel production – and its hunger for raw materials – is still the largest in the world.

Speaking directly to some of the people who are at the forefront of doing business with China, making tough decisions each day on where to put their company's scarce resources, this report allows these business executives to explain their view of the China market for their company.

Companies are aware of the need for diversification in an increasingly uncertain political world and yet they still find the China market attractive.

By talking directly to the executives involved, this report reveals how leaders from a range of key Australian companies are assessing the China market.

In a debate which is often driven by rhetoric, this report provides some details, facts and first-hand comments on what Australian business is thinking as it approaches the largest and fastest growing market in the world.

I commend the Australia-China Relations Institute at the University of Technology Sydney (UTS:ACRI) for commissioning this report which can play a role in providing some facts in the debate over Australia-China relations and some rare public insights into the thinking of Australian business.

Warwick Smith AO

Chairman, Global Engagement Committee – Business Council of Australia and Fellow of the Australian Institute of International Affairs



01

Introduction

More than 40 years as a business journalist, interwoven with a keen interest in China following a visit on a 'farm study tour' in 1978, has brought me in connection with some of the thousands of Australians who do business with China.

Many have done so for years, establishing long-term relationships which have continued over changing political cycles in both countries.

With China playing an increasing role in the world economy and in our region, with its share of global gross domestic product (GDP) more than doubling from 7.7 percent in 2001 to 18.8 percent in 2021, it was inevitable that Australia, like so many other countries, would have more trade with the country.

Australian business ties with China, from big companies and farmers to small entrepreneurs, were further accelerated by the free trade agreement of 2015 which phased out tariffs on many Australian exports.

Data from the Australian Bureau of Statistics show that the number of Australian exporters to China grew from 6,231 in 2014-15 to 8,184 in 2018-19.¹ It is a number which continues to grow, boosted by the easy accessibility of the China market via its booming e-commerce sector with platforms like Tmall Global and JD.com.

The strength of the person-to-person and business-to-business relations forged over the past almost 50 years since Australia recognised Beijing comes in stark contrast with the increasing political tensions between the two countries.

The imposition of tariffs on Australian barley and wine and actions against the imports of other products, including coal and beef, have raised real questions for Australian companies about the risks of doing business in the world's second largest economy.

These and other developments have seen increasing focus on the political risks of doing business with China. There have been comments by some that Australian business is naïve for trading with China and is not properly assessing the risks involved.

Having urged Australian business to take advantage of the free trade agreement in 2015, politicians in more recent times have been urging caution about China and talking of the importance of diversification. But diversification is something which Australian businesses, many of which operate in many different countries around the world, are constantly evaluating.

In a speech to the Australian National University Crawford Leadership Forum in September 2021, Australian Treasurer Josh Frydenberg said:²

Many have worked hard to access the lucrative Chinese market. This has brought great benefits to them and to Australia overall. And they should continue to pursue these opportunities where they can. But, going forward, businesses need to be aware the world has changed. They should always be looking to diversify their markets and not only rely on any one country. Essentially adopting a 'China plus' strategy.

1 Australian Bureau of Statistics, 'Characteristics of Australian Exporters', October 21 2020 <<https://www.abs.gov.au/statistics/economy/international-trade/characteristics-australian-exporters/latest-release#data-download>>.

2 Josh Frydenberg, 'Building resilience and the return of strategic competition', speech, *Global Realities, Domestic Choices*, Australian National University, September 6 2021 <<https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/building-resilience-and-return-strategic-competition>>.



Image credit: ESB Professional / Shutterstock

After becoming an Adjunct Industry Fellow of the Australia-China Relations Institute at the University of Technology Sydney (UTS:ACRI), UTS:ACRI Director James Laurenceson suggested that I spend some time talking directly with Australian businesses, specifically their executives currently doing business with China, asking them about their attitude towards risk, and how they handle the ever-changing situation with regard to China.

Over several months I spoke to a range of executives in a cross-section of companies about their attitude to doing business with China. This is not a theoretical discussion for them. They have to make real decisions involving shareholders' money, resources and staffing, weighing up the risks involved in doing business with China with the undoubted opportunities in a country which has still been one of the fastest growing in the world for decades.

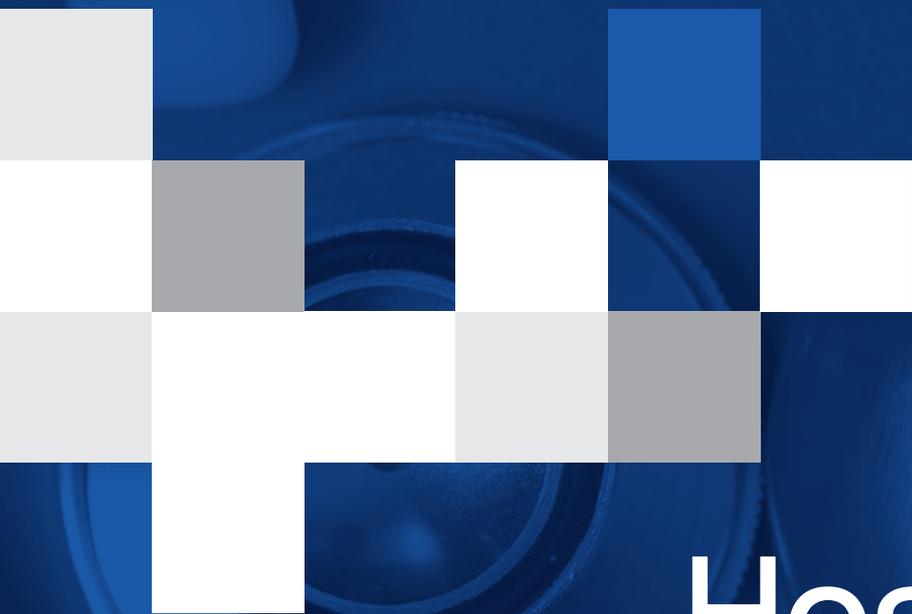
Talking directly to people at the top, at the coalface of business relations, shows a surprising resilience by some companies.

For business – and farmers – evaluating rapidly changing risk – all sorts of risk – is what they do as part of their everyday world. China is not the only country which involves political risk.

In telling their stories I have tried as much as possible to let them speak in their own words about their hopes, their fears and first-hand experiences of the China market.

These stories may surprise readers because the picture they paint is often very different to that which appears on the front page of daily newspapers. But these are the facts and primary data from those with experiences over many years.

What follows are some frank views of a range of Australians working in different sectors doing business with China.



02



Healthcare and wellness



2.1 Blackmores: An interview with Alastair Symington

Image credit: Supplied

Blackmores chief executive Alastair Symington remembers the heady days when Chinese tourists were travelling the world, eagerly buying up foreign goods.

Working for US consumer goods giant Procter & Gamble for almost 11 years, from 2006 to 2016, including two based in Shanghai, he had a front row view of the phenomenon.

‘There was a general wave of openness from the Chinese government, allowing their citizens to explore the world. It was the first time that many had left China. I remember travelling through cities like Bangkok, Tokyo and Sydney and seeing excited groups of Chinese tourists exploring the world and buying up.’

‘There was a real golden era, between 2013 and 2017. It was all about people saying they could afford to buy high-quality international brands like Prada or Estée Lauder, that they were now able to invest in the health and wellness of themselves and their family. It was a bit of a gold rush at the time. At Blackmores, the aim was to get as much product as we could up to China.’

The take-off of Blackmores shares, which skyrocketed past \$210 in December 2015 on the back of investor excitement about the potential China market, was part of a global phenomenon of enthusiasm.

At the time, Symington says, there were many ways of getting consumer goods into China. Blackmores saw its goods being bought in stores in Australia by the new phenomenon of *daigou*, Chinese students and tourists in Australia buying its products in local stores and selling them to family and friends back in China. The company also began to sell directly into China through distributors.

It never quite knew how much of its local sales were going to people in Australia and how much were being sent to China, but when demand for your product suddenly escalates and it looks like the sky is the limit, who is complaining?

Blackmores stepped up its presence in China, setting up a wholly-owned subsidiary in the country to manage its growing China business and increasing its China-based staff from a base in Shanghai.

On the Chinese side, the explosion of products coming in through informal ‘grey’ channels like personal shoppers or *daigou* around the world eventually alarmed authorities. What started out as enthusiastic overseas Chinese sending back foreign goods to friends and family back home was turning into a full-blown informal import business which flew below the radar of official import controls and regulations.

The Chinese government cracked down on informal imports and began introducing stricter health standards for products sold in China. In 2016 it also launched a blueprint for the Healthy China 2030 plan setting out the goals for its health policy.

Regulations on e-commerce tightened up in 2019 requiring registration for companies selling directly into China with their own outlets or distributors. It was a complex process, particularly for healthcare and food products, which could take some years.

While things were changing within the Chinese market, Australia-China relations were also cooling.

Taking over as chief executive of Blackmores September 2019, Symington took a hard look at how the company addressed the China market.

The company decided to focus its marketing mainly on e-commerce platforms like Tmall Global, JD.com and Ali Health which had a very different entry process into China.

‘We decided to focus purely on the e-commerce platforms which is a big market for international brands,’ Symington says.

Using e-commerce channels also helped reduce the risk of doing business in China. He says relying on a wholly-owned foreign enterprise to sell directly into China risked being exposed to changing regulatory practices in China.

‘The regulations change. You can get wrong-footed pretty quickly. If things change, you can be stranded with some big investments inside the market.’

Symington says Blackmores is watching the political tensions between Australia and China but feels that actions have been aimed at sectors like wine, barley and coal, but so far not against any specific companies.

He says healthcare products like those sold by Blackmores fit in with the Chinese government’s Healthy China 2030 policy.

‘Healthcare products are designed to improve health outcomes. We see a lower risk in terms of any action against healthcare products.’

He also points out that Chinese President Xi Jinping himself has spoken of his support to encourage the e-commerce sector.



Image credit: Pat_Hastings / Shutterstock

‘Using the e-commerce platform speaks to our risk mitigation plan. It is about making sure we have the right capabilities, the right talent and the right investments in the right place,’ he says. ‘We believe our future in China is now mainly around selling on these e-commerce platforms.’

“ We believe our future in China is now mainly around selling on these e-commerce platforms. ”

Blackmores’ strategy still involves having a sizeable presence of about 50 people in China, mostly based in Shanghai, mainly involved in shipping and marketing.

Symington says the cost of setting up in China for foreign companies has increased substantially in recent years.

While big US companies like Procter & Gamble have been operating in China since 1983, building up big operations in the country, including extensive distribution networks, Australian companies don’t have the same financial power to enter the market and set up a similar distribution network in today’s market at today’s costs.

‘To build up that distribution network across 32 different provinces and have those assets in China requires very high investment dollars and a real commitment for the long-term. But this is quite risky at the moment, the way trade relations are between Australia and China.’

He prefers to invest the dollars into marketing Blackmores on e-commerce platforms.

It also makes sense for Blackmores, he argues, as online sales have become one of the big sales channels for consumer brands in China.

“ The penetration of e-commerce in Australia these days is about 13 percent of retail sales. In China, it is up to 60 percent. ”

‘The penetration of e-commerce in Australia these days is about 13 percent of retail sales. In China, it is up to 60 percent. These days, most of the buying is done on mobile phones. That is our marketplace. That is where we have been investing.’

He says Blackmores does have some distribution direct to brick-and-mortar shops in China but ‘it is not a real focus for us. Shoppers don’t look for Blackmores in their local supermarket. When it comes to international brands they are looking online. Rather than waste time and money we will just play where the market is.’

Symington says one of the big risks in China is the rapid change in the market and consumer tastes.

In December 2019, he decided that the managing director of Blackmores China, Kitty Liu, should report directly to him as chief executive, providing a faster channel of communication between China and the top level of the company.

‘Changes in China happen very fast. It’s important that the talent and the team we have in China can pick up on those signals and communicate back to the business for the support they might need.’

‘If things change, she’s got a direct line to the chief executive,’ he says.

The change also gives Symington a firsthand connection to China.

‘In Blackmores we talk about ‘the China speed’. Things in China can happen very fast. You can lay out the best processes and systems as a company, but you have to make sure you are in touch with the consumer and their changing demands.’

At the same time, he says, the company has been stepping up its marketing in other Asian countries, such as in Indonesia, where it has been for some years and India, where it launched in mid-2021.

‘Our focus now is on diversification across the region. Blackmores has also had a really strong history in Southeast Asia. We’ve been in markets like Singapore and Thailand for more than 30 years and those markets are still growing at double-digit rates.’

“ Our focus now is on diversification across the region. Blackmores has also had a really strong history in Southeast Asia. We’ve been in markets like Singapore and Thailand for more than 30 years and those markets are still growing at double-digit rates. ”

It also sees Vietnam as another potential market with opportunities in healthcare.

The change has seen Blackmores’ exposure to China fall from a peak of 35 percent of sales to around 15 to 18 percent.

‘Our plan in China is to have the market make up between 15 and 18 percent of sales,’ Symington says.

But he says the China market is still very important for Blackmores for many reasons. He says companies like Blackmores need to pay attention to the Chinese consumer as a sign of changing global trends for their broader business.

‘They are so discerning. They have more information than any other consumers. They are shopping online and getting data very quickly. If you can work out how to delight those consumers and design products which resonate with them, it will work, not only for your sales in China, but for the development of your premium brand products.’

Following the China market provides an insight into broader consumer trends within the Chinese diaspora throughout Asia, including Australia.

‘You can take those insights and learnings and apply them to other markets in Asia and even into Australia. We have six percent of our population in Australia of Asian descent.’

But he says it is also important for insights into consumer trends generally.

‘Products being sold into the China market are being vetted by some of the most discerning consumers in the world. Plugging into the China consumer market gives you a much bigger picture of global trends which has much broader benefits than just exporting to China.’

“ Plugging into the China consumer market gives you a much bigger picture of global trends which has much broader benefits than just exporting to China. ”

Symington’s strategy is paying off with the company reporting underlying group profit after tax for the year to June 30 2021 up by 61 percent to \$25.4 million. Its China business saw a 27.8 percent increase in revenue with underlying earnings before interest and tax up from \$200,000 in 2019-20 to \$14.3 million in 2020-21.

Blackmores’ diversification strategy also fits in with its ambition to reach a billion consumers by 2025.

‘To reach that target, China plays an important role,’ Symington says, ‘but we also see other countries playing an important role, including India and Indonesia.’

Symington says diversification is important for any company on a number of fronts including geography and marketing outlets.

‘Irrespective of whether it is China or any other country, you never want to be overexposed in any particular area. When we look at our sales strategy, we feel that 15 to 18 percent of our sales going to China is about right. The political tensions create an overlay. But it is all part of taking a look at all risks – easing back where you are over-reliant on one market or distributor and finding ways to mitigate those risks.’

“ Irrespective of whether it is China or any other country, you never want to be overexposed in any particular area. ”

Reducing the reliance on operating through a wholly-owned subsidiary, he points out, also reduces the risk of exposure to increase regulatory costs and changes.



Image credit: leungchopan / Shutterstock

For Blackmores, he says, getting the necessary registration for product imports could have taken several years and cost hundreds of thousands of dollars with no guarantee of success.

‘Geopolitical risks are there [in China] but there are also regulatory risks. We are also looking for ways to diversify risk in relation to regulatory changes.’

He says the ‘gold rush’ period, when it seemed that Australian companies could make easy money selling to the Chinese consumers, ‘was always going to be unsustainable.’

Blackmores has also been refining its marketing strategy in China, including how it uses the all-important influencers, shifting from using high profile celebrities to ‘micro-influencers’ who specialise in healthcare.

‘Small influencers in a country like China can still have access to millions of people. We try to align ourselves with people who are looking to provide health solutions like dieticians, nutritionists or people involved in personal training.’

Blackmores is also designing new products aimed at the Chinese consumer rather than just selling products aimed at the Australian consumer. These include products for pregnant women and for children. Eye care is also a product of particular interest to the Chinese consumer.

‘Eye care is a very big category in China. It’s relatively small in Australia. We are developing products to meet the needs of eye health for the Chinese consumer.’

Having learned from its experience in China, Blackmores is also taking the e-commerce approach to India, providing a less costly way of getting into the market and allowing it to test out which products work with local consumers before making a big investment.

Blackmores’ research into the Chinese market also includes the establishment of a China Innovation Centre in Shanghai, announced in February 2020, which is studying the needs of the modern Chinese parent.

The company also has a research partnership with Tsinghua University in Beijing on consumer trends. They issued a joint ‘green paper’ on the modern career woman in China, which is helping Blackmores better design and market products for Chinese consumers.

‘It gives us insights not just for the China market, but to learn about what is possible for other markets across Asia,’ Symington says.

He says that Blackmores’ China operation has also given the company access to some top-of-the-line talent in its China staff who have cutting-edge experience in e-commerce.

‘I could easily take someone from our staff in China and put them in front of any retailer around the world and they could share their learnings about e-commerce.’

When it comes to assessing the risks of doing business with China, he says Australian companies also need to pay attention to the supply chains – the amount of raw materials and inputs coming from China.

He says that the disruption to world trade from the COVID-19 pandemic has also been a wake-up call for companies to have more diversification in their supply chain, particularly for critical inputs.

‘Having a dual sourcing strategy is important. Covid has put a lot more pressure on the supply chain. China has always been the lowest cost option for many inputs, from ingredients to glass bottles, but we now have our teams working on alternative solutions to diversify the risk.’

‘It’s not because it’s China. If we were sourcing 60 percent of our input from the US, we would think the same. But everyone got lulled into a false sense of security when it came to supply chains and COVID-19 has been a wake-up call.’

Symington says the debate in Australia over ties with China in recent times has been overshadowed by security issues.

‘We always have to recognise that there are national security issues, but it shouldn’t override our ability to trade with our neighbours. China is not going anywhere. It is going to be our biggest trading partner for a long time and we have to find a way to make the relationship work.’

“ We always have to recognise that there are national security issues, but it shouldn’t override our ability to trade with our neighbours. China is not going anywhere. It is going to be our biggest trading partner for a long time and we have to find a way to make the relationship work. ”

2.2 Cochlear: A case study

ASX-listed bionic ear company Cochlear first moved into the China market in the mid-90s.

It placed its first implant in an adult in 1995 and in a child in 1996. Some 80,000 people in China currently have a Cochlear implant.

In an interview with University of Technology Sydney Industry Professor Tim Harcourt in June 2021, Cochlear chief executive Dig Howitt explained the thinking behind its China strategy.

‘It is a huge market. We think there are over five million people in China with a hearing loss who would benefit from a Cochlear implant.’

While Cochlear’s market in China has so far been focused on providing implants for children, Howitt told Harcourt he expected more adults in China to get implants in line with its traditional customer profile.

‘The vast majority of people with hearing loss are older people. In China we do about 90 percent of implants in children and 10 percent [in] adults. In Australia it is 25 percent [in] children and 75 percent [in] adults. As China ages, as wealth grows and the healthcare system develops, adults will start to get implants in increasing numbers in China.’

The company has set up a manufacturing plant in China in the western city of Chengdu to service the growing market in the country which Howitt describes as ‘an important step in our development.’

‘We have been in China since 1995. We have progressively built up our commercial team in China. We thought the logical next step was to build a manufacturing plant in China. We could see, in the future, we would need more global manufacturing capacity, so we had to build a factory somewhere. When we looked at the potential in China, we thought there was real value in having a factory in China that could supply China but also export.’

‘What we have seen is that companies that are manufacturing locally in China have typically been more successful than those that just import. We will continue to import into China, but we will also support that with local manufacturing.’

Chengdu was chosen for its size as the third largest city in China. Another attraction, Howitt says, was the city’s access to a good supply of university graduates. Chengdu has several universities and a good medical hospital.

Choosing Chengdu, he says, was also important as it was part of the Chinese government’s strategy of moving development from the east coast of China to its western regions.

‘When we build a factory like that, we are thinking of the next 30 years,’ Howitt says. ‘We did it in the belief that the long-term benefit is there. It will certainly help enable more people in China to hear and support our presence in China and our ability to support all the people in China who have our implants.’

Howitt says he hopes that China will continue to be a strong trading partner with Australia.

‘Our trading relationship with China is very significant. Hopefully that will continue. It is in the economic interests of both countries to have a strong trading relationship. Clearly, things are more challenging now, but what we are seeing on the ground in China is people are continuing to get implants, parents want their children to be able to hear. Business is going well and we are there for the long run.’

2.3 Icon Group: A case study

Australia's largest private cancer care company, the Queensland-based Icon Group, opened its fourth cancer centre in China in February 2021 at the Fenghuang Hospital in Fengcheng in the north-eastern province of Liaoning.

It represented a further international expansion for the group which also has operations in Singapore, Hong Kong and New Zealand.

'The state-of-the-art centre marks a milestone in the group's maturity in the region and another step towards providing the best possible cancer care closer to home for millions of Chinese people across the region,' the company said in announcing the move.

Icon became the first Australian healthcare company to deliver cancer care treatment to China in December 2019, with a centre in the Jiangxian Red Cross Hospital in Shangxi province. Equipped with the latest in radiation therapy technology, it had the capacity to treat up to 80 patients a day.

Its entry into the China market dates back to a visit to China in January 2016 by chief executive Mark Middleton and China-born cancer treatment expert Professor Yang Wang who was working for Icon in Sydney. The first project in 2019 was followed up in 2020 with the opening of two more centres in China – in hospitals in the western city of Chongqing and the coastal city of Qingdao.

Another centre in the Huanghe Sanmenxia Hospital in Henan province is being planned, servicing the growing communities of Henan, Shaanxi and Shanxi.

Icon Group CEO Mark Middleton has made more than 40 visits to China.

Source: Icon Group media releases.



Image credit: Mark_Kostich / Shutterstock



03

Resources



3.1 Fortescue Metals Group

An interview with Elizabeth Gaines

Image credit: Supplied

Iron ore has become a keystone of Australia's trading relationship with China, a trade which dates back to relationships developed by former Prime Minister Bob Hawke with Chinese leaders in the 1980s.

Founded by Perth businessman Andrew Forrest, Fortescue Metals Group (FMG) made its first commercial shipment of iron ore to China in 2008 and now expects to export some 180-185 million tonnes of iron ore in the financial year 2021-22, most of it to China.

Chief executive Elizabeth Gaines sees a strong relationship with China as an essential part of the company's future.

The fourth largest iron ore producer in the world and the third largest in Australia after BHP and Rio Tinto, FMG currently sells most of its product to China. Gaines also sees China as part of its new strategy of expanding into green energy through its subsidiary, Fortescue Future Industries (FFI).

'Fortescue's success, and that of the Australian economy, has been largely built on China's remarkable economic growth,' she says.

'The growth of Fortescue is intrinsically linked to meeting the iron ore supply gap in China. Today our Chinese customers remain our key market, accounting for almost 90 percent of our FY21 revenue.'

“ The growth of Fortescue is intrinsically linked to meeting the iron ore supply gap in China. Today our Chinese customers remain our key market, accounting for almost 90 percent of our FY21 revenue. ”

As she points out, China is by far the largest buyer of iron ore – a vital ingredient in the production of steel – in the world. This is because China is by far the largest producer of steel in the world, an essential product for the country's economic growth.

China's crude steel production in 2020 was 1.06 billion tonnes representing more than 50 percent of global crude steel production. The next biggest country, India, only produced around 100 million tonnes.

China's crude steel production in 2020 was 1.06 billion tonnes representing more than 50 percent of global crude steel production. The next biggest country, India, only produced around 100 million tonnes.

'China is the dominant market for seaborne iron ore, producing more than 50 percent of global crude steel,' says Gaines. 'Fortescue remains a major, integral supplier of iron ore to the Chinese steel industry, with products that play an important role in meeting their current and future needs focused on industrialisation and urbanisation of the economy.'

In recent times, Fortescue has expanded into other markets for iron ore including Japan and South Korea. It has also moved into other commodities such as lithium, copper and gold. But China remains by far its biggest single source of revenue.

The company has many different connections with China. One of FMG's major customers, the Hunan Valin Steel Group, is now its second largest shareholder, after interests connected with the Forrest family, buying into FMG in February 2009.

Hunan Valin's chairman, Dr Cao Zhiqiang, is one of two Chinese directors on the FMG board, along with Dr Ya-Qin Zhang. Dr Zhang is a former chairman of Chinese tech company Baidu and a former executive with Microsoft.

'Recognising the important cultural considerations to doing business with China, Fortescue has built longstanding relationships that extend beyond the supply of iron ore,' Gaines says.

'These include procurement, financing arrangements, academic, policy and social linkages, as well as the highly successful direct investment in Fortescue by our second largest shareholder, Hunan Valin Steel Group.'

Gaines said the two Chinese non-executive directors on the FMG board 'provide a source of valuable insights on issues affecting our engagement with China. All of these relationships have provided us with a deeper understanding of Chinese business and culture, undoubtedly a key success factor for Fortescue.'

FMG has also raised financing from China. In 2016 it completed an agreement with the China Development Bank Leasing Co Ltd to finance its fleet of eight iron ore carriers.

The largest direct Chinese financing deal for an Australian company at the time, Gaines says the transaction 'was an example of Fortescue's successful efforts to expand our collaboration with Chinese industry, supporting important industrialisation initiatives in China including the shipbuilding industry revitalisation plan.'

In 2019 the company established a wholly-owned China sales entity, FMG Trading Shanghai, which has been involved in the sale of more than 22 million tonnes of iron ore since it started.

'This portside sales capability to supply products directly to Chinese steel mills from regional ports is well established and has allowed us to enhance our service to small and medium-sized customers through direct supply in renminbi, complementing our existing contractual seaborne arrangements,' Gaines says.

She says the company also has regular technical forums with its customers in China to allow its sales team to learn 'about the challenges and opportunities faced by the steel industry.'

A key part of FMG's strategy to strengthen relationships in China has been its support for the annual Boao Forum for Asia.

A key part of its strategy to strengthen relationships in China has been its support for the annual Boao Forum for Asia on Hainan Island off China's southern coast. Established in 2001 with the support of several influential regional leaders, including former Prime Minister Bob Hawke, the forum was set up as an Asian response to the annual gathering in Davos, Switzerland.

Fortescue has sponsored the forum, which is addressed each year by senior Chinese leaders and attracts diplomats and business people around the world, for the past 13 years. In 2021 it upgraded its commitment to the conference to the level of strategic partnership.

Gaines says the forum ‘is an important element of our multifaceted approach to engaging with China and provides a unique opportunity to discuss issues relevant to our region, including long-term opportunities for Australia’s resources industry.’

FMG’s diversification strategy from its reliance on iron ore now involves a major expansion into green and renewable energy through its new FFI arm.

‘Fortescue has commenced its transition from a pure play iron ore producer to a green renewables and resources company,’ says Gaines.

This includes a commitment to be carbon neutral by 2030 and achieve net zero Scope 3 emissions by 2040.

Gaines says this strategy involves also working with its partners in China to reduce carbon emissions.

‘Collaboration is integral to driving this rapid transition to green energy,’ she says.

‘We are committed to actively engaging with our customers in China and elsewhere, our suppliers and other key industry participants to facilitate the reduction of emissions.’

Gaines says the company is ‘confident in the long term fundamentals of the Chinese economy.’

The company’s focus, as the world’s fourth largest exporter of iron ore, ‘is on maintaining a mutually beneficial business and trading relationship’ with China.

While the political relationship between Australia and China has deteriorated, Gaines says the company focuses on those elements of its business that it can control including safety, production and cost.

‘We operate in a cyclical market, and we are agile and responsive to market conditions to ensure we remain a reliable supplier of iron ore to our customers.’

Gaines says it is important that Australia has a strong relationship with China.

‘The government and business sectors in Western Australia have worked together to build strong relationships with China. We need to encourage further understanding of the breadth and depth of this bilateral trade relationship to support the growth of our national economy.’

‘It is a relationship that has been built on decades of engagement. West Australian businesses such as Fortescue have led the way in forging strong, long-term relationships with business and government in China, underpinning the success and longevity of this mutually beneficial partnership. It is critical that we continue to support a strong narrative around Australia’s relationship with China which reflects the experience of the resources sector and the Western Australian and Australian economies more broadly.’

Gaines says Australia’s trading relationship with China is ‘critical in providing economic stability and supporting jobs’ and in FMG’s future.

‘As Fortescue diversifies into a green renewables and resources company, we believe that building and maintaining strong trade relationships with key partners such as China will remain critically important. Collaboration will be key to achieving global emissions reduction goals, and this includes ongoing engagement with our customers in the crude steel manufacturing industry in China to learn about the challenges they face in decarbonising their operations.’

‘As Fortescue diversifies into a green renewables and resources company, we believe that building and maintaining strong trade relationships with key partners such as China will remain critically important.’

‘Through FFI our investment in heavy industry decarbonisation technologies, we will tackle the global climate change challenge together. Our industry leading target to achieve net zero Scope 3 emissions by 2040 will address emissions across our entire global value chain, including crude steel manufacturing which accounts for 98 percent of Fortescue’s Scope 3 emissions.’

‘To achieve this target, we will develop projects and technologies with a focus on reducing emissions from iron and steel making and work with current and prospective customers in China on the application of the technology and supply of green hydrogen and ammonia from FFI. Our investments in technologies and research and development are focused on demonstrating that the production of iron ore, cement, iron and steel can operate with renewable energy.’



3.2 Woodside Petroleum: An interview with Kristine Leo

Image credit: Supplied

Australia's largest independent oil and gas company, Woodside Petroleum, is expecting to continue to do business with China 'for many years to come,' says the company's chief representative in China, Kristine Leo.

Woodside has been involved with China since 2002 when it was part of a landmark deal struck between Australia and China for China to buy gas from Australia's North West Shelf project, in offshore Western Australia.

The company was a member of the Australian liquefied natural gas (LNG) consortium which beat rival bids from gas suppliers in Qatar and Indonesia to be chosen as the sole supplier to China's first LNG project, in Guangdong province in southern China.

Australia's largest ever energy contract at the time, the 25-year deal to supply more than three million tonnes a year of LNG, was announced by Prime Minister John Howard who said he had been told by China's Premier, Zhu Rongji, that the Australian consortium had been chosen.

Woodside is a shareholder and the operator of the venture, with other shareholders including BHP Billiton Petroleum, BP Developments Australia, Chevron Texaco Australia, Japan Australia LNG and Shell Australia.

The first shipment of LNG from the project to China took place in May 2006. Woodside now sells LNG and oil/condensate to China both directly and through third parties under both long-term and short-term contracts.

With activities in six cities around China, the company also manufactures some of its key offshore platform infrastructure in China.

'China remains a key market for Woodside with respect to energy supply and many other opportunities,' says Leo, who has been based in Beijing since 2017.

⚡ We expect China's energy demand to grow and the market to evolve in the coming years. LNG demand continues to rise, as does the focus on cleaner energy offerings and expertise in construction and fabrication of infrastructure. 🔊

‘We expect China’s energy demand to grow and the market to evolve in the coming years. LNG demand continues to rise, as does the focus on cleaner energy offerings and expertise in construction and fabrication of infrastructure.’

She says China’s commitment to cleaner energy is a factor in ensuring a continued market for Woodside’s LNG.

‘We have strong existing relationships with joint venture partners and other stakeholders in China aimed at furthering mutual development goals to support climate targets and the supply of cleaner energy.’

‘China’s future economic growth and recently announced emissions targets mean it is expected to have strong demand for lower-carbon energy, such as LNG. All Woodside’s main target LNG markets - China, Japan and Korea - have announced national net zero commitments and are using LNG as part of their plans to meet those goals by replacing coal, or firming up renewables, or in hard-to-abate sectors.

‘China’s focus on innovation and emissions targets aligns well with Woodside’s climate ambitions and priorities.’

Leo says China’s gas consumption is expected to exceed 650 billion cubic meters by 2040, with LNG imports expected to increase to 150 million tonnes per annum.

“ There is no escaping the long-term view that the economic realities [in China] are positive and will continue to exceed all expectations, ”

Factors driving this include the increase of urbanisation, industrial growth and China’s growing middle class.

‘There is no escaping the long-term view that the economic realities [in China] are positive and will continue to exceed all expectations,’ she says.

Leo says China’s expertise in building equipment for offshore oil and gas operations was also important for the company.

‘China has demonstrated strong construction capabilities for offshore infrastructure, which is important for our growth projects in Australia and other international locations.’

‘We also have contracts for the construction of infrastructure in China for current and future projects such as Sangomar [off the coast of Senegal] and Scarborough [off the coast of Western Australia].’

Leo admits that political tensions between Australia and China ‘have been unhelpful for Australian businesses in China,’ but she says Woodside ‘has not been significantly impacted.’

‘In the short-term we have not faced any major issues beyond international border restrictions constraining our staff deployments into and out of the country.’

‘International locations have been particularly challenging during the pandemic, but China has not had the disruptions of many other countries which have had to ‘lock-down’ entire regions and communities.’

But she says that the company was prepared to be guided by the federal government ‘should any issues arise.’

‘It is key that business and government work together to optimise opportunities and economic growth,’ she says.

Leo says managing risk is key part of running a global business like Woodside, including with regard to China.

‘Woodside manages its activities with a close eye on risk wherever we operate in the world, including in China,’ she says. ‘The safety of our people is our priority, as is our commercial integrity and safe, reliable operations. China can be a challenging place to do business, and we keep all elements of our activities under continual review to mitigate possible risks.’

“ China can be a challenging place to do business, and we keep all elements of our activities under continual review to mitigate possible risks. ”

Leo says that China will continue to be a focus for many international industries because of its geographic location and consumer demand.

‘There is long-term value in doing business with major economies such as China which, as the fastest growing economy in the world, provides a number of opportunities through its scale, demand and pace.’

She says Woodside already has a diverse group of customers including those from China, Japan and South Korea.

‘China offers competitive conditions for doing business,’ she says. But she points out that ‘when weighing up locations, we will always seek the best possible commercial and development outcomes.’

Leo says Woodside has developed long-term relationships with customers in China dating back to 2002.

‘We continue to see very strong interest in our product from Chinese buyers. We already have long-term customers in China, and we continue to engage with a number of others about short and mid-term deals.’

Leo says business ties with China are an important aspect of the Australia-China relationship.

‘Business engagement in China is vital and an integral part of building strong and enduring partnerships. We engage with national oil companies, regulators, shipyards, and other private companies, along with our peers and competitors. Healthy relationships are an imperative to maintaining and growing our presence and activities in China.’

‘People-to-people relationships forged through business and other interactions are key to building the foundations for future cooperation. The importance of international cooperation will grow in the future, and being on the ground in China helps to build bridges between the two countries.’

Woodside’s activities in China have included being a joint venture partner in the Australia-China LNG Fund which has provided a platform for delegations from both countries to study in each other’s locations and workplaces since it was established in 2002.

‘The fund has been key to building relationships and partnerships between Australia and China and many of its ‘graduates’ continue to work to promote those benefits in both locations,’ she says.

She says Woodside also recruits graduates into its annual program directly from China and a number of other international locations.

It also supports the Australian Department of Foreign Affairs and Trade’s New Colombo Plan within China and several other locations in Asia by offering placements in Woodside workplaces.

Leo points out that Chinese companies have a long history of participation in Australian oil and LNG projects with all national oil companies having a footprint in Australia.

‘We see China as an enduring partner for our LNG business and also for future development of clean energy and other low-carbon offerings, such as hydrogen.’

“ We see China as an enduring partner for our LNG business and also for future development of clean energy and other low-carbon offerings, such as hydrogen. ”

‘The emissions targets of many Australian and Chinese energy companies are aligned. We see opportunity for this alignment to result in joint activities and studies which will create value for both countries.’

‘Woodside regards the energy market in China as strong and progressive and our strategy includes China in the long term as both customer and partner.’



04

Food and agribusiness



4.1 Treasury Wine Estates: An interview with Tim Ford

Image credit: Supplied

When Treasury Wine Estates (TWE) was hit with heavy tariffs on its wine exports to China in 2020, along with other Australian wine exporters,³ outsiders saw it as the end of its China strategy.

But the company, whose profits had soared on being the largest wine exporter to China, led by its famous Penfolds brand, has not lost its focus on the China market.

Far from being deterred, TWE chief executive Tim Ford remains committed to China, determined that it will continue to be one of the company's most important markets.

While the tariffs effectively closed the China market to Australian wine, TWE's global footprint meant it could quickly respond and recalibrate its business.

Firstly, by reallocating its popular Penfolds Australian wine to grow demand in its other markets and secondly by accelerating plans to serve the China market from other parts of its business.

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TWE is now shipping its Penfolds California collection, launched at the beginning of 2021, into China and its Penfolds French collection will be available from late 2022.

At the other end of the market, TWE has been able to supply the demand in China for its Rawson's Retreat brand by producing and exporting from South Africa.

When he took over as chief executive in July 2020 after a 10-year career with the company working in many different roles which included regular visits to China, Ford adopted a goal of having Penfolds be the number one luxury wine in China.

³ For a timeline of the Chinese government's trade actions vis-à-vis Australian wine, see Elena Collinson and Thomas Pantle, 'Australia-PRC trade and investment developments: A timeline', Australia-China Relations Institute, University of Technology Sydney, November 8 2021 <<https://www.australiachinarelations.org/content/australia-prc-trade-and-investment-developments-timeline>>.

The next month, the company was hit with the news that China's powerful Ministry of Commerce (MOFCOM) had instigated an anti-dumping inquiry into the Australian wine exports. It imposed temporary tariffs in November 2020 with TWE being hit with 175.6 percent tariffs for a five-year period from March 2021.

There was little the wine exporters could do except to try to plead their case, which they did, unsuccessfully.

'When the tariffs happened, everyone said you have to take China off your game plan,' Ford says. 'But I was like, 'No, it stays on there'. We remain committed to China, we are just going to work out a different way to achieve it.'

“When the tariffs happened, everyone said you have to take China off your game plan...We remain committed to China, we are just going to work out a different way to achieve it.”

At its height, just before the imposition of the tariffs, China was a key revenue and profit driver for TWE, contributing \$160 million in pre-tax profits for the 2019-20 financial year, representing 30 percent of its total earnings.

Once the tariffs were announced, Ford had to quickly re-focus the company's strategy.

'It forced us to reshape what the future of the business looked like,' he says.

'I don't wish it [the tariffs] happened at all, but it was a wonderful opportunity to rethink our strategy.'

The goal of becoming the number one luxury wine brand in China remained the company's objective.

'We believe that Penfolds will continue to drive growth in the [Chinese wine] market, but it will be sourced from multiple countries of origin. China will be as good, if not better than most of our markets across the globe because the brand is still well-loved amongst Chinese consumers.'

At the core of his confidence is the resilience and popularity of the Penfolds brand in China.

Despite the imposition of tariffs which virtually shut down the \$1 billion wine trade from Australia to China in 2020, Ford says consumer support for the Penfolds brand in China has remained very strong. The wine has continued to sell in China from stocks already in the country before the tariffs hit.

“From financial years 2023 and 2024 we will start to build the business again for Penfolds in China, just with different country of origin sourced wines.”

'We've got a real strength in the Penfolds brand,' he says.

'From financial years 2023 and 2024 we will start to build the business again for Penfolds in China, just with different country of origin sourced wines.'

Ford says the new strategy has been built on the confidence that the wine tariffs are aimed at Australian wine and not against any individual company.

'It was important for us to understand whether this was an Australian country of origin issue or a Treasury Wine Estates/Penfolds issue. But we have found the demand for Penfolds continues to be strong. This is very much an Australian issue, as opposed to a TWE issue.'

Ford says evidence of this can be seen in the fact that Chinese authorities continue to work closely with the company to help stamp out the issue of counterfeit and copycat products which have beset the popular Penfolds brand as a result of its success.

'We have always spent a lot of time and money in China protecting our brand IP. We continued this when the anti-dumping investigation was underway, and the tariffs kicked in. The program is as strong as ever in enforcing our zero-tolerance approach to infringement.'



Image credit: Supplied

‘Local government authorities, including the police, have continued to work closely with us, and as fervently as they have done in the past to drive monitoring and enforcement.’

Ford says TWE has also been working in China to support the growth of the local wine industry working with local authorities and producers.

‘We believe we have a responsibility to help build their industry. It is something we do in other markets. Wine is a pretty collegiate industry across the globe. We are finding the doors are open [in China] for those sort of discussions,’ he says.

‘As a global wine producer, we believe we can play a part in building out their viticultural practices in China and support Chinese winemakers.’

‘We have global experience across the wine production process, from grape growing and sourcing, to production, marketing, and distribution models. Being able to share our global experience to build a stronger wine industry in China is at the core of our ongoing investment in our team, our brands and our relationships with customers and consumers. This is what long-term commitment to the market really means.’

The company is also developing its own unique products for the China market.

In 2019 it launched Lot 518, a mix of fortified red wine mixed with Chinese rice wine, baijiu. In early 2021 it launched a white wine version of the product, known as Lot 618. Exports of these products from Australia are not impacted by the tariffs.

While the move was greeted with scepticism by some Western wine aficionados, TWE is backing the strategy, seeing it as important new category for its brand in the China market.

‘We are trying to create a whole new category using the brand in China,’ says Ford. ‘It’s going to take time, but each month it continues to build. It is doing quite nicely for us.’

Ford says launching a completely new product in the wine industry, like Lot 518 and Lot 618, should be seen as a long-term strategy.

‘You have to take a 10-year-plus view of those things in the wine industry. It’s the same thing in our multi-country of origin strategy around Penfolds. There is scepticism from traditionalists that you can’t do it. That it is an Australian wine brand. But we have done it pretty successfully in California with American consumers. They love Penfolds California collection. So, we might be busting a couple of those myths. It takes time, but you’ve got to stay the course.’

Ford says TWE monitors the state of Australia-China relations closely. But he argues that the company has to do this in every country it operates in.

TWE cut back some of its staff in China as its exports from Australia fell in 2020. But it retains a ‘meaningful team’ of senior staff in the country including its Managing Director Penfolds, Tom King, who operates from Shanghai.

He says the company has built up valuable expertise in marketing to digitally savvy Chinese consumers which it will continue to use when the new Penfolds products arrive from 2023. He says working with key influencers is an important strategy for the China market.

While it is not out of the question that the tariffs on Australian wine could come down after five years, Ford says the company is not counting on it.

By that time, he says, TWE will be a very different company but still with a strong presence in China.

‘We continue to have strong engagement across the board with China. We are not locked out of China by any means.’

TWE chair Paul Rayner addressed the issue in his own words at the company’s annual meeting in October 2021.

‘Alongside the pandemic, we navigated the effective closure of the Chinese wine market to Australian wine – an event that was significant for TWE and the Australian wine industry. While this has presented challenges, we remain committed to the China market for the long term and continue to invest in our team, our brands and our relationships with customers and consumers.’

‘We recognise that, regardless of which market you operate in, businesses and brands are judged on how they act and behave, as well as the quality of their products.’

“ The geopolitical environment is something we monitor really closely. It’s an important external factor which can impact your business. It’s not just China, it’s in all the markets we are in. ”

‘The geopolitical environment is something we monitor really closely. It’s an important external factor which can impact your business. It’s not just China, it’s in all the markets we are in. We are in many different markets. You have to balance what the most likely outcomes are and make sure you have to make sure you have your plans in place if sometimes these outcomes do incur some pain.’



4.2 Costa Group: An interview with Sean Hallahan

Image credit: Supplied

One of Australia’s largest producers of fresh fruit and vegetables, the ASX-listed Costa Group has been growing berries in Yunnan province since 2015 for the increasingly health-conscious market in China.

The company set up a joint venture with American berry company, Driscoll’s, one of the world’s largest marketers of berries, and has already invested some \$100 million in its China operations. It also exports citrus fruits – oranges and mandarins – grown in Australia to China.

Together, the two China-related businesses turn over \$90 million – \$60 million from the berry-growing business in China and \$30 million from citrus exports – making up just under 10 percent of the company’s total annual turnover of \$1 billion.

Costa chief executive Sean Hallahan says the decision to set up an operation in China was ‘a big step at the time.’

He says there were two key reasons.

‘Chinese consumers, more than any other type of consumer in the world, believe strongly that their health is attributable to the food that they eat. They are very connected to the type of food they eat. They see it as a means for better health.’

‘Costa has had a 25-year-plus breeding program in blueberries which is the basis of our global joint venture with Driscoll’s. Blueberries have taken off as a global super food, particularly in the last decade. We saw there was an opportunity to use our genetic expertise and to grow them in China.’

The company chose Yunnan province, in south-western China, which is famous for its high-quality agricultural production.

‘We have been growing blueberries for a long time. There are some pretty tight climatic criteria for what we grow,’ says Hallahan.

Another factor was having access to labour for the farming operation.

The decision involved understanding the land ownership structure in China. Villagers in China don’t own the land, but can get long-term leases on it. Costa’s China project involves finding areas of land which are climactically suitable to grow berries and approaching villagers in the area to put together leases to farm the berries.

They get a stream of income from the rental of their land and are also employed to work on the farms.

‘We band those villages together into a village council,’ says Hallahan. ‘Then they provide an amalgamated long lease holding of the farming land that we need.’

Costa has three different farming areas in Yunnan province.

Hallahan says demand for high quality berries in China is strong, with some customers being prepared to pay premium prices for very high-quality fruit.

‘Chinese consumers believe most of your health comes from what you’re eating. A lot of Western consumers are still only coming to terms with that now. Blueberries are a pretty amazing product to grow. Chinese consumers, like no other consumer in the world, are predisposed to accept that and pay for it. We have a premium blueberry called ‘Arana’ which we sell as a jumbo berry. It can get price premiums over normal blueberries of 50 to 60 percent, depending on the time of the season.’

Hallahan says Costa has achieved its initial five-year plan to get 250 hectares of land under cultivation in China and is now working on its next five-year plan.

‘We are in the next stage now of our second five-year plan. We’ll expand that by 50 hectares in 2021 and another hundred hectares next year [2022]. You can expect to see us having farmland of around 500 hectares over the next few years.’

Costa has a full-time-equivalent staff of some 65 in China, which is expanded during harvest time. Only two are expats. Both are horticulturists, who live on the farms, with the rest being Chinese nationals.

He says working with local people is an essential part of the business.

‘Right from the start in China it has to be about prosperity for everybody. You can’t just go in there as a foreign company, try and make money and then pull out. You have to be a very valuable member of the local community. We’ve been recognised as part of what they call the rural poverty alleviation program. It is quite a unique case which certainly works for us, but it really does work for the local community as well. They’ve got

consistent demand for labour out of it and they’re getting the lease holding income as well.’

‘Right from the start in China it has to be about prosperity for everybody. You can’t just go in there as a foreign company, try and make money and then pull out. You have to be a very valuable member of the local community.’

Costa also supports local schools and sponsors four local village children to enable them to further their education, paying their course fees, accommodation, living expenses and transport.

‘We do a range of other initiatives from our team on the ground.’

Supplying the Chinese market was a key driver for Costa’s takeover of central Queensland-based mandarin grower, 2PH Farms, announced in June 2021. 2PH was already selling 60 percent of its production into the Asian market, much of which went to China. The takeover doubled Costa’s citrus exports to China.

Following the takeover, some 10 percent of Costa’s \$300 million a year business in citrus fruits now goes to China. But China is not its biggest market for citrus fruits. Japan is by far its largest export customer, a market it has been supplying for 15 years.

Hallahan says Costa is happy with having a 10 percent exposure to the China market for its citrus exports.

‘We think 10 percent is about right from an export point view to China. We aren’t overexposed to China. That’s been a conscious choice.’

‘We think 10 percent is about right from an export point view to China. We aren’t overexposed to China. That’s been a conscious choice.’

He says the China–Australia Free Trade Agreement (ChAFTA) has helped reduced tariffs on agricultural exports to China.

He says it has been important to work with local and provincial governments in developing its berry-growing business in China.

He says that Costa is very supportive of the Chinese government’s policy of poverty alleviation in rural areas.

‘A lot of Chinese people have been moving to cities to get work which puts more pressure on rural areas. We see ourselves as a very strong supporter of that program [to help reduce poverty in rural areas].’

The joint venture with Driscoll’s brings together Costa’s expertise in growing blueberries, particularly the upmarket Arana variety, and Driscoll’s expertise in raspberries, blackberries and strawberries. Driscoll’s also handles the marketing and the distribution in China.

Hallahan estimates that the market for its berries in China is around 230 million people living in the country’s tier one and tier two cities.

He says Costa is ‘not blind’ to the increasing political tensions between Australia and China but keeps its focus on developing its business there.

‘We have been able to keep on doing business. We are not blind to the fact that there are things happening.’

He says doing business in China involves having an ear to the ground on what is happening at the local level as well as a national level. ‘There’s a difference between what’s happening in Yunnan versus what may be being talked about in Beijing, for instance. Yunnan is Yunnan and what is happening in Beijing can be quite separate from that.’

‘We have been very focused on having great relationships – in Yunnan overall, and then the level of the provincial governments underneath that. We have many relationships built up over many years from the first time we were there. We want to be seen as someone who is valuable to the communities we operate in.’

‘That’s not to say that something couldn’t happen outside of their control – some sort of central edict – but to date it hasn’t. You trust in the good sense that if you are doing something the right way, hopefully it should work out.’

But Hallahan says while Costa was keen to expand into China it never planned for it to be the major focus of the company.

‘One thing we have been very conscious of China from the start, we didn’t go out for China from an export point of view and make it 80 percent of our business. That’s not even about China. We don’t think it’s smart to be overly dependent on any country anywhere in the world. We have to have appropriate risk settings. So having about 10 percent of our export revenue in citrus going to China is appropriate, at the moment.’

‘One thing we have been very conscious of China from the start, we didn’t go out for China from an export point of view and make it 80 percent of our business. That’s not even about China. We don’t think it’s smart to be overly dependent on any country anywhere in the world.’

‘If something terrible happened in citrus and all exports were stopped, we’d still be ok. We can find other markets for that fruit. And if it’s not, then we’re very happy to keep continuing that 10 percent.’

Hallahan agrees that there has been a lot more discussion in recent times about the risks of doing business in China.

‘The background of risk is certainly gone up. There have been those issues with barley and wine. But I keep coming back to the fact that, we think about 10 percent is a good setting for China of our revenue being exported there. As far as the local business, domestically growing in China, we think we’re as insulated against the risks as well as we can be. At the moment, we’re happy to continue the way we are.’



Image credit: AstroStar / Shutterstock

Hallahan says 2021 was a record year for its production in China, despite all the pressures of operating during the COVID-19 pandemic and the inability of executives from Australia to travel to China due to travel bans.

‘It was an absolutely amazing result from the local team. Maybe we should stay away more often. They did a great job in challenging circumstances.’

Hallahan says there is plenty of room for more growth in the China market.

‘With our joint venture partner, Driscoll’s, there is massive head room for growth over the next decade. We will concentrate on doing that really well.’

Hallahan says people wanting to do business in China should be prepared to take a long-term approach.

‘It’s not a get-rich-quick scheme. Go in there with a sound proposition. Deal honestly and openly with all levels of local people and local governments. Be clear on what your role is within the community. Remember you are a guest there and take a long-term view.’

‘You’ve got to see yourself as a valuable community member. It’s got to be about prosperity for all. This is something which is deep within the Chinese tradition. We were well aware of that from the start. You don’t want to go there, be a Western multinational or a Western company and try and extract profits from the Chinese people. That’s not the way we’ve done business there.’

Hallahan says Costa has learned a lot in its six years in China and believes its experience shows that there can be business done successfully with China provided it is done the right way, with the right intentions.

‘We are a small but important voice that says long-running business practices can be good for both countries. We hope that continues.’

‘There can be a lot of hyperbole about what’s going on politically, but it is good to have solid business relationships that show that there is a way of doing things that can continue to happen in the background. I don’t think anybody wants Australia and China to stay in a state of argument. We would prefer to get along, wouldn’t we?’

“ There can be a lot of hyperbole about what’s going on politically, but it is good to have solid business relationships that show that there is a way of doing things that can continue to happen in the background. ”



4.3 Bubs Australia: An interview with Dennis Lin

Image credit: Supplied

ASX-listed infant formula company, Bubs Australia, was hit hard by COVID-19.

Sales of its goat's milk-based product in China fell because of closures in its economy. Then one of its traditional supply chain links – Australia-based Chinese shoppers or *daigou* – dried up as Chinese students were unable to return to Australia and the supply of Chinese tourists evaporated because of border closures.

Bubs' executive chairman, Taiwanese-born Dennis Lin, and founder and chief executive Kristy Carr, spent most of 2020 and 2021 reassessing the China market and restructuring the Bubs distribution chain into China and other markets.

At the heart of the strategy was a conviction that while there may be ups and downs in the process, the Chinese market would be a key one for the company's products.

'The Chinese market is simply too big to ignore,' he says. 'In China there are more than 12 million babies born every year. If you assume that babies use infant formula for three years, that's an addressable market of more than 36 million.'

“ The Chinese market is simply too big to ignore. In China there are more than 12 million babies born every year. If you assume that babies use infant formula for three years, that's an addressable market of more than 36 million. ”

'In Australia there are 250,000 babies born a year. Assuming they use the formula for three years that is still only a market of 750,000.'

He says the relaxation of the one child policy in recent years further opens up the long-term potential of the market in China.

While continuing to look for new markets overseas, outside of China, and expanding its sales in Australia, Bubs has been able to restructure its distribution system to use more sophisticated intermediaries who are now emerging in the *daigou* trade in Australia.

These companies are set up with their own platforms to deal with individual *daigou* in the end markets and handle their orders for Bubs' products, whether they are in Australia or even in China.

'We consolidated the overall *daigou* trade so we knew exactly where our products were going,' he says.

The emerging intermediaries are sizable businesses in their own right.

'Our key strategic partner spent close to \$100 million making sure he had the relevant cross-border bonded warehouses and the underlying software,' says Lin.

Under the new system, individual *daigou* can register with the intermediary, getting their own ID. Once they find out what products their friends and family in China want, they can put an order in for them and have them sent directly to China by the intermediary without ever handling the product themselves. This replaces the old system where the *daigou* would buy products like infant formula from outlets such as Chemist Warehouse, wrap them up and take them to the post office to send to China. It is more like cross-border e-commerce with the new breed of *daigou* partners undertaking marketing activities and no longer a 'grey market' operation.

The more sophisticated marketing system (Daigou 2.0 as it is sometimes called) means that the *daigou* agent can conduct their trade from anywhere in the world including in Australia or even back in China. While expanding the potential marketing channel away from relying on Australia-based *daigou*, it also gives Bubs a much more accurate insight into the demand for its products.

Lin says Bubs is a niche product which will always be heavily reliant on the *daigou* trade to sell into China as the supermarket business in China is far too competitive with both major Chinese and big foreign brands.

'You have to rely on resellers because, at the end of the day, they are still the biggest advocates and promoters of Australian products. The *daigou* trade is our distinct advantage – a trade which has initially come about because of our education system which in normal times attracts large numbers of overseas students. It is one of our biggest advantages, even compared with the US and the UK.'

“ You have to rely on resellers because, at the end of the day, they are still the biggest advocates and promoters of Australian products. ”

Bubs has also had to come to terms with the fact that its application to register its Melbourne-based factory with China's powerful State Administration for Market Regulation (SAMR), which would have allowed it to have a more direct distribution channel into China, may take a lot longer than it hoped.

Border closures have delayed the approval process which needs authorities from China to come to Australia to inspect the plant in person. But Lin believes that Australia-China political tensions may also be contributing to the delays.

'When the relationship between Australia and China isn't going great, it [the registration application by a small Australian company] just becomes a non-priority. The timing around it has become a bit harder and more uncertain.'

That said, Bubs' China marketing strategies are not dependent on the early achievement of registration with SAMR. While overseas made infant formula sent directly to China, and not through approved e-commerce channels, has to be from a SAMR-approved plant, the requirement does not apply to formula made for toddlers or adults which will be part of Bubs' future strategy in China.

Bubs was founded in 2005 by Kristy Carr, a marketing executive with many years of experience in Hong Kong. While the company always planned to have a major focus on the Australian market for its goat's milk-based infant formula, Carr could also see the opportunity of selling into the China market where increasingly affluent parents wanted only the best for their one child.

Lin was a director when the company listed on the ASX in January 2017, taking over as executive chairman in August that year.



Kristy Carr, founder and chief executive of Bubs Australia. Image credit: Supplied

Born in Taiwan, he came to Australia in 1991 at the age of 12. He studied law and commerce at the University of Queensland before becoming a corporate adviser. His work involved advising a Chinese company bidding for Australian cattle station, S. Kidman & Co, in 2015 – an application which was rejected the following year by then-Treasurer Scott Morrison on national interest grounds. Lin says that experience, which involved extensive lobbying in the corridors of power in Canberra, gave him an insight into the Australian political system and the political process.

Bubs' share price took off after it listed on the ASX on enthusiasm about the China market, but has had its ups and downs as investors responded to the changing factors. Lin says he is not worried about the gyrations of the company's share price and the Chinese market, arguing that building up Bubs was always going to take long-term view. He sees the China market as a critical part of its future but says doing business there was never about a get-rich-quick play.

'In the current world, there is so much 'quick money'. We have seen all the skyrocketing share prices of the tech sector. You are never short of people wanting to microwave a business. They want it to be an instant success.'

'[But] there is no quick money in this sector. By building up underlying strength you can build a business which will be longer lasting. Kristy and I have always felt we knew exactly where Bubs will be going. No matter what the political tensions are, we can't say we are going to forget about China because it is still by far the biggest market for infant formula.'

Lin says Bubs' infant formula is different from the other Australian products which have been hit with tariffs or trade blocks.

'We are a branded staple. We're not lobsters, we're not beef, we're not wine. We are a primary nutrition source. We are a staple.'

He says Bubs has never wavered from its commitment to the China market.

'The strategy never changed,' he said.

'It was just how we would go about delivering on that strategy.'

But he says the pandemic and other changes in China 'have accelerated the 'China plus' strategy', encouraging it to step up its diversification plans.

The company has been diversifying exports into other parts of Asia. It also entered the US market in July 2021 with a deal to sell Bubs' formula to US supermarket giant Walmart.

The company has also stepped up its sales to the Australian market with arrangements with major supermarkets including Woolworths and Coles and is introducing new products based on cow's milk.

Lin says there is no way that Bubs is going to ignore the China market given the products it produces and the market potential in China.

“It's a bit like iron ore – you are not going to suddenly say you are not going to sell to China anymore. We have to find a way to continue to do business there.”

‘It's a bit like iron ore – you are not going to suddenly say you are not going to sell to China anymore. We have to find a way to continue to do business there. Our products are going to feed kids with good Australian nutrition. I'm not going to make any apologies for doing that.’

Lin says there are risks for Australian companies in expanding into any markets, including China.

‘The first thing for anyone thinking of going into China is to establish the business case. Is there a big enough market and are we able to engage with that market?’ he says.

He says the Bubs approach is to accept the fundamentals of the China market, including that it is a country run by the Communist Party.

‘You have to respect the form of government in any country you are operating in. China is run by the CPC [Communist Party of China] and that is not going to change. Accepting that, our goal is to ensure we can meet our corporate objectives being able to sell branded baby and toddler nutrition products to Chinese consumers within that environment. My goal is to make sure we provide the best quality food and to make sure we have transparency across the supply chain.’

He argues that understanding the supply chain processes in China, which can be very different to those in the much smaller markets of Australia, is as much a challenge as it is dealing with a very different form of government.

‘I am biased because I can speak the language and I've been doing business in China for quite some time. I wouldn't say doing business in China is more difficult than in other countries. But for people who don't speak the language it can be more difficult as it affects the ability to communicate. Not being able to speak Chinese can make for misunderstandings.’

Lin says Australia's approach of regarding China as a ‘customer’ it can sell its product to rather than a ‘partner’ has tended to colour some of the current debate.

Lin says Bubs is planning to expand the staff at its China subsidiary. It recently announced the appointment of Dylan Lu as the company's managing director for Greater China. Lu has extensive experience building up digitally-led businesses in China, including setting up Hershey's highly successful e-commerce business, after working for major multinational consumer brands in China including Procter & Gamble, Reckitt Benckiser, Mars and Unilever.

Lin says he is now ‘cautiously optimistic about the outlook for Bubs in China.’

He argues that the process of reworking its supply chain has now become a part of Bubs' intellectual property, raising the barrier to entry for competitors.

‘Even though we are at a trough in Australia-China relations, at Bubs we are proving we can survive and prosper. We are building the barrier to entry even higher. With each challenge we have built up our proprietary intelligence about doing business in China which makes it harder for our competitors.’



4.4 Macka's Australian Black Angus Beef: An interview with Robert Mackenzie

Image credit: Supplied

Robert Mackenzie is a fifth-generation farmer whose business is located in Port Stephens and Gloucester in New South Wales, trading under the name of Macka's Australian Black Angus Beef.

Mackenzie has been successfully exporting his grain-fed Angus beef to China since 2015. It is a business he has built up through 14 visits to the country in the past six years and has made many friends there. Chinese buyers have also made many visits to his farm in Australia.

Mackenzie was proud of the beef he produced and his health and quality-conscious Chinese buyers were eager to buy his product.

Aware of the concerns about food fraud around the world and the importance of making sure food products were accurately labelled with their origins accurately traced, Mackenzie linked up with a company called Aglive, using its blockchain-based labelling system for his beef exports. This allows for state-of-the-art traceability of the product going into China.

While the decision to use the Aglive technology was driven by his keenness to sell into the China market, it was, at the same time, a pioneering technology that he also planned to use for exports to other countries.

The company began using the Aglive traceability system in early 2020 when Australian beef sales to China were at record levels, running at \$3.2 billion a year in the wake of China's outbreak of swine flu.

But Mackenzie's exports to China were hit in May 2020 when the Chinese government claimed to have issues with several abattoirs in Australia, including one in Casino in northern New South Wales, the main meat processing facility handling his beef exports to China.

While he has diverted exports to other markets, he has still managed to get some beef to China through other export processing plants.

He is frustrated at the fallout of political tensions on a once thriving export market. While he has other global markets for his beef, he is proud of the relations he has built up over the years with his Chinese buyers – relationships which have developed into firm friendships he wants to continue.

“ We still have a very loyal customer base in China [which] we have built up over six years...We don't want to walk away from that loyalty and friendship we have built up over the years. ”

‘We still have a very loyal customer base in China [which] we have built up over six years,’ he says. ‘We love the people and we have created great relationships there. They are very loyal customers of ours. We don't want to walk away from that loyalty and friendship we have built up over the years.’

Mackenzie is keen for the situation regarding Australian beef exports to China to be resolved.

‘The current situation is very disturbing and upsetting, not only for us but for our loyal customers. We have got customers in China who are beside themselves because they are struggling to get quality Australian beef, they are struggling to get the quality that they deserve, and their family deserves.’

Despite the political tensions between Canberra and Beijing, Mackenzie says Chinese consumers still want to buy food from Australia given its reputation for high-quality food produced under world-class environmental standards.

‘Our Chinese customers and their Chinese consumers purchase Australian beef because they know it is fresh and green and it is clean. They want quality products for their family. Food fraud is a problem all over the world, including China. Consumers are very well aware of it, which is why Australian products are so well sought after in China.’

Mackenzie says the blockchain-based labelling technology is popular with Chinese buyers.

‘Our customers in China love the platform because they have proof that when they purchase Macka's Angus beef it is the real thing.’

Mackenzie would like to do something personally to break the impasse.

‘The Australia-China relationship was a perfect marriage. As a family business and an exporter of fine Australian beef, I would like the opportunity to talk to the Chinese government and be able to say, ‘Hey, I am a supporter of Australia-China relations. Is it possible we discuss how it is affecting us and our clients?’

‘We understand there are some political tensions. Every perfect marriage has its ups and down and needs some counselling and some intervention. Is it possible that governments can put their differences aside and work with a company which has shown loyalty to Chinese customers and open up the market again?’



Image credit: Supplied

Mackenzie says that the problems exporting Australian beef to China means he is being penalised for something which was nothing to do with him.

‘I am penalised for something that I didn’t do. I am penalised, and my customers are penalised.’

Mackenzie says he is not naïve to the challenges of doing business in China.

‘We understand what it is like to deal with China, including their culture and their way of doing business. I truly want to get back to that solid relationship and that we had with China. Even if the political relationship is not 100 percent fixed up, why can’t we [Macka’s] get a clearer run with China?’

Mackenzie would like his company to be given preferred supplier status for the Chinese market.

‘We have built a business around the China market. We have developed our traceability system for the China market. We have put a lot of time and effort giving Chinese consumers the trust they deserve.’

“ We are supplying products through the Middle East and other countries throughout Asia. Australian beef is very popular on the world stage. We have no problems selling the beef. I have been able to adapt into other markets relatively easy because of the quality of our product, but we value our Chinese relationships and the Chinese market very much. ”

He says there are plenty of other markets around the world for high-quality Australian beef but he wants to get back to doing business with his customers in China.

‘We are supplying products through the Middle East and other countries throughout Asia. Australian beef is very popular on the world stage. We have no problems selling the beef. I have been able to adapt into other markets relatively easy because of the quality of our product, but we value our Chinese relationships and the Chinese market very much. We are loyal to that market, and we want to move more product into that Chinese market. I have spent so much time and energy developing good, solid, strong relationships with amazing people in China, I don’t want to lose it that connection.’

Mackenzie says the ban on meat from some Australian abattoirs has allowed other exporters from other countries around the world to supply the Chinese market.

He feels if Macka’s could be put on a preferred supplier list it could meet Chinese standards for the correct Covid and health certificates.

But while Macka’s has done well out of the Chinese market he agrees he it also needs to look for other markets.

‘We need spread our wings and work with other countries too.’

But he still wants to see the Australia-China political relationship back on track.

‘Everyone I speak to wants a good relationship with China. China is our biggest trading partner. We both share many things. We have Chinese students and tourists come here. We both benefit from our relationship. Let’s not throw it away.’



Image credit: Natalia Lisovskaya / Shutterstock



4.5 Elders: An interview with Mark Allison

Image credit: Supplied

The chief executive of agribusiness company Elders, Mark Allison, reckons his commercial and personal relations with his contacts in China are ‘better than ever.’

He admits the risks of doing business with China have gone up in recent years, but he says the increasing political tension between Australia and China is only one of several different forces.

Chair of agricultural industry lobby group Agribusiness Australia, Agrifood and the Wine Advisory Board of Adelaide University, a director of GrainGrowers Limited and a member of the Rabobank food and agriculture advisory board, Allison has been in agribusiness for more than 40 years.

He has been travelling to China for decades and also made Chinese friends through this period, including his time at the Harvard Business School Advanced Management program in 2012.

One of Australia’s oldest agribusiness companies, Elders has a number of business ties with China. It imports some \$300 million a year worth of agricultural chemicals, woolpacks and merchandise from China, sells some 145,000 bales of wool a year to China on its own account, and finances and sells other products such as beef, lamb, grain and wool, both directly and indirectly.

It also has a small operating business in China, based in Shanghai, called Elders Fine Foods, selling top-end Australian beef to restaurants, hotels and retail outlets, with a staff of 40 people in the country.

Allison says companies around the world are reassessing their heavy dependence on China as a source of inputs as a result of both the pandemic and the increasing cost structure in China.

‘The quality and price of inputs from China has always been very good,’ he says.

But he says costs have gone up in China as the country has become increasingly environmentally conscious.

‘In the last five years, stricter environmental controls have seen plants shut down and costs go up,’ he said.

Labour costs in China have also been increasing.

“The quality of the products from China is fine, but the prices of commodity inputs are definitely going up.”

‘The quality of the products from China is fine, but the prices of commodity inputs are definitely going up,’ he says.

He said Covid, which has disrupted global supply chains, has been a wake-up call for importers not to have too many eggs in the one basket when it comes to sources of supply.

Allison says in some cases in Australia, 70 percent of the agricultural chemicals used in farming come from China.

He says Covid has promoted Elders to rethink its supply chain planning, to allow more time for its supplies to arrive from China.

‘Our inputs from China will stay strong, but we have put in place more plans in case things go wrong, including giving ourselves another eight weeks leeway. But this is a business decision, not a geopolitical decision.’

Allison says geopolitical risk is something exporters are always aware of but also know it is not something they can control.

He sees the political element in a relationship with China as the base of a relationship triangle with business and personal relationships making up the other two sides.

“The geopolitical stuff is the base of the triangle. If it becomes really strained, the whole triangle can fall down. But so long as the base is there and there is a minimum relationship, then business and personal relationships can continue to drive things forward.”

‘The geopolitical stuff is the base of the triangle. If it becomes really strained, the whole triangle can fall down. But so long as the base is there and there is a minimum relationship, then business and personal relationships can continue to drive things forward.’

Allison says the agricultural industry has always been adaptable to external shocks and changes. Farmers are always dealing with dramatic changes in weather and other external forces which can have a significant impact on their business.

“There is always risk in our business. You have to have Plan B and Plan C. Plan B in our agricultural inputs is to strengthen relations with some European and US manufacturers so we have some alternative suppliers if Chinese supplies tighten up. We also look to increased last step formulation of these products domestically.”

‘At Elders, and in agribusiness more broadly, we tend not to focus on the things that we don’t control. We don’t have weather maps in the board room. We just focus on those factors we can control. For us this means better and more comprehensive planning. There is always risk in our business. You have to have Plan B and Plan C. Plan B in our agricultural inputs is to strengthen relations with some European and US manufacturers so we have some alternative suppliers if Chinese supplies tighten up. We also look to increased last step formulation of these products domestically.’

Allison has closely watched the fall-out from the moves by China’s Ministry of Commerce in 2019 to impose tariffs on Australian barley, which has stopped a once booming \$2 billion a year barley trade with the country.⁴ This was followed by the tariffs imposed on Australian wine later that year – at \$1 billion a year trade at the time – which saw the industry’s total export business fall by 40 percent overnight. The announcement in early 2021 that the tariffs would be in place for at least five years has all but killed the export market from Australia to China.

4 For a timeline of Australia-China trade and investment developments over 2020-2021, see Elena Collinson and Thomas Pantle, ‘Australia-PRC trade and investment developments: A timeline’, Australia-China Relations Institute, University of Technology Sydney, November 8 2021 <<https://www.australiachinarelations.org/content/australia-prc-trade-and-investment-developments-timeline>>.

But Allison says that the agricultural market has shown its adaptability in the face of actions from China.

He agrees that the Australian wine industry was hit hard by the closure of the China market, but he points out that barley growers were able to adapt and find other markets elsewhere including to Vietnam and the Middle East.

He points out that while the tariffs on Australian wine and barley have received significant attention, tariffs and trade disputes with different countries are a part of doing business globally.

He cites the example of India which imposed tariffs of 70 percent on imports of Australian chickpeas in December 2017, in a move to protect Indian farmers, which he said received little media attention at the time.

‘It [the imposition of tariffs] crucified the investments Australian chickpea farmers were making to supply the growing Indian market. But we found other markets and adapted. In agriculture you tend to be able to do that pretty well.’

Allison points out that agriculture is a global market which is constantly rebalancing. If one market is cut off, there are always other opportunities elsewhere.

This can see some suppliers take Australia’s market in China, which can open up other opportunities for Australian exporters in other markets.

He believes China will continue to be a strong buyer of Australian agricultural products.

‘China will continue to be a big buyer of our wool. It has the dominant position in the market for processing and weaving assets, and needs raw material supply.’

‘Our beef is also a favoured product. China is always concerned about food quality and there are concerns about mad cow disease and food quality from other rival suppliers. Australia can produce enough food to feed another 45 million people. China is still a growing market for food which we can’t come close to supplying.’

But he says this could see Australia’s share of the total market ease back with suppliers from competitor countries such as the US, Europe and South America increasing at a faster rate.

‘The volumes of Australian exports to China will increase but their share will reduce.’

‘The volumes of Australian exports to China will increase but their share will reduce.’

But he says the sheer size of the market in China means that it will always be attractive for the Australian agricultural products.

‘You cannot ignore a market of 1.4 billion people in close proximity to where you live and where you have a competitive advantage.’



Image credit: YANG YIDONG / Shutterstock



05



Property



5.1 Lendlease: An interview with Justin Gabbani

Image credit: Supplied

Property and construction company Lendlease opened its first senior living project in China in September 2021. Located in Qingpu, on the western outskirts of Shanghai, the Ardor Gardens project was started in 2019 to supply the growing market in China for accommodation for the country's retirees.

The company's move into the sector follows three decades of operation in China where it started operating in the early 1990s. Its project management and construction business has delivered more than 350 projects over the last 30 years, in major cities including Shanghai and Beijing. This included 'life science' projects for major clients such as the Roche Diagnostics' Suzhou office, AstraZeneca Pharmaceutical's Shanghai head office and ABB group's Xiamen Center.

Lendlease's head of Asia, Justin Gabbani, says China is a huge market which 'remains a strong focus for businesses such as Lendlease.' He argues political tensions should not deter companies from doing business with China if there can be value for both sides of a transaction.

'While there are geopolitical tensions that take place throughout the world at any given time, it should not detract us from focusing on the value we contribute through the markets we operate,' he said.

While there are geopolitical tensions that take place throughout the world at any given time, it should not detract us from focusing on the value we contribute through the markets we operate.

'We abide by all local government laws and our people operate with a robust framework focused on safety, governance and sustainability.'

Gabbani says the Ardor Gardens project is a result of Lendlease's long experience in China as well as its expertise in Australia where it is one of the largest owners and operators of retirement villages.



Image credit: Supplied

The upmarket project is set on some 85,000 square metres of land. A low density senior living community, it has more than 20 buildings of four to six floors. It has more than 800 furnished apartments with a capacity for some 1,300 residents. With facilities including clubhouses, handicraft rooms, a gym and a heated swimming pool, it has more than 100 service staff with luxury hotel experience providing a 24-hour concierge service for residents.

‘Lendlease has more than 30 years’ experience in the senior living sector and is one of Australia’s largest owners, operators and developers of senior living communities,’ Gabbani says.

China is an ideal market to export our expertise, with strong government support.

‘China is an ideal market to export our expertise, with strong government support.’

The decision to invest its own capital in its first retirement village in China followed the announcement of the Chinese government’s ‘90-7-3’ formula for housing retirees. It is based on the assumption that 90 percent of the elderly will age in their family home, seven percent in privately funded community care such as retirement villages and three percent in institutional care.

Lendlease and other private operators are focusing on the rapidly growing seven percent of privately-funded care – a new sector for China where the elderly have traditionally stayed at home for their entire lives. The policy involves local governments in China being given key performance indicators to deliver new, privately-funded senior living accommodation.

Gabbani says Lendlease picked the Shanghai area for its first retirement village as the city already has some 20 percent of its population, or more than six million people, aged over 60 – the age cohort for senior living accommodation. In 20 years’ time there could be more than 25 million people over 60 living in the greater Shanghai area.

Gabbani says Lendlease has taken particular care to deliver a high-quality product at Ardor Gardens.

‘As our maiden senior living project in China, we are committed to delivering a quality product which showcases Lendlease’s DNA – safety, sustainability and quality,’ he said.

In an interview with *The Australian* newspaper in 2019, Gabbani’s predecessor, Tony Lombardo, who has since been promoted to Lendlease chief executive, said the one child policy was putting pressure on family units in China, creating a demand for retirement villages and aged care accommodation.⁵

5 Glenda Korporaal, Lendlease begins marketing \$400 million China retirement living project’, *The Australian*, July 15 2019 <<https://www.theaustralian.com.au/business/property/lendlease-begins-marketing-400-million-china-retirement-living-project/news-story/a19b0219f8ae9b0c2f3f0850e1885f4f>>.

‘The one child policy is starting to put a bit more stress on the family unit,’ he said. ‘The dependency rate is going up as children have to look after two sets of parents as well as their own child...We see here is an opportunity for us to leverage our skills from Australia to go after this emerging niche market,’ Lombardo said.

Gabbani says Lendlease’s expansion into China has been part of an ‘internationalisation journey’ which has been ‘methodical and measured’ and has also included Europe and the US. He says the strategy has been focused and targeted to a limited number of cities in each country.

‘It means we only invest in locations where we have an extensive knowledge of the market, have been operating in some capacity for an extended period of time and are gateway cities in their own right. We supplement that with additional local expertise. It also means our capital partners, who are critical for the success of our business model, are comfortable to support us.’

Lendlease has plans for more senior living developments in China.

‘We are looking to leverage our competitive edge in senior living to establish a scale platform,’ he says.

He says the Chinese government’s support for the developed of retirement villages has been important in Lendlease’s confidence for the outlook for the market.

‘The senior living sector receives strong support from the government, with favourable policies towards retirement and community care sector to meet local market demand,’ he says.

‘The senior living sector receives strong support from the [Chinese] government, with favourable policies towards retirement and community care sector to meet local market demand.’

He says district governments, which have an influential role in China, have also been very welcoming and open to foreign investment in the sector.

Gabbani, who has lived in Asia since 2011, says doing business in the region involves finding unique propositions for the market such as Lendlease’s experience in senior living.

He says growing local talent is also important in the country.

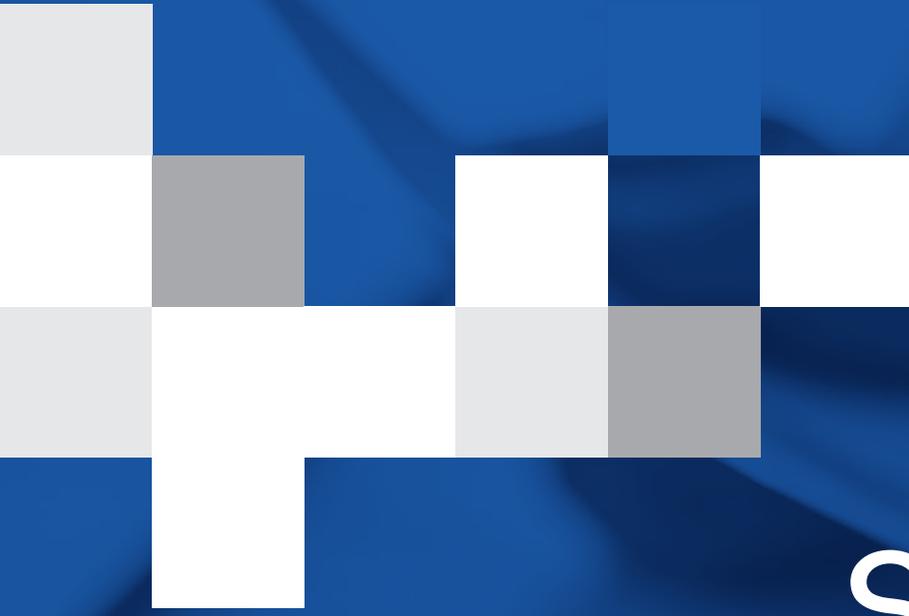
‘Our country leadership team in China has strong local talent, headed by industry veteran Ding Hui. Ding is our country Managing Director for China and has credible experience in the Chinese market with 17 years at IKEA before joining Lendlease.’

He says building long-term relationships is another key factor in success in the Asia where he says it is important to ‘stay the course’ with a long-term commitments.

‘Investing in Asia is a long-term strategy, requiring commitment to ride out potential bumps. We continue to remain committed to growing our business in China and view the country as an attractive investment destination.’



Image credit: Supplied



06



Services



6.1 King & Wood Mallesons: An interview with Sue Kench

Image credit: Supplied

One of Australia's oldest law firms, Mallesons Stephen Jacques, merged with Chinese law firm King & Wood in 2012.

King & Wood was established in 1993 in China with an initial four founding partners when law firms started to privatise in the country. There is no Mr King or Ms Wood, but the Chinese partners chose a Western style law firm name with a view to global expansion.

At the same time Mallesons was also looking to expand offshore.

The merger created a unique partnership between the two firms. King & Wood Mallesons now has 28 offices and over 5,000 staff around the world, including more than 400 partners in China and more than 170 partners in Australia.

Australian lawyer Sue Kench, a Mallesons' veteran of 28 years, leads the firm from Hong Kong in her role as global chief executive. She moved from Sydney to Hong Kong in January 2018 to take up the role.

The merger, she says, was driven by an ambition on both sides to go global.

Mallesons could see there was a need for growth outside of Australia. While it had some offices in China and Hong Kong, they were only small and could see the potential of foreign law firms to grow in China was limited.

'We always had a sense of ambition,' Kench says. 'We wanted to forge our own path.'

'Australia is a much smaller legal market. It is saturated. If you are a law firm in Australia, you have to ask yourself – can I get growth in Australia or can I get growth offshore? There are too many lawyers in Australia. Do you sit in Australia and fight for an existing share of a reasonably flat, or at times declining market, or do you go offshore and get some growth? That was the decision for us. These are global legal markets. You have to participate and be connected.'

The firm initially looked at potential partners in the UK but, in the end, realised its focus was on the growing markets in Asia.

'We had looked at whether we should merge, or link up with [a] British firm [but] we could see the best future growth as being in Asia. So we got together with King & Wood. We are the first Asian-centred or Asian-headquartered top tier law firm in the world,' she says.

‘We saw the world economy would migrate to Asia. We saw it [the merger] an opportunity, as something which would differentiate us from all the other big legal firms around the world. It was ground-breaking at the time and drew a lot of attention.’

‘King & Wood also had a similar ambition. This similarity of ambition and a sense of common purpose at the time which got us together.’

Despite ups and downs in China’s political the relationship with Australia, the merger has proved to be a good decision with the combined firm getting plenty of work.

‘The growth in our business in China has been exponential as China itself has grown as an economy and moved more people into the middle and higher income levels,’ Kench says.

The firm celebrates its 10th anniversary in 2022.

‘The firm is now one of the top law firms in China and Asia with a deep expertise about doing business in China.’

She admits the firm enjoyed a good business in the early days of the merger from the mining boom and the big rise in Chinese investment into Australia, both of which have subsided in recent years. But she says there is still plenty of cross-border business between China and Australia and Australia and Asia.

The firm’s presence in Hong Kong, where it is now the largest law firm, gives it access to the large presence of Australian companies which have long been operating in the city.

She said the firm’s base in Hong Kong is the ‘jewel in the crown’ of the firm returning profit to partners in both Australia and China and expects that this will continue.

‘Despite the political issues, we still see Hong Kong continuing as a pretty important financial centre.’

‘Despite the political issues, we still see Hong Kong continuing as a pretty important financial centre. You’ve got firms like HSBC downsizing in the US to divert back to this part of China because that’s where they see the growth coming from. You’ve got a lot of Australian asset management and wealth firms which have relevant expertise and want to be part of it. That’s where we can assist.’

She says despite recent Australia-China tensions the firm has had plenty of business.

‘We are very busy. We are advising Australian clients who are in Hong Kong, Australian clients doing business in China, and Hong Kong and mainland China clients going into Australia.’

She said the firm’s aim was to ‘go where our clients are.’

She said Australia needed to realise that despite US-China tensions, there is still significant business taking place between the US and China including US investment into China.

‘There is incredible connectivity both ways – from China into the US and US into China.’

She says this also allowed for ‘support networks and conversation networks when diplomacy is not at its best.’

‘Australia lacks that and that’s where business can help. There is quite strong engagement between China and Australia at a business level.’

She said stricter regulations on foreign investment into Australia were making it more challenging for Chinese and Hong Kong firms to invest into Australia.

‘Business likes a degree of certainty. It likes to know if it is able to invest somewhere. We are at this awkward phase, at the moment, where we don’t have that certainty for Chinese investors looking at investing in Australia.’

‘Business likes a degree of certainty. It likes to know if it is able to invest somewhere. We are at this awkward phase, at the moment, where we don’t have that certainty for Chinese investors looking at investing in Australia.’

Kench says the firm’s extensive footprint in China gives it a unique advantage in advising Australian companies going into the country.

She says healthcare is an area which could provide opportunities for Australian companies in China.

‘China continues to lift many of its people out of poverty. Whilst it has achieved some pretty good average marks, they are averages. Australia needs to look at areas of mutual interest [with China] where it has expertise. That includes healthcare.’

‘How do they help with birth rates, child mortality? How do they help go up the health curve? How do they help fight cancer? How do they help with an aging population? All those issues.’

She says there are also continued opportunities for the Australian agricultural sector in China, despite the imposition of Chinese tariffs on Australian wine and barley. She cites Australian expertise on agricultural chemicals and maximising land use and productivity as two other areas of potential in China.

‘China is a country of 1.4 billion people with multiple sectors and subsectors. The opportunity still exists there for Australia.’

She said other opportunities for Australian companies include financial and wealth management. She says Australian super funds should also be investing in China because of its growth opportunities.

‘China is a country of 1.4 billion people. There are good places to invest in and there are places not to invest in. You need local expertise for that. If you don’t have an investment in China, you are saying it is fine to go backwards in a relative sense.’

Kench says it is in Australia’s interest to support China’s entry into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

‘This is an opportunity for Australia to welcome China into the CPTPP. It is about China saying that their game is multilateralism and trade. Why wouldn’t you welcome China into it?’

She says Australia is naïve if it thinks that the US business is not going to engage with China despite political tensions between Washington and Beijing.

“ There is connectivity across multiple sectors between the US and China to the extent of trillions of dollars. Decoupling is just not going to happen. ”

‘There is connectivity across multiple sectors between the US and China to the extent of trillions of dollars. Decoupling is just not going to happen.’

She cites the example of US business leaders such as former Goldman Sachs president John Thornton and Stephen Schwarzman, chief executive of global private equity giant The Blackstone Group, who have been active in keeping up connections with China over the years.

Kench says the combined firm’s performance has validated Malleasons’ decision to diversify offshore.

She says the firm has become a melting pot of people with experience in both China and Hong Kong and Australia and other Western countries.

‘Many of our partners were born in China but have been educated in the US or the UK or Australia. They have studied in the West and taken that knowledge and experience back to China.’

She said Australia should have programs which give young people experience in China such as the Schwarzman Institute in Beijing, which gives future leaders a one-year master’s degree at Tsinghua University.

She said it was critical for Australia to continue to engage with China despite political tensions.

‘There is a lot in common between the Chinese people and Australians. I would like to see the relationship improve. There are opportunities from a business perspective but also opportunities from an engagement perspective as well.’

“ There are opportunities from a business perspective but also opportunities from an engagement perspective as well. It is naïve to think that others will give up that opportunity. ”

‘It is naïve to think that others will give up that opportunity. The US is not giving up that opportunity. It may keep some sectors closed because of certain security reasons, but there are still many areas where there is strong engagement and strong business. If Australia doesn’t do it, then others will.’

‘In the short-term I don’t see the relationship improving, but it is incumbent on Australians and governments to find those opportunities and open up the dialogue. Even if you don’t compete in China – even if it is not part of your market – how can you have a perspective on your market or what’s happening around the world if you don’t know what’s happening in China?’

She says the Chinese consumer is one of the most important economic factors in the world.

‘They are enormously influential,’ she says.

She agrees that it is important for a company not to put all its eggs in one basket, including in China.

‘As a general proposition, diversity is always good. You should never have your eggs all in one basket. But as the former secretary of the Department of Foreign Affairs and Trade, Peter Varghese says, it should be about ‘China and’ not ‘China or’. Being diversified is always healthy, but you can’t not be in China.’

Kench says there is considerable goodwill to be tapped into from young Chinese who have gone to Australia to study.

‘They like Australia as it is in the Asian time zone, it is not threatening, and is not as expensive as some other universities in the US and the UK. They have connections in China and enormous goodwill towards Australia. They are a huge asset. They go back with such wonderful stories which helps counter some of the negative conversations going on about Australia.’

Kench admits that China is a complex environment for business.

‘There are different risks across politics, regional tensions, and bilateral relations – sovereign risk, legal and regulatory risks, risks around bribery and corruption. And it is also very competitive market. But there remain significant growth opportunities – in trade, investment and finance.’

“ There are different risks across politics, regional tensions, and bilateral relations – sovereign risk, legal and regulatory risks, risks around bribery and corruption. And it is also very competitive market. But there remain significant growth opportunities – in trade, investment and finance. ”

She said relationships were very important in doing business in China. Mallesons’ own experience in its merger with King & Wood showed the advantages of having a strong local partner in China with deep local knowledge.

She says businesses looking to go into China needed to do their homework. ‘Be sure of your fundamentals, do your homework, be aware of your risks, seek to mitigate and manage them. Be open-eyed and do your due diligence.’

But she repeated that, for Australian firms, the conversation should be ‘China and’ and not ‘China or’.

‘Perhaps there is another question. What is the risk of not doing business with or in China, particularly as China continues to open up?’



6.2 SW Australia: An interview with Danny Armstrong

Image credit: Supplied

The Melbourne-based practice of accounting firm Moore Stephens joined the ShineWing International (SWI) network in 2015, changing its name to ShineWing Australia.

Rebranded in May 2021 as SW, the firm is part of a global network of accounting firms operating in 16 different jurisdictions around the world including mainland China, Hong Kong and Taiwan.

Danny Armstrong took over as managing director of SW Australia in 2017 following a long career in Asia. A banker by profession, he worked in Vietnam from 2006 to 2011 for the Commonwealth Bank and in China from 2011 to 2016 for the National Australia Bank.

He says his firm joined ShineWing International to boost its global business, particularly in Asia.

‘We are an 85-year-old Australian-owned and operated firm. Most of our business is domestic. The main reason we joined the ShineWing International network was around the economic opportunity between Australia and Asia, particularly China as a significant global economy.’

‘The Chinese economy is a very complementary with Australia’s. We export a lot of the goods and services that we produce in Australia and we source a lot of our manufactured inputs from China. At the time there was also a lot of investment flow coming into Australia from Asia which generated a lot of activity for all manner of professional service firms and created significant opportunity for us. With the well-publicised challenges in some of the geopolitics over the last couple of years, some of that investment inflow has dropped off, but the trade has still held up pretty strongly although elements of it have changed.’

‘ With the well-publicised challenges in some of the geopolitics over the last couple of years, some of that investment inflow has dropped off, but the trade has still held up pretty strongly although elements of it have changed. ’

The firm's Asian work involves helping Asian companies do business in Australia and Australian companies do business in Asia, including sourcing inputs for their supply chains. The relatively low level of manufacturing in the Australian economy means there is a strong demand by Australian companies to source products and inputs out of Asia.

'A lot of our manufactured imports come from overseas. A lot of that's been coming from Asia and, in particular, China.'

SW has four offices in Australia – Sydney, Melbourne, Brisbane and Perth – with 34 partners and 300 staff.

In addition to its international network, including ShineWing in China, SW Australia also has its own representatives in Shanghai and Hong Kong to help its clients which Armstrong says have been particularly useful with borders closed due to the pandemic.

Armstrong says the firm has a 'pretty diverse multicultural team' in the business in Australia.

'They've got family friends and former university colleagues and whatever the case may be on the ground in China. The network we're part of has also got a pretty big business on the ground in China. It has a strong reputation in that market and also in Hong Kong.'

Despite the reports of political tension between Australia and China, Armstrong says his firm is still seeing Australian businesses which are 'interested in establishing and grabbing hold of the market opportunity in China.'

“ The people on the ground tell us there is still strong demand for Australian products. We might have a bit of a bumpy period to navigate, but we think the opportunity in the long-run is still strong and the demand is still strong. ”

'China is the biggest growth economy in the world. Australia and China have highly complementary economies. The people on the ground tell us there is still strong demand for Australian products. We might have a bit of a bumpy period to navigate, but we think the opportunity in the long-run is still strong and the demand is still strong. In my experience, business wants to get on with business and, given a reasonable playing field, business will get on with business regardless of the politics.'

Armstrong says there are some specific challenges in doing business with China. Foreign companies can find themselves suddenly having to scale up if demand takes off for their product.

'Maybe you are producing and selling infant formula and all of a sudden there is tremendous demand for the product and you've got to be able to scale up.'

Another major issue is that China still has a closed capital account, making transferring capital in and out of the country more difficult.

'The regulations relating to how you contribute capital into your business and how you repatriate profits are different because China has got a closed capital account. It's regulated by the foreign exchange regulator, the State Administration of Foreign Exchange (SAFE). You need to understand what impact that has on how you operate. If you establish your business with a certain amount of capital and you're successful and need access to more capital, it's not as simple as just shipping a bit more over from Australia. You've got to go through a regulatory process to get it in.'

'Some of those things would be perceived by Australian businesses as difficult because it's different to our environment. It doesn't mean it's insurmountable, it just means it's different. But the opportunities there are pretty big as well.'

Armstrong recommends that Australians operating in business Asia, particularly China, should consider joining their local Australian Chamber of Commerce. He was a director of the Australian Chamber of Commerce in Shanghai when he lived there.

‘I’m a big fan of the Australian Chambers of Commerce. They allow you to engage with other Australians who are experienced in China, as well as other Chinese people who are members of the Chamber. It allows you to build a network of trust and support as well as the social side of things. The members can help introduce you to local Chinese business people who have relationships they trust, who can help you develop your business.’

Armstrong says the food and agriculture sector is still an attractive market for Australian companies in China.

‘China is the biggest growth economy on earth. Australia is a trading nation. We export about 60 percent of the food that we produce and most of that goes to Asia.’

‘Australia is one of the few countries on earth with a positive trade relationship with China, meaning that our exports to China exceed our imports from China, which is extraordinarily positive’.

“Australia is one of the few countries on earth with a positive trade relationship with China, meaning that our exports to China exceed our imports from China, which is extraordinarily positive.”

‘The opportunities are enormous. We have built a lot of good relationships over time at all levels. We’ve had a lot of people travel to each other’s country. We’ve had a lot of students studying in Australia from China and a lot of tourists travelling both ways. It has built a good rapport and understanding at all sort of levels which has stood us in good stead.’

He says there are also opportunities for Australian companies to cater the increasing health consciousness of Chinese consumers.

He says there are concerns being expressed in China about the ‘sedentary lifestyles’ of the population which once was primarily focused around farming.

‘We are helping a couple of companies at the moment, who are in the fitness game, trying to expand their business in the China market.’

Armstrong says diversification is important for any businesses expanding offshore. But he says companies must still look to where the biggest market opportunities are.

“You’ve also got to be mindful of where the greatest areas of opportunity lie in terms of the addressable market – the sector that you’re interested in, the demand for your product or service, the price and a range of other factors. You need to balance that opportunity with risk mitigation around diversification.”

‘You’ve also got to be mindful of where the greatest areas of opportunity lie in terms of the addressable market – the sector that you’re interested in, the demand for your product or service, the price and a range of other factors. You need to balance that opportunity with risk mitigation around diversification. While we know that it’s sensible to have a diversified portfolio, sometimes the market that pays you the most money or that presents the best opportunity, naturally gets the investment, or gets export activity.’

‘You’ve got to balance those things. I don’t think it’s as simple as a binary decision around ‘we have a problem in a particular market so let’s all go and diversify away from it’. When it comes to iron ore, for example, the significant demand for that product obviously comes from China. I don’t think there are ready-made other markets for [iron ore producers] to ship it to if there was a reduction in the demand from China.’

‘People on the ground tell us there’s strong demand for our Australian products in China. We know from the import data that Australia has a strong demand for a number of the products produced in China and a number of their manufactured inputs. We want to continue to help our clients, both ways, to do business.’



07

Consultants

Two veteran China business experts discuss their view of the China market.



7.1 Clinton Dines

Image credit: Supplied

Clinton Dines is one of the most experienced Australian business people on China, having lived there for 36 years from 1979 to 2015, including 21 years working for BHP in China.

Dines has a simple observation for Australian companies wanting to go to China – it's not for everyone.

He says days of making easy money in China as it was opening up are long since gone.

He believes China is not for most companies unless they have the ability and the resources to prepare for the long haul, have access to high quality experienced people with a knowledge of China and the resources to become a significant player in the market niche they are operating in.

‘China is everyone’s bright idea. Every country and company in the world sees China as their big opportunity. But if you want to go to China, you have to think what have you got that is different? What is your sustainably different competitive advantage?’

Dines says anyone wanting to go into China needs to make sure they have a product China does not have and needs to buy, which cannot be readily duplicated or copied, is not vulnerable to political or trade manipulations or disruptions and has a limited number of global competitors.

‘Their product or service has to have a very strong, sustainable competitive advantage,’ he says.

He says people doing business in China need to pay attention to China’s developmental growth trajectory and where their product fits within it. They also need to have a well-developed appreciation of competing Chinese companies and products. He warns that those who don’t risk losing their money.

“ China is everyone’s bright idea. Every country and company in the world sees China as their big opportunity. But if you want to go to China, you have to think what have you got that is different? What is your sustainably different competitive advantage? ”

Dines says Chinese leaders ‘explicitly and deliberately’ became more welcoming to foreign businesses from around 1992 as they wanted to modernise and grow their economy.

But they also harboured some resentment of Western attitudes and conduct, seeing it as condescending and didactic.

In line with Deng Xiaoping’s famous ‘bide your time, hide your light’ dictum, they tolerated this behaviour as they wanted to engage with the West to achieve their developmental objectives.

But, Dines says, that changed from the time of the global financial crisis in 2008 when the Western economy was on its knees. ‘At the same time, China seemed to be more prudently managed and more politically agile in response to the crisis, coming out of the crisis demonstrably stronger than any other country, partly due to an aggressive stimulus package in late 2008.’

This ‘changed the narrative’ in China as many in the country felt the Western system had been shown to have significant vulnerabilities, while China’s system had come through the crisis well. This shift in worldview saw China gain more confidence in itself and become less envious of the Western economies.

The result was a progressively more assertive attitude towards foreigners, both diplomatically and commercially, which was made more explicit after Xi Jinping took over as president in March 2013. After 2016 it evolved into the aggressive era of ‘wolf warrior’ diplomacy.

“ This new period is much more selective and targeted in terms of commercial and trade engagement with foreigners – the ‘dual circulation’ policy theme is redolent of the old Mao ideas of ‘self-reliance’ – and less open for foreigners to make easy money in China. ”

‘This new period is much more selective and targeted in terms of commercial and trade engagement with foreigners – the ‘dual circulation’ policy theme is redolent of the old Mao ideas of ‘self-reliance’ – and less open for foreigners to make easy money in China,’ Dines says.

Now, he says, a realistic assessment of China’s economy and commercial landscape would suggest that there are only a limited number of industrial sectors where it needs foreign knowhow, technology or raw materials. ‘Some service sectors currently hold potential, but the window will only be ajar for a limited period.’

Dines says while the Australian economy did very well in the years after the global financial crisis on the back of its increased exports to China, which were a direct result of the Chinese stimulus, Australians never ‘reflected deeply on the windfall benefits of having an economy which was so fortunately complementary to China’s or recognised the importance of the links.’

“ Australia has been left with no coherent narrative about the importance of the relationship. ”

‘As a result, Australia has been left with no coherent narrative about the importance of the relationship. The increasing role of the national security community in Australia shaping views on China – long repressed in the interests of the trade relationship – at the same time as there was no overt acknowledgement of the importance of China to the Australian economy, has combined with concerns over China’s increasing assertiveness to produce the current hawkish policy on China,’ he says.

Dines says would-be Australian exporters to China need to look at what China needs. He says this includes resources, energy and safe high quality food.

‘Only seven percent of China is arable land and a lot of that land has been stressed over the last few years because of China’s rapid growth, pollution, water shortages and the leaching of the soil,’ he says.



Image credit: Rawpixel.com / Shutterstock

This is why the Chinese want Australian food products, including lobsters from Geraldton, grass-fed beef and Australian dairy products.

Dines says iron ore also fits in with the definition of a product which Australia has which China needs and can't readily get locally.

He says Australia lacks the global-sized US and European multinational companies such as America's General Electric or German industrial giant Siemens to invest heavily in China and have a significant presence in the country for the length of time needed for success in the country. It also lacks access to enough globally trained executives who could help navigate the complexities of the China market.

'The big US and European companies have had a deep presence operating in China for decades and a cohort of senior managers who have spent time in China.'

He says it would not be very economic for many small businesses from Australia to set up in China given the costs and the long time commitment involved and the extent of the risks and uncertainties.

Being able to have scale in a company's operation in China was important.

'Not having scale in a business in China is a risk. There are not too many Australian companies with the scale and the management skills to handle the China market.'

Not having scale in a business in China is a risk. There are not too many Australian companies with the scale and the management skills to handle the China market.

He cites CSL and Butlers, which is now owned by Bluescope, as two examples of Australian companies which have done well in China.

Dines says Australian companies wanting to do business in China should follow government policies closely.

'China is consolidating and moving into a different phase of its economic development. 'Common prosperity' is not a slogan. It is a big signal that Xi doesn't care about taking on a few cocky tech billionaires, or breaking up a few big, overstretched real estate companies, that inequality in society is on the political radar and that major distortions and imbalances which threaten the stability of the economy will be tackled.'

In this environment Australian companies needed to be even more hard-nosed about working out if they had products which were needed by China.



7.2 Peter Osborne

Image credit: Supplied

While political tensions between Australia and China have impacted on some export sectors such as wine and barley, Taiwan-based business consultant Peter Osborne says there are still plenty of Australian companies looking to expand into the China market, particularly in sectors like food, skincare and health and well-being products.

Osborne headed up Blackmores' operation in Asia for 11 years after being Australian senior trade commissioner in China for 15 years. Companies he has been advising to enter or expand into the China market include ASX-listed Echofibre and BWX, plant-based meat company Deliciou and healthcare company ATP Science.

Osborne says many small and medium-sized companies in Australia are now taking advantage of China's massive e-commerce sector to sell their products into China.

He says this is a much lower risk way to sell into the China market than setting up brick-and-mortar businesses in the market or directly exporting to distributors into China.

E-commerce platforms such as Tmall Global and JD.com allow offshore sellers to sell to China consumers, with their products going into free trade zones in China. The e-commerce stores on the platforms are managed by well-organised trade partners in China.

The explosion of e-commerce capability, helped in Australia by the existence of a team from Alibaba in Melbourne, has opened up a wide range of opportunities for Australia companies, particularly smaller companies which would not have the capital to go directly to China themselves.

Osborne says selling on e-commerce platforms is a much more efficient, low cost way to enter the China market.

‘It’s a lot easier to do business in China by setting up a flagship store on Tmall Global or JD.com than it is to have a normal import business in China. The regulation of products coming in through cross-border e-commerce is less onerous. The system is very automated. Once you have your store set up and you have a trade partner helping you to run it and you have a digital agency and you do your social media on platforms like Little Red Book and Douyin, you can run it relatively easily.’

📌 It’s a lot easier to do business in China by setting up a flagship store on Tmall Global or JD.com than it is to have a normal import business in China. The regulation of products coming in through cross-border e-commerce is less onerous. 📌

‘It still requires focus, marketing resources and a strong product offering. But it’s a lot easier than conventional import business where you have to deal with distributors, and you have potential tariffs as well as import regulation.’

He says Alibaba’s operations in Australia, which were set up in 2018 headquartered in Melbourne, have been proactive in helping Australian companies onto their platform.

‘I have worked with Alibaba advising Australian brands on getting onto their platform and they have been very helpful,’ Osborne says.

He says selling on e-commerce platforms may also be less risky as it is platform encouraged by Chinese leader Xi Jinping.

He believes that despite political tensions and trade issues such as the tariffs on wine and barley, the China market still offers many opportunities for Australian companies.

Despite much publicity about new controls being introduced on business in China, he argues that in some ways it may be getting easier operating in China for Western companies.

As China has introduced more global standard regulation of sectors such as imports and food and drug standards, it becomes a more predictable operating environment.

‘Over time, the regulations are getting better,’ he says.

He said foreign sellers these days needed to be more wary of rising Chinese nationalism in their approach to marketing.

‘Brands need to be very conscious of that increased Chinese nationalism when they are promoting themselves there. But that’s no different to any other market. When things change, you’ve got to deal with it.’



Image credit: Trong Nguyen / Shutterstock

“ Brands need to be very conscious of that increased Chinese nationalism when they are promoting themselves there. But that’s no different to any other market. When things change, you’ve got to deal with it. ”

He says foreign companies looking at setting up operations in China should do detailed risk assessments of the country, including intellectual property protection and developing exit strategies if their business doesn’t work out.

While China has put tariffs on Australian wine and barley, he points out that Australian companies have also faced tariffs in other countries including the US and Indonesia.

He says the China–Australia Free Trade Agreement (ChAFTA) has been a ‘significant benefit’ to Australian companies selling into the China market, reducing the tariffs on many items to zero and providing a framework for handling regulatory issues and non-tariff barriers.

He says one of the biggest challenges for companies looking to do business in China is appreciating the competitiveness of the market.

‘Australian brands going in there need to look at whether this is the best opportunity for them or if they would be better off going into another market which is not so competitive. China is not the magic pudding. You have to work hard to succeed there.’

He says a lot has changed in China since the heady days of 2016 and 2017 when foreign consumer brands could make easy money in China.

This was reflected in the optimism around the prospect of Blackmores’ sales in China, sending its shares to record levels of more than \$210 in late 2015. Sales of Blackmores products took off when there were reports that actor Fan Bingbing used Blackmores’ Vitamin E cream.

‘The market is much more competitive than it was five years ago or even three years ago,’ he says.

‘The days of being able to put a product on a plane to China and sell it there are gone. You have to understand the consumer and the platform you are selling on. It is a very competitive market, but you can still do good business there. It’s a good market and a big market but you’ve got to work hard for the sale.’

He says that while there has been much media attention on Australia China tensions, so far there have not been any broad directives from Chinese political leaders for Chinese consumers not to buy Australian products as there was against products from South Korea a few years ago.

‘There is the odd bit of media coverage but in general, Chinese consumers still think of Australia as being clean and green, a great place to visit and a great place to buy products from.’

He argues that this is an advantage for smaller Australian companies selling on e-commerce platforms which can ‘fly under the radar’ and are not seen as flagship exports from Australia in the same way that Australian wine was.

He rejects the notion that Australian companies which go into China are naïve or have not done work on the risk assessment.

‘I don’t think anyone blindly goes into China. Everyone is aware of the bilateral issues. Many of the conversations I have with companies looking at going into China, at the moment, start with that discussion. All the Australian companies I’ve been assisting on their China entry or expansion have a very good view of assessment of risk, consider it in a pragmatic manner and factor it into their commercial and people decisions.’

‘Many commentators on the bilateral relationship are often disconnected from the realities of how businesses operate on the ground in China and how they manage an extremely complex set of factors. Political and bilateral relationship risks are often relatively minor in the risk matrix. In reality, factors such as supply chain, talent, foreign exchange and customer acquisition and retention are much more ‘mission critical’ to many Australian companies engaged with China.’

“ The market is much more competitive than it was five years ago or even three years ago. ”



08

Government



8.1 Austrade: An interview with Daniel Boyer

Image credit: Supplied

Austrade's Beijing-based general manager for China, Daniel Boyer, is still optimistic about the long-term potential for Australian businesses in the China market despite political tensions and trade issues including tariffs and anti-dumping actions.

'I'm pretty positive about the Australia-China commercial relationship in the longer term. Clearly times are tough at the moment, especially in some trade exposed sectors. But China is, and will remain, an important economic partner for Australia.'

2021. The value of merchandise exports to China was up by 35 percent in the first eight months of the year, making up 43 percent of our total exports.'

As head of greater China, Boyer oversees nine offices across three markets, with a total staff of around 95 people. It compares with around 85 staff in the six ASEAN countries of Southeast Asia.

He admits that the current environment for business in China is difficult.

'To be frank, it's a pretty tough environment for businesses, particularly Australian businesses, operating in China. Not just with bilateral challenges causing uncertainty but also with the global pandemic impacting logistics and restricting travel which has had a real impact, including on our international education and tourism sectors.'

But he argues that despite the higher risks, there are also opportunities.

'Business is still being done, and Austrade is actively supporting exporters and their partners to continue to trade.'

“I'm pretty positive about the Australia-China commercial relationship in the longer term. Clearly times are tough at the moment, especially in some trade exposed sectors. But China is, and will remain, an important economic partner for Australia.”

'In 2020 China was still our largest two-way trading partner in goods and services, our largest export market and our largest source of imports. High commodity prices and the ongoing impact of Covid on the world economy have reinforced China's position as Australia's largest export market in

While political tensions have strained the relationship, he says Austrade is still actively supporting firms and their partners in their efforts to do business in China.

Boyer says that there are still ‘significant deals’ being done by Australian companies in the market.

‘We are still seeing deals being done. Business will make commercial decisions based on risk and opportunity. Austrade’s role, in that context, is to provide the most relevant and timely market insights to support those decisions.’

‘There are a large number of Australian exporters who are either in China or who are exploring China as a potential market for their products or services.’

But, he says, in advising Australian companies, Austrade also points out the challenges of doing business there.

‘While we canvass and present the opportunities that exist for business in a market like China, we also continue to emphasise the challenges associated with doing business here, including from recent trade disruptions.’

Austrade also talks to business about the importance of diversification and not having too much exposure to the China market.

“ While China will continue to be an important market, exporters need to consider the increased risks here and remember it’s not the only market. ”

‘While China will continue to be an important market, exporters need to consider the increased risks here and remember it’s not the only market,’ he says. ‘Overreliance on a single market, irrespective of the context, can be a risky business strategy. While recognising it’s up to business to make decisions and assess the risk-reward equation, Austrade is supporting businesses who wish to consider alternative markets and a diversified consumer base.’

Boyer says the recent years have thrown up a raft of new challenges for Australian exporters, with the tariffs introduced by China on Australian wine and barley only part of the overall environment.

‘From the pandemic to trade barriers, the past two years have certainly thrown up new challenges for our exporters – whether across supply chains, freight and logistics, or market access,’ he says.

He says Austrade sees its role as working with government agencies to share market intelligence with Australian exporters in a rapidly changing world, helping them stay abreast of the latest challenges and opportunities in the market.

‘Over the past two years we’ve really dialled up our digital engagement – from online business matching, to connecting exporters with partners in market, to livestreaming to promote Australian products. It’s proven highly effective to communicate directly with Chinese consumers.’

Boyer says the China-Australia Free Trade Agreement (ChAFTA) still has benefits for Australian exporters.

‘We continue to enjoy preferential benefits under ChAFTA, but acknowledge that some sectors are unable to capitalise on these due to other measures, including quarantine and anti-dumping.’

A ChAFTA Post-Implementation Review by the Department of Foreign Affairs and Trade completed in February 2021 found that the agreement has delivered a net benefit since its entry into force. It found that it has helped liberalise economic flows between China and Australia through reductions in barriers to trade, increased Australian exports of travel (when travel was possible) and other services, and increased Australian goods exports for a majority of products receiving ChAFTA tariff reductions.

Boyer says current opportunities for Australian business in China include green manufacturing solutions and technology that improves farming as well as more conventional food and beverage products.

Despite the multitude of challenges our exporters have faced over the past two years or so, many of our agriculture and food and beverage categories continue to do well here.

‘Despite the multitude of challenges our exporters have faced over the past two years or so, many of our agriculture and food and beverage categories continue to do well here.’

He cites the healthcare sector as another area of significant potential for Australian exporters in China.

‘If I could single out one sector with the potential for strong growth and commercial cooperation, it would be health. It is made up of a myriad of sub-sectors, of course – medical training, equipment, biotechnology, pharmaceuticals, facilities design, palliative care, nutritional products, etc.’

‘The combination of an ageing population, a burgeoning middle class demanding higher quality healthcare, and a domestic health system under strain have made health a high priority for the Chinese government, and for the commercial sector here in equal measure. Australia has capability in many of these areas. We’ve seen some excellent trade and investment partnerships in recent years accordingly. From cancer care to aged care architectural design, to biotechnology, we continue to support a range of Australian health companies in market.’

Boyer says China still has many attractive factors for Australian companies including a large, growing middle class of discerning consumers demanding safe, reliable, high-quality goods and services, as well as a significant shortfall in arable land.

Other factors include the continued urbanisation which requires raw materials and support across many services sectors, and one of the most digitally sophisticated markets in the world.

‘These all play to Australia’s strengths,’ he says.

He says e-commerce is now playing an increasing role in accessing the Chinese consumer market.

‘With an online population of around one billion, it’s critical for companies selling products in China to have a sound e-commerce and social media marketing strategy. Increasingly, the lines between entertainment, social media and e-commerce are blurring in China. This offers smaller companies the opportunity to build communities of loyal customers through powerful storytelling and responsive customer service. It sounds simple in theory, but executing that opportunity can become quite complex. That’s why we’re sharing monthly e-commerce insights on Austrade’s website.’

Boyer says any company wanting to do business in China should do a thorough assessment of risks and opportunities and get professional advice where necessary.

‘This is advice we have always provided to exporters in markets like China, even before the pandemic and recent trade challenges. It is a tough place to do business, from regulatory challenges to intellectual property issues, to the sheer scale of the market.’

‘But I’m reasonably positive about China as a market in the medium to long-term. Our commercial and people-to-people links run long and deep, and our economies are just so complementary. In the short-term, Austrade is helping a number of China-exposed businesses access other markets as and when they need to, with almost 70 offices around the world with extensive connections and business intelligence.’

Boyer rejects suggestions that Australian companies doing business in China are naïve about the challenges of the market and the risks involved.

All exporters are making market-based decisions every day, built around their assessment of risk and opportunity, in China and everywhere else. I wouldn’t characterise those decisions as naïve or reckless. Each exporter finds their own balance of what to sell and where to sell it.

‘All exporters are making market-based decisions every day, built around their assessment of risk and opportunity, in China and everywhere else. I wouldn’t characterise those decisions as naïve or reckless. Each exporter finds their own balance of what to sell and where to sell it. Our job in government is to give them the best insights and advice, positive and negative, to help them with those decisions. It’s a job we take very seriously.’

He also points out that it is not easy for a company which has been doing a lot of business in China to suddenly redirect its attention to other markets.

‘Some of the commercial relationships between Australia and China run long and deep, decades even. Shifting out of a market like China that has delivered for you and your shareholders for a long time is not an easy decision to make. Even if a business, on making these sorts of assessments, decides that they want to reduce their exposure to the China market, it’s not easy to forge the connections needed and shift supply chains overnight. Establishing a new market takes time.’

But he notes that some sectors which have been hit by Chinese restrictions, such as barley and coal, have been able to redirect their products to other markets, while others including wine and seafood have impacted some individual producers badly.

‘We are seeking to resolve the various trade issues bilaterally and through the World Trade Organisation. Interestingly though, many of those impacted by China’s trade restrictions have been successful in re-directing their goods to other markets, particularly the larger bulk commodities that trade on global markets.’

‘As the Treasurer [Josh Frydenberg] recently noted, of those goods targeted by trade actions, our total exports to China are estimated to have fallen by around \$5.4 billion over the year to the June quarter. But over the same period, exports of those goods to the rest of the world have increased by \$4.4 billion.’

Boyer argues that all international markets present their specific challenges for Australian exporters.

‘There have been challenges in doing business in China since well before the pandemic and recent trade issues – from IP concerns to regulatory challenges to navigating the sheer scale and complexity of the consumer landscape here. Every market presents unique challenges. Exporting is and always has been a higher risk, higher reward undertaking. That is precisely why being strategic is so important. Every business needs to assess the market based on its merits, manage risk, and develop a sound strategy for capturing opportunities – a strategy that can often involve exporting to more than one country.’

‘At some stage, the current challenges will reach a new settling point. It may not be an entirely positive settling point, but at least it will be stable. At that point, the underlying strength of the commercial relationships that have been built between our two countries over decades will again be able to realise their potential.’

“ At some stage, the current challenges will reach a new settling point. It may not be an entirely positive settling point, but at least it will be stable. ”

‘The potential rewards of doing business in China are very much worth it, if you’re in the right sector and have the right strategy. The size of the middle class, the demand for quality products and services, the sophisticated digital landscape, and the sheer scale of opportunity here all play to Australia’s strengths. But it’s not a decision for me to make. It’s up to each exporter to make their own judgement.’



09

Conclusion

Doing business in China is not easy, but there are some common themes emerging from discussions with the people who have kindly agreed to be interviewed for this report.

Those interested in doing business with the world's second largest economy, which continues to be one of the fastest growing in the world, can see its significant potential as a market for their product. But they also are willing to take a long-term view.

China has always been a complex country changing at a rate many times that of Australia. While the political relationship between Canberra and Beijing has deteriorated, there are many business to business ties which have been forged over many years which those on both sides want to continue.

Having good political links with any country is important for trade links, particularly in the case of Communist Party-run China. But businesses operate on much longer timeframes than political cycles and can be prepared to look through shifting political sands if the underlying reasons for doing business are still sound.

Australia is not the only country having political issues with China. Much more assertive and nationalistic, the China of Xi Jinping has had its clashes with countries around the world on a range of issues.

After decades of the China growth story being seen as a largely positive one around the world, tensions are rising as the country's size and power and its more outspoken public posture causes new issues.

But as people interviewed for this report show, those companies who can see a market for their product in China are prepared to try to keep up their business despite political headwinds.

As those interviewed point out, exporters are constantly reevaluating political risks in the markets they operate in.

As Mark Allison from Elders points out, farmers and those in agribusiness are constantly having to adjust to external shocks well beyond their control.

Constant adaptability is feature of all the companies interviewed. As is a continued determination to find a way of doing business with China.

As interviewees in this report point out, there is much to be learned from studying the modern Chinese consumer.

Behind the sharp contrast in the annual economic growth rates of six to 10 percent in China compared to rates of two to three in Australia are the stories of hundreds of millions of individuals – ordinary Chinese people – whose lives have been changing at breakneck speed.

China has been transformed from a nation of poor peasants to one which now has some of the most sophisticated consumers in the world who are setting the pace globally when it comes to e-commerce.

Inside Treasury Wine Estates, as chief executive Tim Ford says, they call it the 'China speed.'

This creates dynamic consumer markets. The young professional woman in Shanghai, whose grandparents may have been poor farmers in Western China, is running a family and shopping at the speed of light on her iPhone.

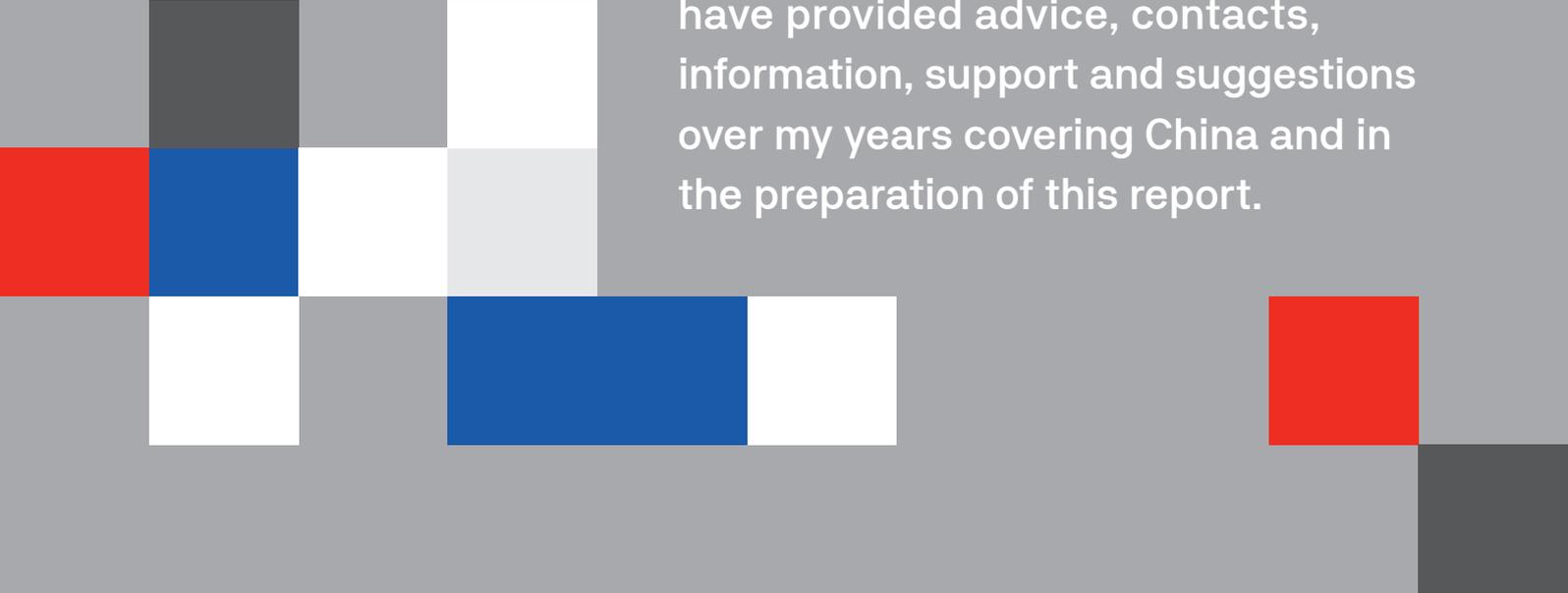
The next-generation Chinese consumer is an important economic phenomenon who deserves more study.

As some observers in this report have said, the strength of the business ties between Australia and China may be the key to its future.



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She has been business editor of *The Bulletin* magazine, editor of *The Australian's* monthly business magazine, *The Deal*, and associate editor (business) of *The Australian*.

She has a strong interest in Asia, particularly China, since her first visit to the People's Republic of China (PRC) on a 'farm study tour' in 1978. She was the China correspondent for *The Australian* in 2018 and 2019. She has lived and worked in Hong Kong (2001-2003) and Singapore (1998-1999).

She has had a strong interest in the Olympics having covered Games in Atlanta (1996), Nagano (1998), Sydney (2000), Athens (2004), Beijing (2008) and London (2012).

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