

People's Republic of China

Australia's Index of Engagement with China grew by 16% in 2010, reflecting increases in all of the components except investment and migration.

China's economic growth continued to outpace that of the other major countries and world average growth in 2010, further securing its position as the second biggest economy after the United States, and ahead of Japan.²¹ The Chinese economy grew by an estimated 10.3% in 2010 (more than double world growth) and is expected by the IMF to slow only moderately in 2011 (in line with attempts by authorities to quell concerns about inflation).

Australia has been well placed to benefit enormously from China's buoyant growth in the past decade. While the key driver of this engagement and economic benefit for Australia has been related to trade in energy and resources, increases in education and tourism service exports have also been impressive. China accounted for 19.1% of Australia's total trade in goods and services in 2010, up from 13.2% just two years earlier.²²

With China's economy predicted by the IMF to double in size by 2016, it will clearly remain a very important focus for Australian business, government and cultural relations.

This relationship was highlighted by Foreign Minister Rudd on his visit to China in May 2011 when he talked about the future of the Australia–China relationship, referred to as 'Australia–China 2.0'. As he highlighted, "mass urban migration is supporting large scale investment in new housing, commercial buildings, transport infrastructure and electricity networks... [and]... demand among urban consumers for cars and appliances." He went on: "this bodes well for the future of Australia's traditional relationship with China in minerals and fuels... but Australia has more to offer China.", such as more sophisticated "education services, banking, financial and wealth management services, architecture and design, green technologies, as well as tourism", areas where "future collaboration can bring great mutual benefit".

Australia's investment relationship with China is relatively less important than the trade relationship. There was a sharp fall in investment engagement in 2010 reflecting a decline in inward investment from China. Australia's average investment in China over the past decade has been relatively modest, with most accounted for by direct investment into the finance sector, followed by manufacturing and services. China has been rapidly increasing its investment in energy and resources around the world, with increasing amounts of this investment finding its way to Australia. Chinese investment in Australian farmland is also attracting increasing attention. While this is generally expected to continue, there are increasing concerns in China about Australia's foreign investment guidelines and approvals processes, as well as weakening relative investment returns due to the rising cost structure in Australian mining, the high Australian dollar, and proposed taxation changes.²³

²¹ In nominal GDP terms the United States, China and Japan accounted for an estimated 24.0%, 8.9% and 8.6% respectively of world GDP (using World Bank *World Development Report* 2011 GDP data for 2009; IMF WEO June 2011 growth rates for 2010). In PPP terms the ranking is the same but the shares differ.

²² DFAT *Composition of Trade* 2010, Table 5.

²³ <http://au.news.yahoo.com/thewest/business/a/-/news/10082726/chinese-finding-mining-investment-tougher/>

Figure 16: China Index

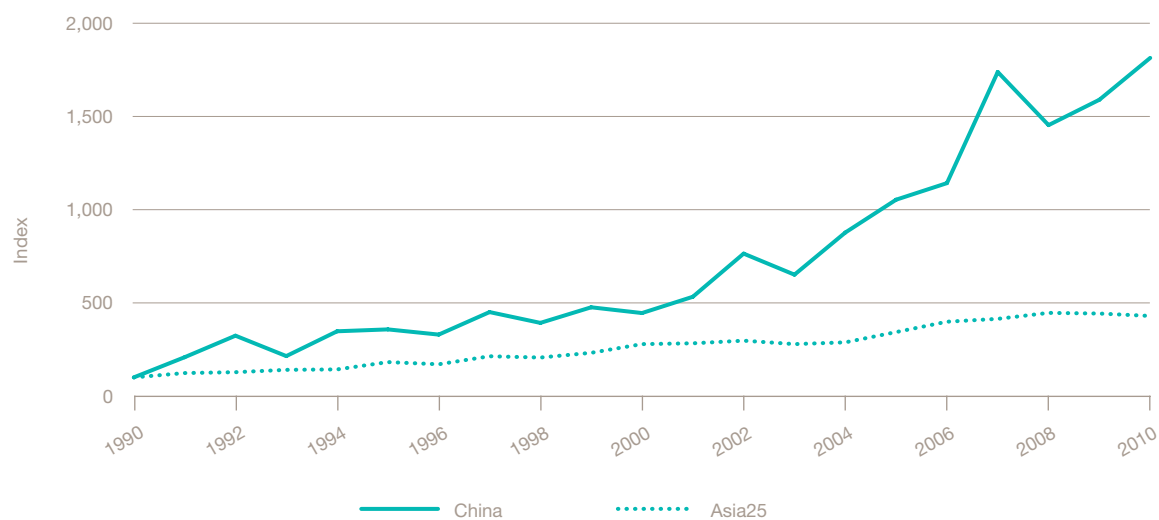


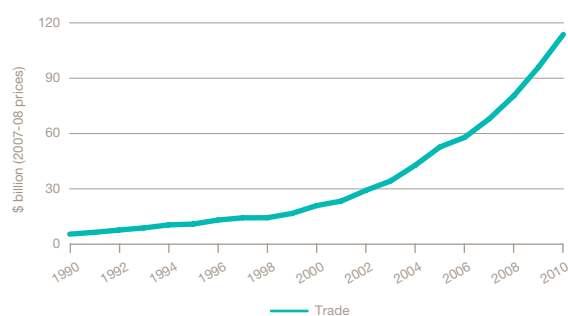
Table 12: Index trends for China

	1990	1995	2000	2005	2009	2010	% change 2009–10
China	100.0	368.8	469.7	1,159.5	1,733.8	2,010.9	16.0
Asia25	100.0	188.7	289.1	355.7	453.5	442.1	-2.5

Components of the China Index

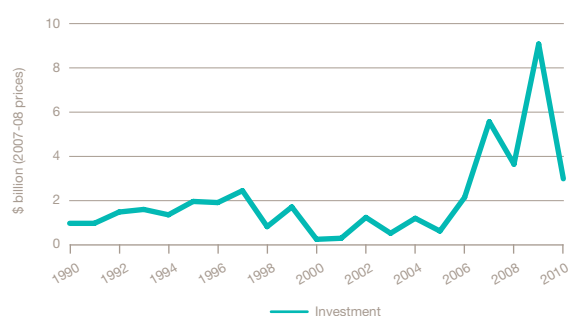
Trade

Australia's trade with China continued to expand strongly in 2010, with growth in total trade of 18%. This reflected strong exports growth of 19% (largely energy and resources exports) and similarly strong growth in Chinese imports to Australia of 17% (comprising largely manufactured goods). China has become Australia's largest single trading partner and export market, with shares of 19% and 23% respectively of Australia's total trade and exports in 2010.



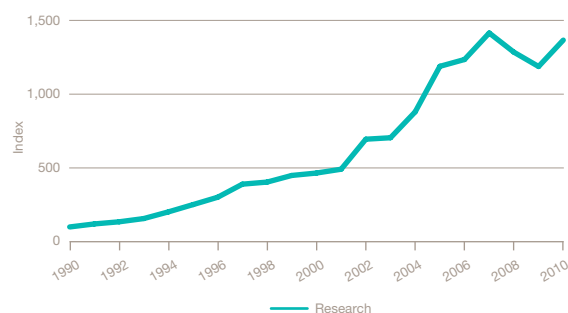
Investment

Australia's investment relationship with China is less significant than the trading one. There was a sharp fall in investment engagement in 2010 reflecting a fall in net inward investment of 80% in 2010; direct investment flows can be notoriously 'lumpy'. Arguably Australian dollar strength, as well as concerns about approval processes and tax changes, dampened inward investment in 2010. The stock of Chinese investment in Australia in 2010 was around \$20 billion, two-thirds of which was direct investment.²⁴ Net outward investment rose by 27% in 2010.



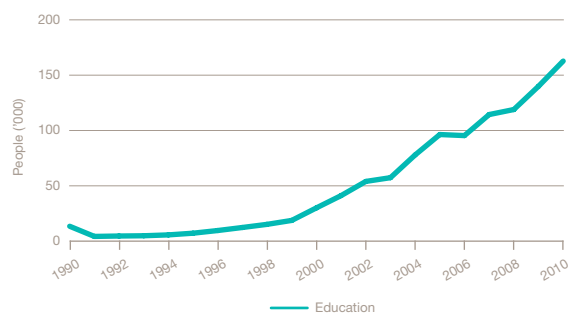
Research and business development

The China R&BD component rose by 26% in 2010, with increases across all sub-components except research article publication. The biggest shifts were a substantial 36% rise in the number of patent applications filed in Australia by Chinese inventors, as well as a large 16% increase in business visitors coming to Australia from China.



Education

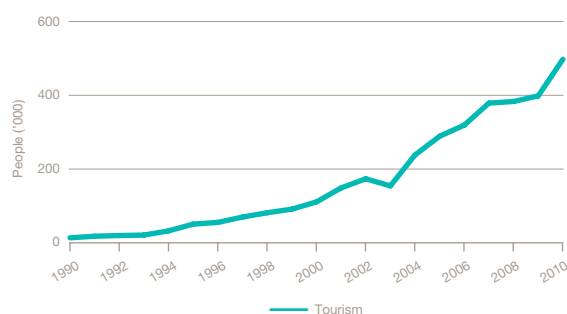
China has become Australia's largest source of foreign students in the past decade, with 144,000 (or 31% of total Asian students) coming to Australia in 2010, an increase of 13% on 2009. The number of Australians studying in China rose by a massive 57% to more than 18,500 in 2010, following a fall in 2009. As a result of these movements the overall education component rose by 16% in 2010.



²⁴ DFAT China Country Brief.

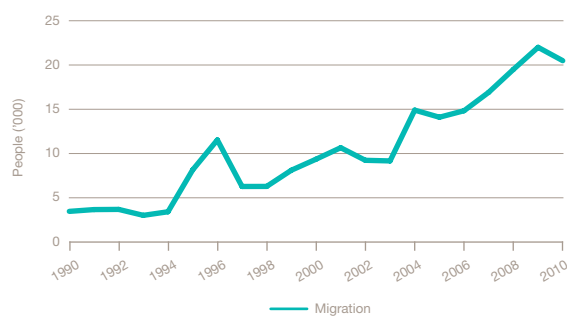
Tourism

Tourism between Australia and China has also grown strongly since the early 2000s to a level of around 500,000 person movements. In 2010, 283,000 Chinese tourists visited Australia, 31% higher than the number of Australians visiting China. Increasing prosperity and incomes in China are facilitating increased travel abroad. Almost all Australian tourist visits to China are for short-term holidays or visits to friends.



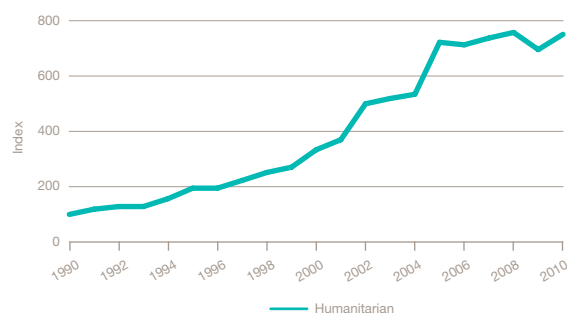
Migration

The number of Chinese people immigrating to Australia fell by 13% in 2010, while the number of Chinese-born people returning to live in China rose by almost 10%. In total, the migration component fell in 2010 by 7%. Exchange rate trends may have played a part in these developments. There were 380,000 Chinese-born residents living in Australia in 2010.²⁵



Humanitarian assistance

The Humanitarian assistance component rose by 8% in 2010. While there was a 10% increase in the number of doctors, nurses and teachers travelling to China, there was a 14% decline in the number of AusAID and Defence scholarships granted to come and study in Australia. The other components were fairly steady in 2010.



²⁵ ABS Cat. 3412.0 Migration, Table 4.7.