The Economist Events

EXECUTIVE SUMMARY

AUSTRALIA'S ASIAN FUTURE SUMMIT

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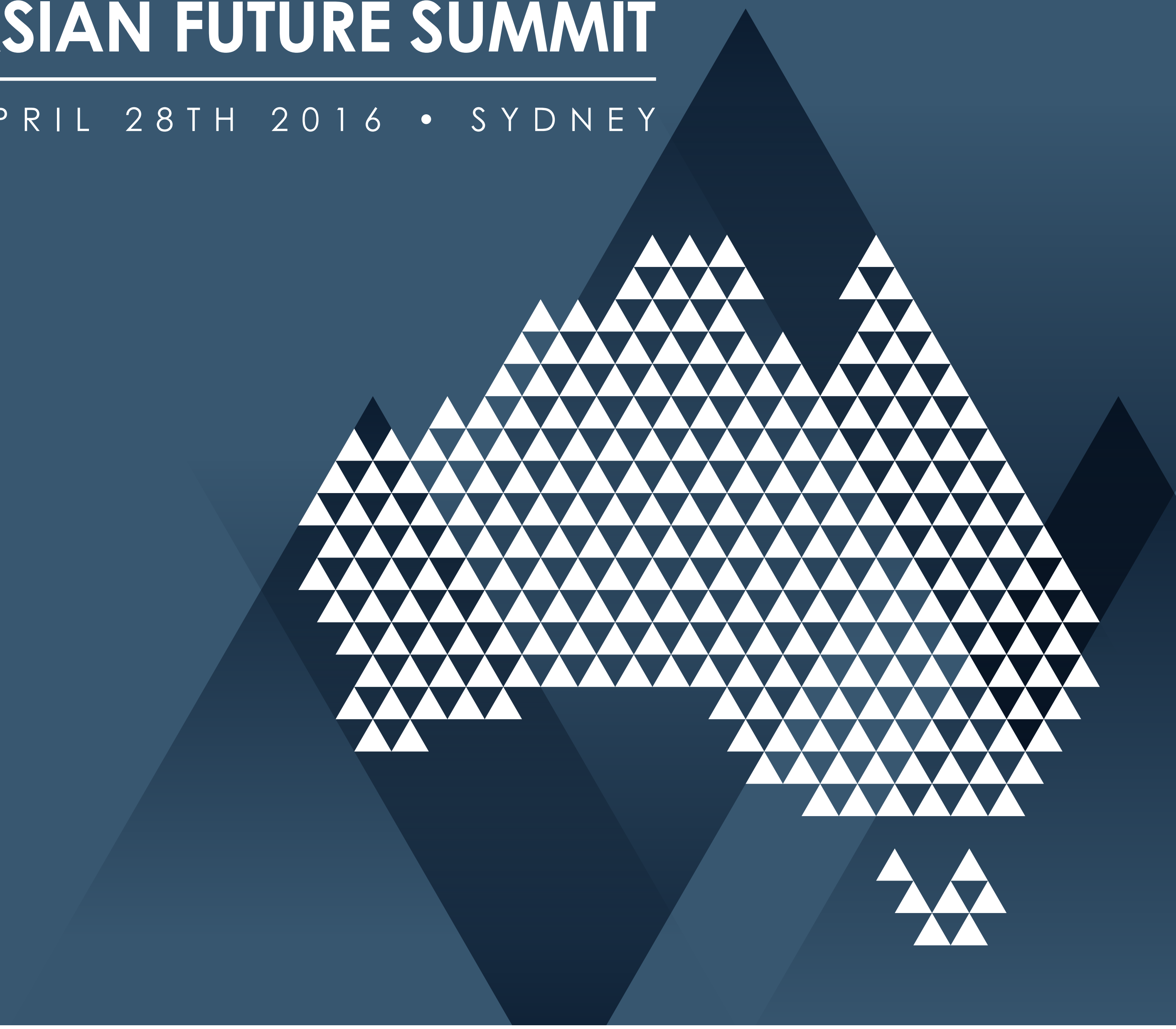

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"The country is a tale of two economies."

Mei Lisa Wang
Deputy director and senior researcher
National Economics Research Institute of China

Australia's is moving away from a mining economy and towards a dining economy as it enters into its fourth wave of engagement with Asia. Such was the consensus of panels, discussions and presentations at The Economist Events's Australia's Asian Future Summit at the Sheraton on the Park in Sydney on April 28th 2016.

The Australian economy is going through a transition that is directly linked to China's two speed economy. To survive as a competitive market player in this new digital economy it must reassess its relationship and engagement with China and the US, and make inroads into other developing South-East Asian nations. "Australia is going through a period of change and evolution that is unstoppable," says GE's new CEO, Geoff Culbert. "The responsibility is on everyone to work it out."

The consensus of the panelists at the event was that like Mark Twain, the death of mining and manufacturing has been vastly overstated but must be compensated by the creation of a complementary service economy, for the needs of Asia's rising middle-class. The minister for resources, energy and Northern Australia, Josh Frydenberg, said it's important to put into perspective that though values may have dropped, the country remains the world's number one exporter of coal and iron ore. "We have the largest uranium reserves in the world, and will overtake Qatar in LNG exports, representing 10% of GDP" he said. "I'm optimistic because demand continues to rise. For all our focus on startups and innovation, we shouldn't lose sight of the importance that resources and economy places to the sector."

Australia was the recipient of $400 billion between 2003-2014 split between LNG and commodities. "We are now exporting three times as much iron ore as much a decade ago and twice as much coal. Tripling the volume of our exports in LNG," Mr Frydenberg said.

The Lowy Institute's Peter Cai said manufacturing may be declining, or at least changing, but it is far from dead. The challenge will be the shift into localisation and partnership models rather than trying to sell product to China, a long held strategy of Australian companies. "But in some ways the whole shift is going to happen from exporting mining, to exporting mining, and food, and water, and healthcare and education," he said.

The fellow says there is also money to be made assisting the ageing population. Particularly in regions like Shanghai where property prices are restrictively expensive, one of the challenges will be to develop modern retirement arrangements that compliment Asian cultural traditions of keeping the family unit together. "Asia needs retirement products," he said.

Steve Monaghan, regional director of AIA said there are signs parts of the market have been paying attention, citing a piece of in-home aged care software developed in the labs of Australia's Monash University which is currently being used in 40 million Asian households.

"The country remains the world's number one exporter of coal and iron ore."

Josh Frydenberg
Minister for resources, energy and Northern Australia
Australia

MAKING MONEY ADDRESSING INEQUALITY

"Education is potentially huge. There is a great opportunity to send vocational and tertiary education to emerging markets."

Doug Ferguson
Partner in charge Asia and international markets
KPMG

Mei Lisa Wang, the Deputy director and senior researcher at the National Economics Research Institute of China said that the country is a "tale of two economies": an industrial economy in over-supply, saturated with credit and investment and a surplus of supply in the property market, alongside a rising services sector. "The traditional pillars are shrinking," she said. "New drivers are booming. So for anyone interested in doing business with China, more attention must be paid to the new drivers of the economy. It will be more helpful."

Stephen Groff of the Asian Development Bank said it cannot depend solely on export driven models like it has during periods of similar growth. There is an $8 trillion "infrastructure investment gap" across the Asia Pacific, including rail, roads, ports, IT infrastructure, as well as detailed design analysis. The structural transformations occurring in China "is the new normal," with growth continuing to slow across the Asian continent over the coming several years.

"One way to address that challenge is to focus on labour productivity in agriculture and manufacturing and other markets that aren't employing technology (or isn't using it efficiently), that can bring positive return to general economic growth," he said. "Infrastructure investment, training and skills development: These are transitions these economies need to take on. Part of it is a governance challenge, and there are things you can do to encourage investment both domestic and internationally."

As it inevitably opens its economy, and its doors, to the world, Mr Cai says China needs help developing better technology, management skills, research abilities & talent management. "They are in the stage of trying to climb up value add chain," he said. "There are opportunities for foreign companies to support these new markets." The research fellow cited "significant opportunities" in health, education, rail, internet and strategy, big data & analytics, as well as advanced manufacturing. "If you can help Chinese companies go global, you put yourself in a strong position," he said.

Doug Ferguson, partner in charge of Asia and international markets for KPMG agreed that while opportunities exist across a range of service industries, the Australian businesses that will prosper most in Asia are those who supply technology or project management skills. Education is a key opportunity, Mr Ferguson said. The number of people coming from inland Chinese provinces into Australian universities is increasing 30% year on year, but the greatest opportunity now lies in Australian universities delivering tailored courses in-country.

ASIA IS NOT ONE COUNTRY

Balaji Swaminathan, Westpac's General Manager of the Asia region suggested Australian homogenisation of Asia is resulting in disrespect, and missed businesses opportunities. "Asia is not one country," he said. "It's across China, Philippines, Malaysia, Vietnam: all with different cultures and demographics, different proportion of ageing populations and systems whose equality differs. How we deal with these countries will be to fill a need. What works for China will not work for India and Malaysia."

Mr Swaminathan said while much attention has been paid to the rising middle class in Asia, "what is middle class Australia is not middle class for Asia".

There are approximately 1.1 billion people in Asia's lower middle classes only just emerging from poverty. "Their needs are milk, basic food, education, healthcare," Swaminathan said, noting Blackmore's recent success in Asia providing vitamins in previously impoverished regions. Then there is the upper-middle class who desire luxury goods, travel and better healthcare. "My advice is to align buying behaviour to the particular category you're going into and the country you are relevant to," he said.

Peter Cai, Research Fellow at the Lowy Institute said there is an economic benefit for business and industry to address Asia's growing inequality. "The growth we've seen in the region over last 20 years has not been inclusive," he said. Asia has experienced growing inequality across income and access to opportunity. More equal growth would have resulted in less poor people today than we do now. Even with a massive poverty decrease, we'd still have far fewer poor people. "Why does it matter for an economy? If there are fewer poor people they can spend on education, healthcare, has returns to productivity. Educated workforce, healthier workforce, economy as a whole is going to be much more productive."

"What is middle class Australia is not middle class for Asia."

Balaji Swaminathan
General manager
international
Westpac

HOME TRUTHS FOR INVESTORS

"Australia has a reputation for nervous investors and inconsistent decision making."

Jennifer Westacott
Chief executive
Business Council of Australia

While the challenges facing Australian industry in Asia are significant, the biggest challenge is in their own backyard. Jennifer Westacot of the Business Council of Australia said Australia has a reputation for nervous investors and inconsistent decision making. "Australia has a reputation for not sticking to its promises, capital is jittery and unreliable," agreed AIA's Steve Monaghan. "There is a sense that it could be pulled out at any time."

Australian investors are "living on another planet" says Dong Tao, Managing Director and Chief Economist for non-Japan Asia at Credit Suisse, and are clinging to outdated assumptions about China's economy. "The golden age of China's housing boom, exports and stimulus is over," he said. "Australia— it's up to you to figure out whether you want to chase the older supply or embrace new demand and create new supply to accommodate China's new demand. Stop debating whether it's secular or cyclical. The bottom line is China has passed the age of industrialisation."

The economist said predictions the nation could sustain 8-9% growth are way off. "I doubt it can sustain 6%," he said. "Since WWII no one single country has made a transformation from manufacturing to service economies & maintain a 4%+ GDP growth." "Now the question is, 'what's wrong with Chinese economy'? My answer is: there's nothing wrong with Chinese economy. What's wrong is you (Australia)."

FROM COAL TO CONSUMPTION

Dong Tao said consumption is going to be "the backbone" of China's growth over the next half-century and will contribute to global demand which Australia is "well positioned" to take advantage of, providing an outsized opportunity for small to medium sized enterprises.

However, any successful expansion into Asia will require consultation and understanding of the local cultures which Lowy Institute's Peter Cai can be restrictively expensive. Demand is changing, and China is suffering from a mis-match of demand and supply. Demand for what some might consider luxury goods such as cosmetic surgery, boarding schools and organic food is on the increase, along with toilet seats, apparently. But it's also producing a glut of steel, cement and coal. "Its consumer sectors are doing really well thanks in part to an increase in wages which is feeding through to consumption. Healthcare, education, recreation & hospitality are still booming," Cai said.

Stephen Groff, VP of operations at the Asian Development Bank says there are "lots of opportunities" in providing technology, textiles and "lower consumer electronics" in regions of Vietnam, Bangladesh & Malaysia. The VP says Chinese tourism will be "essential" to global growth.

John O'Sullivan, managing director of Tourism Australia says the country has not yet seen the next wave of Chinese tourism. "One hundred million Chinese travel abroad every year but only 30 million make long haul flights," he said. Many travel into Macau and Hong Kong. "Of those 30 million Australia gets just a million of them," he said. "Two thirds of all Chinese travellers are millennial. We are only getting one third, that is the type of traveller where the future will be changed."

"Chinese tourism will be "essential" to global growth."

Stephen Groff
Vice-president, East Asia, South-East Asia and the Pacific
Asian Development Bank

A CHINESE GFC COULD BE GLOBAL CATASTROPHE

"Australia's trend rate of growth will likely stablise at around 2.5% by the end of the decade"

Tim Harcourt
J.W. Nevile Fellow in Economics
AGSM @ UNSW Business School

The MD said China may well be a "stand-out market" but it has the potential to overshadow the opportunities offered by other areas of South-East Asia such as India, Vietnam, the Phillipines, Malaysia and Indonesia. "India has huge potential," he said. "It has the second highest growth rate and spend behind China in calendar year 2015".

However, China's credit bubble and tensions with the US and Vietnam over the South China Sea looms large over the horizon, which, if it bursts, will become the world's "biggest problem" according to Mark Delaney of Australian Super. "There is a 30% chance of a crisis and it's a really big deal and no one really has a handle on it," he said. "What happens to assets and debt swaps and how do you avoid a banking crisis?," he asked. "People don't trust balance sheets so no one really knows how the issue is going to be sorted out."

However Tim Harcourt, J.W. Nevile Fellow in Economics at UNSW said that the urgency is overstated. "Each wave of success was preceded by wave of pessimism," he said. "Japan post WWII, nobody thought it would ever be strong again... but by 1966 Japan had overtaken Britain as Australia's number one trading partner. We saw this again in the 1960s and '70s with disasters like Great Leap Forward and the Cultural Revolution, they said you'll never be able to deal with China."

What followed was Gough Whitlam's infamous recognition of China in Peking, much to the chagrin of many of his colleagues and enemies, though Nixon and Kissinger would soon follow with similar overtures. Then Bob Hawke and Paul Keating floated the dollar, reduced tariffs and created APEC. "Much to our surprise we ended up with 25 years of economic reform," Harcourt said.

The economist cited former Hewlett Packard chief executive officer Cary Fiorina (and Republican presidential hopeful Ted Cruz's newly appointed running mate) who famously said of Australia "it's too old an economy" and recommended closing farms and mines focusing on exporting software instead, or risk the currency dropping to 30 cents on the US dollar by 2010. "But what followed was one of the biggest waves in economic history," Harcourt said. "When people fear we're missing the boat, we actually surprise ourselves. We're going through similar process to today."

Having survived the global financial crisis off the back of an artificially created property boom, Australia's trend rate of growth has come down, and will likely stablise at around 2.5% by the end of the decade. Australia has experienced a period of strong growth driven by mining investments in uranium, coal and steel, but as mining output now comes to an end, services will need to play a more important and complementary role as it enters its fourth wave of engagement with Asia.