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China's Growing Influence in Other Parts of the World

Part I - Why is Australia Important to China?

Within the last decade, China has grown to become a global power. Driven by a soaring economy, at a time when most Western economies are still recovering from a global recession, China has used its huge foreign exchange reserves, and internationally focused political policies, to expand its global influence.

China's growing participation in international affairs reflects, not only a desire to be recognized as a global power, but also its desire to create a stable environment for its own economic development. In this regard China's strategy is to create a win-win scenario, where assistance is provided to

foreign governments in areas which have mutual interest for the Chinese government.

Three global areas, in particular, have a strategic importance to China: Australia, Africa, and Latin America. In the first part of this series, we'll examine Australia's importance to the Middle Kingdom.

At first thought, you wouldn't believe that Australia and China would be closely aligned. After all, the two countries aren't synergistic by language, culture, or politics. But as it turns out, they are aligned by trade. China is Australia's largest trading partner, and trade between the two countries has grown fourfold in the last ten years.

Prior to President Nixon's trip to China, Australia had no diplomatic relations with China. Instead, its trade and foreign policy was focused on Europe and the United States. That changed in December 1972 when Gough Whitlam, the prime minister of Australia at the time, followed America's lead and established diplomatic relations with China. With the establishment of diplomatic ties, both the United States and Australia subsequently downgraded their relationships with the Republic of China on Taiwan.

Even though a formal relationship between Australia and China started only four decades ago, the Chinese people have taken a liking to the culture, people, and politics of Australia, and today there are large numbers of Australian-born Chinese and Chinese-born migrants/Australian citizens living in the country. Domestically, Chinese living in Australia primarily live in

the major cities of Melbourne, Sydney, and Brisbane. However, you can usually find a Chinatown in every Australian capital city throughout the country.

China and Australia have not only linked themselves by trade, but also by education. Mainland Chinese send their children to be educated in Australia, and consequently, Chinese students studying in Australia have rapidly increased from the several thousand studying there in 1987 to more than 150,000 as of September 2011. They now comprise 26 percent of all foreign students in Australia. The number of university agreements between the two countries has risen by 75 percent in less than ten years, from 514 to 885.

Trade, however, remains the dominant basis for Australia-China relations. As Australia's largest trading partner, most of the imports from Australia to China are minerals. They account for about 79 percent of all imports to China from Australia. Nationally, 15 percent of all Chinese mineral imports now come from Australia.

China exports over \$37 billion of goods to Australia annually.¹⁸³ This is primarily machinery and electrical equipment. Total trade between China and Australia is steadily increasing and reached \$122.3 billion in 2012, up 4.9 percent from the previous year. As of 2011, China had a \$50 billion trade deficit with Australia.

Stewart Partners, a strategic advice and wealth management company, reports that trade with China has resulted in the following

economic benefits for Australia:

- Chinese exports now account for 4.6 percent of Australia's GDP.
- In the last ten years, the percentage of Australian exports to China has increased from 5 percent to 25 percent.
- Resources account for 58 percent of Australia's total exports, up from 35 percent ten years ago.
- The value of goods shipped from Australia to China in 2012 was \$58 billion; \$34 billion was iron ore.
- China's demand for Australia's natural resources is a contributing factor to a projected increase in tax revenue from \$240 billion in 2012 to an estimated \$300 billion by 2014 to 2015.

Australia's huge natural resource reserves, especially iron ore, are becoming increasingly important to China, which is struggling to meet its energy needs to sustain its economic growth. Moreover, Australia is geographically closer to China than Brazil, another large supplier of natural resources to China. Consequently, Australia can deliver the iron ore to China faster and cheaper. In addition, Australia's coking coal, used in the manufacture of steel, is of a very high grade and therefore sought after.¹⁸⁶ Similar-quality iron ore is mostly found only in Africa.

China requires increasing amounts of natural resources and is taking action to encourage other countries to give it favorable treatment in the shipment of oil and other energy- and industry-related commodities. Therefore, on January 1, 2012, it reduced import tariffs on over 730

products. Import tariffs were reduced to 4.4 percent, 50 percent less than the most favored nation tariff rate. Australia's economy and natural resources industries have significantly benefited from this tariff reduction.

In Australia, according to Hilary Inglis, senior investment consultant for iPAC, resources and energy companies comprise 38 percent of the S&P/ASX 300 index. Correspondingly, the income produced by these companies has a trickle-down effect on the economy and helps to create a stronger Australian dollar. This makes Australian imports cheaper and puts downward pressure on inflation. It also allows the Reserve Bank of Australia more leeway on how it manages interest rates and ultimately enables their lowering. Australia has enjoyed twenty-one years of uninterrupted economic growth, thanks in large part to China's voracious appetite for the country's natural resources.¹⁸⁸ It's estimated that trade and investment with China brought benefits of about \$4,000 per Australian household in 2009, which has since risen to \$10,500 per household per year in 2011.

China is a significant investor in Australia. According to the *Australian Financial Review*, apart from Hong Kong and tax havens such as the Cayman Islands and the British Virgin Islands, Australia is the largest recipient of China's overseas direct investment. In a report released by KPMG and the University of Sydney, between September 2006 and June 2012, there were 116 transactions completed, totaling an investment of \$45.1 billion by Chinese enterprises in Australian businesses.

Investment between the countries is not a one-way street. In 2007, Australia's investment into China was on par with Chinese investment into Australia. But in each year since, China has increased its investment, so

that now for every dollar Australia invests in China, China invests \$21 in return.

Although Australia exports large quantities of iron ore and coal to China, the country doesn't rely only on the sale of minerals to maintain its economic relationship with China. As China modernizes, there's been a growing demand for liquid natural gas (LNG), something that Australia possesses in abundance. China's demand for LNG is expanding rapidly, and in 2011 alone, it increased its demand by one-third. To meet China's increased appetite for LNG, as well as orders from other countries, Australia plans to quadruple its LNG capabilities by 2017.

Australia plans to expand its food exports into China's growing market. Agriculture minister Joe Ludwig estimates that by 2050, world food consumption will be 75 percent higher than in 2007, with almost half of that increased demand coming from China. As a result, Australia has set a national goal to increase its agriculture and food-related exports 45 percent by 2050. Australia currently exports 55 percent of its food production.

With so much of Australia's resource-based economy dependent on China, any change in China's growth significantly impacts the Australian economy. Yet most government officials are optimistic about their increasing economic ties since China's growth is projected by most economists to make China the world's largest economy by 2027, shifting economic dominance to the East for the first time in a hundred years. By 2050, China's economy is projected to be the size of the United States' and India's combined.

China and Australia continue to get closer. In April 2013, the two countries signed a landmark currency agreement, allowing for the first time the Australian dollar and the Chinese yuan to be directly converted. This eliminates the need for companies and currency traders to first translate the yuan into US dollars. China has also committed to annual leadership talks with Australia. Australia joins Russia, Germany, and Britain as the only four countries with whom China has committed to have these annual talks. China and Australia have also agreed to hold annual military exercises, although limited only to humanitarian assistance, disaster relief, and maritime engagement and peacekeeping.

In our next installment, we'll take a look at China's involvement in Africa and its increased commitment in this area is fueled by the abundance of natural resources this continent offers.

References for the data and information contained within the above material can be found in *Conducting Business in the Land of the Dragon* by Alan Refkin and Scott Cray.

Alan Refkin

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