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BUILDING AUSTRALIA'S PROSPERITY

Pathways to meet the Asian opportunity
2017



NAB Catalyst
Insights Series



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Pathways to meet the Asian opportunity

NAB's Catalyst Insight Series brings together industry experts and leading thinkers to discuss the issues that are central to securing Australia's future prosperity. Its purpose is to take ideas beyond the boardroom, to help shift the national conversation in the direction of action and discover possible solutions to some of Australia's biggest social, economic and community challenges.

The series reflects NAB's strong commitment to working with industry, business and community stakeholders to support growth and opportunity in an inclusive Australian economy.

This publication – **Building Australia's Prosperity: Pathways to Meet the Asian Opportunity** – is the third in our series and follows **Reimagining Australia's Future Infrastructure** and **A New Architecture for Social Good**. This report was developed following a roundtable focussed on building Australia's presence in Asian export and investment markets. NAB Chairman Ken Henry was joined by:

- Mr Patrick Davies, CEO, EBOS Group
- Mr Nick Dowling, CEO, New Hope Group Australia
- Mr Damian Graham, CIO, First State Super
- Mr Andrew Parker, Partner, PwC's Asia Practice Leader
- Mr Andrew Robb AO, Chairman of AsiaLink and AsiaLink Business
- Mr Patrick Woods, Deputy Vice-Chancellor and Vice-President (Resources), University of Technology Sydney
- Mr Mike Baird, Chief Customer Officer, Corporate & Institutional Banking, NAB
- Ms Cathryn Carver, Member of the Corporate & Institutional Banking Leadership Team, Executive General Manager, NAB

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Pathways to meet the Asian opportunity

The unprecedented developments currently shaping Asia present an extraordinary opportunity for Australia – now and into the future. The Asian middle class is expected to reach three billion by 2030¹, with China's middle class alone expected to reach 550 million within five years². The combination of changing demographics and the shift of the global economic centre of gravity towards Asia will lead to increasing demand for services such as health, aged care and education as well as high quality consumables in agricultural products, pharmaceuticals and vitamins.

As we shift out of the mining boom, new sources of growth are required if Australia is to maintain its level of prosperity. And that means looking to Asia. The strongly growing Asian middle class is supporting demand for high quality, high value goods and services. For Australia, there is particular scope to export a range of services that have traditionally had a domestic market focus – such as professional and financial services, education, healthcare and information technology.

As Australia's leading business bank, backing Australian businesses to grow and grasp opportunity is deep in our DNA. We want not only to help form important business relationships, but to work with our customers to guide them to success in Asia.

Indeed, there are many businesses across Australia that have the expertise to help our economic transition into the Asian century. Business leaders play a pivotal role in creating a strong two-way bridge with Asia and in building confidence in broader engagement.

Our collective task now is to make sure that every Australian business that wants to make the most of the Asian century has that opportunity.

Dr Ken Henry
Chairman, National Australia Bank

1. Fit for Service: Meeting the Demand of the Asian Middle Class. Menzies Research Centre.
2. <http://www.businessinsider.com/chinas-middle-class-is-exploding-2016-8?IR=T>

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Key recommendations

To secure Australia's prosperity and make the most of the Asian opportunity, Australian business can build pathways by:



Investing in long term relationships underpinned by deep cultural understanding



Creating mutual interest through partnership building and demonstrated 'skin-in-the-game'



Playing to our strengths and leveraging our competitive advantage



Building on Australia's unique brand and creating "Brand Australia" for key sectors such as agriculture

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Introduction

Australia has deep historical ties with Asia - our cultural, economic and people ties have formed a strong platform for the relationship we have today. Asia is the source of some of our earliest immigrant flows, reaching back to the 1800s when Chinese immigrants first made Australia their home. Trading relationships go back much further, pre-dating European settlement.

But while our history is steeped in trade and deep cultural connections, this does not guarantee future success. Australia's economic future is firmly linked to engagement in the global economy and the growth in the global economy is shifting both South and East. But there is a risk that a lack of cultural awareness and understanding will pose insurmountable barriers to the extension of business networks needed to underpin success.

Our long-standing Asian partnerships have been profitable and have helped to shape our modern economic relationship but as we move beyond the mining boom and tilt towards a services economy, Australia's relationship with Asia needs to move into a new stage.

We need a shift in our thinking; we need to accelerate people-to-people connections and deepen partnerships, especially in business.

Stronger relationships that support mutual prosperity will be built on a deeper cultural understanding. We need to invest resources and time, and focus on our strengths and sources of competitive advantage. Some sectors warrant particular focus, including health, education and agriculture. Where possible our goods and services should be delivered under a unified "Brand Australia" banner that is trusted and recognised.

Key statistics

- The global middle class will be increasingly concentrated in Asia. By 2030, almost 66% of global middle class consumers will be in Asia³.
- The Asian middle class is expected to reach three billion by 2030¹, with China's middle class alone expected to reach 550 million within five years².
- By 2050, China is expected to comprise 28% of world output, while India will comprise 13% and ASEAN is becoming the world's biggest trading region, with inter-business trade exceeding that in the European Union⁴.
- McKinsey have estimated that China's health market will be worth circa A\$1.3 trillion by 2020⁵.
- China is Australia's top two way trade partner, with over \$94 billion dollars per annum in exports. Japan is second with \$39 billion, and the USA is third with \$21 billion⁶.
- In 2010 China overtook the US as Australia's largest services export market, dominated by tourism and education⁷.
- Australia's services industries employ more people and contribute more to GDP than all other industries combined, generating 70% of Australia's GDP and 80% of Australian jobs, yet comprise only 20% of Australia's total exports⁸.

3. Organisation for Economic Co-operation and Development

4. CEDA: Outbound Investment April 2017

5. Healthcare in China: Entering Uncharted Waters. McKinsey & Company.

6. Australian Government: Department of Foreign Affairs and Trade

7. CEDA: Outbound Investment April 2017

8. Australian Government: Department of Foreign Affairs and Trade

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Invest in long term relationships underpinned by deep cultural understanding

In the past few years, Australia has negotiated trade agreements with China, South Korea and Japan. Trade agreements have provided the backbone of mutually beneficial relationships, delivering significant commercial outcomes. While traditional trade barriers such as tariffs are at historical lows, the United Nations Conference on Trade and Development estimates that 96% of world trade is affected by at least one regulation or non-tariff measure. Addressing these barriers is complex and nuanced. Businesses seeking export market opportunities need to understand local protocols, including cultural protocols. This takes time. Building the required connectivity must be a long-term goal. Frequent engagement will be necessary.

Australian businesses may be missing out on opportunities because they are not as active as they could be when it comes to engaging with our Asian neighbours, particularly China. While modern communication methods mean there is less pressure to be on the ground, the fact is that – particularly in Asia – face-to-face meetings are highly regarded.

It is not a matter of a 'one size fits all approach'. To ensure success, businesses need to take the time required to understand the cultural implications and nuances of doing business in many Asian markets. For example, China consists of multiple markets across different regions and city tiers and it is important for Australian businesses looking for a foothold to invest in understanding local consumer behaviour, routes-to-market and distributor dynamics.

Lack of cultural knowledge by Australian business has been cited by PwC as one of the main barriers to trade in Asia and there is a sense among many Australian boards that it is difficult to do business in Asia, with cultural differences cited as one of the obstacles⁹.

“We surveyed several thousand companies across the board, from big ones to small ones. The level of business engagement in the region was very small, and this was borne out by foreign investment statistics. The level of our engagement is very low and is in stark contrast to our trade relationship with the region, where 6 to 10 of our trading partners are in the region.”

Mr Andrew Parker, Partner,
PwC's Asia Practice Leader

9. CEDA Outbound Investment Report 2017

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Create mutual interest through partnership building and demonstrated 'skin-in-the-game'

As well as taking the time to invest in cultural understanding it is important that our partnerships are just that; partnerships. Partnerships mean mutual investment in a strong bond of commitment based on mutual interest. Without 'skin-in-the-game' on both sides, business can be lacking in certainty. Partnerships of sustainability and longevity will be based on commercial alignment and trust.



"It's education, health care, tourism, food and agriculture, and whatever else that is going to be the underpinning of the deeper relationship between Australia and the Asian region. It is something that takes time and it will take investment, and it will take a period to pay back. That's the biggest challenge."

Mr Patrick Davies, CEO, EBOS Group

CASE STUDY

SILC Business School, Shanghai University

For over 20 years University of Technology Sydney and Shanghai University have worked together to produce more than 13,000 graduates working in the top tiers of the business world around the globe. Co-founded by Shanghai University (SHU) and the University of Technology Sydney (UTS) in 1994, SHU-UTS SILC Business School (SILC) was one of the earliest Sino-foreign joint business schools in China and is one of the leading international business schools in the world-committed to adopting best practice from both sides of the ocean in order to produce world-class graduates.

"SILC is the oldest university joint venture in China. One of the reasons it works is because we both have 'skin-in-the-game' and we are both benefiting."

Mr Patrick Woods, Deputy Vice-Chancellor and Vice-President (Resources), University of Technology Sydney

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Play to our strengths and leverage our competitive advantage

Australia's recent journey of economic growth was stimulated by a couple of decades of far-reaching economic policy reform designed to expose Australian industry to international competition and to access external market opportunities. Policy reforms have exposed several foundations of sustainable growth: an abundance of natural resources, including minerals and energy; strong population growth; medical and health capabilities that are world-renowned; and a globally competitive university education sector. Growth has also been supported by a superannuation system that represents one of the largest capital pools globally.

These sources of competitive advantage will continue to drive the next stage of our growth. But the opportunities go well beyond these traditional areas. The rising Asian middle classes demand our premium food and agriculture, our healthcare and education services as well as our expertise in infrastructure, clean energy and advanced manufacturing to help their economies approach sustained growth trajectories.

The free trade agreement between China and Australia has opened many doorways for Australia. There is a significant opportunity in the health sector, spanning pharmaceuticals, medical technology, aged care, hospitals, and medical research and development. Successful businesses will be those that truly understand the market demand dynamics



and are capable of matching that understanding to our sources of competitive advantage. But we can't expect the set of opportunities to remain constant. Innovation and entrepreneurship will be vital.

“My sense is that, especially with China, but also with Japan, we've got concessions. With China, we've got literally hundreds of concessions that no one else has got. A lot of those are particularly in services. Australian business should see the benefit of these and get a first mover advantage.”

Mr Andrew Robb AO, Chairman of AsiaLink and AsiaLink Business

“How does Australia position itself in the transition away from a boom in extractive resources? What other comparative and competitive advantages do we have? As a clean, green economy with a strong core of services, agriculture and food is clearly one strength. Similarly we see tourism, education, healthcare and technology as strengths too - particularly technologies that have environmental applications beyond our border.”

Mr Nick Dowling, CEO, New Hope Group Australia

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The specialist opportunity

Healthcare

Significant advancements in medical technology coupled with improved nutrition and health awareness mean our life expectancy is growing. But ageing populations across both Australia and Asia are also grappling with chronic health conditions brought on by poor diet and lifestyle. These conditions create a runway in both Australia and Asia for the industry to expand – but we need a qualified and sufficient workforce to capitalise on this growth. The Chinese population in particular is fundamentally changing – they are older, richer and more urbanised. And Chinese healthcare companies recognise the expertise in Australia. A recent report by KPMG and Sydney University found that healthcare was the third most favoured sector by Chinese investors after real-estate and renewable energy¹⁰.

Healthcare presents a particular opportunity. Whether it's from the lack of primary health care in China to how quickly the “diseases of affluence”

have caught on in China, with at least half the population being now pre-diabetic and having the largest population of diabetics in the world. Australia has better access to China's health care system than almost any other country. For example, the Australian health care system produces significantly better outcomes than the United States' system, with half the expenditure as a percentage of GDP, and in line with targets set by the Chinese government¹¹.

Agriculture

The United Nations' Food and Agriculture Organisation estimate that food production capacity needs to increase by 70% to meet projected global population growth over the next 20 years. Australian farmers are perfectly positioned to take advantage of growth in demand for food by the middle class in Asia – strong environmental credentials and reputation for providing high quality, safe produce.

In China, we know there is enormous competition for the opportunities as well as a regulatory and commercial environment that needs to be navigated. To help Australian business, NAB invites customers to participate in the NAB Agribusiness China tour to gain in-depth knowledge of the China market, along with a better understanding of the challenges. Combining disciplined focus and deep access, it is designed specifically around the needs of beef, sheep and wool producers, with an itinerary structured around an in-depth exploration of the value chain of these commodities. This year, the NAB tour included visits to Alibaba Group, the world's second-largest e-commerce player, Shandong RuYi, the textile manufacturer that purchased Cubbie Station in 2013, COFCO, China's largest food processor, manufacturer and commodity trader, and the Agricultural Development Bank of China¹².

10. <http://business.nab.com.au/chinas-healthy-appetite-australian-wellness-22628/>
11. “Australia-China healthcare opportunities” University of Sydney China Studies Centre, The George Institute and National Australia Bank
12. <https://business.nab.com.au/touring-china-transform-agribusiness-23074/>

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Build on Australia's unique brand and create "Brand Australia" for key sectors such as agriculture

Australia has a strong brand when it comes to our speciality goods and services. In agriculture, we are viewed as a producer and supplier of high-quality agricultural products including grains, meat, fruit and vegetables, dairy products, processed foods and live animals. We know that Chinese consumers associate the Australian brand with superior quality; a recent survey by Bain & Company showed that Chinese shoppers were 1.6 times more likely to associate Australia with health and nutrition than the US, Germany, Japan and South Korea¹³. But while our strengths have propelled us into a position where we can now capitalise on our strengths - fragmentation, and the complexity and confusion that comes with it, is a risk. It has been argued that a lack of a coherent 'Brand Australia' for our food and agricultural exports is holding us back. Building a united, single brand renowned as a reliable and safe supplier is one way we can promote Australian goods across Asia and take advantage of the demand for Australian product in China. A unified export Brand Australia would cement our reputation and provide instant reference for quality and safety that creates a 'halo' effect that benefits all Australian goods.

In comparison with New Zealand, where exporters have built a unified '100% Pure New Zealand' brand message, Australia's brand message can be inconsistent and confusing for our Asian consumers and distribution channels. For 'Brand Australia' to succeed it needs to consistently remind people of its key attributes – that our produce is clean, it is green and it is fresh.

"I think it's a massive lost opportunity that we don't have a single brand for Australian agriculture... when you look at New Zealand, they do a great job of punching above their weight. We don't have that kind of consistent messaging."

Ms Cathryn Carver, Member of the Corporate & Institutional Banking Leadership Team, Executive General Manager, NAB

CASE STUDY

ASA100

The Australia Sino One Hundred Year Agricultural and Food Safety Partnership (ASA100) is helping the agricultural industry reach its potential, by providing leadership and strategic direction and helping to develop and advance bilateral trade between Australia and China in agriculture and manufactured food products, for the benefit of the Australian economy and community. Its three key objectives are to (1) Equip Australian producers to compete in China; (2) Reduce regulatory and administrative friction; and (3) Promote demand for Australian goods in China. The ASA100 comes together with its key members to create a single, unified set of brand messages and consistent themes and to find a common message that suits all agriculture industries. Last year, Austrade and ASA100 members began testing the success of common messaging across China via online trials, a critical step to ensure the positioning of the Australian agriculture food sector as the first choice provider of clean, green, premium food to the booming Chinese middle class.

13. "The Hottest Brand in China is Australia". Bain & Company 2016

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For more information:

At NAB, we believe we have a responsibility to help secure a prosperous and comfortable future for our customers, communities and economy. We want to be as good with people and the whole community as we are with money, so people can secure better lives.

That's why NAB is talking to experts and our customers about how we can work together to solve some of the nation's challenges – whether that's connecting capital with good ideas, helping develop new and innovative forms of financing or acting as advocates for our customers.

We encourage clients to get in contact with the NAB team to find out more:

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