2018 WESTPAC AUSTRALIA-CHINA BUSINESS SENTIMENT SURVEY

200 | Westpac

AustChamShanghai

Analysis by China Skinny

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OUTLINE

PART 1
FOREWORD

Australian Chamber Of Commerce Shanghai

Craig Aldous
Chairman of the Board

Udo Doring
CEO and Executive Director

China is the world's second largest economy and Australia's largest trading partner. Australia's continued prosperity is increasingly dependent on its relationship with China. In addition to the vast array of Australian commodities and products feeding China's growth, the country is also Australia's largest source of student and tourism revenue, and a growing destination for other services. This trade relationship is attractive for both sides, with Australia becoming the world's second largest recipient of Chinese investment since 2007, now accounting for $90 billion of accumulated investment.

AustCham Shanghai is the peak body for Australian business in China - representing more than 400 businesses and individuals. We have partnered with Westpac and China Skinny to capture the sentiment of Australian businesses operating in or with China. Driving this undertaking was the overarching objective to gain insights into the health of the Australia-China economic relationship from organisations that are deeply embedded in trading with China. This is an important Survey as it not only captures the sentiment of the business community at a moment in time, but provides a useful tool for year on year comparisons. Thank you to the 161 respondents who participated in the inaugural Survey.

It was encouraging to see that the overwhelming majority of respondents held a positive 12-month outlook for their China operations. This positivity was no doubt partly fuelled by the fact that Australian businesses' profitability in China is increasing year-on-year. Lifted by growing profitability, businesses are also increasing their investment, with over half of respondents regarding their China operations to be outpacing other markets.

The Report offers further interesting findings on the regulatory environment, the challenges to doing business in China, and Australian organisations' approach to eCommerce. It is hoped that this Report will serve as a benchmark providing the business community, policy makers, and our government leaders deeper insights into the complex and ever-changing Australia-China business landscape.

Westpac Banking Corporation

Michael Correa
General Manager, Asia Pacific

Paul Lai
Regional Head and Head of Corporate & Institutional Banking, Greater China

As Australia's first bank with a deep 40 year heritage in the Greater China region, Westpac has traditionally played an important role navigating China's incredible pace of transformation and helping our customers, and Australian businesses of all sizes leverage the opportunities presented by this captivating market.

This is a particularly exciting time for Australian businesses in or looking to enter China – where the convergence of unprecedented demand for quality Australian-made products and China's world leading e-marketplace presents vast opportunities for engaging with this market. To frame the size, last year its value was expected to surpass $1.13 trillion USD, accounting for around half of the world's e-commerce sales and 56 times the size of Australia's online market.

Despite volatility in the global trade environment, it is heartening to see that Australian businesses remain captivated by this potential, and are optimistic about their aspirations in China. More than half of Australian business surveyed in this report (55%) signal to have benefitted from the China-Australia Free Trade Agreement, 79% forecasted profitability for 2018, compared to 66% in 2017, and 51% forecasted an increase in their China investment for 2018, compared to 45% in 2017.

At the same time, Australian businesses are navigating the pace of change in the regulatory environment and rapidly evolving technology in this mobile first consumer market. It's worth noting that the majority of Australian businesses surveyed agreed that innovation in technology, media and communications will be the number 1 trend shaping businesses in China for the next 3 - 5 years, yet only 16% currently have a detailed China e-commerce strategy in place. Leveraging tailored e-commerce strategies and data analytics will need to be a key focus for Australian businesses to stay competitive in this market.

Now in our third century, Westpac is proud to continue to support Australian businesses in the important Australia-China corridor. It is our hope that the research in this report equips you with knowledge around the risks and rewards, sheds light on the sentiment of companies on the ground and provides you with insights to propel your business forward.

PART 2
EXECUTIVE SUMMARY

Executive Summary

The survey uncovered the following insights into the sentiments and state of Australian businesses in China.

78%
reported a positive sentiment for the next 12 months

83%
indicated sentiment increased when looking towards the next 5 years

#1
The n°1 trend for the next 3-5 years is Innovations in Technology, Media and Communications

Year-on-year financial performance profitability increases

66%
profitable in 2017(F)

79%
profitable in 2018(F)

Investment is increasing year-on-year

45.4%
increased investment in 2017

51.2%
of investments are increasing in 2018

Only 16%
have a detailed digital/ e-commerce strategy in place

Those who have an e-commerce plan are (compared to the average):

+11.7% more profitable between 2016-2018(F)

+18.1% more likely to state that China revenue would outpace other markets

+11.6% more optimistic about the 12-month outlook

58%
regard China to be leading or more advanced in technology compared to their other markets

Executive Summary Continued

39%

state that doing business in China has become more complex in the last 12 months

57.7%

report the regulatory environment to not be transparent

54.7%

have benefited in some way from China-Australia Free Trade Agreement

43%

report the Belt and Road Initiative to be a positive driver for their China Strategy

70.8%

use RMB in their trade activities

PART 3
OUTLOOK AND SENTIMENT

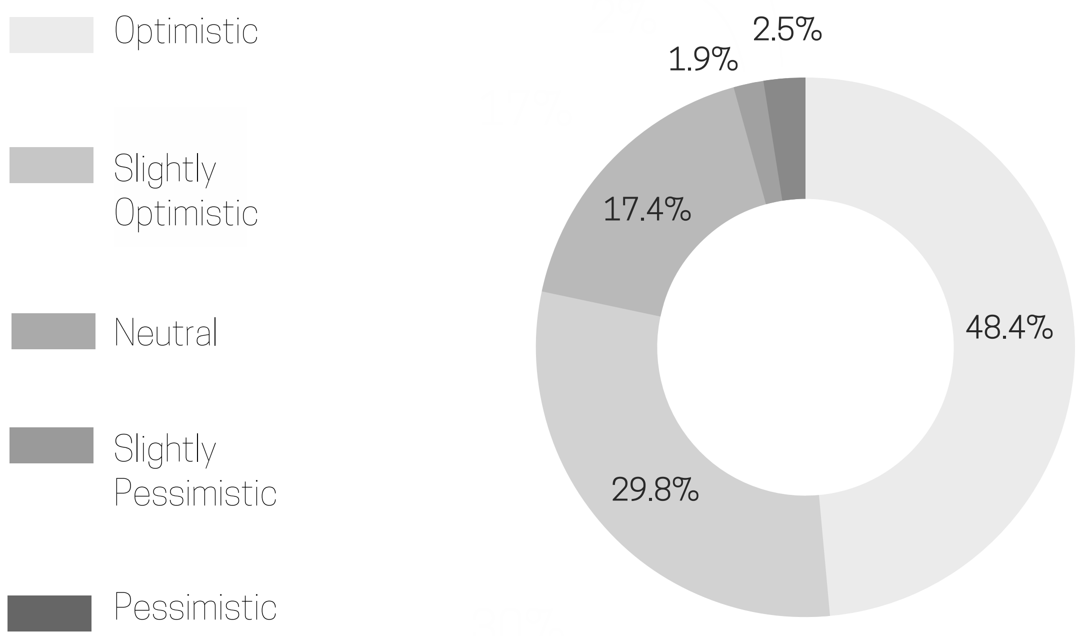
The business outlook and sentiment forms a strong indicator for the overall health and sustainable development of Australian businesses in China. It provides perspective for businesses to assess their performance in-market and identify areas to be commended and those that need improvement.

China is a buoyant market for Australian businesses, evident by the overwhelming majority (78.4%) holding a positive sentiment for the next 12 months, citing 'Growth Potential', 'Relationships with Clients' and 'Strong Demand' as the key factors contributing to this positive sentiment.

The potential for growth is largely stimulated by China's rising middle class which in turn is driving consumer demand in most sectors.

+8% Optimism has increased 8% since AustCham/Austrade measured business sentiment in their 2013 'Australia-China Business Perception Survey'.

What is your overall view on the outlook for your organisation, over the next 12 months?



Top 3 Reasons for Optimistic Outlook*

Growth Potential	Relationship with clients	Strong demand
88.9%	58.7%	54%

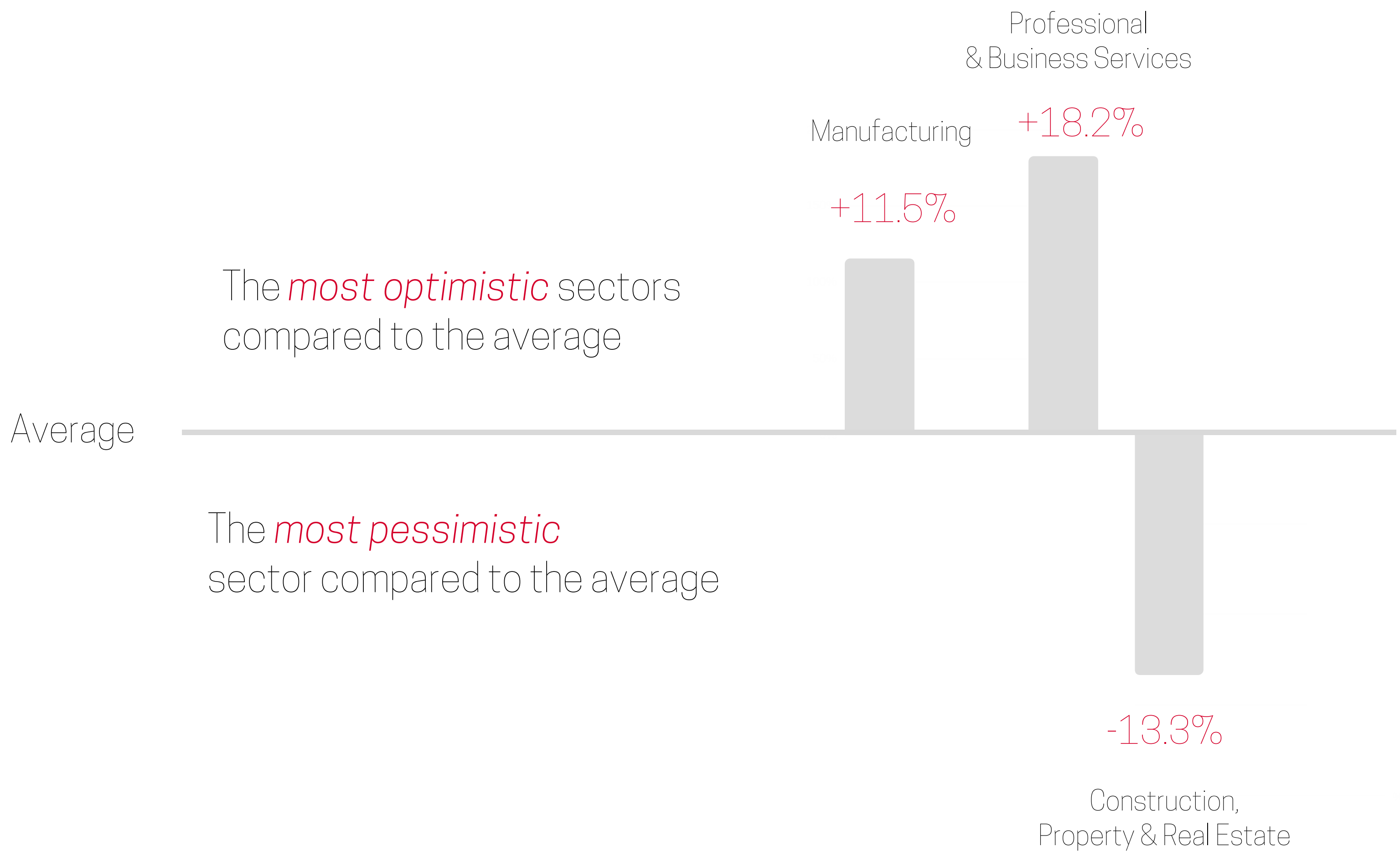
*Respondents could select more than one option

Continued from the previous page.

The strengthening of the bilateral relationship has had a positive impact on business relations and helps to support Australian business relationships with their clients. This has resulted in a particularly optimistic Professional & Business Services sector that is capitalising on overall growth in demand for services in China and the need for smart solutions to manage the increasingly complex China market. Manufacturers are also showing more optimism compared to the average, buoyed by growth in demand for manufactured product exports globally, as well as improvements to infrastructure, technology and quality control standards in China.

The Construction, Property & Real Estate sector reported to be less optimistic in its sentiment. This sector has been impacted by the tightening of capital available in China domestically, increased competition, new limits on getting money out of China and weakening demand.

Sectors & Sentiment

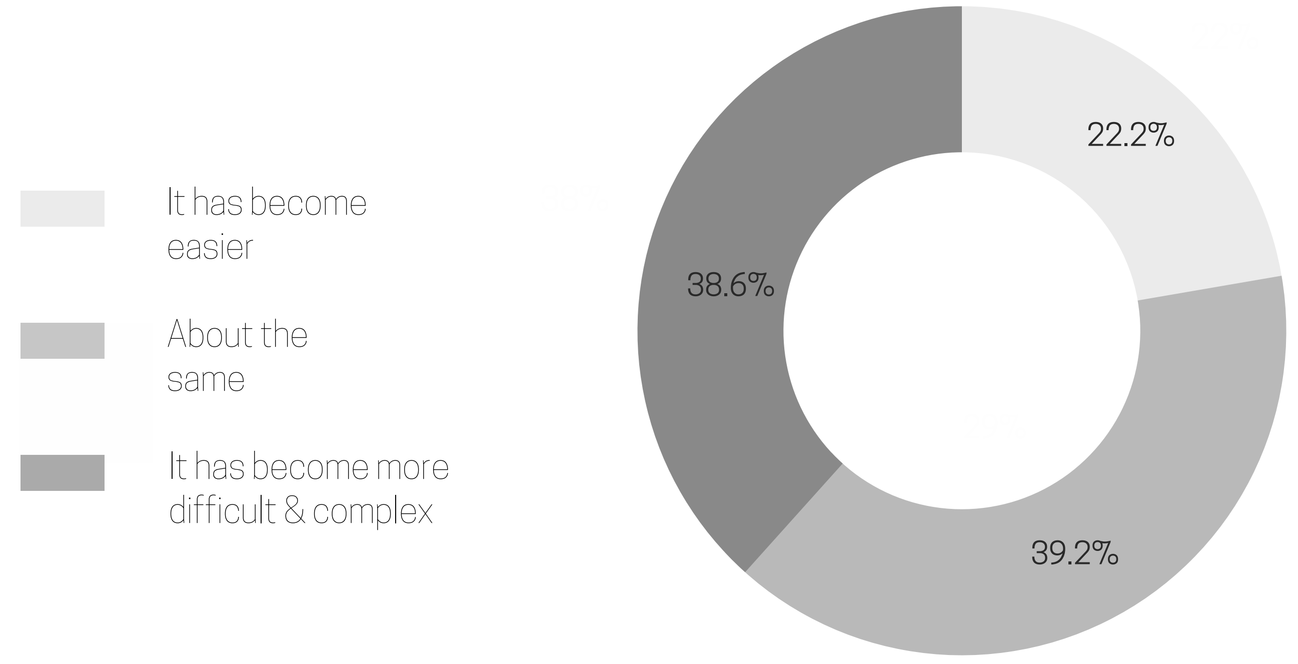


Despite almost 80% of businesses being optimistic, 38.6% believe that doing business in China has become more difficult and complex.

Challenges in the Agriculture, Food & Beverage industry represent the overall complexities of doing business in China.
These have been driven by:
- Regulatory changes
- A progressively dynamic marketing sales ecosystem
- Changing consumer preferences
- Regional variances
- Complex web of distributors and importers

+22% The Agriculture, Food & Beverage sector were 22% more likely than the average to say business had become more difficult or complex.

How has business developed in the past 12 months?



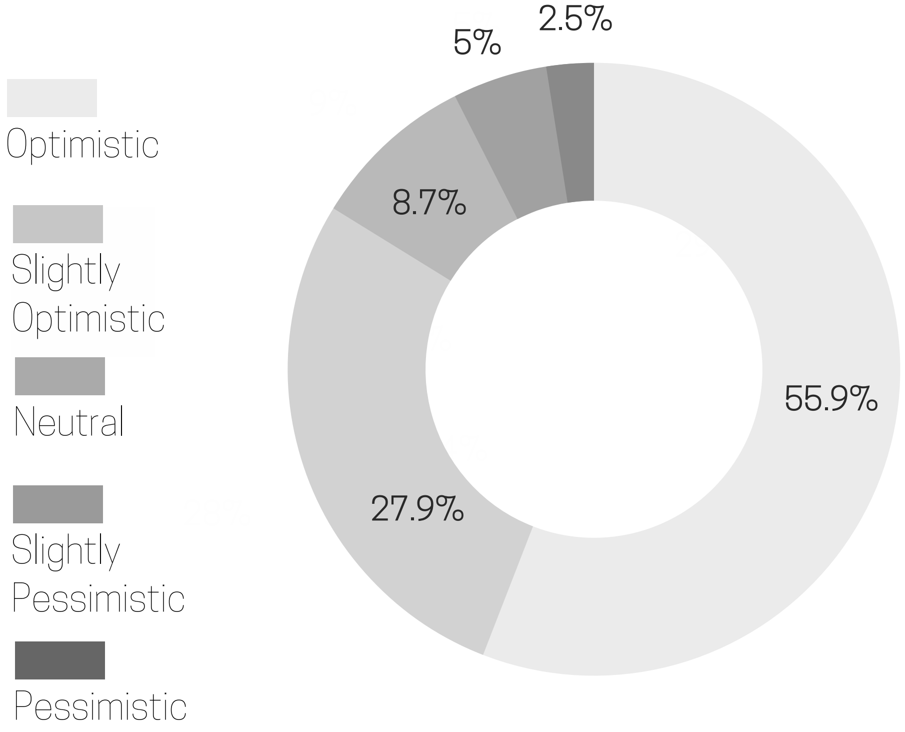
What are the top 3 competitive advantages for your organisation in China?*

*Respondents could select more than one option

Australian businesses, however, become slightly more positive (+5.6%) when considering their five year business outlook. Consistent with the 12 month business outlook, Manufacturing and Professional & Business Services remains one of the most optimistic sectors on a more projected five year basis. Similarly the Construction, Property and Real Estate sector remains one of the most pessimistic industries even on a longer five year business outlook basis, now joined by the Leisure, Tourism and Hospitality industry who share an equally pessimistic outlook .

83% of Australian businesses are optimistic about their five-year outlook in China.

How would you describe your 5-year business outlook in China?



Top 3 Reasons for Optimistic Outlook*

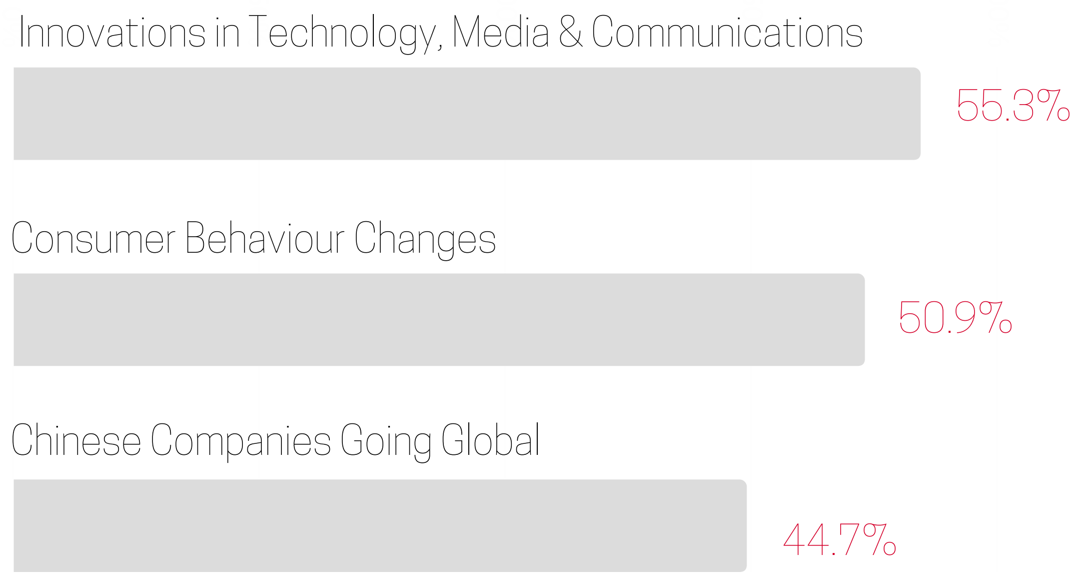
*Respondents could select more than one option

Although innovations in technology, media and communications are presenting new exciting ways to market and sell in China, they are ever-changing and have become competitive and costly. However, an increasing number of brands are taking an innovative approach to their media and communications activity and are therefore likely to enjoy greater marketing reach and consumer engagement.

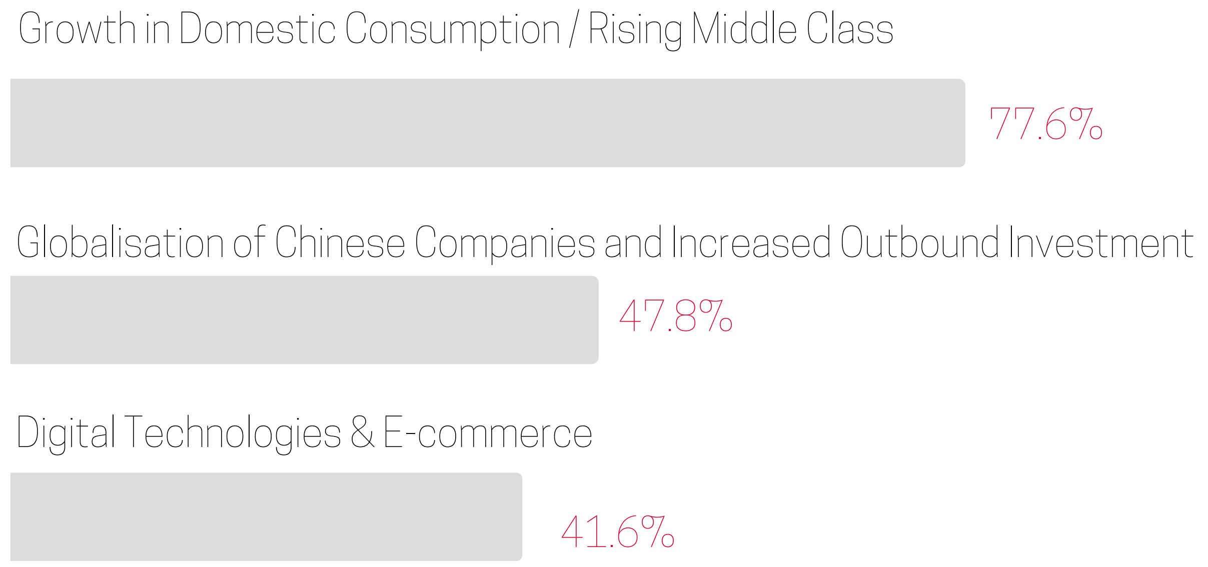
The average Shanghai consumer is bombarded with four times more advertising than the average Australian consumer*, highlighting how contested higher tier cities have become with both imported and domestic brands seeking the same consumer.

*source: China Skinny analysis using JWT data

Over the next 3-5 years what do you believe will be the top 3 trends in China, in terms of their importance to your industry?*

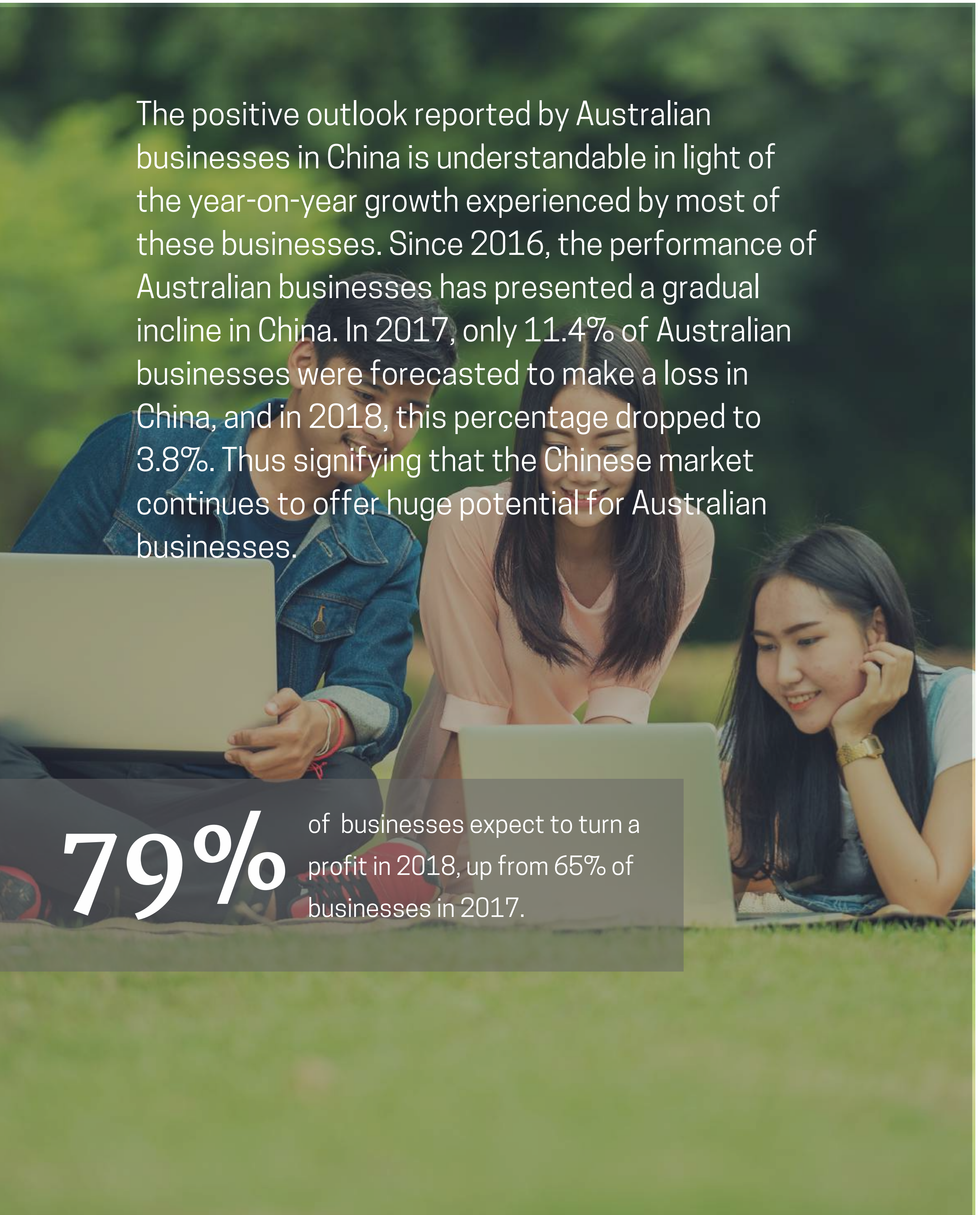


What are the 3 most important opportunities for your business in China?*



*Respondents could select more than one option

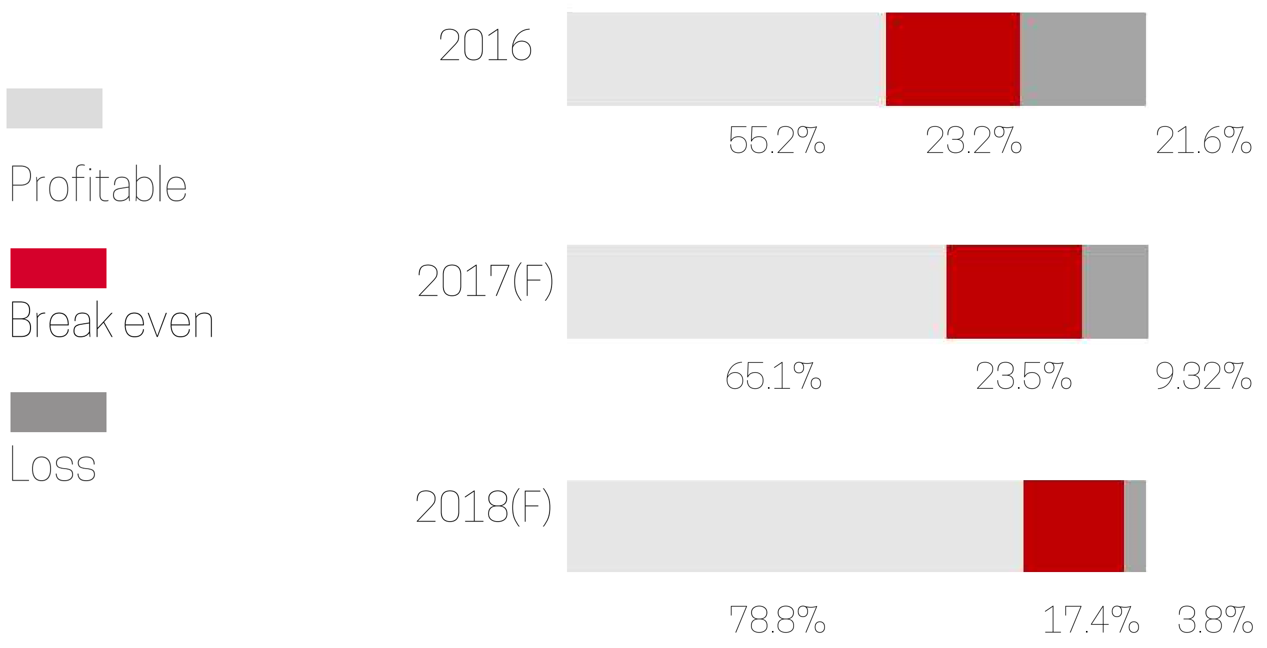
PART 4
REVENUE AND INVESTMENT



The positive outlook reported by Australian businesses in China is understandable in light of the year-on-year growth experienced by most of these businesses. Since 2016, the performance of Australian businesses has presented a gradual incline in China. In 2017, only 11.4% of Australian businesses were forecasted to make a loss in China, and in 2018, this percentage dropped to 3.8%. Thus signifying that the Chinese market continues to offer huge potential for Australian businesses.

79% of businesses expect to turn a profit in 2018, up from 65% of businesses in 2017.

Financial Performance: 2016 - 2018(F)

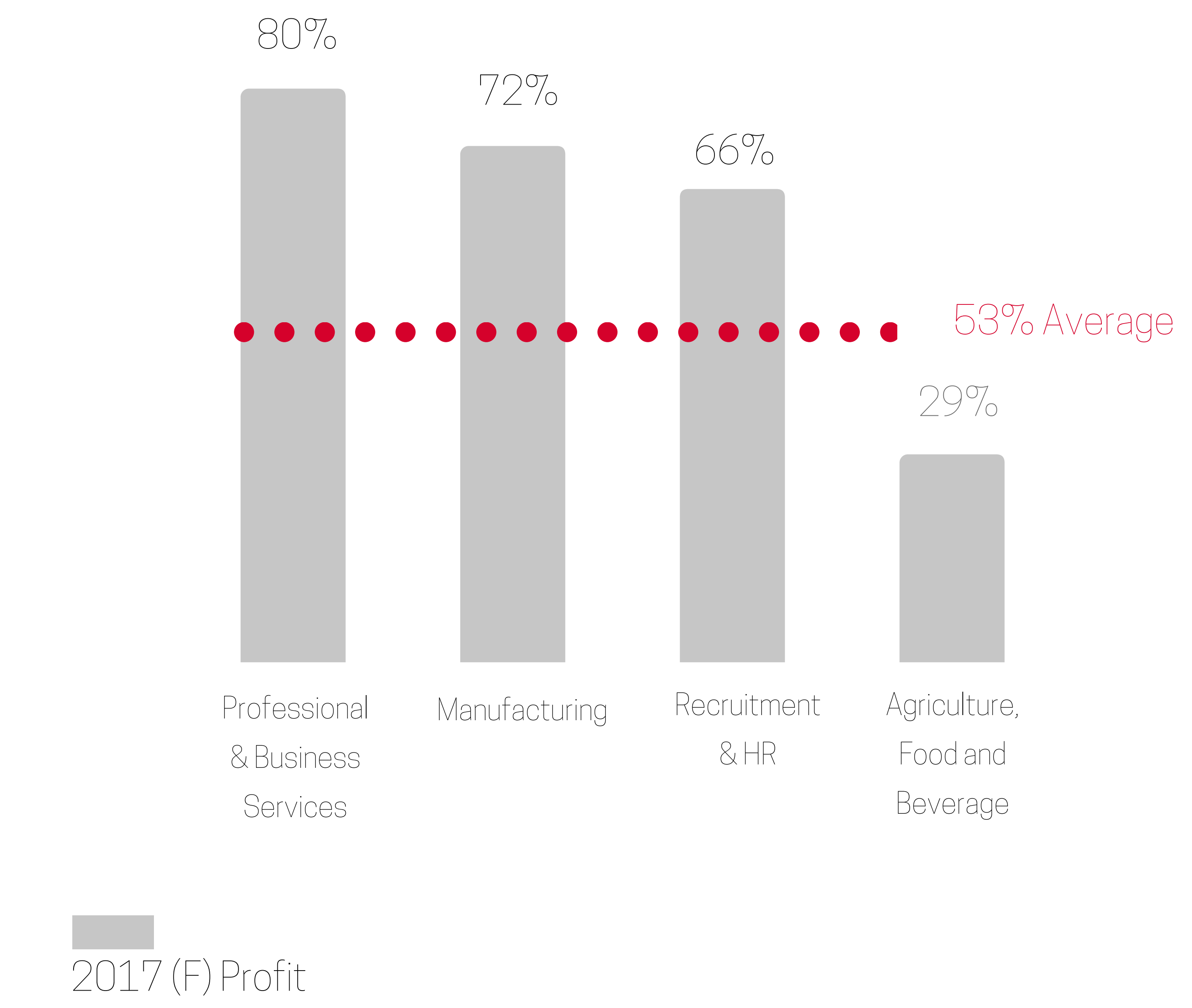


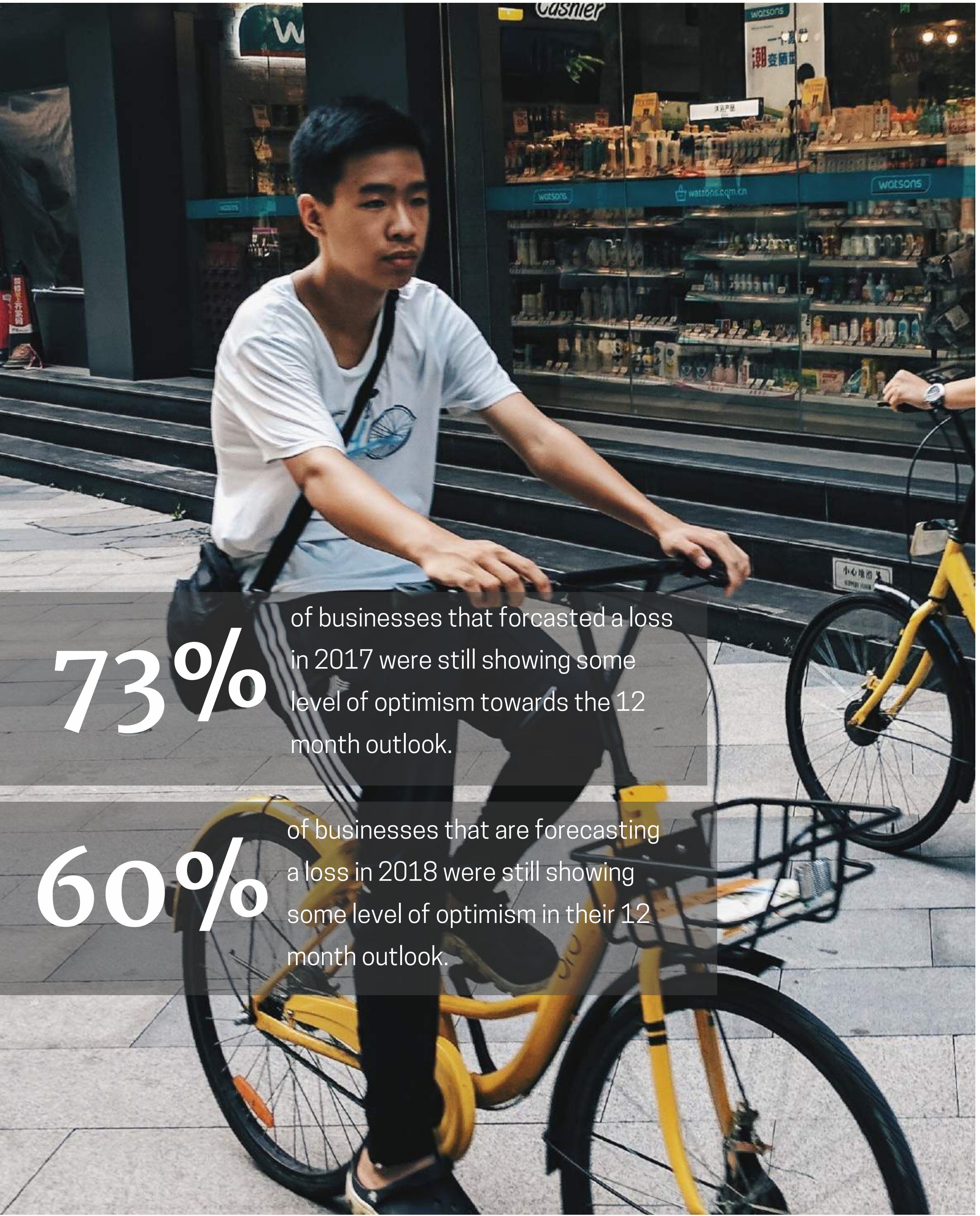
There are however, sectors which are significantly less profitable, such as the Agriculture, Food & Beverage sector which only forecasted 29% growth in 2017, versus the average and expected growth of 53%.

New competitors and business models are having an impact, as are challenges being faced within the regulatory environment including compliance requirements.

39% of the Professional & Business Services sector forecasted 2018 revenue to be higher than the 2017 forecast by 20-50%.

Over/Under Performing Sectors: 2017(F) Profitability





73% of businesses that forcasted a loss in 2017 were still showing some level of optimism towards the 12 month outlook.

60% of businesses that are forecasting a loss in 2018 were still showing some level of optimism in their 12 month outlook.

Consistent with the overall improvements to profitability amongst Australian businesses in China, Australian businesses generally have an optimistic view on their business outlook both in the short (12 months) and long term (five years). Interestingly, of the businesses that made a loss in 2017, an overwhelming 73% still showed some level of optimism regarding their business' 12-month outlook. The results reflect that the larger patterns of growth are leading businesses to believe that the future holds increased opportunities and in turn increased profits for their business in China.

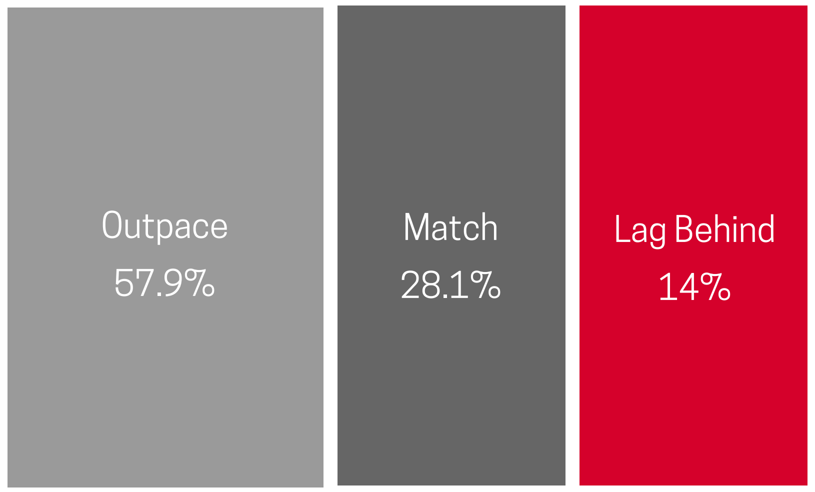
However, there are still some factors which are impacting profitability. One such factor is the duration of which the business has already been established in China. The results show that the longer a business was in China, the more likely they were to make a profit. In addition to a company's tenure, Australian businesses with larger global revenue were also more likely to be profitable. This reflects two key areas that are pertinent to success in China—local insight and reputation. Firstly, businesses with larger revenue can afford to invest more resources into understanding the Chinese market, whether it be through engaging market consulting firms, or local employees, all of which are imperative given the market unfamiliarity. Secondly, Chinese consumers still place a significant premium on businesses that are well-known and reputable, which often aligns with companies with a higher global revenue.

	PROFITABILITY VS AVERAGE	KEY TAKE OUTS
TENURE	10+ years in China: 11% more profitable <5 years in China: 12% less profitable	The longer businesses are in China, the more likely they were to make a profit.
GLOBAL REVENUE	<AU$5 million: 7% less profitable AU$50-100 million: 7% more profitable >AU$100 million: 13% more profitable	The higher the global revenue, the more likely China operations were profitable.

Most Australian businesses report seeing a greater rate of revenue increase in China than other global markets. Large businesses, specifically those with more than one hundred employees, are the most likely to have greater profit growth in China than elsewhere with 69.9% seeing faster growth versus 57.9% across all businesses surveyed. This reinforces the previous point that the size and duration of business in China is positively correlated with profit and revenue growth.

The scale and speed of China's growth and subsequent opportunities are unlike anything the world has seen before. Average income in China has more than doubled over the past 8 years*, allowing hundreds of millions of consumers to make discretionary purchases and trade up to premium Australian goods and services. Australian businesses have been assertive about capitalising on this rise, which is reflected in Chinese revenue growth outpacing other global markets for most respondents.

China Revenue vs Other Markets**



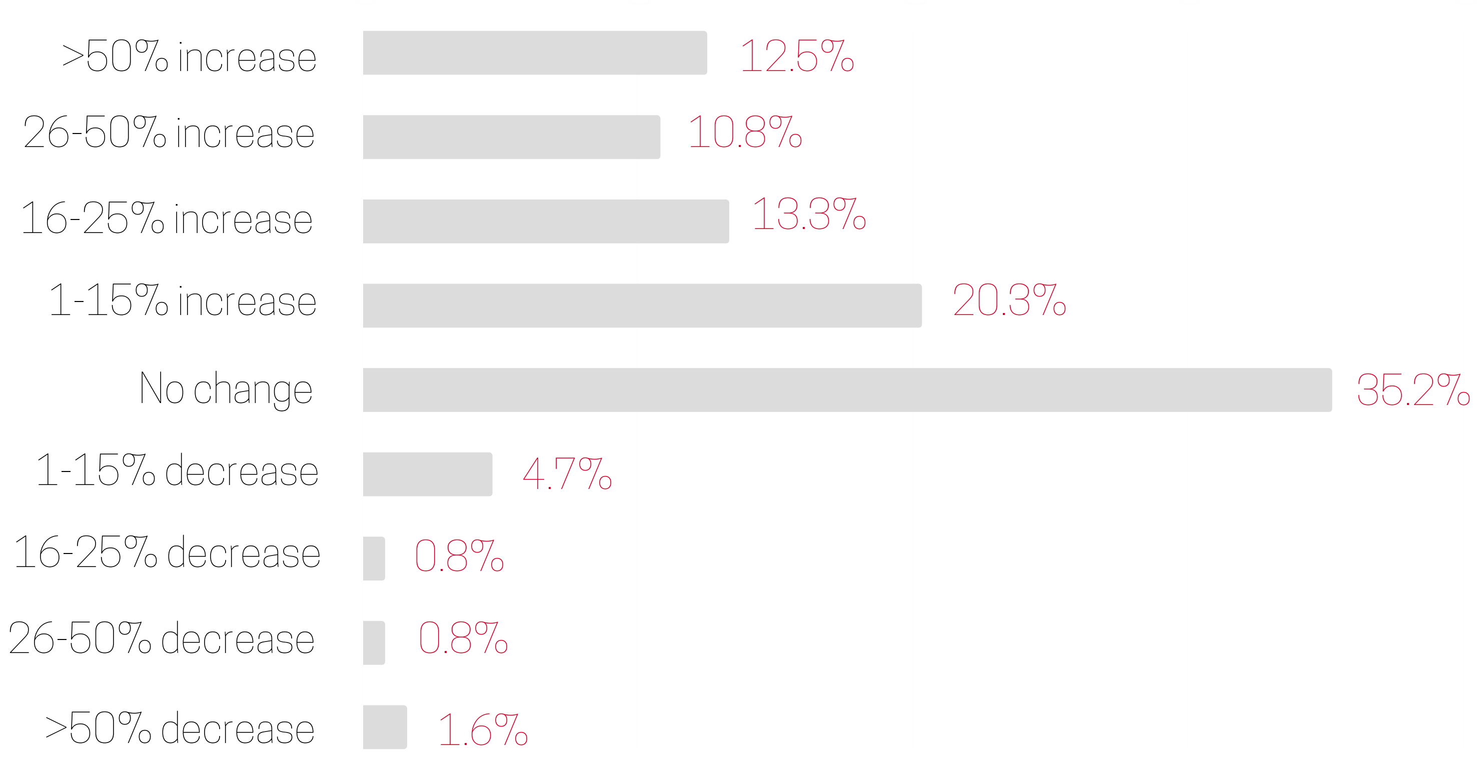
* source: China Ministry of Human Resources and Social Security Data (2009-2017)

**Respondents could select more than one option

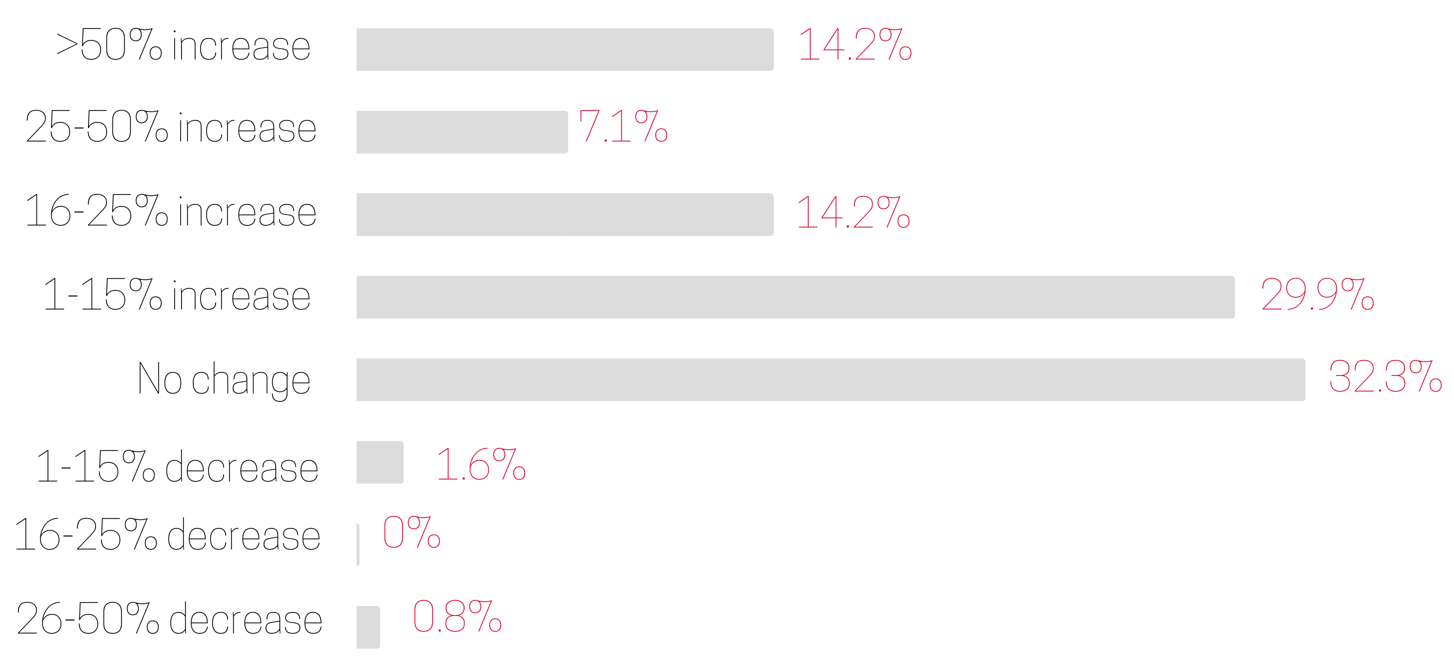
In line with widespread optimism, Australian businesses are also investing relatively heavily in China. 65.3% of Australian businesses plan to increase their investment in 2018, up from 56.9% in 2017. The amount of businesses decreasing investment also falls from one year to the next, with the rate dramatically changing from 7.9% in 2017 to 2.4% in 2018. The increasing investment supports the overall optimism in the Chinese market and growing profitability.

When compared to a similar survey of American businesses, 37% of Australian businesses who increased their investment in 2017 did so by more than 15%. Whereas just 30% of American businesses who raised their investment increased by over 10% according to the Amcham 2018 Business Climate Survey. While Australia certainly enjoys a regional advantage, this result reflects the maturity, confidence and commitment of Australian businesses to the ever-important Chinese market.

Change to 2017 Investment

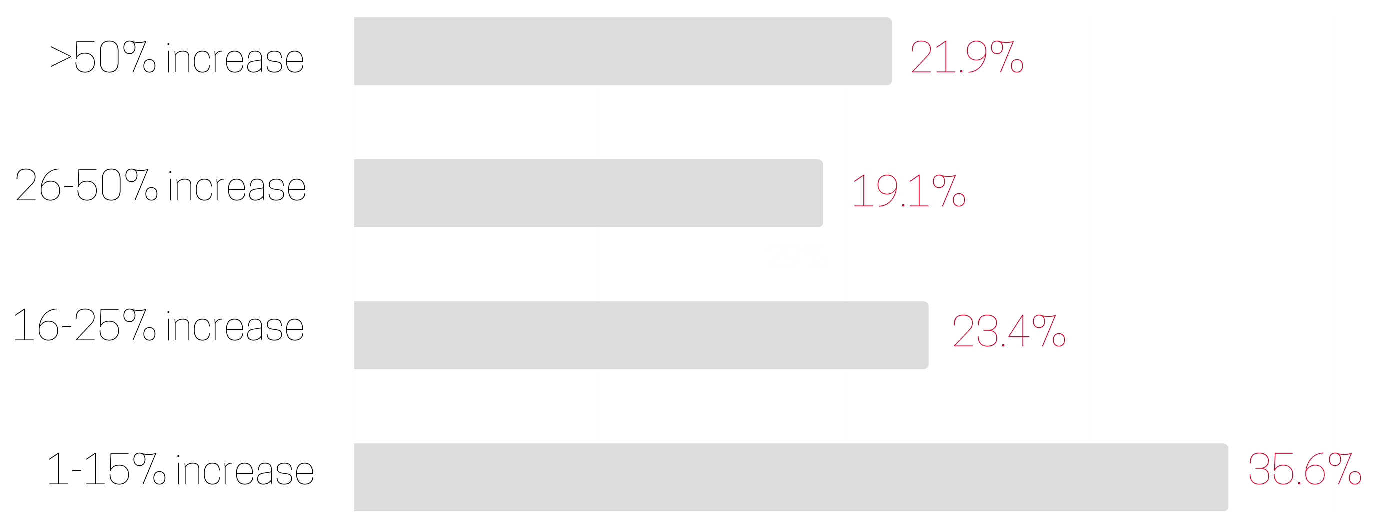


Change to 2018 Investment

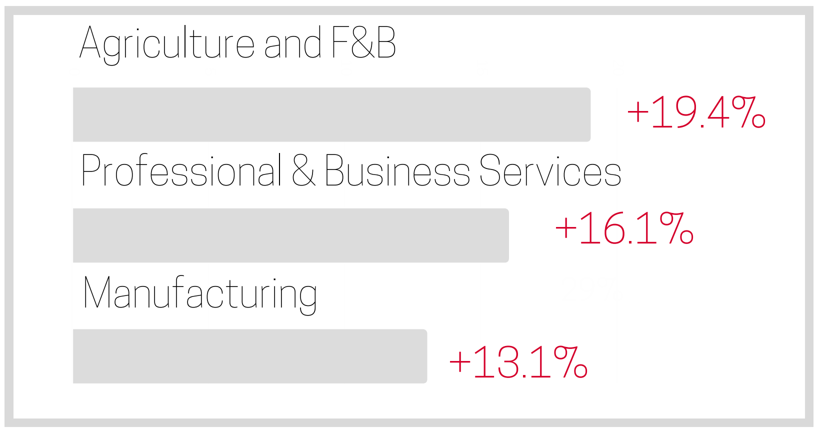


For those businesses increasing their investment, how much are they increasing by?

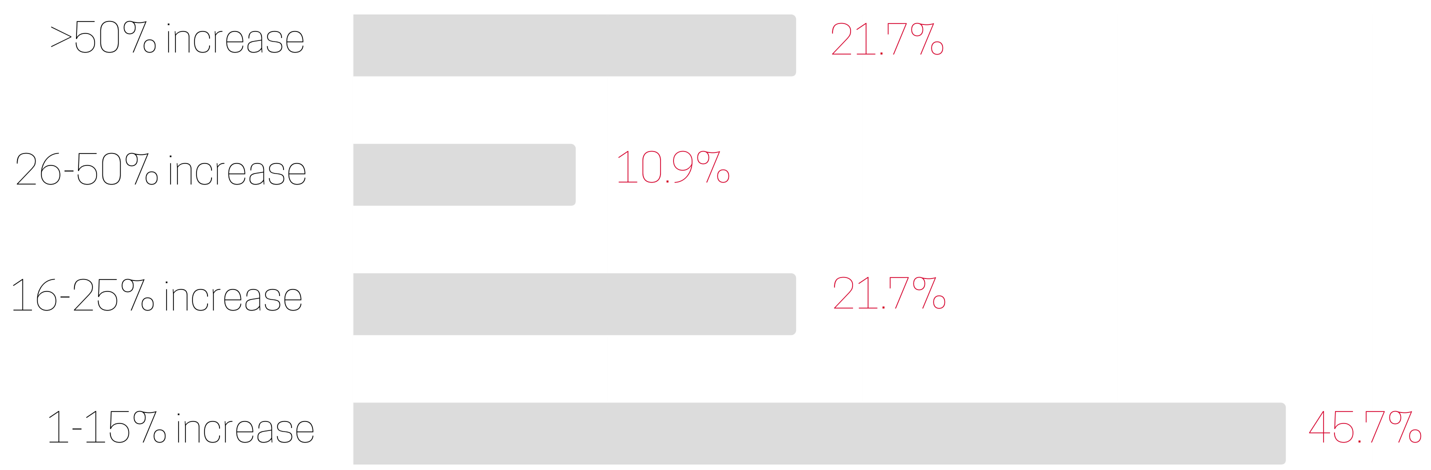
Of those who are increasing (2017) :



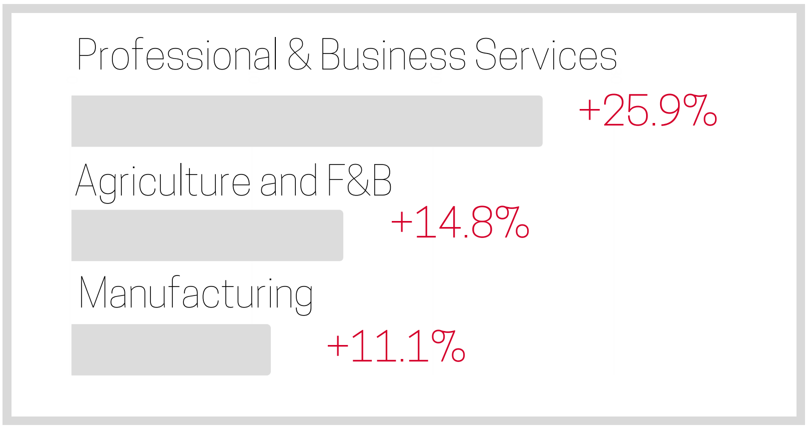
Sectors seeing the largest investment changes (>26%) in 2017 compared to the average



Of those who are increasing (2018) :



Sectors seeing the largest investment changes (>26%) in 2018 compared to the average



Case Study: Blackmores

Blackmores is one of Australia's best-known manufacturers and distributors of vitamins, minerals, and nutritional supplements. Founded in the 1930s, the company has strong brand awareness and sales in China.

Blackmores shares the optimistic sentiment of Australian businesses in China, with their industry directly benefiting from China's expanding middle class. The ASX listed company is responding to these shifts via innovative collaborations.

> THERE IS A NATURAL ALIGNMENT WITH OUR CATEGORY AND CHINA'S MIDDLE CLASS. AS IT EXPANDS, SO TOO DOES CHINESE CONSUMER INTEREST IN HEALTH SUPPLEMENTS TO SUPPORT THEIR CHANGING LIFESTYLES.
>
> – PETER OSBORNE MANAGING DIRECTOR, ASIA.

As an active player in the Chinese market for 6 years, Blackmores has been ideally positioned to observe and respond to the varied ways in which the middle class is affecting consumption. This was identified by 7 in 10 of respondents in the sentiment survey identified as the number one opportunity for their business in China. On the one hand, Blackmores has seen consumer demand for supplements rise to offset the increased consumption of convenient and processed food which goes hand in hand with China's expanding middle class. Conversely, the market has also seen a significant spike in health and fitness, with the number of annual marathons growing from 22 to more than 400 in 6 years. With this, so too does demand for health supplements to support muscles and joints, such as glucosamine.

Spending on health and wellness in China has experienced considerable growth over the past ten years; a trend showing no signs of abating, with the market forecast to reach nearly $70 billion by 2020, spurred by rising incomes and growing awareness about healthy living across the middle and upper classes*.

> THE CHINESE ARE PURSUING HEALTHIER LIFESTYLES AND STARTING TO DEVELOP A GREATER APPRECIATION AROUND THE BENEFITS OF FOCUSING ON PREVENTION OVER CURE. THESE TRENDS BODE VERY WELL FOR OUR CATEGORY.

Case Study: Blackmores

Despite Blackmores remaining agile in the face of an ever-changing online environment, citing the 'digitisation of healthcare' being a trend which will continue to change the landscape of their category, it is their innovations in the offline space which are particularly noteworthy.

One in two respondents in the survey regarded 'Innovations in technology, media and telecommunications' as being the number one trend set to impact their business in the next 3-5 years, and Blackmores is responding to this trend via a unique collaboration.

Identifying a knowledge gap amongst journalists regarding preventative medicine, and therefore potential missed opportunities for building consumer awareness via the media, Blackmores have partnered with Tsinghua University on a program aimed at improving education in this area.

With the focus and discussion regarding the China market all too often centred on the online space, it is encouraging to see examples such as this which display a proactive and innovative approach to addressing a gap, to best respond to a market opportunity.

KEY TAKE OUTS

1 The Chinese health care sector is having to adapt to the growing affluence of its people, their changing diets and habits, as well as an increasingly important online environment.

2 Innovation in technology, media and telecommunications is the most important trend that will impact a business' success over the next 3-5 years, and businesses across every category should stay abreast of these innovations and incorporate them into their strategies where appropriate.

3 Less traditional marketing and PR initiatives can have significant impact when combined with a broader marketing strategy.

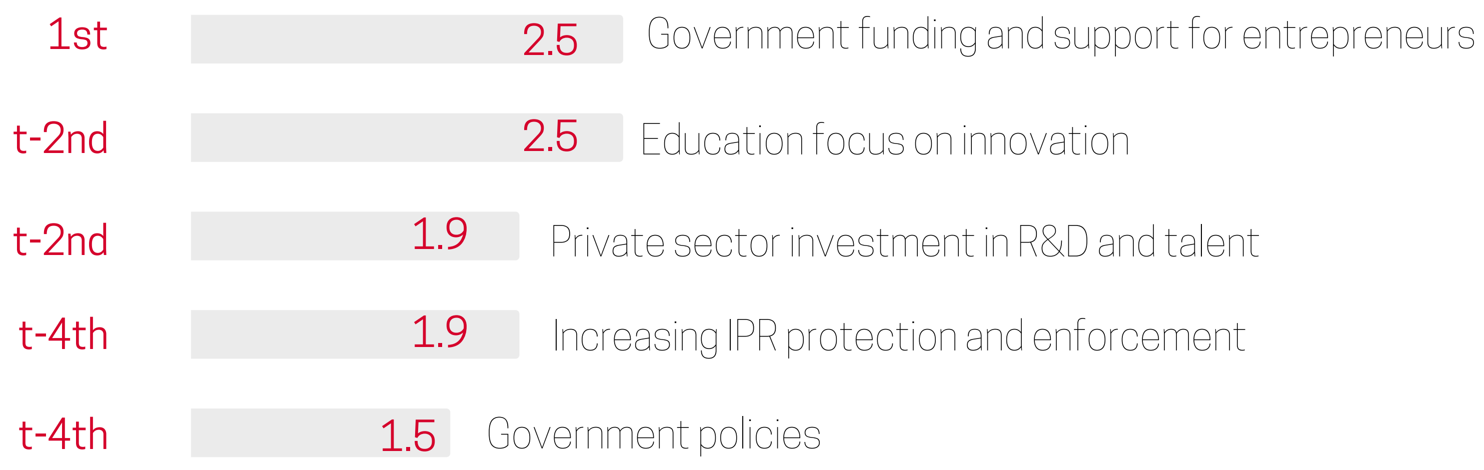
PART 5
CHALLENGES AND RISKS

There are some pervasive challenges for Australian businesses operating in China. In line with results from the AustCham/Austrade 2013 'Australia-China Business Perceptions Survey', the top three concerns amongst Australian businesses are 'retaining top talent' (49.7%), 'domestic & foreign competition' (47%) and the 'Chinese regulatory environment' (36%).

While working for a multinational business used to be the Holy Grail for the Chinese urban population, the rise of credible brands from China and increasing national pride has gradually lessened the appeal. A new generation of educated Chinese youth, many who have studied and worked abroad are increasing the talent pool. However, they are no longer aiming their career aspirations solely at international companies, but rather are being drawn to those organisations, local or foreign, that invest in creating attractive workplaces.

What challenges have hindered your organisation's growth in China?*

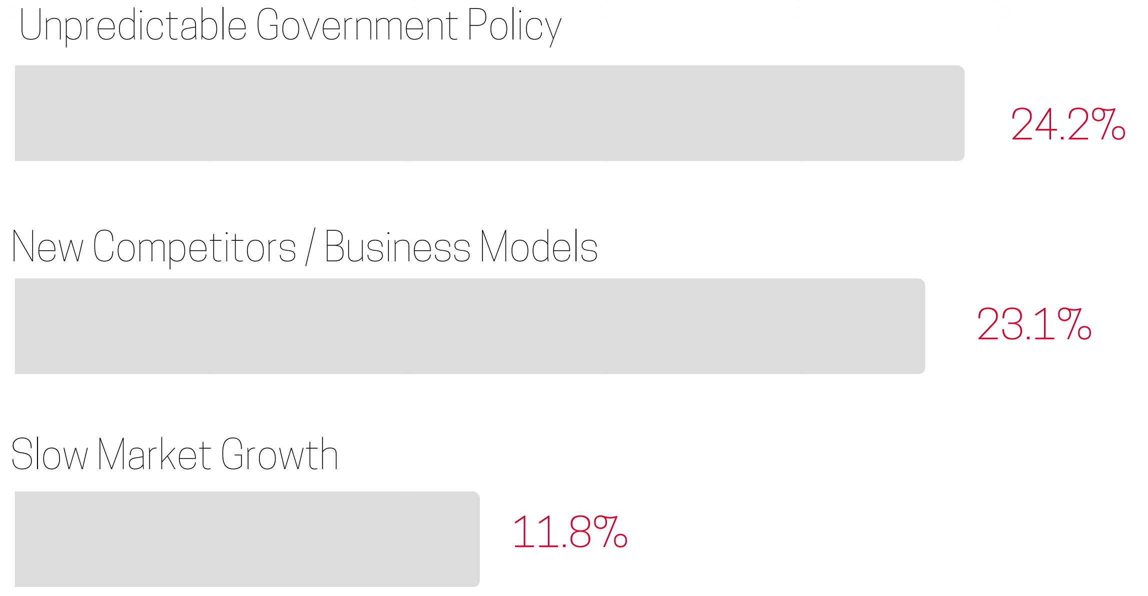
Which drivers will have the biggest impact in improving innovation in China ?



'Respondents ranking of drivers were averaged with the higher the number, the bigger the impact

Combined with these challenges, it was almost neck-neck between which factors Australian businesses regarded the number one risk to their success in China, with 24.2% ranking Unpredictable Government Policy, closely followed by 23.1% for New Competitors/Business models as the top risk.

Top risks to success in China*



*Respondents could select more than one option

China is like no other market on the planet. Basic assumptions on consumer behaviours that can be made in other markets are often misleading in China. Therefore, it was not surprising to see that 60.7% of businesses stated that understanding Chinese consumers was their number one information gap.

The survey reflected an overall trend of increasingly savvy local businesses providing greater competition. Private Chinese entreprises are investing more in quality control, branding, marketing and research & development, supported by stronger sales and distribution networks.

What do you believe are the top 3 information gaps which could assist Australian organisations with decision making in China?*

60.7%	41%	40%
'Understanding their consumers'	'Legal, Regulatory & Policy'	'Branding & Positioning'

Sources of increased competition over the past 12 months

Private Chinese Entreprises	58%
Foreign Entreprises	50.6%
State Owned Entreprises	14%

*Respondents could select more than one option

Case Study: Sanitarium

Sanitarium is a 120-year old health-related business producing a large range of breakfast cereals and vegetarian products. It is the largest health food company that is 100% Australian owned. Its flagship product Weetbix is a top selling cereal in Australia and New Zealand.

Despite a forced step change for Sanitarium's leading product in China, this company remains optimistic about their future in this market. Their focus is on increasing their agility to best respond to changes in the macro environment.

Soaring sales of Sanitarium's Weet-Bix, following its inclusion in a major Chinese TV show, was one of the most talked about topics amongst the Australian Fast Moving Consumer Goods (FMCG) export fraternity in recent years. However, this success was followed by a series of challenges which highlight the reality of doing business in China.

In response to an incoming trademark restriction in November 2016, Sanitarium were forced to rebrand their leading product; Weet-Bix, to Nutri-Brex in China. This change has led the company to focus their attention on their marketing strategy to build the Nutri-Brex brand, so far with promising results;

Together with 78% of the respondents to the survey, Sanitarium shares the optimistic outlook for their business in China, citing the expanding middle class as a trend which creates enormous potential for growth in their category. As Chinese consumers mature, they are expanding beyond traditional products to explore foreign products.

Nowhere is this more obvious than in the cereal category which has seen consumers who normally eat warm breakfasts, opting for a more western style, with a box of Nutri-Brex retailing in China for the equivalent of AUD$12.

Despite this, Andrews regards China to be "a very tough place to do business"; a sentiment which doesn't seem to be improving, with 39% of Australian businesses regarding the ease of doing business in China to have become more difficult in the past 12 months, according to the 2018 Westpac Australia-China Sentiment Survey.

For Sanitarium, some of the major challenges are related to government policy, particularly in relation to ensuring their products remain China Inspection and Quarantine (CIQ) complaint.

Case Study: Sanitarium

> MINOR TWEAKS TO THE INGREDIENTS OF OUR PRODUCTS HAS BEEN A NECESSARY ACTION TO FULFIL COMPLIANCY REQUIREMENTS. IT IS ESSENTIAL TO REMAINING FLEXIBLE IN THIS REGARD, WHILST STILL ENSURING THE INTEGRITY OF OUR PRODUCTS ARE NOT COMPROMISED.

Compliance in this market is not simply an area in which the government claims responsibility, with Sanitarium noting the presence of 'professional shoppers' as another complex layer of selling products in this market. These 'fact-checkers' proactively test and check products in the market to ensure they are indeed say China import inspection and quarantine regulations, and other regulations, compliant, which can cover lab testing of ingredients right through to marketing claims and label sizing.

Sanitarium was part of the 54.7% of businesses surveyed who indicated that they had benefited in some form from ChAFTA, naming the reduction in tariffs as the primary benefit from this policy, which has made their cereals more price competitive in a global market context. However, Sanitarium noted that there are still challenges being felt, such as the ease of moving money between the markets, and various tax implications of doing business in China, both of which was echoed by the consensus.

KEY TAKE OUTS

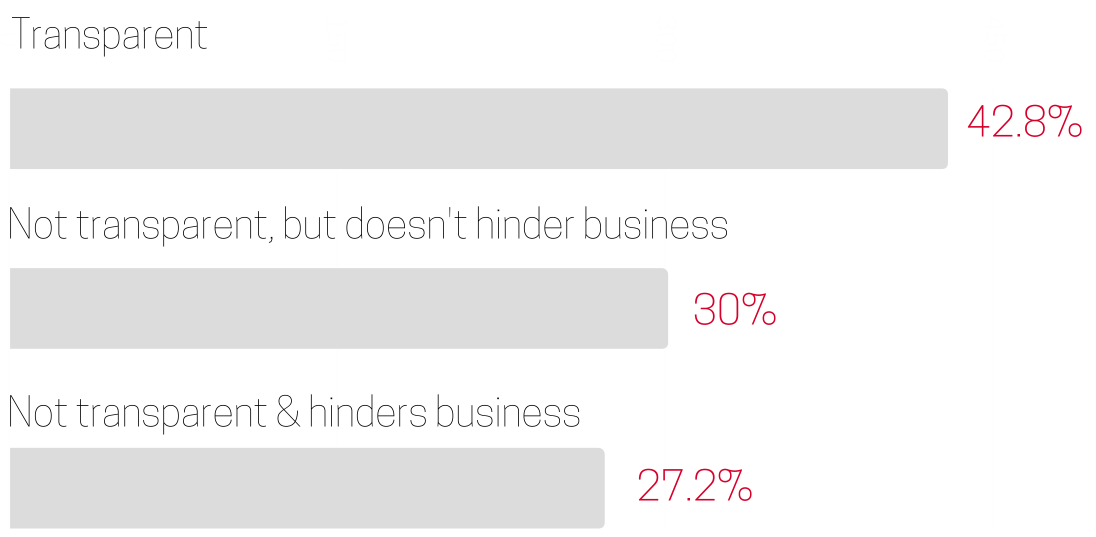
1. Ensure your trademarks are locked in as failure to do so may see you forced to change your branding to something inconsistent with the Australian market
2. China can be a difficult place to do business for those within the FMCG category – have realistic expectations.
3. Have a solid plan in place to respond quickly to China import inspection and quarantine regulations requirement changes and play very close attention to the small details; if the government doesn't find an infringement, the professional shoppers might.

PART 6
MACRO INFLUENCES

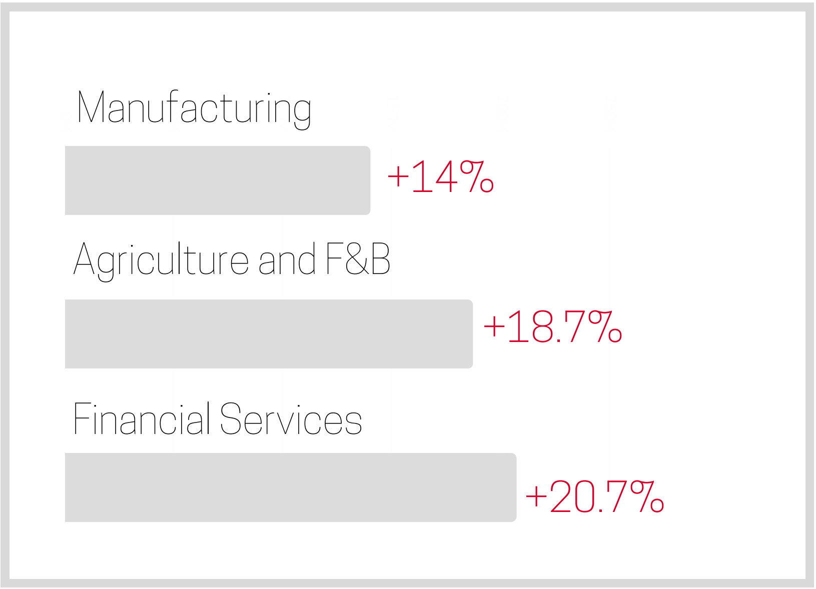
When asked to gauge the degree of transparency of the regulatory environment in China, results varied. A little over half of businesses considered there to be a lack of transparency, with the sectors that viewed this as hindering business including Consumer Goods, Creative Industries, Health and Aged Care, Financial Services and Mining.

Australian businesses with a compelling product or service in China still cannot avoid the overall influences that shape everyday life of doing business in China. Awareness of these will enable businesses to best prepare for and mitigate issues beyond their control. As a strong central Government, Beijing's macro policy influences the business sphere more than most markets. On the Australian side, the delicate balancing act of policy and diplomacy from Canberra in areas such as ChAFTA and the Belt & Road initiative also play a part in affecting the macro environment for Australian businesses in China.

How transparent is the regulatory environment In China?

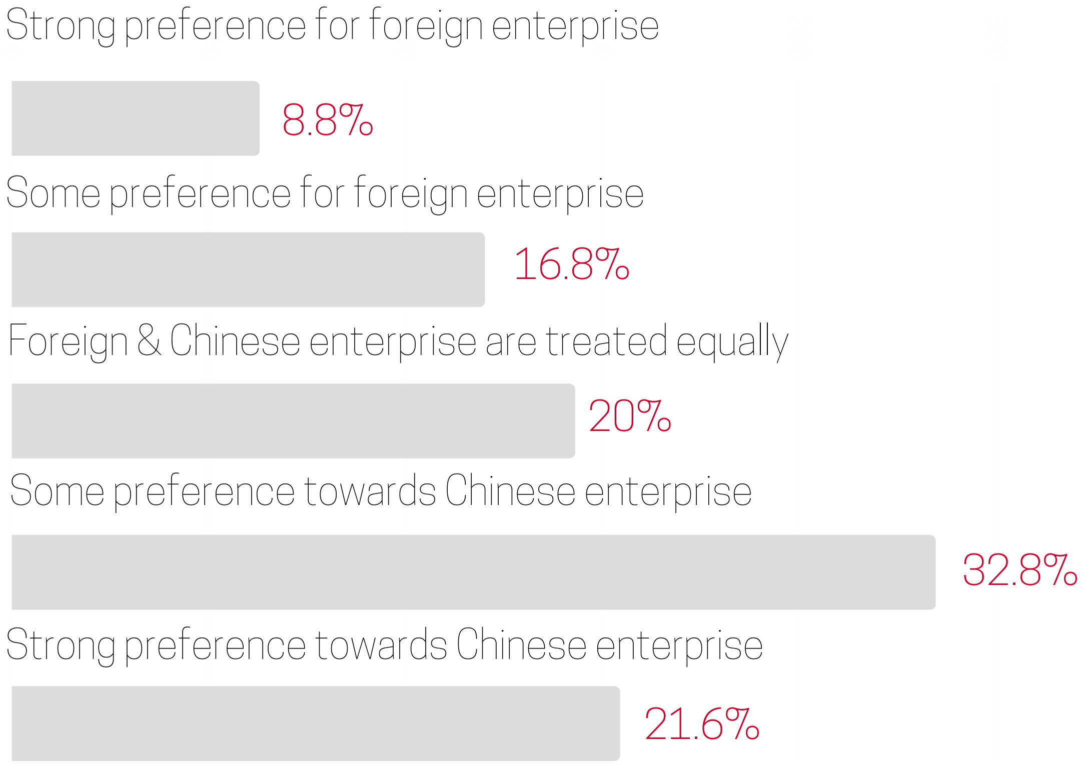


Sectors who were more likely, than the average to report that the lack of transparency hinders business.

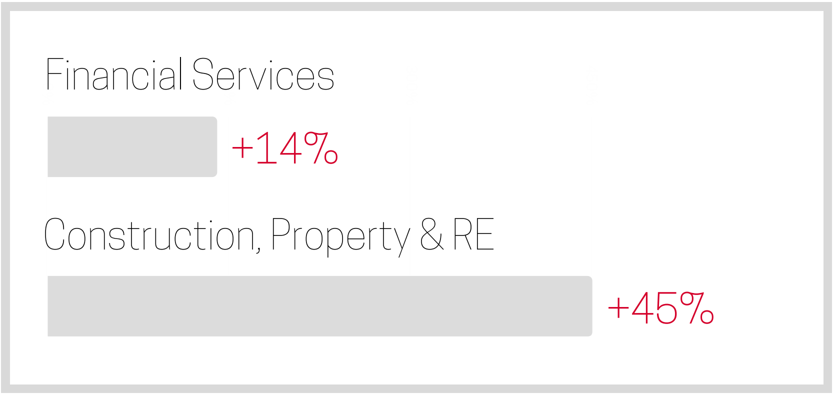


Compared to rating the degree of transparency, there was more agreement over the belief that Chinese enterprises enjoy preferential treatment under China's regulatory environment when compared to their foreign counterparts (54.4%). This result supports efforts made by the Australian Government to seek a fairer business environment as the Americans and Europeans are increasingly doing.

How would you characterise the regulatory treatment towards organisations in your industry?



Sectors who were more likely, compared to the average to report strong preference towards Chinese entreprise.

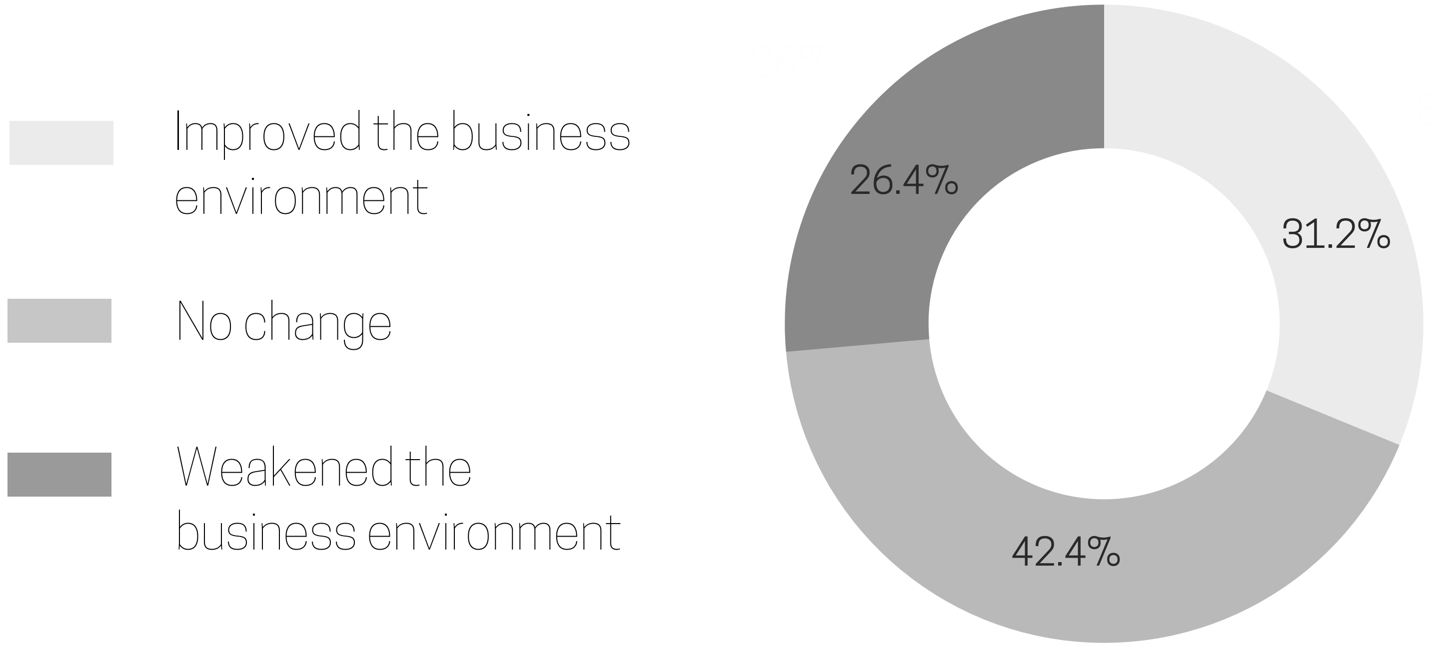


As with the transparency of the regulatory environment, there was little consensus on whether government policies and their enforcement has improved or weakened business. Though, with 31% of Australian businesses believing the regulatory environment has improved over the past 12 months, versus the 26% believing it to have deteriorated, overall regulatory trends seem to be improving.

Despite the regulatory environment continuing to challenge businesses, some regulations have had a positive impact such as infant formula registration requirements and stricter rules around imported honey providing more certainty for established brands and removing brief, made-for-china operations. However, rules like animal testing only being required on imported cosmetics continue to challenge many Australian brands.

Public announcements about more foreign-friendly regulations provide hope for Australian businesses, although Chinese regulations are likely to remain a challenge for the foreseeable future.

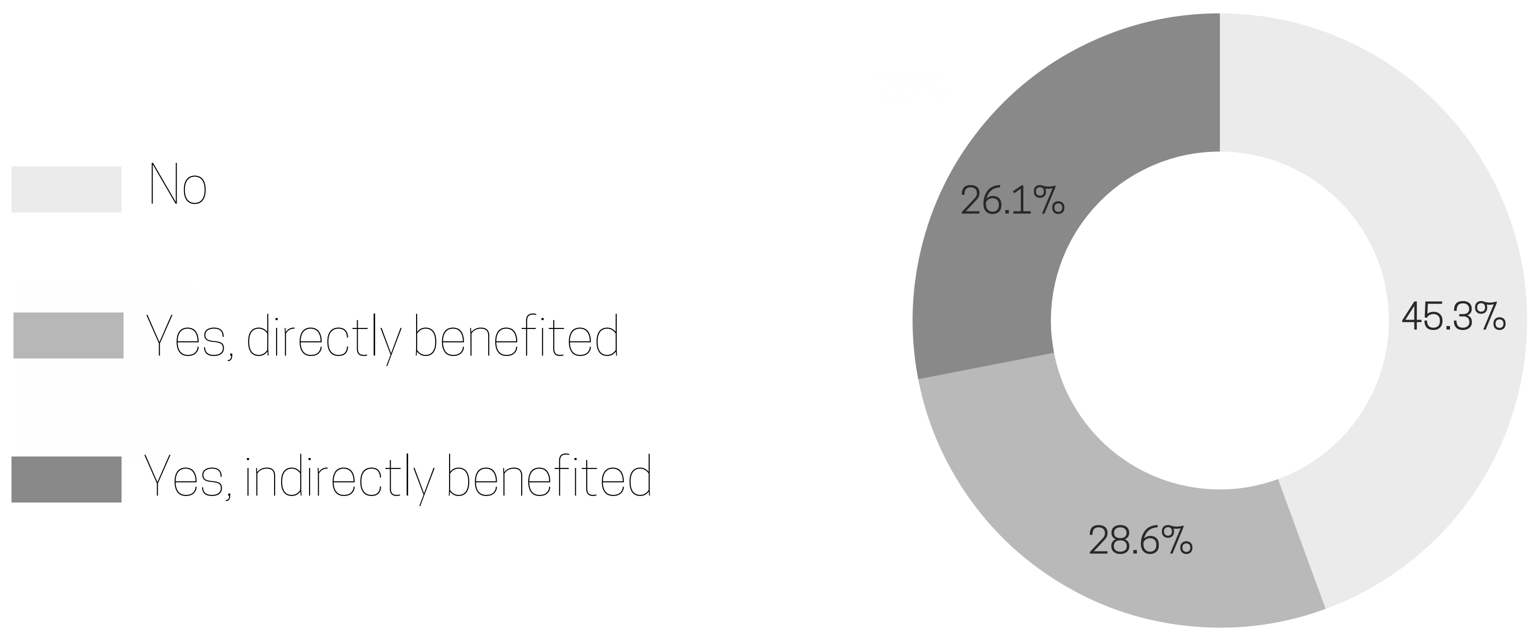
Over the past year how has the change in government policies and their enforcement impacted your business in China?



Australia's participation in macro initiatives with China has been positive, particularly with ChAFTA, which has seen 96% of Australia's goods exports to China now eligible to enter duty-free or with preferential access. There was variation amongst businesses in their response to whether they considered themselves to have benefitted from the implementation of ChAFTA. Just over half believe they have, with the distinction between direct and indirect being around half-half.

Of those who considered themselves to have directly benefited, this was due to increasing the competitiveness of Australian goods exports, improving and securing market access to Australian service businesses in China and encouraging new investment into Australia. Whereas, the indirect benefits flowed from an increasingly positive trading environment as a function of Beijing's endorsement of doing business with Australia through ChAFTA and growing awareness for Chinese businesses.

Has your organisation benefitted from the implementation of the China-Australia Free Trade Agreement (ChAFTA)?

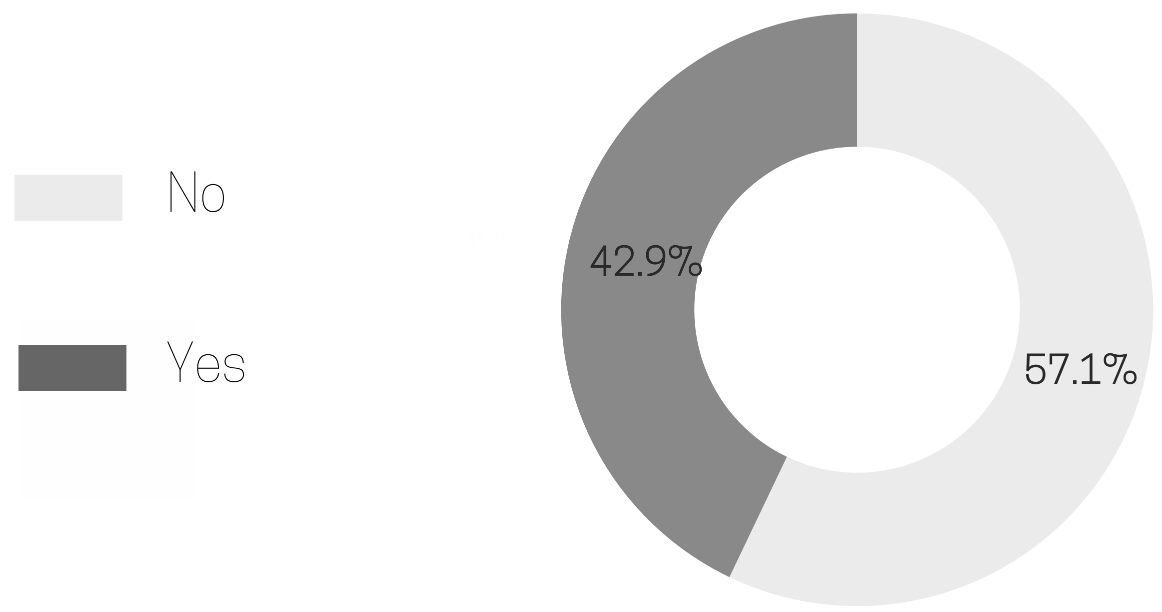


What are the ChAFTA benefit/s for your organisation? *

*Respondents could select more than one option

China's Belt and Road initiative is a China-led multi-trillion-dollar initiative enhancing links between 70 countries that represent two-thirds of the world's population. The initiative's investment in infrastructure, transportation and energy aim to enable economic growth and simplify global trade. Whilst the initiative has been met with differing views from observers, it should be noted that it is a key priority for Chinese President Xi Jinping and is likely to continue to gain momentum. Organisations that have had a Belt and Road angle with projects have noted enthusiastic uptake and resources from Chinese customers. The sectors which were more likely to state that this policy had been a positive driver for their China strategy were: Energy & Environment; IT and Communication; Mining; Recruitment & HR; and Health and Aged Care.

Is the Belt and Road initiative a positive driver for your strategy in China?



What opportunities do you see from the Belt and Road initiative?*

*Respondents could select more than one option

Case Study: Woods Bagot

Woods Bagot is a global design and consulting firm with a team of over 850 experts working across Asia, Australia, Europe, the Middle East and North America. They are known for their focus on People Architecture - placing human experience at the centre of the design process to deliver engaging, future-oriented projects that respond to the way people use space.

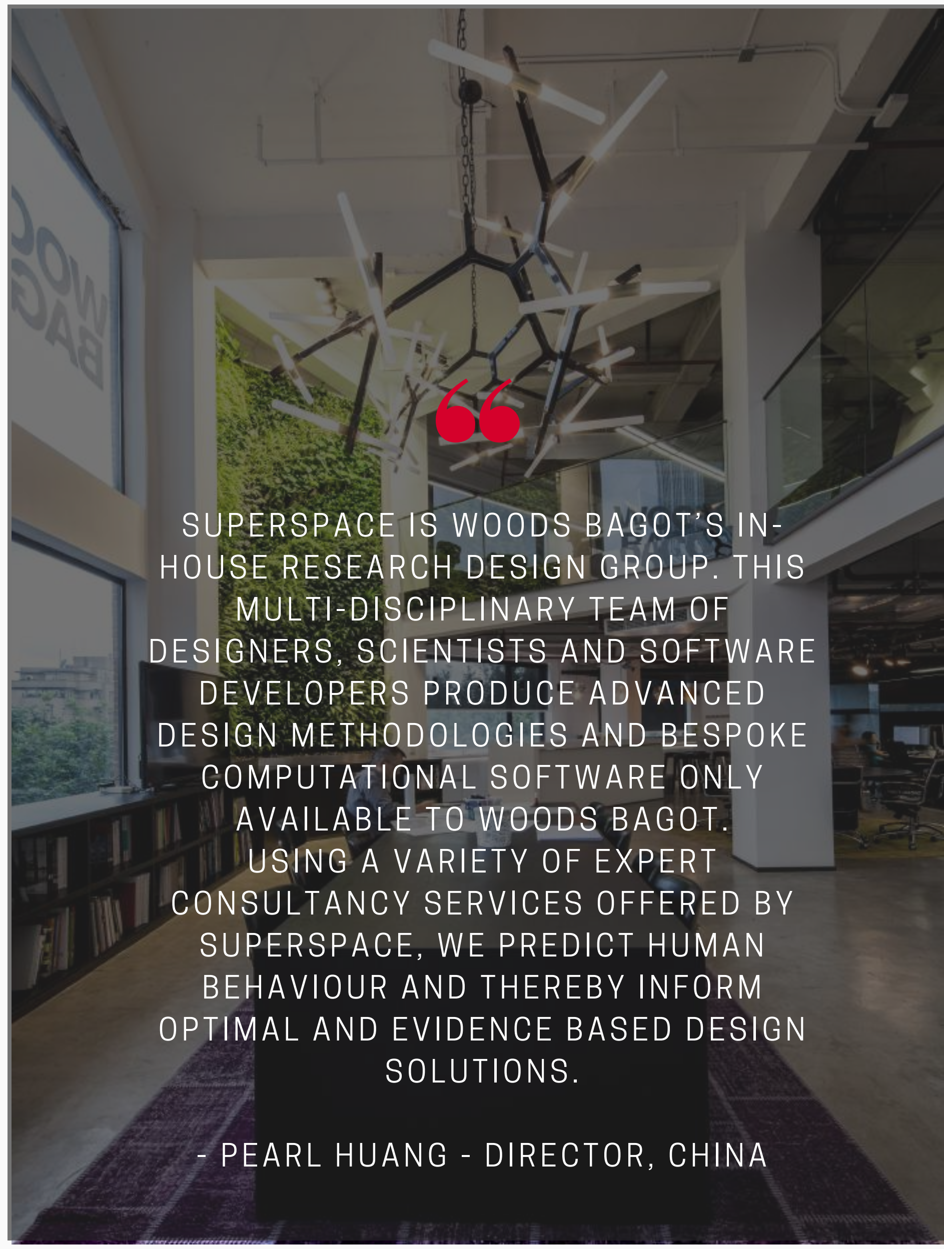
The 150-year-old global 'People Architecture' firm with Australian origins is pioneering ways of leveraging big data to inform human-centred design, whilst warning that Australian businesses may be missing out on major opportunities under the Belt and Road initiative.

As the 'New Retail' trend, a concept originally coined by Alibaba's Jack Ma, continues to gain momentum, the focus is commonly on how O2O (the digital integration from the online space to the offline) has been implemented to achieve optimal customer experience and product sales. However, the success of the New Retail concept relies heavily on the design of the space itself and understanding how consumers behave within it. It is here where Woods Bagot are redefining the design process.

As Chinese consumers become more sophisticated; a trend which is particularly apparent in New Tier 1 and 2 cities, they are demanding more from the spaces where they spend their time. This is no more evident than in retail. With shopping a favourite national past time and leisure activity, retail spaces need to be increasingly experience-based and mixed-use. Woods Bagot's SUPERSPACE provides the spatial and human intelligence to design truly human-centric environments, in what is becoming an increasingly competitive market;

In addition to increasing domestic competition, the challenge for Woods Bagot to attract and retain top talent is ever-apparent; a sentiment echoed by just under half of businesses surveyed.

> COMPETITION FROM FOREIGN FIRMS REMAINS STRONG, HOWEVER LOCAL DESIGN INSTITUTES ARE MATURING AND OFFERING VERY COMPETITIVE FEE STRUCTURES.



> SUPERSPACE IS WOODS BAGOT'S IN-HOUSE RESEARCH DESIGN GROUP. THIS MULTI-DISCIPLINARY TEAM OF DESIGNERS, SCIENTISTS AND SOFTWARE DEVELOPERS PRODUCE ADVANCED DESIGN METHODOLOGIES AND BESPOKE COMPUTATIONAL SOFTWARE ONLY AVAILABLE TO WOODS BAGOT. USING A VARIETY OF EXPERT CONSULTANCY SERVICES OFFERED BY SUPERSPACE, WE PREDICT HUMAN BEHAVIOUR AND THEREBY INFORM OPTIMAL AND EVIDENCE BASED DESIGN SOLUTIONS.
>
> - PEARL HUANG - DIRECTOR, CHINA

> IT IS ESSENTIAL THAT OUR ARCHITECTS HAVE BOTH INTERNATIONAL AND LOCAL EXPERIENCE AND THAT THEY REPRESENT THE DIVERSE PEOPLE USING THE PLACES THEY ARE DESIGNING. FOR THIS REASON SEVERAL OF OUR PRINCIPALS ARE YOUNG – AROUND 30 – WHICH HELPS THEM TO DESIGN SPACES WHICH ARE IN LINE WITH CURRENT AND FUTURE TRENDS.

Case Study: Woods Bagot

In response to the challenge of retaining their top talent, Woods Bagot note that millennials who have studied and worked overseas are typically from wealthy families and so are less motivated by money, and more by good company culture, personal ownership of their role and the quality of projects they work on.

Woods Bagot recognises that there are great opportunities for transport under the Chinese government's 'Belt and Road' initiative, adding that one successful tender under this policy is worth approximately five times that of an average project. Being active in this space has exposed the firm to further foreign competition, many of whose bids are strengthened by their governments' support;

> WE ARE SEEING THE BRITISH GOVERNMENT INVESTING HEAVILY IN SUPPORTING ARCHITECTURE FIRMS FROM THE UK IN THEIR BIDS FOR VARIOUS ONE BELT ONE ROAD PROJECTS. AUSTRALIA NEEDS TO ENSURE THAT AUSTRALIAN FIRMS ARE NOT LEFT BEHIND.

KEY TAKE OUTS

1. Leveraging big data can provide your businesses with an important unique selling proposition to effectively respond to the growing demands of Chinese consumers.
2. Domestic competition is increasing as the local market matures and becomes more aggressive.
3. Top talent is often less responsive to money than factors such as company culture, ownership and buy-in and working on interesting projects.
4. Belt and Road presents many opportunities for Australian firms, and the time to act is now.

PART 7
E-COMMERCE

As part of the 2018 Westpac Australia-China Business Sentiment Survey, respondents were asked a series of questions specifically relating to their China e-commerce strategy.

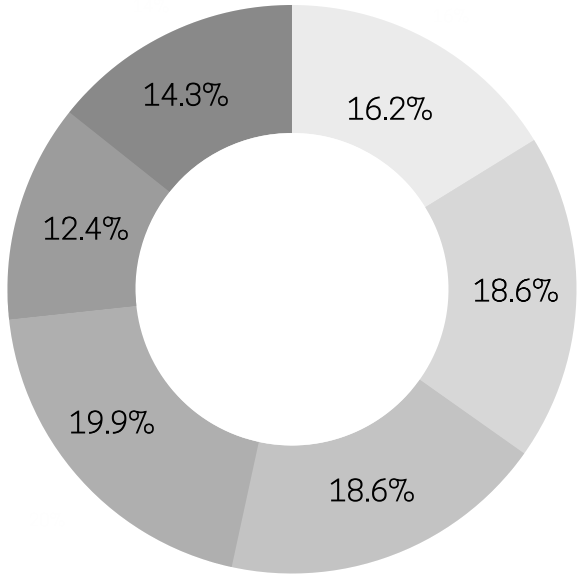
In China, e-commerce is and will remain a key driver for growth in the Chinese retail market and many other industries. Last year, its value was expected to surpass $1.13 trillion USD, accounting for around half of the world's e-commerce sales and 56 times the size of Australia's* online market.

With the size of the e-commerce market in mind, the survey uncovered an alarmingly low 16.2% of Australian businesses having a detailed digital and e-commerce China strategy in place. Whilst there does appear to be development taking place in this area, with 37.3% of businesses stating their plan was either in development or under improvement, 26.7% still have no current plans to develop a digital and e-commerce strategy.

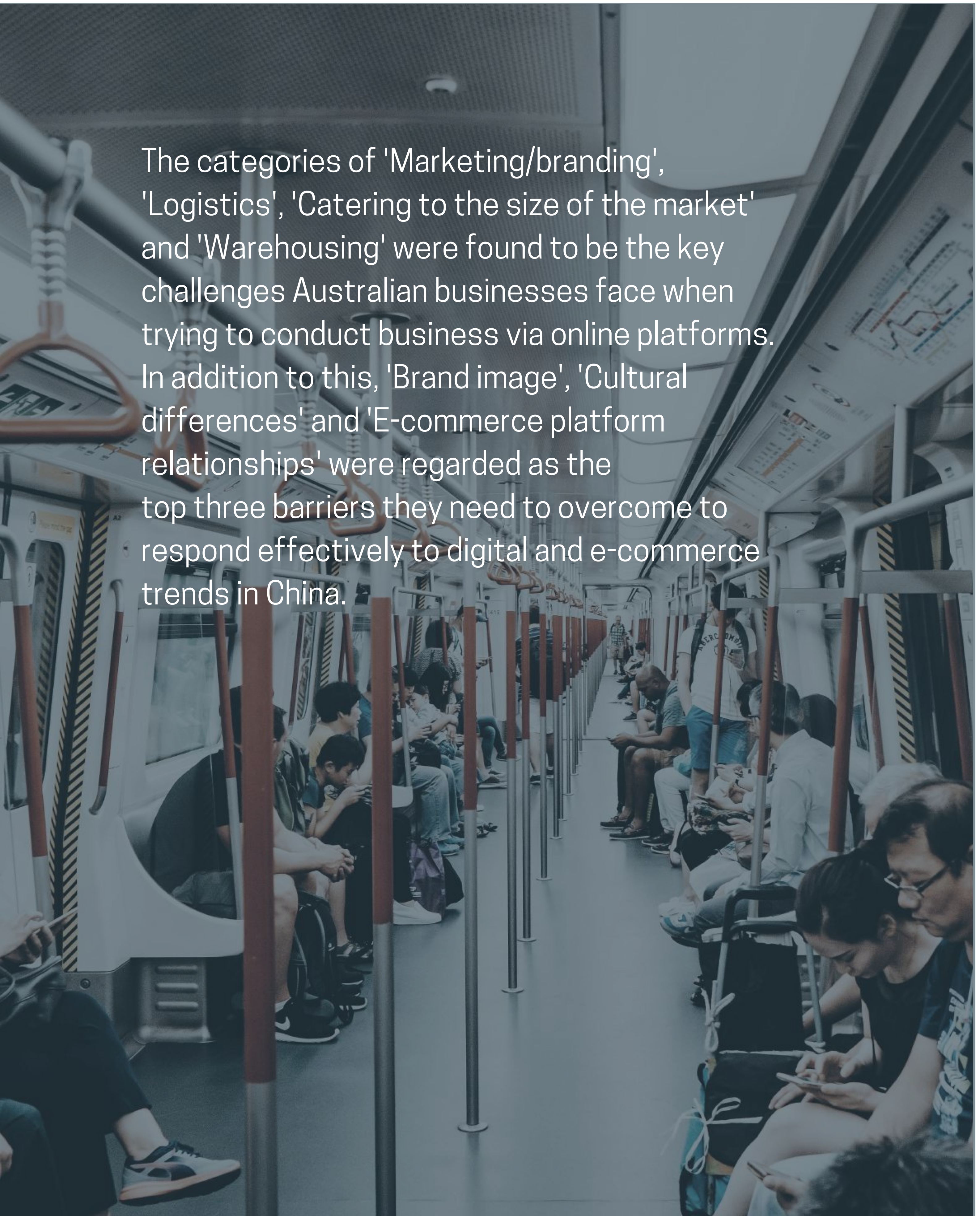
>25% of businesses from the Professional and Business Services sector have a detailed plan in place.

What is the state of your organisation's current China digital and e-commerce strategy?

- My organisation already has a detailed digital & e-commerce strategy in China.
- My organisation has a digital & e-commerce strategy for China under improvement.
- My organisation is developing a digital & e-commerce strategy for China.
- My organisation is planning to develop a digital & e commerce strategy for China.
- My organisation does not plan to develop a digital & e-commerce strategy for China currently, but may consider developing one if needed in the future.
- My organisation does not plan to develop a digital & e-commerce strategy for China.



*source: eMarketer 2017 - E-commerce data



The categories of 'Marketing/branding', 'Logistics', 'Catering to the size of the market' and 'Warehousing' were found to be the key challenges Australian businesses face when trying to conduct business via online platforms. In addition to this, 'Brand image', 'Cultural differences' and 'E-commerce platform relationships' were regarded as the top three barriers they need to overcome to respond effectively to digital and e-commerce trends in China.

Challenges of Conducting Business through e-commerce Platforms*

Marketing & Branding	Logistic	Catering to the size of the market	Warehousing
64.9%	28%	19.5%	19.5%

Top 3 Barriers to Respond to Digital Trends*

Brand image	Cultural difference	E-commerce platform relationships
44.1%	43.2%	32.2%

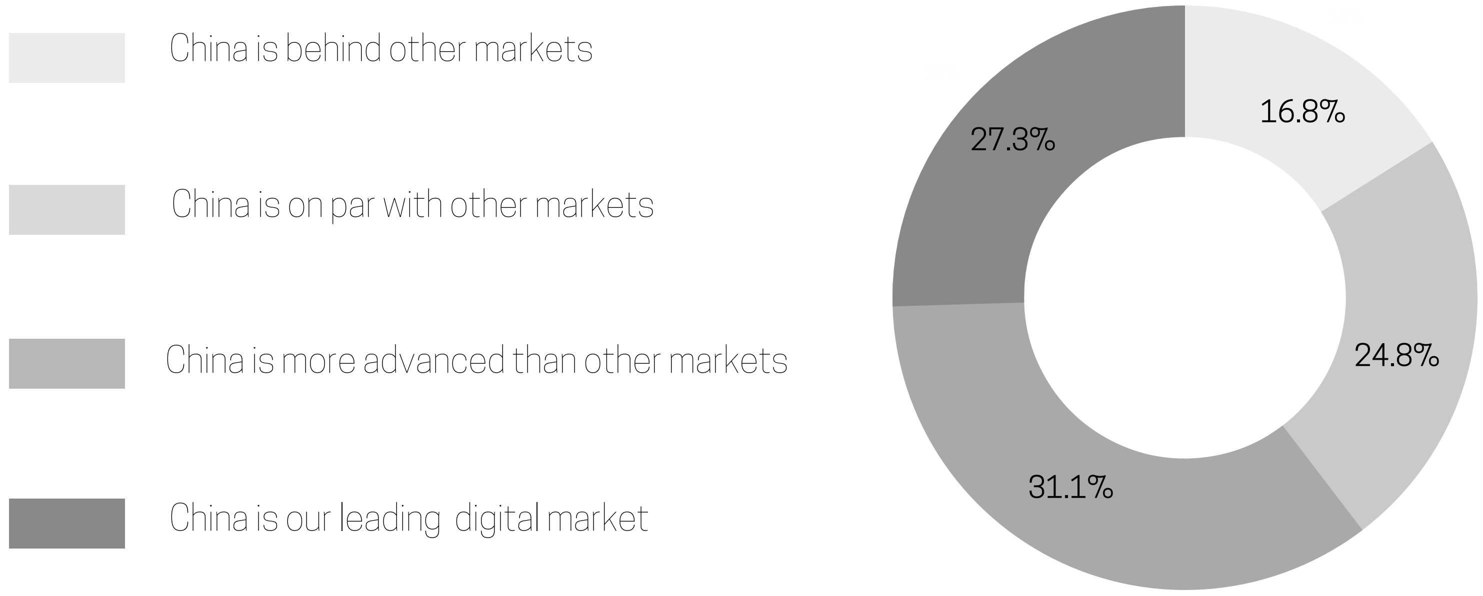
*Respondents could select more than one option

Despite the low amount of Australian businesses having a detailed e-commerce plan in place, more than 1 in 2 businesses (58.4%) regarded China to be leading or more advanced in this area compared to their other markets. When it comes to this assessment however, Australian businesses are still behind their American counterparts, where two thirds of businesses surveyed in AmCham's '2018 China Business Climate Survey Report' regarded their Chinese technology to be outpacing other markets.

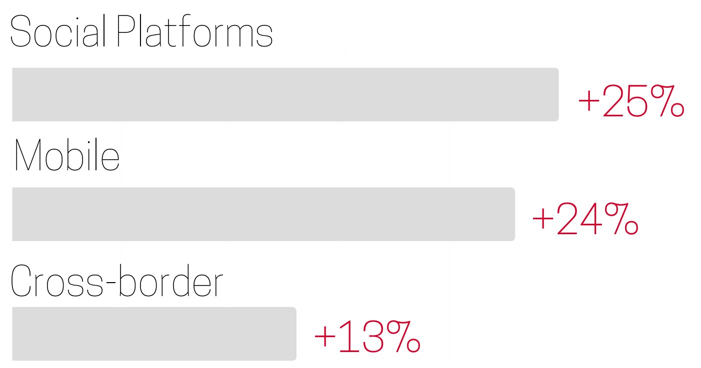
58.4% of businesses state that their organisation's adoption of digital technologies in China is more advanced/leading other markets.

more than 1 in 3 businesses who stated that their adoption of digital technologies in China is more advanced came from the Professional & Business Services or Agriculture and F&B sectors.

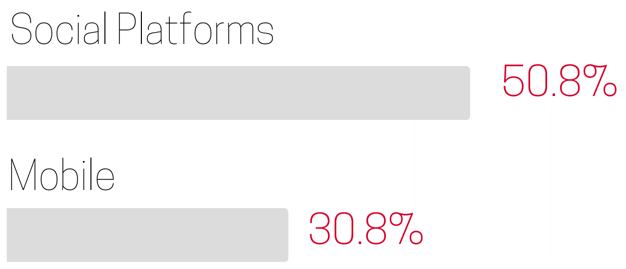
How advanced is your organisation's China technology compared to other countries?



Key platforms driving digital e-commerce strategies*



Of those who had a detailed strategy in place

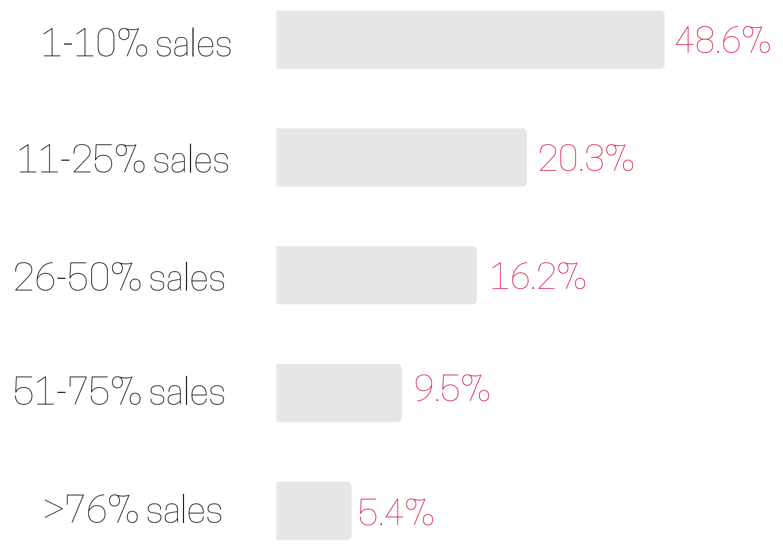


*Respondents could select more than one option

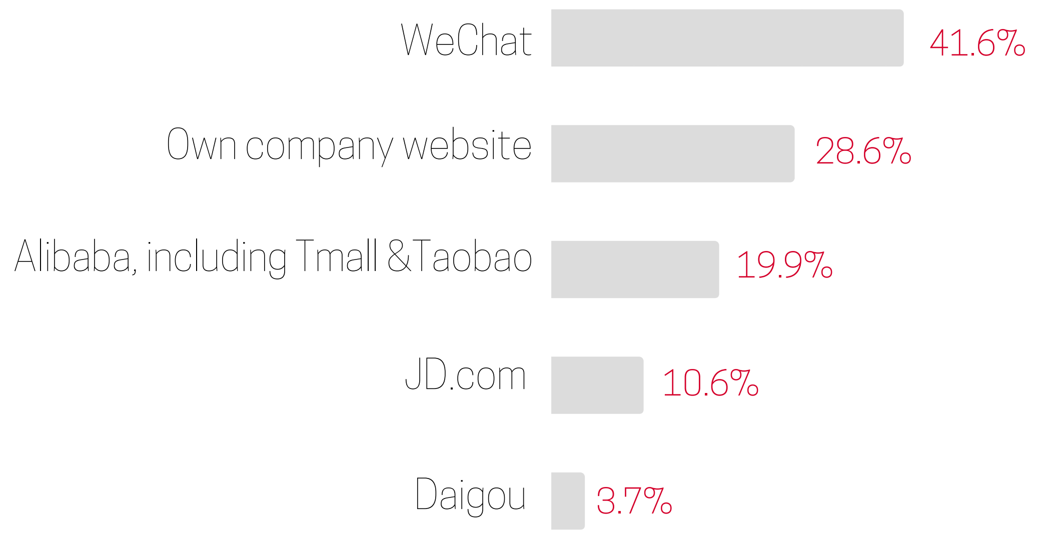
Just under half (48.7%) of businesses reported that online channels account for only 1-10% of sales, an unsurprising figure considering the underdeveloped state of digital and e-commerce strategies. This result could also be attributed to the top channels currently used by businesses to sell goods/services, being WeChat and their own websites. Whilst it is encouraging to see Australian businesses embracing WeChat as a sales channel given it presents significant opportunities for clever social campaigns and advocacy-based sales, the under representation of the other e-commerce channels hints to a relatively primitive online strategy and reluctance to invest across multiple channels.

17.4% of businesses from the Agriculture, F&B and Professional & Business Services sectors, stated online accounts for more than 25% of sales.

Percentage of sales via online channels



Top Channels used to Sell Products and Services



*Respondents could select more than one option

Case Study: Metcash

Metcash is a NSW-based wholesale distribution and marketing company best known for its IGA supermarkets. It has a diversified business across food, grocery, hardware and liquor sectors with locations across Australia, NZ and China.

Despite approximately 70% of their China sales coming from online, it is the offline space where Metcash are focusing, with their innovative approach in this area showing impressive results.

Drawing from their portfolio of Australian independent retailers, including IGA, Metcash import into China one-to-two leading FMCG brands across a variety of categories. With crowded consumer markets in Tier 1 and 2 cities already well catered for via their established online channels, it is Metcash's pivot to cities in Tiers 3, 4 and 5 which highlight the significant untapped opportunity in these markets.

"

CONSUMERS IN TIER 3-5 CITIES ARE STARVED OF PRODUCT CHOICE COMPARED TO THEIR COUNTERPARTS IN TIER 1-2 CITIES. ADDITIONALLY, SHIPPING OF PRODUCTS FROM ONLINE PLATFORMS TAKES LONGER TO GET TO THESE CONSUMERS. WITH THESE TWO FACTORS AT PLAY, AS WELL AS THE LOWER COST OF LIVING AND CONSIDERABLE GOVERNMENT INVESTMENT BEING POURED INTO THESE LOWER TIER CITIES, WE SEE THIS IS WHERE WE SHOULD BE FOCUSING OUR ATTENTION VIA AN OFFLINE APPROACH.

- WILL ZHAOHEAD OF CHINA OPERATIONS.

Lower tier cities are expected to account for 75% of China's affluent consumers by 2020* and FMCG has been growing as much as 3x faster in lower tier cities over the past few years**. Given this, the focus towards Tier 3-5 cities is a smart move by Metcash. Following the signing of exclusive partnerships with Yulong Group, Heli Group and Xiya Group (all in 3rd and 4th tier cities); these regionally dominating Chinese supermarket retailers have extensive distribution throughout regional China. Metcash launched a retail strategy in 2017 across multiple cities, featuring a 2-day Australasian product showcase inside the supermarket.

*Boston Consulting Group

**Kantar research

"

THE SUPERMARKET PROVIDES US CONSIDERABLE FLOORSPACE TO SET UP A PAVILION OF AUSTRALASIAN PRODUCTS. MY TEAM, ALONG WITH BRAND REPRESENTATIVES WHO FLY IN FOR THE PROMOTION, CREATE AN INTERACTIVE AND UNIQUELY AUSTRALASIAN PRESENCE OVER THE 2-DAY PERIOD.

Case Study: Metcash

Metcash start to work with the supermarket two months out from the promotion, providing a complete advertising and marketing plan to build consumer awareness. A key element of this activity is a comprehensive product catalogue distributed via WeChat, with full product descriptions, usage recommendations and promotion prices, aimed at educating the consumer in the lead up to the event. What Metcash offers to these retailers is an end to end solution that cannot be easily replicated, an approach which is working;

As first movers in their field with this style of offering, Metcash have adopted some careful selection criteria to the products they stock. Prerequisites include having a history of success in Australia; important as Chinese actively research brands online. Products must also have an interesting brand story, which Metcash use to help convert the sale. Thirdly, brands must be willing to have 'skin in the game' and send Australian representatives to participate in the offline promotions to ensure alignment and support of the approach.

E-commerce platforms are playing a key role in ensuring the success of these offline promotions. Metcash leverage purchasing data from their major online channels; Suning, JD and Tmall, to inform product selection at the supermarket events. E-commerce data is also essential in forecasting, with Metcash analysing purchases being made by consumers in Tier 4 cities, to understand what consumers in Tier 5 cities will soon be purchasing.

Despite echoing the positive sentiment of Australian businesses, Metcash consider the biggest risk to their business being the health of the Australia-China bilateral relationship. They see this as especially important given their focus on lower tier cities, where typically people are more patriotic and therefore more likely, as opposed to their Tier 1-2 counterparts, to adjust their purchasing habits accordingly.

KEY TAKE OUTS

1. Lower tier cites are becoming more mature and ready to buy premium Australasian products.
2. Lower tier cities are much less contested than cities such as Shanghai or Beijing, and consumers really appreciate brands who make an effort.
3. Online and offline work well together, both for integrated promotions and education, but also to understand insights.

PART 8 DEMOGRAPHICS

161 Businesses | 21 Sectors

KEY SECTORS

Professional & Business Services: 15.5%
Agriculture, F&B: 14.9%
Construction/Property & Real Estate: 10.6%
Leisure, Hospitality & Tourism: 7.5%

NO. EMPLOYEES IN CHINA

0-10 employees: 42.6%
11-50 employees: 21.6%
51-100 employees: 8.1%
>101 employees 27.7%

HIGHEST EARNING SECTORS

Percentage of the sector which earned >AUD$100 million:
Mining: 20.0%*
Leisure, Hospitality & Tourism: 13.3%

DURATION IN CHINA

0-5 years: 36.9%
6-9 years: 8.1%
10-20 years: 38.3%
>20 years: 16.7%

*Sample sizes are comprised of less than 10 respondents

161 Businesses | 21 Sectors

OBJECTIVES IN CHINA*

To grow the business: 74.1%
Clients were located in China: 55.6%
To manage increased demand: 33.3%

GOALS AND STRATEGIES*

Produce or source goods or services in China for the China market: 36.5%
Sell Australian Services to China: 36.5%
Import goods into China: 25%
Produce or source goods or services in China for regional (Asia-Pacific) or global markets: 23.1%
Produce or source goods or services in China for the Australian market: 19.9%

BUSINESS STRUCTURE IN CHINA

Wholly owned foreign enterprise: 59.9%
Representative office: 10.6%
Joint Venture and Foreign Invested Commercial Enterprise both at 5.6%

2017 GLOBAL REVENUE (AUD)

<$5 million: 36%
$6-50 million: 17.7%
$50-100 million: 7.4%
$100-500 million: 15.4%
>$500 million: 23.5%

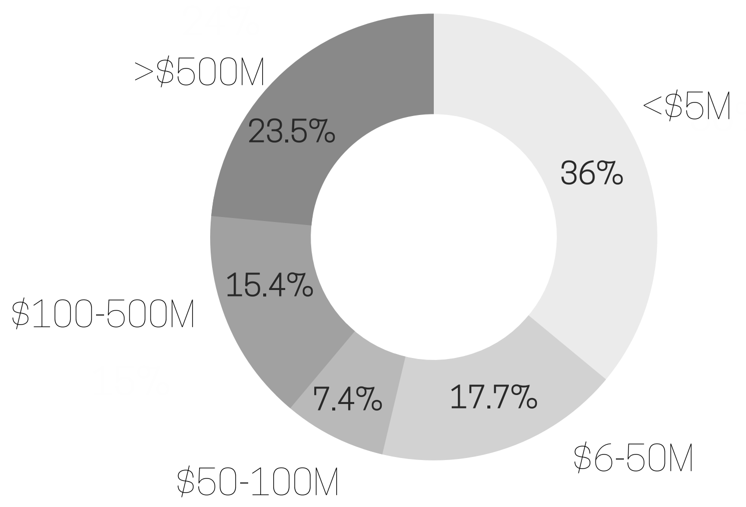
2017 CHINA REVENUE (AUD)

$0-1 million : 34.9%
$1-9 million: 32.1%
$10-49 million: 15.1%
$50-100 million: 3.8%
>$100 million : 14.1%

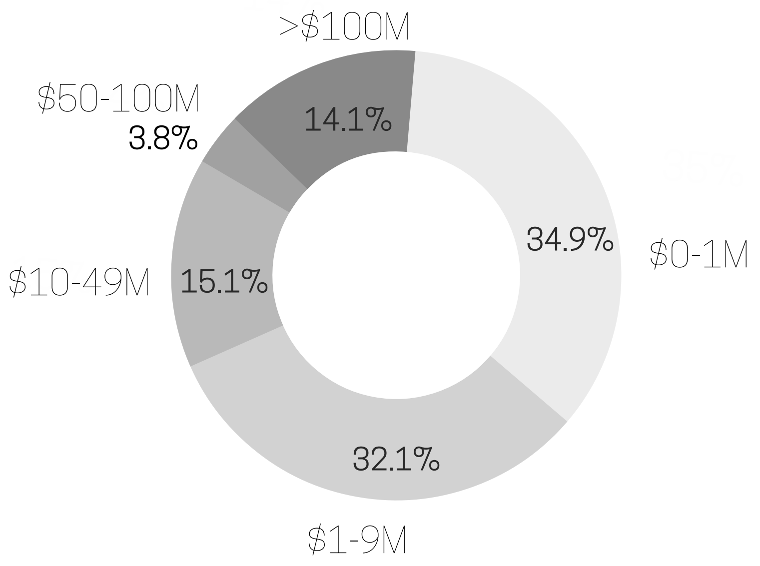
*Respondents could select more than one option

67% of businesses surveyed reported their China revenue to be less than AUD$9 million, with Health & Aged Care, as well as the Leisure, Tourism & Hospitality sectors having businesses at both ends of the profit spectrum.

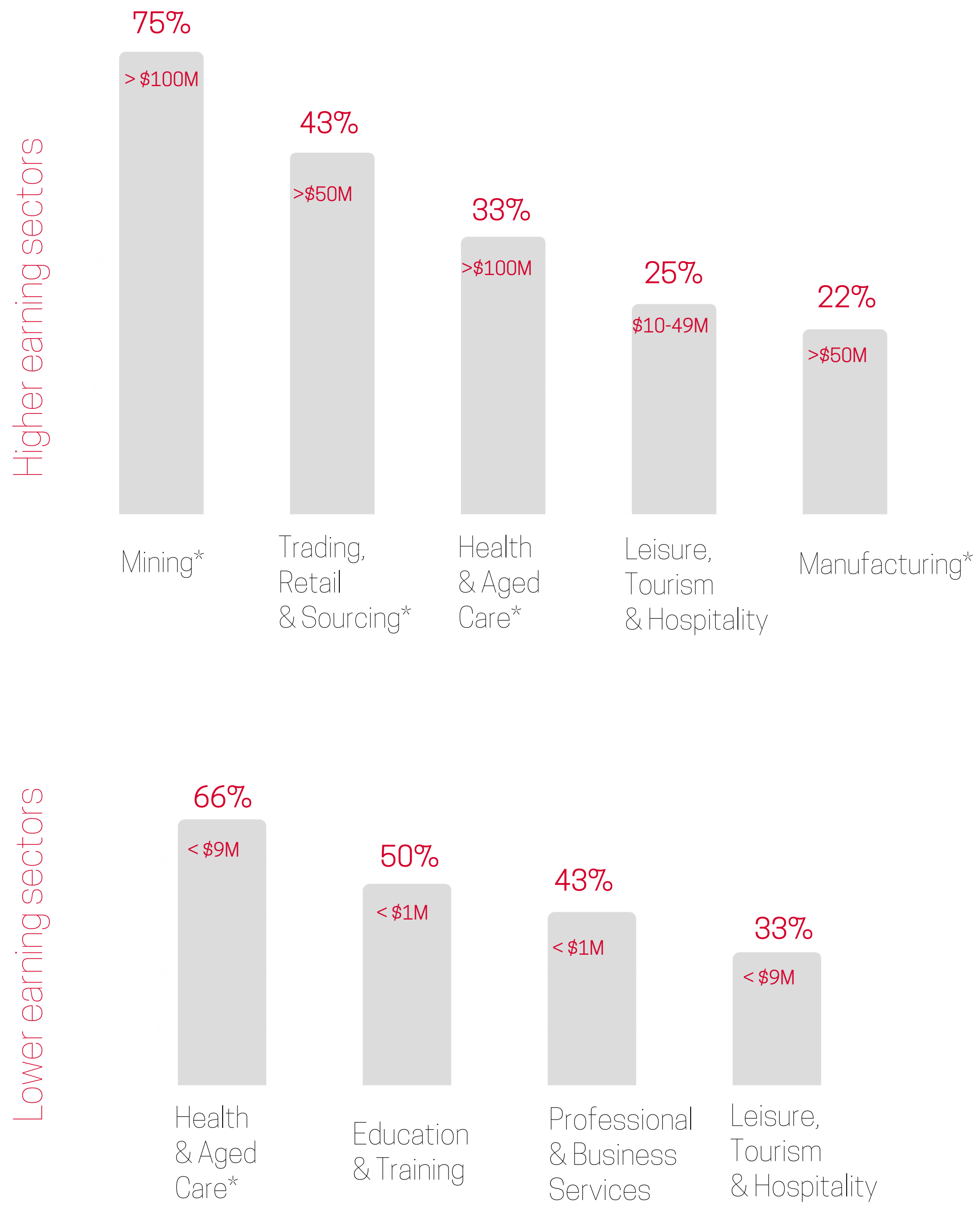
Global Revenue 2017 (AUD)



China Revenue 2017 (F) (AUD)

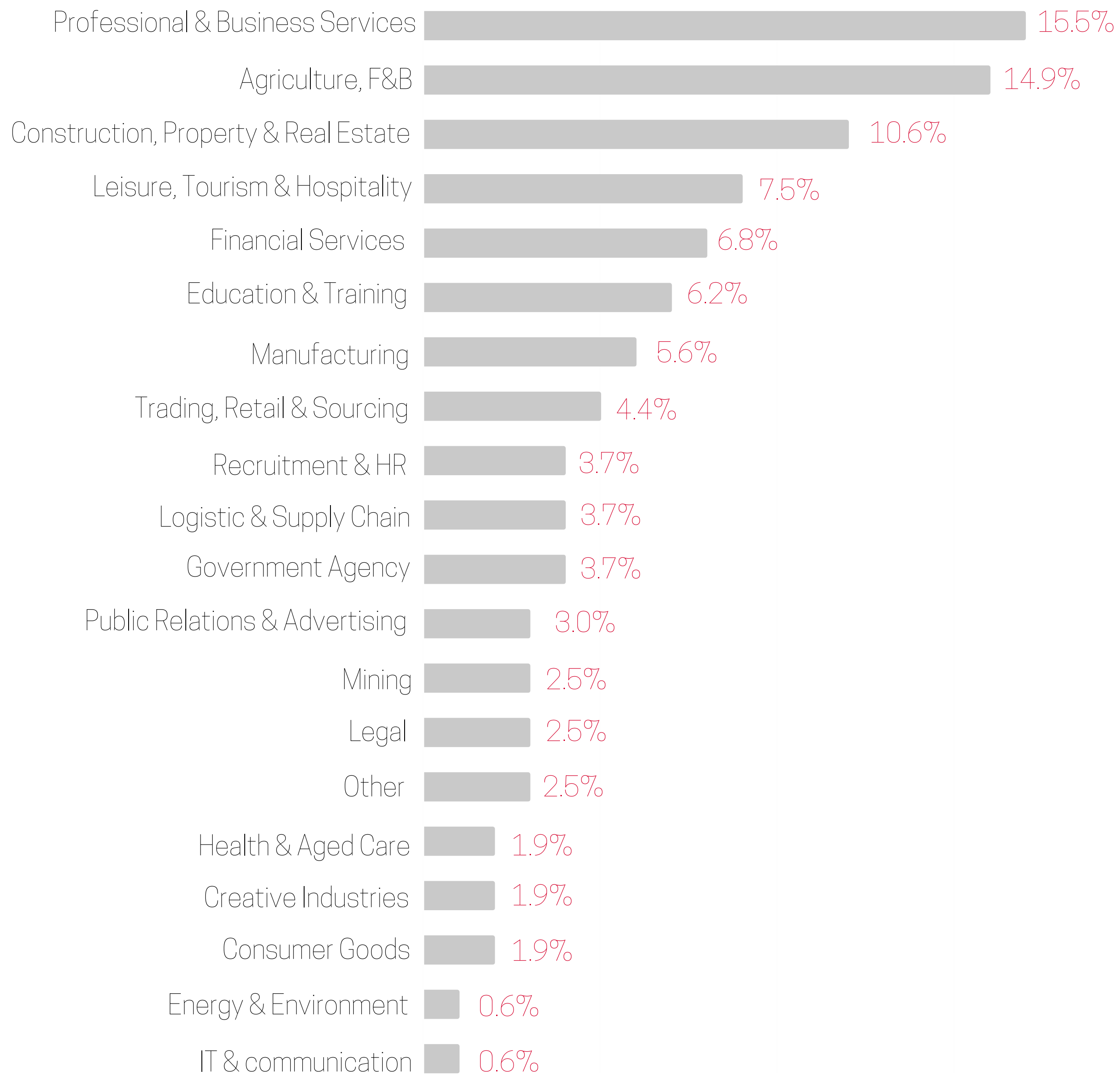


China Revenue 2017 (F)



*Sample sizes are <10 respondents

Industry Breakdown



Methodology

This is the first business sentiment survey conducted by the Australian Chamber of Commerce Shanghai (AustCham Shanghai), in partnership with Westpac Banking Corporation.

The Wenjuanxing-hosted survey generated 161 valid responses across 61 questions.

The respondents represented a broad range of companies by industry, size, and location. Further analysis was conducted on four industry segments;

1. Agriculture and F&B
2. Construction, Property and Real Estate
3. Leisure, Hospitality and Tourism
4. Professional and Business Services

Due to sample size, responses from the Construction and Property sector were combined with those from the Real Estate sector, hence are presented as the 'Construction, Property and Real Estate' sector in this analysis. It is worth nothing that , this survey is hosted by AustCham Shanghai, and therefore the information may be slightly skewed, as businesses who are members of AustCham Shanghai would likely be more engaged in the Chinese market and as a result, possibly more profitable than other more passive businesses selling in China.

To be eligible to participate in the survey, organisations were required to meet at least one of the following criteria:

- Hold an Australian ABN/ACN
- Be a Chinese/Hong Kong entity with over 50% Australian ownership (by either an Australian individual or an Australian organisation)
- Distribute Australian products/services in China
- Federal, state or local Australian government entity
- AustCham Shanghai member

In 2013, AustCham Greater China, together with Austrade, conducted an 'Australia-China Business Perceptions Survey' on Australian companies operating in Mainland China, Hong Kong and Macau. Likewise, *on the 20th January 2018*, the American Chamber of Commerce in China (AmCham China) released their 'China Business Climate Survey Report'. The data from both surveys has been analysed and compared to the results from this survey where applicable.

Shanghai-based market research and insights agency, China Skinny, analysed and presented the data on behalf of Westpac Banking Corporation and AustCham Shanghai.

CONCLUSION

These findings portray a market which can be viewed with cautious optimism. Despite widespread optimism, increasing profits and investment, Australian businesses are being challenged by the regulatory environment, increased competition and under-developed digital strategies. It was therefore not surprising to see this expressed when businesses were asked for three words which capture their thoughts about doing business in China. Their words summarised the insights gleaned from this survey which paints China as exciting, dynamic, rewarding and full of opportunities, as well as challenging, complex and unpredictable.

This survey marks the founding year where Australian business sentiment has been measured for the China market and hence will form the basis of annual surveys from 2019 onwards.

For more information, head to www.austchamshanghai.com.

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Analysis by China Skinny

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