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A Year of Reconnecting: Why Australian Companies Are Eyeing a Re-Visit to China

March 1st, 2023

Ines LIU





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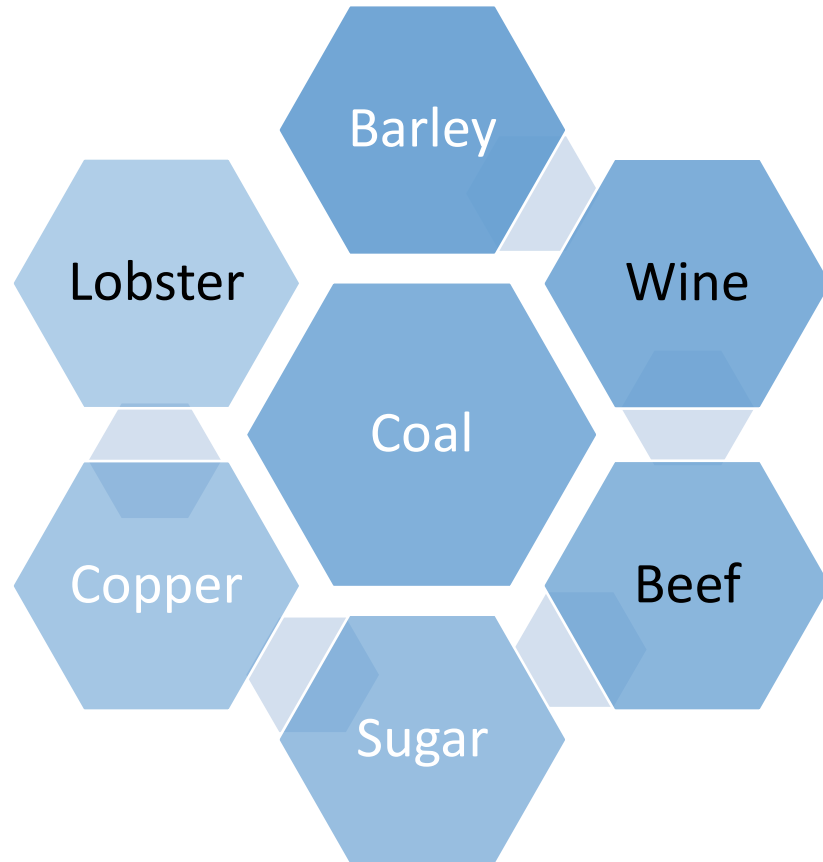
1. Overview: Australia-China Relationship

A Timeline: From Whitlam's Visit to Free Trade to...now



The bilateral trade relationship has gone from strength to strength, but the diplomatic relationship between the two nations has been more of a challenge since 2017.

Worst-hit Goods (2020-2021)



- **May 2020:** China imposes an 80.5% tariff on Australian barley exports.
- **November 2, 2020:** upon receiving **verbal instructions** from the authorities - The list of targeted commodities includes coal, barley, copper, sugar, timber, wine, and lobster.
- **Non-tariff measures** such as customs procedures by China
- ❑ **Formal Complaints at WTO:**
 - December 2020: China's anti-dumping duties on Australian barley → the WTO has agreed in May 2021 to establish a dispute resolution panel on this matter.
 - June 2021: China's anti-dumping duties applied to Australian wine.

China is the Biggest Trading Partners – Exports more

- ❑ Trade is central to the Australian economy
- ❑ Australian exports represent over 20% of gross domestic product (GDP).
- ❑ Australia is a small open economy heavily reliant on trade for its economic well-being.
- ❑ China is Australia's most important and biggest trading partner and Australia - exports more into China than it imports from China.

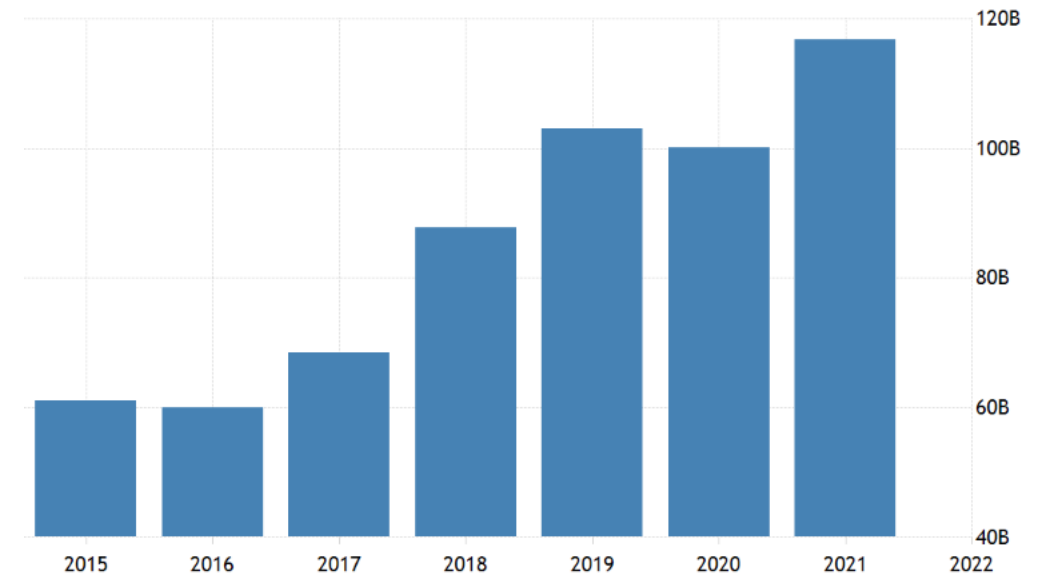
1972, Australian trade with China, mostly wheat, less than US\$100 million.

In 2021, a general jump in exports to China an increase of 21% year-on-year

- *Iron ore alone plays a big factor*

in 2022: A sharp decrease.

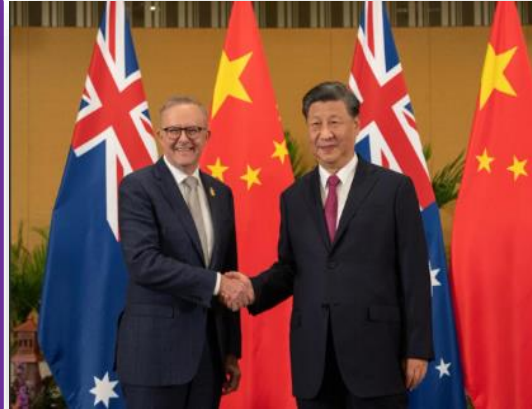
- *a redirection of trade flows or diversification? →*
- *how and when will China's trade restrictions against Australia end?*



2022 Developments

1. Xi-Albanese meeting at G20 on November 15, 2022

- The two leaders discussed trade relations and agreed that their economies were “complementary.”
- promised to “*facilitate the stable growth of Australia-China relations and engage in more cooperation on important issues such as climate change, economy, and trade.*”



2. Australian Foreign Minister Penny Wong's visit to China

- December 21st 2022 | 50 years anniversary of diplomatic relations
- To restore high-level political contacts and return stability
- Penny Wong said it was "very good" to be in China "after quite a long time between visits"



3. The first meeting between Trade Ministers since 2019

- February 2023
- A fundamental step in de-escalating the tensions
- Australia urges China to **lift** official and unofficial barriers that are costing exporters 20 billion Australian dollars (\$14 billion) a year.
- China is ready to reactivate the mechanisms of clear communication between China and Australia on economic and trade matters
- It may have opened the door for an official visit of Prime Minister Anthony Albanese to China later this year.



Be mindful: A relationship which took some years to comprehensively crumble cannot be glued back together overnight.



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2. Investment & Business

Lifting Ban on Australian Coal - A cautious Step to Restart

- The move should be understood as another step taken by Beijing in this political process.
- This marked an end of a ban on Australian coal imports that lasted for more than two years.
- The lifting of the Australian coal ban will bring marginal economic benefits for China
- China's willingness to move the bilateral relationship in a more friendly direction.

→ **A Cautious one for both countries**

- The limited amount of Australian coal China has allowed to be purchased: Only four state-owned enterprises are allowed and can only use this coal for their own needs.
- A political Signal: The limited easing of restrictions - China's flexibility to check Australia's responses.



China's Open for Businesses

All kinds of Sources:

- ✓ Chinese economy is about to drive world growth
 - ✓ China's economy is in crisis
 - ✓ A full recovery remains uncertain
- One of the Conclusion: China is hoping to get the money flowing again.

widen the lens and see if a different picture emerges

- China's pressure are not making countries adopt foreign policies favorable to Beijing
- China reopens borders after 3 years of COVID travel restrictions
- Chinese and foreign airlines add more international routes

Differences: *Shouldn't Couldn't Wouldn't to be Ignored*

- There are essential divergences between China and Australia
- A test of the goodwill of both sides





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3. Structuring Options

Trade & Direct Investment Structures *for China*



1

CBEC Import Modes (Exporting to China)

- From a policy perspective, China is actively expanding cross-border e-commerce to facilitate the import-and-export
- The number of CBEC pilot zones to reach a total of 132 across the country.
- the Cross-Border E-Commerce Retail Import Commodities List (the “CBEC Whitelist”)

Bonded Warehouse Import	Direct Shipping Mode
<ul style="list-style-type: none">○ This mode entails a large inventory but goods are delivered quicker○ Goods temporarily stored in a bonded warehouse in China○ Delivered to customers by logistic companies	<ul style="list-style-type: none">○ Small-scale B2C model○ Consumers place an order through CBEC websites○ Overseas suppliers or sellers directly deliver the products to China by post or express

Notes:

- To set up and run an online store on an international e-commerce platform - **No** need to establish a legal entity
- It is advisable that having an established business in another country before start to sell your products in China
- If you intend to sell products on a domestic Chinese e-commerce platform, then you will need to set up a legal entity in China

2 Exporting a Service: A Service fee & A Royalty

Non-resident companies providing a service to customers in China.

Having a well-written and verified contract:

- ✓ Tax liabilities
- ✓ Net Payments
- ✓ Who bears the taxes
- ✓ Outbound payment conditions
- ✓ Any employees to be dispatched to China – PE risk
- ✓ Withholding tax filing obligation

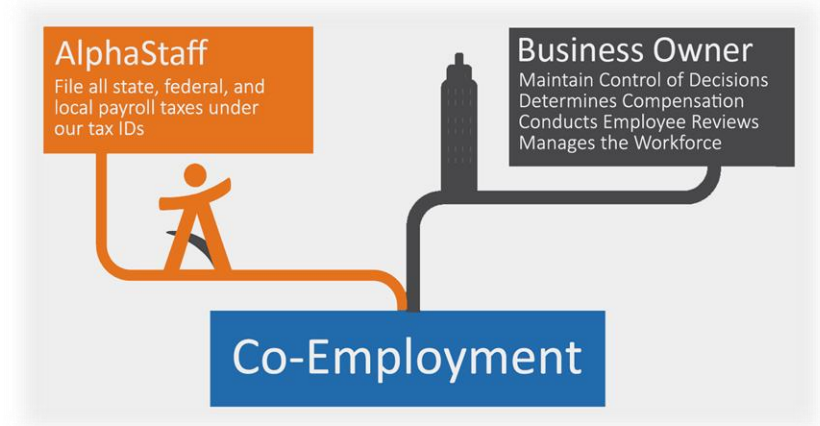
Tax	Service Fees		Royalty
	PE	Non-PE	
VAT (e.g., 6%)	Y	Y	Y
25% CIT (Based on DPR)	Y	Exempt	-
10% or less WHT	-	-	Y
IIT	Y	-	-
Effective Tax Rate	≈13.42%	6.4%	15.8%

Professional Employer Organization (PEO)

➤ When do companies or individuals use PEO?

- Overseas Expansion
- Headcount freeze/tight budget
- Restructuring/Consolidation

Having an expert HR team without the expense that comes with having a team on staff.



Pros	Cons
<ul style="list-style-type: none"> • Low entry requirements • Potentially low maintenance cost • Potentially low exit cost • Employee(s) would have access to Chinese Social Insurance system • Administrative duties: onboarding, payroll, and people management 	<ul style="list-style-type: none"> • Potential legal grey area for PEO • Lack of control (technology, intellectual property, brand, sales processes, compliance) • Lack of transparency and accounting for sales and profits and pricing

An important note: the company still directs the employees in their day-to-day tasks.

Key Industries to Watch in 2023

- Highlights for Australian Companies

Healthcare	Renewable Energy/ Clean Technology	High-tech & Service
<ul style="list-style-type: none"> • The sector has grown to be the second biggest in the world: <ul style="list-style-type: none"> ○ a longer life expectancy, an aging population ○ higher aspirations for quality of life. ▪ Australian biotech/med-tech: <ul style="list-style-type: none"> ○ Health Monitoring ○ Robotics & AI ○ additive manufacturing ○ companion diagnostics ○ new materials 	<ul style="list-style-type: none"> • China's big investment in low-carbon energy technology • The new energy vehicles (NEVs) and automobile manufacturing industries in China have seen rapid growth. • China is the world's leading lithium-ion battery manufacturer ▪ Australia's critical minerals miners feed into these supply chains. 	<ul style="list-style-type: none"> • China's high-tech sector to thrive • Analysts anticipates that China's software sector will achieve revenue growth of 28% year-on-year in 2023 ▪ Australia has a tech-hungry culture ▪ 68% of large businesses are innovative active. ▪ ICT and digital technologies.

Our Recommendations to Australian Businesses

- China and Australian has **A strong trade relationship** despite Beijing's diplomatic and economic sanctions
- Trade disputes would **NOT** be resolved any time soon.
- the **AUKUS** grouping, and the **Quad** partnership, which brings in Japan and India, is **unshakable**.
- China now is out of its longstanding COVID-zero policy and would like to drive the economy
- **Growth potential** of the Chinese consumer

- what are its chances for success?

**Export-ready Australian businesses –
Cautious Optimism for 2023**

**Connect a
Reliable Partner
in China & +1 in
Asia**
*- To win your
FDI*

Add Expertise
*- To update your
assumption*

**Ask Right
Questions**
*- To plan
contingencies*

**Accept Politics
are inescapable**
*- To embrace the
new business
normal*



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