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John Brumby: First question, just to build on the comments that have been made this morning, at the dinner last night and by the Minister this morning – tell us how you see the Chinese economy, the economy in transformation, how you see the macro-economic settings – good, bad, slowing, speeding up, just give us the broad overview, if you would.

Jing Ulrich: Thank you very much, John, for your very kind introduction. Congratulations to the Australian government to all of you for such a wonderful successful event. It's my great pleasure to be here at this prestigious gathering.

John, you asked me about the overall Chinese economy. You and the Minister have spoken very well about the overall size, the importance. Perhaps what I can do is quickly look at China in the global context.

Back in 1995, China only accounted for 2% of global output. Today that number is 15%. Of course, as you said, the size of the GDP is absolutely humungous: it's US$11 trillion today. Now the US economy in nominal terms is still the biggest. You said, of course, in PPP terms China is now the biggest; but if you look at the nominal numbers the US is $17 trillion.

Looking at the European Union, it's a larger economy compared with even the US - $80 trillion; but the important thing is that the contribution to global growth made by China is bigger than the US and Europe combined. At $11 trillion, with the Chinese growing 6.5% or 7% as you said earlier, it adds $700 billion to global growth. That's basically 35% of global growth this year.

The US is contributing half of that, about 17%; and EU is contributing about 9%. So China, still a developing country, is contributing more to global growth than the two largest economic blocs combined. That's quite remarkable.

How big is $700 billion? You said China adds in 90 days or 100 days a New Zealand. $700 billion basically is the size of the Dutch economy. So every year China is adding a Dutch economy to the size, but also I know many of you have travelled all over China on various trips and some of you may know Shenzhen. Shenzhen is a city just north of the border from Hong Kong. Twenty-five years ago it was a fishing village. Today, the size of the economy of Shenzhen is bigger than that of Hong Kong, which is a very prosperous city. So these numbers are very remarkable.

However, John, we also are facing some challenges in the economy. We have a slowdown which has taken place in the last several years and that has worried a lot of global commentators. You know, prior to the recent slowdown the GDP growth was double digits for a good number of years. We all know that cannot be sustained. So the economy today is settling around 6.5%, perhaps 7% growth, sometime in 2016 perhaps, with a five year plan from 2016 to 2020.

The most important thing to recognise, John, is not just the size of the economy, the pace of the growth; it's actually where the growth is coming from. For the past so many years, growth was coming from fixed asset investments, building bridges, tunnels, highways, airports, but these days the most important driver of growth is actually coming from private consumption; and also for the past many years growth was driven by manufacturing but the shift has happened.

There's one important number we all should keep in mind - for the very first time the service industry in China is accounting for over 50% of GDP. Manufacturing 40%. So as the economy transitions, we're seeing the service industry and private consumption play a much bigger role than ever before.

So as the economy transitions, of course we all know the Sino-Australian relationship has been flourishing for the past two to three decades. That means the relationship itself needs to evolve as well.

Some very important numbers to keep in mind here. Sino-Australian trade is $150 billion. That's 23% of Australia's total trade every year. Importantly, as Australia for the past many decades exported iron ore, coking coal and hard commodities to China, that relationship needs to change because the Chinese economy is undergoing this massive transformation.

John Brumby: Tell us, just building on those numbers, by the way, the contribution of China to global growth, around a third of total economic growth, it just shows what a powerhouse China is. The People's Congress recently adopted the new five year plans. Just run through the key elements of that, the things that Australian businesses should have in their vision and eyesight, that are important.

Jing Ulrich: Sure. China has a five year plan. This is the 13th five year plan which begins this year and ends in 2020. The national plan is actually very grand. China has a plan for everything, has a target for everything.

John Brumby: I'm going to ask you whether they keep to the plans, too.

Jing Ulrich: That's right. Actually, if you look at the track record, they not only met the targets, they always surpass the targets. The targets themselves are important.

John Brumby: Very important lesson here – under-promise and over-deliver.

Jing Ulrich: That's absolutely right. That's the secret of the longevity of a government, isn't it.

John Brumby: I was a bit slow to learn that.

Jing Ulrich: If you look at the 13th five year plan, the number that got the world's attention is the reduction in the growth rate. The growth rate now for the five years is 6.5% rather than 7% or 8% in the past. Importantly, China has a target for increasing the rate of urbanisation by about 1% point a year. Urbanisation is a very important driver for everything, from infrastructure to consumer goods and wealth creation.

Today's urbanisation rate stands at around 52%, meaning 52% of population in China now lives in the urban areas. The target basically is for that number to go up 1% point a year, so by the end of the five year plan it will be 52 plus 5, 57% and this number actually will continue to grow, I would say, for the next 20 years, 25 years, reaching probably 80% basically. At that level, China will be near the developed economy standards in terms of urbanisation rates.

Also the service industry, the government has a target for increasing the share of the service industry in the overall economy, but importantly they set a target for life expectancy. Do you know any other country in the world whose government has a plan for life expectancy?

John Brumby: So what's the target?

Jing Ulrich: What do you think?

John Brumby: Life expectancy at the moment is 75, is that right?

Jing Ulrich: Absolutely. I think you've been on a healthcare spin.

John Brumby: You're absolutely right. So 75 – the target might be – at the end of the five year plan?

Jing Ulrich: Yes.

John Brumby: I've no idea. 77?

Jing Ulrich: 76. So maybe they will over-achieve. Over the next five years, life expectancy will increase by another one year, but it's remarkable. When the People's Republic was founded in 1949, life expectancy at that time -?

John Brumby: 35.

Jing Ulrich: Around that age, because all the young men were fighting in the war, right, so things have changed remarkably, of course.

In this five year plan, China also has important targets for the environment, for energy use, for non-fossil share in the overall energy mix as well. All these are important targets.

Looking at this year, 2016, which is the start of the five year plan, I want to make a few comments. This year the GDP target has been set as 6.5% to 7% so it's a range. Let me just share with you my most recent feedback from a global tour I was on for about four weeks. I travelled throughout Asia and then I went to the US and Europe and back to Asia again. During this period of time there were a lot of concerns voiced about the slowdown in the economy, about the RMB exchange rate, the depreciation we have had. Also a lot of the top institutions I met with had concerns about the Chinese banking system asset quality.

As I was travelling, starting from the end of G20, it was late February to end of March, I sensed global sentiment was changing. I think one thing that was important is that the Chinese leadership was communicating a lot more to the outside world.

Prior to that, if you think about the second half of last year, we had a stock market collapse, we also had devaluation of the Chinese RMB on August 11th of last year. The leadership actually was quite reticent. However, since the end of February, we had a lot of announcements, speeches, from the top leadership telling the outside world what their intentions are in terms of monetary policy, in terms of the RMB exchange rate, and also fiscal policy, so that really helped improve global sentiment towards China.

December and January the whole world was very worried. The Chinese stockmarket was going down; in fact, the global markets were very, very volatile.

I would say the situation has since stabilised. Now I think the outside world is beginning to appreciate, number one, a slowdown in the Chinese growth is not a crisis. The important thing to focus on is actually the quality of the growth and where the growth is coming from. Number two, yes, the RMB exchange rate to the US dollar is weaker today compared with a year ago.

We should not be so fixated on the bilateral relationship between the US dollar and the RMB anymore. We should look at a basket of currencies. This is very transparent. The basket of currencies consists of the 13 currencies including the US dollar, the Euro, the Japanese Yen and the Australian dollar as well, of course. So now the new reference is against the 13 currency basket.

Another concern is about capital flight. You mentioned earlier Chinese investments in Australia had been rising, so that's good for the Australian economy. Chinese investment in the outside world has been increasing in general. That's good for the global economy.

However, some of those investments may be disguised as capital flight; therefore, some of the concerns are valid, but in the recent weeks we've seen a concerted effort on the part of the Chinese leadership to ease capital flight concerns. As the exchange rate stabilises, as the economy begins to stabilise, I think you will see less of a concern on capital flight and this is evidenced in the most recent number on China's foreign exchange reserves.

Remember, China's reserves are the biggest pile of reserves in the world - US$3.2 trillion. At one point it was US$3.9 trillion. The drawdown was very significant in the second half of last year – about $100 billion per month; but in the month of March the reserves actually rose so that basically helped dispel some of the concerns from the external world towards the currency stability as well as the capital flight.

John Brumby: Do you think that's an indication, too, that the market sees the currency as having settled and being more stable?

Jing Ulrich: I think for now, John, as you know, currency has a lot of relationship with sentiment of investors. When people lose confidence in a country, the currency will perhaps be weaker because people will try to sell that currency or short that currency.

The Chinese economy, as far as we can see, is beginning to stabilise. That's evidenced by some of the most recent numbers, the purchasing managers index, for example, that's definitely stabilised. The housing market this time last year was in the doldrums but now it's staged a pretty strong rebound in the top tier cities.

That's not to say we don't have any problems in the housing market; we do, we have a problem of dichotomy. We have the first tier cities such as Shanghai, Beijing, Shenzhen doing very well while the second tier and third tier cities are not doing quite as well. However, construction activity is increasing; sales volumes are rising; prices in the first tier cities are also rising.

So all these indicators are pointing to a more stable Chinese economy and the currency exchange rate has also stabilised against the US dollar, partly because the dollar has been a little bit weaker in the recent days, but also I think the traders and investors, the institutions around the world, are beginning to look at the 13 currency basket.

There is an index you can look at every day where the RMB is actually trading. Looking at that is very interesting. It's been remarkably stable. It's been trading between 99 and 101 for the past four months.

John Brumby: I think I'd be right in saying that the government would be very comfortable seeing the currency stabilised and settled in that range.

Jing Ulrich: I think for now, yes, it is reasonably stable. However, I think in the medium terms, say in the next three to five years, the Chinese RMB could still depreciate against the US dollar, maybe marginally. It's hard to forecast currencies, of course. China itself is trying to wean itself off dependence on exports, but remember, though, China is the biggest export nation in the whole world. Given the rise in wages, rising costs, because of the strength of the RMB in recent years, in some areas China has lost its export competitiveness, especially at the low end, so how do you regain that competitiveness? Currency is one route, but the Chinese government is reluctant to devalue the currency to boost exports. I think the most important thing is to increase the technology content in the exports but also improve productivity to make Chinese exports much more competitive globally.

John Brumby: Let me jump to something completely different. We talked about it on the phone the other day. Research and development, innovation. I often say in some of my speeches that many people around the world, including in Australia, still see China as a bit old-fashioned. They buy a bit of coal and iron ore and make low-cost manufactures and clothing and they don't know the huge revolution that's going on in terms of research and development.

On my numbers, China is now the second biggest investor in the world in research and development; I think fourth in medical technology. So can you tell us a little bit about that, again in the context of the five year plan? Where is that going to lead? We've got businesses and governments here; Australia's got a great medical research system. How innovative is China and do you think, as McKinsey does, that they'll overtake the US in 2020 in terms of global R&D spend?

Jing Ulrich: China's beginning as a really good grade report on this topic. The Chinese leadership had realised that the old model of investing in hard infrastructure, a lot of power plants, a lot of steel mills, the aluminium smelters, won't propel China to the next level. They need to focus on innovation, R&D, technology, and really capitalise on the huge penetration of the internet and mobile phones in China.

So the Premier of China has the strategy for internet-plus. Basically this is targeting some of the traditional industries which are not in the technology sector but they need to embrace the technology sector to enhance their efficiency and productivity.

So China last year, for example, filed more patents than any other country in the world. We're seeing really a groundswell of interest in entrepreneurship and it's really quite amazing. Of course, we all know China in some industries is dominated by large state-owned companies, but in other sectors such as mobile technology the private companies are doing fabulously. These are companies built by entrepreneurs from the ground up. There are so many of them. Some of you – you are on the board of Huawei, of course, that's one; which is now the third largest mobile phone company in the world. This year they're targeting to sell 100 million mobile phones.

You have taxi-hailing services like Didi Kuaidi. It's really remarkable. I think they were telling me last week they exceeded 10 million rides per day. These numbers are humungous in the context of Australia.

So in areas like these, also in medical technology, China is really trying to leapfrog and become more of an innovation-driven economy and innovation-driven society.

Of course, there are lots of challenges facing this important transition. Here, I think, Australia and China can really collaborate. You mentioned ChAFTA before. If you look at ChAFTA and look at who really benefits, of course there are several buckets of businesses that would be enormous beneficiaries of ChAFTA. One, of course, is Australian exports of goods to China and that number is humungous; not just hard commodities but increasingly lifestyle products: meat. The sale of meat to China last year from Australia exceeded AU$15 billion. It's really remarkable.

The Chinese diet is changing very rapidly. Just to give you a couple of other numbers here. Of course, predominantly Australia exports beef to China but China also eats a lot of pork. Every year China breeds and eats 600 million pigs. That number makes sense if you think about it. 1.3 billion people – half a pig per person per annum. Some would eat none; some would eat two.

John Brumby: How many eat Australian pigs?

Jing Ulrich: These number are humungous. Dairy products. So goods exporters to China will benefit. Service providers, everything from medical care to education, tourism, but also innovation. Those are all huge areas.

Investors in both countries, Australia and China, there's a lot of financial investment in each other's territory and I think both countries' investors will benefit from ChAFTA as the investment landscape becomes more user-friendly, more protected.

John Brumby: So AusChams in China last night had their awards here in Shanghai and the guest speaker was Christine Holgate from Blackmores. Just thinking about that, that's a story of Blackmore and Swisse and infant formula, that's a story about Chinese demand and consumers, but also the quality that Australia is seen to have. Tell us, because it's important to the businesses here, how important is the quality issue and the reliability and the brand and the certainty that what you're buying is what's in the packet.

Jing Ulrich: It is hugely important. It's a trust issue. It's also, for the companies that have earned that trust, the branding is like gold. It's so valuable, especially if it's something that you take - vitamin supplements; if it's something you apply on your face – cosmetics; if it's something you feed your baby – dairy products; all these are so important.

You mentioned the numbers of tourists. It's very interesting. Of course, last year 120 million Chinese people travelled overseas. Australia got one million out of the 120 million. Hong Kong got 47 million.

So 47 million travelled to Hong Kong. What did they buy? They bought not only Prada handbags and Louis Vuitton outfits or Ferragamo shoes; they also bought a lot of baby formula, infant formula, packets, tins of milk powder, vitamin supplements, Omega 3, all those.

So why do you have to go across the border to Hong Kong to buy these things when these things are available in Chinese shops as well? For some reason, consumers think they need to travel overseas to buy these products. They trust the foreign brand. This may be misplaced; however, that’s the perception.

John Brumby: Stay with that because in Melbourne and I'm sure it’s the case in some of the other cities in Australia now, I think down by Flinders St in Melbourne there’s a whole group of people now, mainly young people, many of them Chinese, consolidators. They get an email order and it’s a packet of Swisse and it’s a packet of Blackmores and it’s a bit of dairy formula. You put it in an Australia Post bag and you send it to a household in China.

How much growth do you think there is in that market, sticking with the theme of quality, reliability, e-commerce, household delivery? For Australia, how much potential in that market?

Jing Ulrich: The potential is huge and it’s limitless. The consumers have gotten very clever in terms of trying to get their hands on these much coveted supplements and products. It’s amazing – not only in Australia but also this happens in Europe. I was told some of the students going to European universities are literally funding themselves by doing this trade for their relatives and friends back home. They will collect a small fee by purchasing something in Germany, in London, in France, and shipping everything back to their friends.

Is it illegal? It’s not illegal, but some of the friends don’t like this. Of course, some of these shipments will bypass taxes. So the Chinese government now is trying to keep some of the consumption back at home.

Companies like Blackmores and others sell products in China but also you have the travel retail channels as well. Consumers in China are very savvy. They will go where the best prices are and where the best services are. As an example, in 2015 second half, the Japanese Yen was quite weak against other currencies, so you had a flood of Chinese travellers going to Japan to shop.

Australia last year attracted more than a million visitors from China, up from I think 750,000 the year before, partly because, number one, you’re a great country, number two, because the currency, the Australian dollar, is weaker, so it makes Chinese travellers with the Chinese yuan go a longer way.

I think in terms of catering for the rising Chinese middle class, their desires, their needs, especially with regard to their lifestyle, the potential is limitless but the channels are also important. Depending on which channels you use, whether it’s e-commerce or otherwise, I think the companies here need to make the right decision.

Unclassified

John Brumby: Linking that with Chinese New Year in Australia now, bigger and bigger. Twenty years ago it wasn't really much at all; now in every state and every capital, big celebrations.

Would you be advising Australian governments, local governments, businesses, to promote and build up Chinese New Year celebrations in Australia, to get more tourists to come and build it round shopping and a holiday and things like that?

Jing Ulrich: John, I think it needs to be a year-round effort. It's not just Chinese New Year but school holidays, summer holidays, winter holidays. I think it should be a year-round effort.

One thing I want to mention is that you think about Western Australia which has really built a lot of infrastructure because of the mining business. Now the mining business will not grow at the same rate as we saw in the last five years. We need to somehow think about how Australia can build up the tourism infrastructure. You mentioned hotels, but also airports, the frequency of flights.

If you do a survey with Chinese consumers, several things are important for them when they think about travel destinations. One is distance. Australia is further away compared with Thailand or Japan or Korea; but Australia has a lot more attractions, I must say, compared with some of the other countries very close to China.

Also the ease of getting a visa. The US last year introduced ten-year visas to Chinese citizens. That has really triggered a big shift in Chinese consumers' travel to the US. Last year the US got 2.5 million Chinese travellers. I think that number was set to double in the next five years.

Also whether they will have a good experience when they travel to a foreign country in terms of services, in terms of quality of air, which is very important. In Australia it's impeccable. You have beautiful scenery, beautiful air, wonderful friendly people. So all those are great, but infrastructure could be improved to accommodate much larger numbers of Chinese travellers to Australia.

John Brumby: That's very good advice. Just going back on to the e-commerce for a moment – I mentioned in my remarks the Alibaba sales figures on singles: 9 billion, 15 billion, the chemist warehouse with Ali Health, how big do you think from a consumer point of view, how big can something like a singles day be, and again, the opportunities for Australia.

Jing Ulrich: The singles day was invented out of nowhere. What is singles day? We all know Black Friday, Cyber Monday in the US, but Singles Day literally was invented by Jack Maher a few years ago: November 11 – 11, 11, Singles Day. I suppose the idea is on that day it's Singles Day if you're single, you don't have a partner, you should buy something for yourself to make you happier – maybe. Maybe that's the logic. Retail therapy. It just took off. It's not even a holiday; it's a work day. It's amazing the amount of promoting you see at Alibaba's various sites. As you said, the number is astounding - $15 billion in 2015, that one day's sales eclipsed the US Cyber Monday and Black Friday combined. The number is so humungous.

Looking at e-commerce in a broader context, Chinese retail sales figures are huge. Of course the US market is bigger because if you look at the US GDP 70% is consumption, so Americans buy, they borrow to buy. If they don't have money, they'll use their credit cards to buy.

John Brumby: They borrow from China to buy.

Jing Ulrich: Yes, but China is borrowing from China to buy. So China is different. Retail sales, if you look at e-commerce share, literally ten years ago it was basically zero, before e-commerce really took off. In 2015 e-commerce accounted for 10% of retail sales. Importantly, total retail sales in China grew 10%. E-commerce grew 38% and Alibaba has an 80% market share so basically you can extrapolate from Alibaba's numbers to get the industry's overall numbers. E-commerce grew at three times the growth rate of total retail sales.

But of course Alibaba is not the only player. You've got jd.com, you've got lots and lots of other e-commerce players in China as well. Amazon are trying to make inroads into China as well.

So I think this is one area. Last night I was having a meeting with a large European consumer company and the executive said, anyone in the consumer market can not miss the e-commerce phenomenon. If you miss, you fail.

John Brumby: Turning now to One Belt, One Road – we haven't seen a lot of press about One Belt, One Road in Australia. We've seen a bit. I've had a few meetings with delegations that have visited and I have to say I haven't heard a single clear consistent message about what it actually means. I suspect it will continue to evolve but I think the audience would love to hear how you see it and how important it will be and linking it to AIIB and other recent initiatives.

Jing Ulrich: One Belt, One Road – first of all, what is it? It's a little bit of a misnomer. The 'road' refers to the sea. The 'belt' refers to the road. The 'one belt' refers to the route overland which is from Northern China, Inner Mongolia, Outer Mongolia, all the way to the west, Central Asia, Kazakhstan, Uzbekistan, across Europe, Central Europe, Eastern Europe, Western Europe, and all the way down to the Middle East. That's the One Belt - basically, the ancient Silk Road.

The 'one road' refers to the maritime silk road, which starts from south-east China along the coast, all the way to South East Asia, it traverses countries like Vietnam, Bangladesh, Burma, to the subcontinent, India, Sri Lanka, and again it converges with the One Belt somewhere in the Middle East and eastern Africa. So that's the geographical region.

This idea of One Belt, One Road was conceived and announced by President Zi Jinping in 2013 on his visits to Kazakhstan and Indonesia. This whole area I just described covers 65 countries. It accounts for two-thirds of global population.

Some people have referred to this initiative, One Belt, One Road, as China's Marshall Plan. The Marshall Plan, as you know, was the United States' effort to aid Western Europe in the post-Second World War era.

I think it's more than that. China is trying to help these countries I described, 65 countries, build better infrastructure and the aim is to enhance regional trade and alleviate poverty. To put it simply, it is China's supply chain. All these countries I just mentioned, from Kazakhstan to Uzbekistan to the Middle East to even Africa and South East Asia, a lot of these countries are resource rich. China is aiming to get the much-needed oil, natural gas and other resources into China, while in the meantime exporting China's engineering expertise and commodities in some areas - those commodities in over-supply in China - such as steel, such as cement, and other construction materials.

Basically it's two ways. You have imports and exports. Along the ancient silk route, we can imagine in the coming years there will be a lot of pipelines being built, e.g. from Russia, to Central Asia, into China, getting natural gas and oil into China; but also we know South East Asia, some countries have rich natural resources as well.

At the very start I think it is a big infrastructure initiative. China created a Silk Road fund which was capitalised at $40 billion to help put these investments in place; but also AIIB, of course, Australia joined AIIB, was one of the first countries to join, AIIB has been created, China has a 30% shareholding. The thing to remember, I just had a meeting with the new chairman of the AIIB, the important thing to remember is that AIIB is not competing with the World Bank or the ADB or other multilateral banks. It is really working very much hand in hand with the other multilateral institutions. Asia Infrastructure Investment Bank - initial capital was $100 billion but I think it's going to rise. I think some 70 countries have already signed on. More countries perhaps will sign on as well in the future months and future years.

John Brumby: Do you see AIIB - that's a very important point to make, that you don't see it as competing with the World Bank, it's not taking over the role of the World Bank - but do you see it, for example, is it likely to be a partner in projects in Australia?

Jing Ulrich: Yes, absolutely, yes. I think Australia has a lot of expertise in industries like construction and mining and I think Australia can play a big role as well along the various routes, whether it's over land or over sea. In terms of turnkey projects, in terms of Australia's engineering expertise, there's a lot China can learn, there's a lot China can actually use and borrow from Australia and learn from Australia. So I think even though Australia is not part of the One Belt, One Road narrowly defined, in terms of engineering expertise, technological know-how, construction activities, Australia has a lot to contribute.

Also along these countries Australia already has investments. If you think about the One Belt, One Road initiative, it sounds like a big, grand initiative but actually it does have substance.

I also think no one can fault improving infrastructure, alleviating poverty, enhancing regional trade and in all these efforts I do see Australia playing an important role if the companies are willing to step up to the plate.

John Brumby: I'm trying to cover a range of topics today. I regret it's not like a Q&A today. We can't have questions from the floor.

You mentioned right back at our first question about the five year plans, including five year plans to improve air quality and renewable energy. We've all come here and it's a beautiful time of the year and a beautiful day out there in Spring, but there's a lot of fog and a lot of smog in the air.

How determined do you think the Premier and President Zi are in terms of cleaning up the air in China? And this shift to renewable energy - we’ve seen Tesla cars take off in the United States. In Hong Kong, it's more Teslas per car than anywhere in the world. I was talking to Minister Ciobo about this last night. Do you think this is a big wave that's moving across or it's just gradual?

Jing Ulrich: I think there is definitely a concerted effort on the part of the Chinese leadership to clean up the environment. There is a groundswell of demand from citizens to have better quality air, better quality environment in general.

For the very first time for the five year plan they have a target for PM2.5. Citizens wake up, they use their phones to check the air quality before they go out and see whether their children should go out to play after school. You mentioned Tesla. Of course, it's creating a lot of interest around the world, since their new vehicle was announced. I think they've got a lot of signups and deposits.

You're right about Hong Kong. It's interesting, just as a side note, John, the reason why Tesla is so popular in Hong Kong is that the Hong Kong government removed taxes on Tesla vehicles. Now Hong Kong, as you know, is perfect for Tesla because it is small, you don't need to drive long distances, and there are charging stations everywhere. The vehicle is much cheaper and people tend to compare the Tesla with the BMW. When you get a BMW imported into Hong Kong the taxes are 100%; when you get a Tesla, which is arguably a more fashionable vehicle and it shows your environmental concern, the price is much cheaper, so Hong Kong citizens really embrace the Tesla.

So is China, by the way, but of course in China you need to overcome the infrastructure issue. Where do you charge? In Hong Kong it's very easy. You go have lunch, you put your car in the parking lot in the hotel basement or in the restaurants, charging is also free. In China, the territory is much larger, the distances are further, so Tesla still needs to tackle the infrastructure part of the challenge here.

In terms of the environment, we have air problems, we have water problems, we also have the energy mix which is a big issue. If you look at China's energy mix, it is still very much dependent on coal. The country is the single largest user of energy, larger than the US. Also it is too dependent on coal. 70% of the energy comes from coal burning.

Renewable energies are still too small. If you look at hydro, which is 15% - nuclear right now is only a very small percentage, it's 1% or 2%. In the five year plan China will increase the nuclear energy. Of course, China will have to import uranium from Australia but it is going to be maybe 4% at the end of 2020, but it's still a very small part of the energy mix. Solar is important, wind is important. All those, I think, will grow at a faster pace than coal.

Now in terms of coal, especially China's coal is brown coal. It's dirty. Some of the power plants can use scrubbers to get rid of the sulphur but some of them don't run the scrubbers because it in itself, using the scrubber is energy-intensive.

I think the laws and regulations are already in place but the most important thing is to enforce those regulations. Vehicles as well - as you know, China is the single largest vehicle market in the world. This year, I think China will probably sell about 18 million vehicles - 18 to 19 million vehicles. In the US it's 17 million. Passenger cars, commercial vehicles, the new vehicles being sold are reasonably environmentally sound but you still have a lot of old vehicles, especially trucks, in the second and third tier cities. They burn dirty fuel, they themselves don't have strong emission control so therefore all the fumes get into the air which pollutes the environment and gets people sick, and then there's a health problem as well. A lot of people have lung problems, children have asthma because of the bad quality of air.

John Brumby: When you think of all of the cars, you mentioned the 16 million or 18 million, are they all going to fit on the roads? Congestion is a problem for cities all round the world, including Australia.

Jing Ulrich: It's a big problem.

John Brumby: Sitting in the traffic yesterday, I wondered - a lot more cars, I know you're building a lot more roads, but are they all going to fit, is the system going to work?

Jing Ulrich: This is a challenge. Mass transit, intercity subways are very important. This is one thing. I mentioned Didi Kuaidi. Uber is also in China. I think Didi is China's taxi-hailing company, very successful as I mentioned earlier. I think the CO recently mentioned something. He said, in the sharing economy, if everyone uses their app or their services, ten years from now buying a car would seem as strange as buying a horse. I'm not sure. Today younger professionals want to buy a home, a car as a symbol. He said, ten years from now people simply won't buy their own vehicle because if you want to get somewhere you share a car, you share a service. The services like Uber and Didi will be everywhere.

John Brumby: What's your personal feeling on that? It's an interesting question, isn't it. I was talking to someone yesterday, a young woman, married, they've both got a car, so they can use a car any day, even number plates or odd number plates, all of that. So your own feel? A lot of people move up the income curve, they want to buy a car. That's what you do.

Do you think culturally and psychologically people will make that shift?

Jing Ulrich: I think they will. Mobility is very important to everyone in a modern society. How do you get there is another question. Five or six years ago, China always bought luxury vehicles, just like China buys a lot of luxury goods as a status symbol. Some people joked, I don't mind being stuck in traffic, I'll just roll down my window, play the music, and people can see them driving in the wonderful Porsche.

That may be changing because I think it's now fashionable to be environmentally conscious. It is fashionable to conserve energy, not to waste energy. And also young people these days embrace the concept of the sharing economy. So it is more efficient to share a car, to do car pool to go to work. If three people ride in a car rather than one, why not?

So I think that mentality shift is coming. If the services, as I mentioned earlier, can be much more prevalent, if they can use their algorithm to figure out exactly where the cars are needed and send the cars there, if the services are affordable and user-friendly I think people will use them.

John Brumby: Trying not to jump around but going back to ChAFTA and the significance of that and things like wine, we've got wine companies over here from Australia that have done very well and of course wine tax at the moment is 40% or thereabouts, that will come down - so just going back to the agribusiness and food and beverages area, how significant you see those tariff reductions, the opportunities for Australia? Many countries around the world, sometimes they can reduce tariffs and then they compensate by non-trade barriers, non-tariff barriers. Just run through that for a moment, because I know we've got many people in the audience here who are in that food and beverage area.

Jing Ulrich: I think this is one big area to break through. You mentioned earlier in your opening remarks, with ChAFTA having entered into force, I think it was December 20th of 2015, of course full implementation is still some time away, but now 86% of Australian exports to China enter duty free, thanks to ChAFTA, and this number will rise to 94% by January 2019.

If you look at the various agricultural commodities - dairy, tariffs are going to be eliminated by January 2026; beef, wine, wool, I think soft commodities would be the next wave of exports from Australia into China. I think the demand is there absolutely, as the lifestyle changes in China, but also China has a huge problem with limited arable land. You know, 1.3 billion people, that's basically 23% of the global population - but China only has 7% of the world's arable land. So what do you do? How do you feed 23% of the population on 7% of the world's arable land? That's a challenge.

For the past many years, China had this policy of self-sufficiency in food, but frankly that has been changed. It's now China will remain self-sufficient for edible grains: basically rice and wheat. These two categories, China won't import too much; but for animal feed, such as soy beans and corn, China is already importing quite large quantities, especially soy beans. China is now importing 85% of its needs every year. A lot of the soy beans come from the US, from Argentina and Brazil.

In terms of dairy products, beef, a lot of that already comes from Australia. I think the numbers will increase.

The diet is changing. Remember there was a phrase, 'the iron rice bowl' - that's basically what you have. John, I grew up in China in the 70s, I remember we had no protein. I went to boarding school in China. We just had rice and everything was by rationing coupons. You want to buy meat; I think per household every month you would have two pounds of meat, pretty bad quality meat. So literally, John, I grew up on rice and cabbage. I don't know how I grew to be so tall because imagine if I had some protein! But that's changing. Look at the youngsters today. They're taller and stronger, they're well-built, because they have a lot of protein in their diet.

So I think what Australia can do in this area, Australia will not replace China in terms of becoming China's rice basket. No one will become China's rice basket. However, Australia can supply top quality premium foods to China, in the categories we mentioned.

John Brumby: We've seen an increasing amount of FDI into Australia, including in the agricultural sector, and sometimes, as you know, Australia is no different from other countries in the world, sometimes that creates a bit of local debate about 'buying the farm' or 'selling the farm', but I gather from your remarks you would expect to see more Chinese investment into Australia, purchasing agricultural land to ensure secure supply chains in the future.

Jing Ulrich: Absolutely. I think so. In the first wave of Chinese investments in a lot of hard commodities, everything from coal mines to iron ore assets, but I think the next wave will be increasingly in the food and agricultural area, in terms of land, in terms of various assets related to the changing lifestyle in China.

I think with ChAFTA, the good thing is that it will protect investors in both countries, both Australia and China, on their bilateral investments. You bring up a very interesting point. Chinese outbound investments are going to be huge. Inbound investments, FDI into China, is US$100 billion per annum, but already outbound investment, ODI - outbound direct investment, has surpassed FDI. So it could be $120 billion this year. We at J P Morgan have advised some of these Chinese companies in their outbound investments in the recent couple of years. The sheer quantity is increasing but also it's becoming more diverse in terms of geographical region and in terms of the sectors.

I think Australia, with ChAFTA being in place, but also Australia is seen as a pretty friendly country towards China, I think that number will rise by leaps and bounds in the future years.

John Brumby: We're already seeing - the audience would know that and the state premiers and others - very, very strong FDI in Australia. You're seeing it right across the board, particularly strong in commercial property, in the capital cities, but really elsewhere across the board.

Can I ask you in relation to FDI, do you think the Chinese investors, the corporates, the private companies, the SOEs, the individuals, making those investments, would their preference be - is it always for a standalone 100% Chinese-owned entity, or are they open joint ventures, to 50/50 ventures? What do you think is in their minds?

Jing Ulrich: I think they are open. Wholly owned entities are good because you control everything, you get all the income streams for that investment; but sometimes, as you're entering a foreign country, it's difficult without a local partner. So the same thing for foreign investments into China.

I think they are open to the types of investments allowed in Australia, whether it's a j/v, whether it's a majority, whether it's a minority or wholly owned. I think depending on the types of company, whether it's state-owned or private company, depending on the sector, depending on the Australian partner. I would say the Chinese investor is pretty open minded about this.

John Brumby: Thank you. I know we're starting to run out of time. How much longer, Michael? We've run out of time. One last question? Just one very quick final question because it's been a great interview. We touched a little bit on R&D earlier. Health - governments spend more on health around the world than any other thing. Australia's got a pretty good health system. China's got some challenges: diabetes. We saw brilliant presentations in Hongzhou on smart health, on what many of the Chinese companies are doing.

Can you think of opportunities in one minute, if you could, in the health sector between China and Australia?

Jing Ulrich: Huge opportunities, John. The system of healthcare in Australia and China are very different. In Australia, nearly half the hospitals are private. In China, they're predominantly government, publicly owned. The delivery of healthcare is much more challenging for 1.3 billion people rather than 25 million people, we can imagine.

One thing that's encouraging is that China is already Australia's second largest market for pharmaceuticals. Already Australia exports quite a lot of pharmaceutical products to China, but in other areas, like medical technology, aged care, China has a big demographic problem, hospitals, these are areas of co-operation.

Looking at demographics, we all know China has an inverted pyramid. The population is aging quite rapidly and in the past the parents and grandparents would rely on the one child to provide for them when they retire, but that's not a sustainable model. So I would say aged care is a very big opportunity. Here is where Australia has a lot of expertise, which it can share with China.

Pharmaceuticals, medical technology, clinical trials, all these areas have huge opportunities.

Also insurance, financial services, superannuation - everything that has to do with an aging society, but an increasingly affluent society. This is what China needs - to build a really adequate social welfare system from healthcare to education to pension services. I think in all these areas Australia has a lot to offer.

Unclassified

John Brumby: I do have to finish up. Jing, that was fantastic. I hope it was useful to the audience. I didn't have the benefits of Twitter or whatever they do on *Q&A* and get the feedback, but we covered a lot of areas and there's a lot of different groups in the audience here today. I think we've covered the huge opportunities in the market, the five year plan, the FDI opportunities as well, and I guess one quote, and again it's a Jack Maher one, just to finish.

He says, 'Going anywhere, doing business, takes time. No market welcomes gamblers. You go there, create value for local people, take time, and you'll have a chance.'

I think that's very true of the Chinese market. Huge opportunities. You've got to work on it. As Christine said last night, you've got to persevere and then success will be the result, and of course all of that is built on the back of the wonderful opportunities created through ChAFTA.

Jing, thank you for today. I think it was just fantastic to hear.

Jing Ulrich: Thank you. Can I also end with one quote? I think Australia and China share such a symbiotic relationship and the fact that all of you are here is testament to that. Quite some time ago, maybe 100 years ago, I think the head of General Motors said, 'What's good for General Motors is good for America. What's good for America is good for General Motors.' Maybe I can turn that around to say, 'What's good for China is good for Australia. What's good for Australia is good for China.' Thank you very much.

[END TRANSCRIPT]