Regional Australia’s engagement with China in the Asian century:

Innovation, integration and impact

亚洲世纪中澳大利亚乡村地区及中国的交往：创新、整合与影响

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<td>ACACC</td>
<td>Australia China Aged Care Consortium</td>
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<td>ACBC</td>
<td>Australia China Business Council</td>
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<td>ACC</td>
<td>Australia-China Council</td>
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<td>ADP</td>
<td>Aboriginal Development Package</td>
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<td>CCS</td>
<td>City of Charles Sturt</td>
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<td>ChAFTA</td>
<td>China-Australia Free Trade Agreement</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>IP</td>
<td>Intellectual Property</td>
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<td>KAI</td>
<td>Kimberley Agricultural Investment</td>
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<td>KML</td>
<td>Karara Mining Limited</td>
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<td>LGA</td>
<td>Local Government Association</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NSW</td>
<td>New South Wales</td>
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<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
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<tr>
<td>ORDCo</td>
<td>Ord River District Cooperative</td>
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<tr>
<td>POE</td>
<td>Privately Owned Enterprise</td>
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<tr>
<td>QLD</td>
<td>Queensland</td>
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<td>RDA</td>
<td>Regional Development Australia</td>
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<td>SA</td>
<td>South Australia</td>
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<td>SMC</td>
<td>Sinosteel Midwest Corporation</td>
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Executive Summary

Regional Australia is a major source of Australia’s economic growth and prosperity as it plays a significant role in shaping the nation’s economy, employment and exports. It accounts for about 40% of the national output, 65% of the nation’s exports by value, and 45% of tourism spending. Regional Australia is also home to over one-third (8.8 million) of Australia’s population and employs about one-third of the workforce (Regional Australia Institute, 2015).

Despite its significant contribution and tremendous future potential to the national economy, employment and social development, several challenges exist in capturing the full potential of regional Australia and what it can offer. Infrastructure, such as roads (transportation) and communications (internet and telecommunications), is a major issue in most areas of regional Australia. Furthermore, many areas lack appropriate social services such as hospitals and schools.

Globalisation and digitalisation have substantially impacted on how regional small- and medium-sized enterprises (SMEs) operate, and thus on the economy and prosperity of regional Australia. Although globalisation can offer many new market opportunities, it also demands that regional SMEs, particularly in the agriculture industry, incorporate new business functions, deal with new business players, and develop new markets on a global level. Similarly, digitalisation requires SMEs to develop new IT skills to ensure their businesses survive and prosper.

China is the second-largest economy in the world, and will remain so for the foreseeable future. The economic rise of China presents many opportunities for regional Australia, particularly in the areas of agriculture, tourism and education. China has become Australia’s largest trading partner since 2010 and an important source of international capital. It is expected that China will become the largest source of outward foreign direct investment (OFDI) in the world in 2016.

The objectives of this report are to:

1. Identify and describe the innovative ways in which local governments in regional Australia are engaging with China and how this is impacting on regional development.

2. Explore the strategies and roles played by regional local governments in the China engagement process and the challenges they confront in performing these roles.

3. Uncover the perspectives of government officials, local SME owners/managers, community leaders, and Chinese investors on engaging China for improving social and economic outcomes in regional Australia.

4. Identify the successful and innovative business practices adopted by local SMEs in their engagement with China, and those of Chinese investors in their engagement with local community and government, and the associated challenges.
5. Showcase the leading practices of local governments in their engagement with China.

This research project was conducted in two stages. Stage 1 involved a survey of all of the 55 Regional Development Australia (RDA) committees across the nation. The questionnaire was placed online. Three waves of emails were sent to the Chief Executive Officer (CEO) or President/Chairperson of all 55 committees from 11 March to 5 April 2016. This resulted in 30 responses, out of which 27 were completed. Stage 2 entailed a case study of regional Australia’s engagement with China. Information was collected from in-depth interviews with multiple stakeholders for regional Australia. Overall, we conducted interviews with 52 people working for a variety of key organisations, including RDA committees, state governments, state regional offices, local governments, business and industry associations, SME owners/managers, business consultants, Chinese investors/managers, and community leaders. We also collected information from the case study organisations’ websites, online media reports, and internal documents from the organisations interviewed (when permitted) during our field trips to regional Victoria, Tasmania, South Australia (SA) and Western Australia (WA). These interviews resulted in the development of seven case studies with the aim of illustrating how local governments and SMEs engage with China in innovative and integrative ways, and how Chinese investors engage with local community and governments for regional development.

Before reporting the results of the RDA survey and the seven case studies, we will first briefly outline the current state of play of China engagement at the three levels of Australian government, particularly at the state level in terms of major initiatives, strategies and programs, and the broad challenges that SMEs encounter in doing business with China.

Our RDA survey revealed several important findings. First, two-thirds (67%) of the respondents stated that their region has developed a strategy to engage with China. The respondents also expressed that such a strategy should be implemented by local government (72%), RDA (44%), business (33%), or state regional development agencies (22%). Moreover, some believed that this strategy should be jointly implemented by government agencies and regional business communities.

Second, the industries most engaged with China in regional Australia are agriculture (including forestry and agribusiness), tourism, and education and training. These three areas, plus exports, are also considered by the RDA committee respondents as those offering the greatest opportunities in terms of China engagement into the future.

Third, the level of Chinese investment and trade with China for regional Australia, on average, is 6.12 and 6.35 out of 10 respectively, reflecting the good investment and trade relationship between regional Australia and China. However, both levels varied from 1 (‘none’) to 10 (‘a lot’), indicating the significant variation in Chinese investment and trade with China from region to region. Furthermore, all of the RDA respondents considered the signing of the China Australia Free Trade Agreement (ChAFTA) to be ‘moderately important’ to ‘very important’ to their
region's future economic development, with an average score of 8.2 out of 10 on a range from 5 to 10.

Fourth, to date, the performance of regional Australia’s engagement with Chinese opportunities has been moderate, scoring an average of 5.7 out of 10 (‘very effective’). This performance varied from 1 to 8, with the majority of respondents rating it from 3 to 8 which reflects the diversity and variety of engagement activities in different regions. The average score of 5.7 out of 10 also indicates that there remains much room for improvement in this area.

Fifth, the top three challenges for regional Australia in engaging with Chinese opportunities are: 1) a lack of financial resources, 2) language barriers, and 3) culture barriers. Additionally, the level of interest in engaging with China is low in some areas of regional Australia, posing a further challenge.

The RDA committee respondents consider that the business community in regional Australia should play a leading role in engagement with Chinese opportunities, this is followed by each state’s regional development agency, and the federal government agency (the RDA).

In addition to conducting a survey of RDA committees, we presented seven case studies based on our interviews with 52 government officials, business executives, community leaders, and investment professionals. Of these seven cases, four are on local governments, two on local SMEs, and one on Chinese investors. These case studies describe the leading practices of local governments, local SMEs and Chinese investors in relation to engagement with Chinese trade and investment opportunities or local community for regional development, and the related challenges. These case studies highlight a range of leading and innovative practices in China engagement for regional development in Australia. Our first case demonstrates how the City of Charles Sturt initiated, led and coordinated a cluster of 30 local SMEs – the Australia China Aged Care Consortium (ACACC) – in the aged care industry to connect and develop their business with their Chinese counterparts in the City of Yantai, Shandong Province. They did this by leveraging the government-to-government relationship developed at both the state and local government levels.

The Shire of Morawa is our second case study, which reveals how a small local government in regional Australia can use its knowledge and skills to communicate and negotiate with Chinese investors on local community development. As a result of this engagement, the shire has become one of the nine ‘super towns’ in WA as it has a balanced community, offers diversified job opportunities and attracts people to live in the region.

The third case is that of the City of Warrnambool, which has developed its capability to engage with China and use this capability to lead and service local SMEs in connecting their business and promoting their exports to China. With the financial support of the state government, the City of Warrnambool established its China Hot Desk, which provides a wide range of services to local SMEs and promotes the region as a tourism destination in the Chinese market.
Our final case on how local government engages with China is that of the City of Onkaparinga. This case study shows how a local government can be innovative in servicing its local businesses and communities, and working closely with other local governments and stakeholders to develop local business capability and capacity, to attract investment and promote trade with China, and ultimately to secure long-term sustainability for the city and the region. The leadership of the local government plays an important role in this case.

The report then presents the case studies of two local SMEs from Tasmania, highlighted for their innovative engagement with China to develop and grow their business. Reid Fruits, a cherry grower located in Hobart, has rapidly increased its cherry exports to China over the past two years and grown its business thanks to the opportunities offered by the ChAFTA and the new access to the Chinese market. The firm has been highly innovative in its marketing practices and in protecting its intellectual property (IP) in the Chinese market. Similarly, Bridestowe Estate, an agri-tourism company located in Nabowla, north-east Tasmania, has also been highly innovative in developing new products and services, and implementing innovative marketing practices targeted at Chinese tourists and integrating the resources and opportunities China offers to develop and grow its business.

The final case is that of Kimberley Agricultural Investment, a Chinese privately owned company that has invested about AU$200 million in the north-east of WA over the past four years. This case reveals the symbiotic relationship between Chinese investors and the local community. It shows how Chinese investors in regional Australia can effectively engage with local communities and government, particularly through the employment of locals, and the effective collaboration and communication with key local stakeholders so as to ensure sustainable business growth and community development.

Tremendous effort has been devoted by Australia and China in building, maintaining and growing their bilateral relationship over the past four decades. The complementary nature of the economies of Australia and China, coupled with their geographical proximity, has also provided a solid foundation for bilateral trade and investment over the past decade and will continue to do so into the future. Furthermore, with its massive population and rising consumer incomes, China will provide vast opportunities for Australia, including regional Australia, to export and attract investment.

To further strengthen the bilateral relations between Australia and China, a multifaceted and multilayered approach is required, as are innovation and integration. Although there will be issues and challenges related to engaging with China, such engagement can be an important driving force for our future economic growth and prosperity, among many other long-term benefits to Australia. Regional Australia’s engagement with China can help make these bilateral relations deeper, more extensive, and stronger in the future.
1. Introduction

Regional Australia is a major source of Australia’s economic growth and prosperity as it plays a significant role in the nation’s economy, employment and export. According to Regional Australia Institute (Regional Australia Institute, n.d.), regional Australia includes ‘all of the towns, small cities and areas that lie beyond the major capital cities (Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra)’. It accounts for about 40% of the national output, 65% of the nation’s exports by value, and 45% of tourism spending. Regional Australia employs about one-third of the country’s workforce and is home to over one-third (8.8 million people) of Australia’s population (Regional Australia Institute, 2015).

Despite its significant contribution and tremendous future potential to the national economy, employment and social development, several challenges exist in capturing the full potential of regional Australia. At the general level, regional Australia is not like the big end of town. Infrastructure is a major problem in most parts of regional Australia, such as roads (transportation) and communications (internet and telecommunications). In addition, it has limited social services such as hospitals and schools. Furthermore, global warming and climate change negatively impact on the economic activities of regional Australia. The ANZ Bank estimates that AU$1 trillion worth of new investment will be needed in the agricultural industry by 2050 to capture the full potential of regional Australia and double its production (ANZ Banking Group, 2012).

The business environment has dramatically changed over the last two decades. Globalisation and digitalisation have substantially impacted on how regional SMEs operate, and thus the economy and prosperity of regional Australia. Although globalisation offers many new market opportunities, it also demands that regional SMEs, particularly in the agricultural industry, incorporate new business functions, deal with new business players, and develop new markets globally. Similarly, digitalisation demands that SMEs develop new and better skills to ensure their survival and prosperity.

At the doorstep of Australia, China has emerged as the world’s second-largest economy, and will remain so for the foreseeable future. Thus, there has never been a better time for Australia to take advantage of this massive and rapidly growing consumer market so close to our country. The economic rise of China has offered many opportunities to regional Australia, and since 2010 China has been Australia’s largest trading partner. The bilateral trade between China and Australia in 2014 reached AU$153 billion, with Australia’s exports accounting for nearly two-thirds (AU$90 billion) of the total bilateral trade value (Department of Foreign Affairs and Trade, 2016a). Due to the country’s rapid economic growth over the past three decades, the Chinese income has substantially increased. It is estimated that over 109 million Chinese have joined the middle or affluent class, with wealth ranging from US$50,000 to US$500,000 in 2015, surpassing the size of the middle class (92 million) in the United States (US) for the first time (Goldman Sachs, 2015). This has resulted in a rapid increase in demand for quality foods such as red meat, wine, dairy products and seafood; international travel; and education (Goldman Sachs, 2015). Consequently, new areas of trade have emerged in recent decades, besides the strong traditional mineral trade between Australia and China. For example, the number of Chinese tourists to Australia annually exceeded one million for the first time in March 2016, and reached 1.14 million in the 2015–16 financial year, representing a 22% increase one the 2014–15 financial year. They spent a total of AU$8.9 billion in their visit to
Australia in 2015–16, accounting for 23.3% of the total expenditure of all international visitors in Australia (Tourism Australia, 2016). The number of Chinese students studying in Australia reached 144,759 at the end of 2015, representing 28% of the total number of international students in Australia (Department of Education and Training, 2016). Moreover, Australia’s exports to China of agriculture, fisheries and forestry in 2015 was valued at about AU$9 billion, increasing from AU$5 billion in 2010–11 (Department of Foreign Affairs and Trade, 2016b). With the implementation of ChAFTA from 20 December 2015, coupled with the current wave of China’s transition from investment and exports towards a domestic consumption-led economy, it is widely expected that Australian exports to China will continue to grow into the future.

China has also been an important source of international capital since 2009 and is expected to become the largest source of OFDI in the world in 2016. Chinese OFDI has substantially increased, ranking among the top 10 since 2009. In 2014, Chinese OFDI reached US$123 billion, trailing only the US (US$337 billion) (Ministry of Commerce, 2015). Although Australia has been one of the major destinations for Chinese OFDI, the stock of Chinese OFDI in Australia was only US$23.9 billion (Ministry of Commerce, 2015), and only accounted for 4.2% of total FDI stock in Australia (United Nations Conference on Trade and Development, 2015). Chinese OFDI had been concentrated in the Australian mining industry (Huang & Austin, 2011), with only 1.5% invested in Australian agriculture, fisheries and forestry by the end of 2014. Nevertheless, there was a significant increase in Chinese OFDI in agriculture (US$375 million) in 2015, accounting for 3% of China’s total annual FDI in Australia (KPMG & Sydney, 2016). By the end of June 2016, Chinese investors had acquired 1.463 million hectares of Australia’s agricultural land, including both freehold and leasehold land, accounting for 0.5% and 2.8% of Australia’s agricultural land and foreign-owned agricultural land, respectively (Australia Taxation Office, 2016).

While there is huge potential for Australia to engage with Chinese trade and investment, there are many challenges in doing so due to the vast differences in regulatory environments, consumer behaviour, culture, language, and business practice. To be successful in engaging with China, we need to not only understand these differences, but also examine our current China engagement practices, in order to identify those factors and processes that can substantially facilitate and improve our engagement outcomes. Moreover, a coordinated, multifaceted and multilayered approach is required to better capture the benefits of Australia’s engagement with China.

**The objectives of this project**

The goals of this project are to: 1) promote the engagement practices of local governments in regional Australia with Chinese opportunities and their benefits to regional communities; 2) develop the capabilities of regional local governments and regional SMEs to engage with China on regional development, investment and export opportunities; and 3) increase awareness about the importance of regional Australia for investment and trade, thereby strengthening engagement opportunities between regional Australia and China.

Accordingly, the objectives of this project are as follows:

1. To identify and describe the innovative ways in which local governments in regional Australia are engaging with China and the impact on regional development.
2. To explore the strategies adopted and roles played by regional local governments in the engagement process and the challenges they confront in doing so.

3. To uncover the perspectives of government officials, local SME owners/managers, community leaders, and Chinese investors on engaging China to improve social and economic outcomes in Australia.

4. To identify the successful and innovative business practices adopted by local SMEs in their engagement with China, and of Chinese investors in their engagement with local community and government in regional Australia, and the related challenges.

5. To showcase the best practices of local governments in their engagement with China.
2. Regional Australia’s engagement in China: the state of play

Recognising the opportunities and potential to engage with Chinese trade and investment, and the rapidly increasing demand from China for a large variety of Australian products and services, particularly those from regional Australia, Australian governments at all three levels have developed many major initiatives aimed at assisting and facilitating economic development in regional Australia. The following subsections briefly outline some initiatives of the federal and state governments in relation to regional development and the role of local government.

Federal government

At the federal government level, these initiatives include the release of both the White Paper on Developing Northern Australia (Australian Government, 2015b), and the Agricultural Competitiveness White Paper produced by the federal government in June 2015 (Australian Government, 2015a) that established Australian Government agriculture policy and five priorities in developing the national agriculture sector, and strengthening regional communities and economic growth. Moreover, the federal government concluded its 10-year free trade negotiation with China in 2015, and subsequently implemented CHAFTA in December 2015.

Regional Development Australia (RDA) is another key initiative of the federal government, administered by the Australian Government’s Department of Infrastructure and Regional Development. It aims to bring together ‘all levels of government to enhance the development of Australia’s regions’ and currently has 55 RDA committees across the nation (Department of Infrastructure and Regional Development, n.d.). These RDA committees consist of local leaders who ‘work with all levels of government, business and community groups to support the development of their region’ (Department of Infrastructure and Regional Development, n.d.).

The RDA plays a significant role in the development of the regional economy and communities. It undertakes a variety of activities, including community consultation and engagement, promotion and participation in regional programs and initiatives, the provision of information and advice to all levels of government, and the development of regional plans (Department of Infrastructure and Regional Development, n.d.).

Located in regional Australia and consisting of committee members from local community groups and businesses, RDA committees have rich information and knowledge about the regional economy and community development. Not only do they represent the voices of regional communities, but they also have a good understanding of how their respective regions engage with China, both economically and socially. Therefore, their views are fundamental to the understanding of how the regions engage with China, and the benefits, potential and challenges associated with such engagement. A national RDA map is presented in Figure 1.
Figure 1 A national RDA map  
(Source: Department of Infrastructure and Regional Development)

**State government**

State governments have played a significant role in leading, guiding and assisting local governments and SMEs to engage with China. Based on the state’s competitive advantages and often built on the long-time sister-state relationship, China engagement strategies have been developed in several states, including Victoria (Victorian Government, 2016), South Australia (SA) (Department of State Development (SA), 2014b), and New South Wales (NSW) (Government of New South Wales, 2014). The Tasmanian Government (Department of State Growth (TAS), 2015) has also regularly reviewed its China engagement activities since 2014, when Chinese President Xi Jinping visited Tasmania.

Due to the differences in states’ industry profile, economic size and diversity, state governments have adopted different approaches to engaging with China. Larger states, such as NSW and Victoria, have adopted a broader approach, and have primarily focused on the facilitation of outbound delegations and hosting inbound Chinese delegations to build relationships between governments and business. For example, the Victorian Government has organised annual super mission to China and developed the Victorian Inbound Program, which facilitates visits by Chinese business delegations to Victoria to meet with members of the local business community to develop business relationships, among other programs.
Other states, such as SA and Tasmania, have adopted a more focused and/or coordinated approach to engaging with China – a good example of which is the approach taken by the SA Government (see Vignette 1).

### Vignette 1. SA Government engagement with China

The Government of South Australia developed and launched its South Australia – China Engagement Strategy in 2012. Based on SA’s competitive advantages and the Chinese Government’s priorities, the strategy outlined the overarching objective, identified strategic priorities, and set out key actions to achieve the objective. The strategy has also leveraged the sister-state relationship between SA and Shandong Province established three decades ago, which has been updated every two years (2014 and 2016) (Department of State Development (SA), 2016) to reflect changing conditions occurring in China and SA.

Guided by its China Engagement Strategy, the government has developed a raft of programs and activities in a systematic way, implemented with a coordinated approach over the past four years. Below is a brief description of some of these engagement practices.

A China Team was set up under the Department of State Development of South Australia, located within the Department of Premier and Cabinet, to coordinate state-wide China engagement activities. Moreover, SA established several sector-specific international multi-agency taskforces (or committees) consisting of representatives of state government departments and industry associations, and business executives. The SA Government has appointed two advisers for its engagement with China in the areas of strategy, and business and culture.

Recognising the importance of local government to its overall China Engagement Strategy, the state government has encouraged SA’s Local Government Association (LGA) to develop its own strategy to engage with China. With the help of a senior executive from the Australia China Business Council (ACBC) SA Branch, the Local Government China Strategy was developed in December 2012 and updated in 2016 (Local Government Association of South Australia, 2016), outlining the role played by local government and explaining why local government should support the growth of local business through engagement with the Chinese market.

Understanding the crucial role played by Chinese governments at all levels in shaping economic activities, and leveraging on its sister-state relationship with Shandong Province, the SA Government has also encouraged and facilitated its local governments to establish formal relationships with their counterparts (city governments) within Shandong Province, either through forming sister-city, friendship city relationships, and/or signing Memorandums of Understanding (MOUs) with the city-level Bureau of Commerce to build government-to-government relationships. This can provide a platform at the local government level for discussing trade and investment opportunities, and connecting local SMEs to Chinese markets and businesses. So far, a total of 17 local governments in SA have signed MOUs with city-level Bureaus of Commerce in Shandong Province. Several local governments have developed a sister-city or friendship city relationship with their counterparts in Shandong Province, including Adelaide City Council (with the City of Qingdao), the City of Charles Sturt (with the City of Yantai), and the City of Salisbury (with the City of Linyi).
Education, tourism, export and investment attraction have been the common themes across states’ China engagement strategies. However, each state government has also aimed to develop its capital city and state into a city or region of excellence in different areas based on the current state economy and future directions.

With the signing of a sister-state relationship agreement between Victoria and Sichuan Province in September 2016, a total of 100 sister (or friendship)-state or city relationships between Australia and China have been established since 1979, when the first sister-state agreement was signed between the NSW Government and Guangdong Provincial Government.

In addition to establishing a state department for regional development, some state governments have set up regional agencies to administer state roles and responsibilities for regional development. For example, the Victorian Government some time ago established Regional Development Victoria (Regional Development Victoria, n.d.) to lead and coordinate state-wide rural and regional development, and work in tandem with RDA committees located in Victoria. Similarly, the WA Government has established nine Regional Development Commissions (Department of Regional Development [WA], n.d.), to implement and coordinate regional development programs and activities.

**Local government**

Local government plays a critical and substantial role in engaging regional Australia with China. Elected democratically by local communities, local councils are primarily responsible for developing and enhancing local communities and their wellbeing, which are primarily underpinned by local economic growth and prosperity. As the third-tier government in Australia, local government has a variety of roles and responsibilities that are complementary to those of federal and state governments. Moreover, these roles and responsibilities differ from state to state as the constitutional responsibilities of local government are determined at the state government level. The functions of local government may include the provision of infrastructure and property services, business planning and development approval, building services, health services, and the administration of facilities (Australian Local Government Association, n.d.). Since local councils are democratically elected, and have a close connection with local business, they are highly motivated to support their local business communities to engage with China on economic development as well as social and cultural exchange.

**Vignette 2. The China Engagement Strategy of SA’s LGA**

The SA LGA developed its China Engagement Strategy in 2012 (Keenihan, 2012). This was built on the SA Government’s China Strategy, particularly in relation to how the state government collaborates with local government ‘to establish and nurture government-to-government and city-to-city relationships in second and third-tier markets’ (Department of State Development (SA), 2014b), p. 20. Recognising the importance of leadership, coordination and support for local communities to effectively engage with China, the LGA’s strategy explicitly defines the role of local government in China engagement as follows:
1. Economic development. Local government’s core purpose and objective is to build and enhance community development and overall wellbeing. Central to community wellbeing is economic prosperity and growth.

2. Transforming the economy. SA’s economic base is in critical need of transformation. Rebuilding and transforming local and regional economies is required to support the state’s economy. Councils are well positioned to play a role in this transformation.

3. Supporting small business. SA is an SME state insofar as 98% of all businesses are SMEs and 90% of employers employ 20 people or fewer. Local government works closely with SME sector and is ideally placed for SME interface and to support local business to transform and grow through China Market engagement. (Local Government Association of South Australia, 2016, p. 2)

Although local government is highly committed to developing the local economy to enhance the local community’s wellbeing through international engagement, those operating in regional Australia often lack the resources required to do so, mainly due to their small size. Currently there are 560 local councils in Australia (Australian Local Government Association, n.d.). Among them, only 47 have a local resident population of over 100,000 (Regional Australia Institute, 2014). As the revenue of the majority (80%) of local councils is predominantly raised through rates and other local activities (Australian Local Government Association, n.d.), so the local population will have a substantial impact on a council’s financial resources, thereby potentially becoming a capacity constraint for its international engagement.

Local government may also lack capabilities in relation to international engagement to support economic development. Traditionally, local government predominantly focused on administrative functions, rather than economic coordination and local economic development. Its international engagement has also been concentrated primarily on social and cultural exchange. Although many larger local councils have added new positions to their management portfolio in the area of economic coordination over the past decade, smaller councils are still not able to afford the inclusion of such positions to their management team.

Due to their limited size and thus financial resources, coupled with the skill deficits in the areas of business, language and culture, local councils can face many challenges in their international engagement endeavours. These challenges, and how local councils address them, are the foci of this report. Figure 2 outlines the key stakeholders for regional communities.
SMEs in regional Australia

Australian SMEs are major contributors in the national economy and employment, contributing to over two-thirds of national employment and adding a majority (57.1%) of value to the national economy in the 2014–15 financial year (Australian Bureau of Statistics, 2016). An overwhelming proportion (over 98%) of Australian business are SMEs.

SMEs operating in regional Australia face many challenges in their international engagement for several reasons. First, SMEs are relatively small, employing fewer than 200 people. Many of them, particularly small businesses (employing fewer than 20 people), lack the financial resources and functional capabilities needed to engage in international trade or investment. Doing business internationally often requires new skills and knowledge, such as language skills, knowledge of export procedures and cross-cultural understanding, which are often lacking in SMEs. Second, their physical distance from ports or airports increases the costs of doing international business for regional SMEs. Third, business services and support, such as consulting, legal and banking, in regional Australia are not as developed as those in the urban areas. Finally, SMEs often lack economy of scale, which can be critical in international business due to its transactional and administrative processes.
There are additional challenges facing SMEs seeking to engage with Chinese trade and investment. International competition in the Chinese market is intense as many international competitors are attracted by the size of the Chinese market. Moreover, the Chinese market is very dynamic in terms of the regulatory environment and consumer preferences, and the Chinese consumer market is spread over vast geographic distances. All these factors can further increase the difficulties for Australian SMEs seeking to do business in China.

A recent survey of 913 Australian businesses, over 90% of which were SMEs with international operations (University of Sydney, 2016), provided a snapshot of how Australian businesses perceive their international operations, including trade with China. Among these respondents, China was the second most popular choice (12%) as the first overseas market, only trailing the US (18%), for its strong growth and profit opportunism, and was ranked the top country for Australia’s inward and outward investment (21% and 13%, respectively). Moreover, over 60% of the businesses surveyed were optimistic about their business operations in China and expected their trade with China to be ‘better’ (43%) or ‘much better’ (18%) this year compared to last year (2015).

Doing business in China was, however, considered by over three-quarters of the survey participants to be either ‘more difficult’ (50%) or ‘much more difficult’ (28%) than business operations in Australia, possibly due to Chinese regulatory and administrative requirements, language and cultural differences, and business practices (University of Sydney, 2016). Moreover, key success factors for doing business with China identified in the survey included: 1) a reputation of dependability and reliability, honesty and trustworthiness; 2) a reputation for value for money, and a strong company or brand name; and 3) a reputation for innovation and adaptability. In addition, enhanced access to the market via free trade agreements was also considered important for doing business in China (University of Sydney, 2016).
3. Project data collection

This research project was approved by the College Human Ethics Advisory Network of College of Business, RMIT University (No. 19729) and was conducted in two stages. Stage 1 involved a survey of all 55 RDA committees. Based on the literature review and information collected from the internet and media reports, we developed a questionnaire consisting of two parts. Part 1 provided an overview of how regional Australia engages with China in terms of areas of engagement, engagement performance, challenges and future directions. This part asked the respondents to identify the local council in their region that is most actively engaging with China, thus providing information to assist with the selection of local governments for the case study undertaken in Stage 2 of this project. Part 2 of the survey asked background information about the respondents and their RDA office, such as their position and working experience, and the number of employees in their office.

The questionnaire was placed online using Qualtrics, an online survey software. The contact information for each RDA committee was collected from the website of the Department of Infrastructure and Regional Development (https://rda.gov.au/). Three waves of emails were sent to the CEO or the President/Chairperson of all 55 RDA committees nationwide between 11 March and 5 April 2016. This resulted in 30 responses, with an overall response rate of 54.5%. Among those who responded, only 27 were completed. A telephone call was made in early May to those RDA committees that did not respond to the survey to ask why they did not. Among them, two had not received the survey due to incorrect email address and five due to a change of CEO or RDA committee president/chairperson. Thus, the effective response rate was 56.3% (27/48). The majority of the respondents were from NSW (7), WA (6), Queensland (QLD) (5) and SA (4). The number of RDA committees that responded to the survey, and their locations, are presented in Table 1.

Table 1 RDA committee respondents and their location

<table>
<thead>
<tr>
<th>State</th>
<th>Number of RDA offices</th>
<th>Number of RDA offices that responded</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIC</td>
<td>9</td>
<td>1</td>
<td>11.1</td>
</tr>
<tr>
<td>NSW</td>
<td>14</td>
<td>7</td>
<td>50</td>
</tr>
<tr>
<td>SA</td>
<td>8</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>TAS</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>WA</td>
<td>9</td>
<td>6</td>
<td>66.7</td>
</tr>
<tr>
<td>QLD</td>
<td>12</td>
<td>5</td>
<td>41.7</td>
</tr>
<tr>
<td>NT</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ACT</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Missing postcode</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incomplete response</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td>30</td>
<td>54.5</td>
</tr>
<tr>
<td>Effective response</td>
<td>48</td>
<td>27</td>
<td>56.3</td>
</tr>
</tbody>
</table>

Stage 2 involved a case study of regional Australia’s engagement with China. Information was collected from in-depth interviews with multiple stakeholders from regional Australian communities, including government officials who work at the state or local government levels, industry and
business associations, local SME managers/owners, Chinese investors, and local community leaders. We also collected information from the case study organisations’ websites, online media reports, and internal documents from the organisations interviewed, when permitted, during our field trips to regional Victoria, Tasmania, SA and WA.

The information collected from multiple sources was intended to provide detailed insights into engagement practices and processes, and the associated benefits to local communities and regional development, and to identify the challenges of such engagement from the perspectives of state and local governments, regional SMEs, communities and Chinese investors. In doing so, the aim was to develop a better understanding of how the efforts of these key stakeholders in regional Australia can be better coordinated for regional development.

We originally contacted organisations in six states: NSW, QLD, Victoria, SA, Tasmania and WA. However, we then decided to focus on four states (Victoria, SA, Tasmania and WA) due to the difficulties in identifying organisations or their availability to participate in this project. Overall, we conducted interviews with 52 people working for a variety of key organisations, including RDA committees, state governments, state government’s regional offices, local governments, business and industry associations, SME owners/managers, business consultants, Chinese investors/managers and community leaders. As a result of these interviews, we have developed seven case studies of how local regional governments and SMEs engage with China and how Chinese investors engage with local community and government for community and economic development. The locations of these seven cases are outlined in Figure 3. In the following two sections, we present the results of our RDA survey, followed by the detailed case study findings.

Figure 3 The location of case studies
4. RDA committee survey results

This section reports on the RDA committee survey findings. It first describes the key China engagement activities carried out in regional Australia by the RDA and the respondents’ views on which organisations should play a leading role in such engagement. This is followed by a discussion of the areas and level of trade characterising China engagement in regional Australia. We then present the respondents’ perceptions of engagement performance and challenges. Finally, the RDA’s future intentions around engagement with China are outlined.

Key engagement activities carried out by the RDA

RDA offices are primarily engaged with China in order to enhance investment and trade promotion for the region. Both areas were ranked equally by the survey respondents as the most commonly undertaken activities (79%), followed by sister city by local government (29%), and cultural exchange between schools (21%).

Regarding the key roles played by the RDA in China engagement, four roles were highlighted (see Figure 4). They are: 1) information dissemination (79%); 2) coordination of efforts and activities of local business, organisations and government (75%); 3) collection of feedback, suggestions and responses from local communities, government and businesses for the federal government (25%); and 4) administering grants from the federal government (8%).

![Figure 4 The key roles played by RDA committees in facilitating China engagement in the regions](image)

When the respondents were asked about who should play a leading role in regional Australia’s engagement with Chinese opportunities, the business community was first identified, followed by each state’s regional development agency, and the federal government agency (the RDA) (see Figure 5). These views emphasise the different roles played by the business community and government agencies at the federal and state levels. While the federal and state governments can introduce and establish a favourite regulatory environment and policy for attracting Chinese FDI and encouraging regional SMEs to export to the Chinese market, the business community plays a crucial role in
bringing this into effect. Local government and its agencies are also important in engaging with China. However, their role may be regarded as secondary rather than leading such engagement.

**Figure 5** Who should play a leading role in China engagement in regional Australia?
(Note: The most three important organisations to lead China engagement [reverse score])

With regards to a regional strategy to engage with China, two-thirds (67%) of the respondents stated that their region had developed such a strategy. As shown in Figure 6, the respondents also expressed that such a strategy should be implemented by local government (72%), the RDA (44%), business (33%) or state regional development agencies (22%). Moreover, many believed that this should be jointly implemented by government agencies and regional business communities.

**Figure 6** Which organisation should be responsible for implementing a regional strategy for China engagement?
Finally, all of the RDA respondents considered the signing of ChAFTA to be ‘moderately important’ to ‘very important’ to their region’s future economic development, with an average score of 8.2 out of 10 on a range from 5 to 10.

**Areas of China engagement in regional Australia**

Regarding the industries that are most engaged with China in their region, the RDA respondents indicated that the three most engaged industries are agriculture (including forestry and agribusiness), tourism, and education and training (see Figure 7). These results are not surprising as agriculture trade and tourism dominate international economic activities in regional Australia. In terms of education and training, this is likely to be primarily the result of the student exchange and visits between Australian and Chinese primary and secondary schools, although some regional universities are also active in recruiting Chinese students.

![Figure 7 Most China-engaged industries in regional Australia](image)

With regards to the opportunities to engage with China in regional Australia (see Figure 8), agribusiness (including agriculture and forestry), tourism and exports offer the greatest potential for regional Australia to engage with China, followed by education, infrastructure and manufacturing. These results reinforce the results of the most-engaged industries in regional Australia as shown in Figure 7.
Furthermore, agriculture and agribusiness, exports and trade, tourism, education and mining are five areas about which the RDA is most proud in terms of its engagement with Chinese opportunities. Other areas include the development of business readiness and sister-city relationships.

The level of Chinese FDI and trade interaction with China for regional Australia, on average, is 6.12 and 6.35 out of 10 respectively, reflecting the good investment and trade relationship between Australia and China (see Figure 9). However, both levels varied from 1 (none) to 10 (a lot), indicating the vast variation of Chinese FDI and trade with China from region to region.

Regarding tourism, most of the RDA offices reported that their regions have been visited by Chinese tourists, with an average Likert type scale score of 6 on a scale ranging from 2 (rare) to 10 (often).
The cultural exchange between regional Australia and China is moderate, with most of the RDA offices (62%) reporting that Chinese tourists visit their region periodically. However, almost one-quarter (23%) indicated that this rarely happens in their region, and only 15% stated that their region often receives Chinese tourists.

**The performance and challenges of regional Australia’s engagement with China**

To date, the performance of regional Australia’s engagement with Chinese opportunities has been moderate, with an average score of 5.7 out of 10. This performance varied from 1 to 8 with a standard deviation of 2.07, indicating that a majority of respondents rated performance from 3 to 8. Both the average score and the range reflected the diversity and variety of engagement activities across the regions. The average score of 5.7 reveals that there remains much room for improvement.

The top three challenges facing regional Australia’s engagement with Chinese opportunities are: 1) lack of financial resources; 2) language barriers; and 3) cultural barriers. Additionally, the level of interest in engaging with China is low in some regions. Figure 10 presents the key challenges in relation to China engagement.

![Figure 10: Challenges for regional Australia to engage with China](image)

Other challenges mentioned by the RDA respondents include: 1) ‘understanding of political and regulatory frameworks’, the ‘complicated Australian and Chinese government processes’, and ‘little understanding in the region of the potential benefit Chinese investment can bring to the region’; 2) lack of capacity and knowledge about how to engage with Chinese opportunities; 3) ‘locals’ perceptions of a threat to individual or regional identity and mentality such as ‘the belief of farmers that they are farmers not marketers’ and ‘fear of losing regional identity with too strong a foreign investor presence’; and 4) lack of size and scale required for FDI, including land availability.

**How regional Australia can better engage with China in the future**

When asked about the ways in which the region intends to better engage with Chinese opportunities in future, a total of 24 responses were received. It is not surprising that the most popular view offered by the RDA is that there is a need to attract more Chinese FDI into the regions (mentioned by
seven respondents). In this regard, the main activities mentioned included developing an investment prospectus and offering more investment opportunities, followed by promoting the region’s exports and tourism to China (6). Other plans for intended future activities included continuously improving business-to-business engagement by developing platforms for regional SMEs to connect their Chinese counterparts, organising inbound and outbound delegations, capability development through enhancing understanding of the Chinese market and consumers, coordinating regional SMEs, and developing China engagement strategies. Developing infrastructure was also identified by the respondents.
5. Case study: local government engagement with China

Local government can play a significant role in engaging with China. Over 70 local governments in Australia have developed sister or friendship relationships with their counterparts among Chinese municipal governments. Many local governments, such as City of Hobart, City of Bunbury and City of Playford, have been very active in their engagement with China – developing government-to-government relationships, and social and cultural exchange between schools and local communities. These sister-city relationships have not only strengthened connections at the government level, but have also improved mutual understanding of culture and enhanced the social fabric between Australia and China. This engagement is fundamental to the overall bilateral relationship and has established a solid foundation on which the bilateral economic relationship can be built.

Although it is always challenging, due to their limited resources and capabilities, for local governments to expand their traditional role of administration to embrace economic facilitation, some leading local governments across the nation have incorporated the economic development role quickly and adopted innovative approaches to enabling, facilitating and coordinating engagement between local businesses and China. As local governments are the third-tier governments in Australia, and thus traditionally have a closer link with communities and local business, particularly small businesses, they have great potential to assist in developing local business and community through international engagement.

City of Charles Sturt: enabling and leading a cluster of local SMEs in their engagement with China

The City of Charles Sturt (CCS) is a local government located in the west of Adelaide, SA. It has adopted a strategic and proactive approach in leading and facilitating its local SMEs to engage with China over the past three years with the assistance of the sister-city relationship between the SA State Government and Shandong Provincial Government.

The primary purpose for CCS in engaging with China is to work with local SMEs to enhance their capability to develop a long-term trade relationship with China. To understand how local business engages with China, CCS conducted a Western Adelaide China Business Engagement Survey of over 2000 local SMEs in September 2014 in collaboration with the University of South Australia and the SA branch of the ACBC. The survey was designed to identify strategies for local economic development, including international trade and investment. This resulted in the development of the Western Adelaide China Business Engagement Strategy in February 2015, which identified the need for local business to engage with China, the key advantages of and resources required for such engagement, and the role of local government in assisting local businesses to engage with Chinese business opportunities. The CCS launched its China Ready Program in 2015. Since then, it has worked with the University of South Australia, ACBC SA branch and the SA Government, and has organised seminars for local SMEs to improve their business skills and enhance their knowledge of the Chinese market and business environment.

Representatives of CCS attended the Shandong–South Australia Local Government Economic Development Cooperation Forum in Jinan, Shandong, in May 2015, and met government representatives from the City of Yantai, Shandong Province, to identify areas of mutual interest and
opportunity. Consequently, an MOU with Yantai Municipal Bureau of Commerce was signed in September 2015 that aims to increase the economic and technical cooperation between organisations within the two cities, particularly in the areas of health and social assistance, food and wine, education and training, and investment and technical cooperation. The City of Yantai provided CCS with a list of key projects it planned to develop, many of which are aged care related.

To further understand Western Adelaide’s capability and competitive position in the health industry, in collaboration with local health industry associations (BioSA and Healthfirst Network) and private firms, CCS launched the report *Creating a Health Business Cluster* in October 2015. The report found that a vibrant and strong sector of health business, research and services exists in Western Adelaide, and proposed the establishment of a Western Adelaide Health Industry Alliance/cluster (BioSA, Healthfirst Network, AsiaAustralis, Hudson Howells, & City of Charles Sturt, 2015). The cluster consists of local hospitals, BioSA, Health Industries SA, Healthfirst Network, local SMEs and CCS, and is supported by the SA Department of State Development.

Since confirming the capability and competitive advantage of the local businesses in the health sector in the Western Adelaide area, and the strong interest from the City of Yantai in aged care, CCS has initiated the establishment of the Australia China Aged Care Consortium (ACACC), which consists of 30 local SMEs from within the city and neighbouring local shires (City of Charles Sturt, 2015). The consortium aims to provide a package of vertically integrated services, products and advice to the Chinese aged care industry, particularly those located in the City of Yantai and more broadly Shandong Province. These services and products are related to the planning, design, management, medical care, training and technology platforms. According to the ChAFTA, Australian healthcare providers can establish and operate their wholly owned facilities and hospitals in China.

To further develop its relationship with the City of Yantai and prepare its local SMEs for their engagement with China, CCS participated in the South Australian Business Mission to China in April 2016. A total of 12 members of ACACC also participated in the mission. Each member developed a promotional flyer that was then translated into Chinese, printed in English and Chinese, to be presented to the Chinese on the trip to China. The trip resulted in the signing of an MOU on Aged Care Cooperation between the cities of Charles Sturt and Yantai and a letter of intention to establish a sister-city relationship between CCS and the City of Yantai.

CCS facilitated two workshops to assist with the writing of the Business Plan for ACACC in May 2016. With funds provided by CCS, ACACC developed its Business Plan in July 2016. ACACC signed a Health Services Agreement with Yantai Investment Development Board in September 2016 during an inbound delegation visit by Shandong Province.

Table 2 lists the major activities of the China engagement process being adopted by CCS.
### Table 2 Key timeline for CCS’s engagement with China

<table>
<thead>
<tr>
<th>Year</th>
<th>Key activity</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Implementing the <em>Economic Development Strategy</em></td>
<td>To promote investment, export and tourism opportunities in collaboration with state and Commonwealth government initiatives in priority markets including China</td>
</tr>
<tr>
<td>Sept–Oct 2014</td>
<td>Conducting a Western Adelaide China Business Engagement Survey</td>
<td>To identify the needs and level of awareness of local SMEs to engage with China</td>
</tr>
<tr>
<td>Feb 2015</td>
<td>Developing the <em>Building Western Adelaide report</em></td>
<td>In collaboration with Port Adelaide Enfield, Holdfast Bay and West Torrens, to develop a joint economic development strategy for the Western Adelaide region</td>
</tr>
<tr>
<td>Feb 2015</td>
<td>Developing the <em>Western Adelaide China Business Engagement Strategy</em> and launching the China Ready Program</td>
<td>To assist local business to become ‘China ready’</td>
</tr>
<tr>
<td>May 2015</td>
<td>Attending the Shandong–South Australia Local Government Economic Development Cooperation Forum in Jinan, Shandong, in May 2015</td>
<td>To develop a government-to-government relationship and identify areas of mutual interest and opportunity</td>
</tr>
<tr>
<td>September 2015</td>
<td>Signing an MOU with the Yantai Municipal Bureau of Commerce, Shandong, China</td>
<td>To formally cooperate with the City of Yantai and identify the business opportunities in Yantai</td>
</tr>
<tr>
<td>Oct 2015</td>
<td>Launching the report <em>Western Adelaide Health Business – Collaboration for Commercialisation Project: Creating a Health Business Cluster</em></td>
<td>In collaboration with BioSA, Healthfirst Network, AsiaAustralia, Hudson Howells, to understand the capability of the Western Adelaide health business sector and its commercial potential for Asian countries</td>
</tr>
<tr>
<td>April 2016</td>
<td>Undertaking an outbound trip to China and signing an MOU on Aged Care Cooperation between the cities of Charles Sturt and Yantai</td>
<td>To further develop the government-to-government relationship with the City of Yantai and local SME’s capability to engage with China</td>
</tr>
<tr>
<td>July 2016</td>
<td>Facilitating the development of a Business Plan for ACACC with funds provided by CCS</td>
<td>To complete the Business Plan of ACACC</td>
</tr>
<tr>
<td>September 2016</td>
<td>Facilitating the signing of a Health Services Agreement between ACACC and Yantai Investment Development Board</td>
<td>To build direct links between local SMEs and Chinese businesses</td>
</tr>
</tbody>
</table>

**Case summary**

Strictly speaking, CCS falls outside the scope of regional Australia by definition (Regional Australia Institute, n.d.). It has a relatively large population (about 105,000) and is geographically close to the
capital city. Consequently, it has more resources and better infrastructure than those typical of local governments in regional Australia. Therefore, these contextual differences should be taken into consideration when learning of their China engagement practices. Nevertheless, qualitatively, CCS still shares some common characteristics with local government in regional Australia. This case shows that local governments can play an invaluable role in enabling and facilitating local SMEs to engage with China. CCS first developed its long-term vision and economic development strategy, then it conducted a business survey to identify the motivations and capability of local SMEs for their potential China engagement. After this, it developed its China engagement strategy in collaboration with the SA Government, a local university, industry associations and private firms, and is innovative in doing so.

The next stage in CCS’s engagement with China was to develop its government-to-government relationship with a Tier 3 Chinese government with the assistance of the state’s sister-city relationship, and actively explored business opportunities within the sister cities in China and its local government area. It then matched the Chinese opportunities with the capabilities of local private firms, and public organisations in the health sector. As a result, CCS initiated the establishment of ACACC and has since continued to play a facilitating and enabling role in leading local SMEs to success in their engagement with China through the leverage of its government-to-government relationship with Chinese government. Moreover, CCS organised several training seminars for ACACC members in relation to developing their Business Plan and improving their skills.

**Shire of Morawa: using council’s capability to engage with Chinese investors for community development**

The Shire of Morawa is located in the mid-west region of WA, 390 kilometres north of Perth. It is the largest shire in the mid-west region with a population of 1100. Agriculture, education, mining and tourism are the shire’s major industries. It is considered to be a regional education hub as it hosts two major education organisations – the WA College of Agriculture and Morawa District High School – that attract students from nearby shires. The Shire of Morawa is also part of Morawa Education and Industry Training Alliance, which consists of the Morawa Shire Council, Morawa District High School, Durack Institute of Technology, Karara Mining Limited (KML) and the WA College of Agriculture (Shire of Morawa, n.d.). Morawa’s engagement with China started in 2006, when a Chinese–Australian mining joint venture, KML, was set up to begin exploration in the mid-west region. The shire’s engagement with Chinese investors expanded in 2009 when another Chinese state-owned company, Sinosteel Corporation, acquired a mining company located in Morawa. Owing to the shire’s capability and strategy in engaging with Chinese investors, coupled with the substantial support from the WA State Government’s Royalties for Regions Funding, the Shire of Morawa was one of the nine WA ‘super towns’ identified under the Royalties for Regions legislation in 2012. A super town is deemed to have a vision for establishing and maintaining balanced communities, offering diversified job opportunities and attracting people to live in the region. Morawa was selected based on its potential for population growth, economic growth and diversification, strong local government capability and the generation of net profits for WA (Department of Regional Development (WA), 2012).

Engaging mining companies for community and regional development is often a big challenge for local governments. The Morawa Shire case offers insights into how local government can best use its...
capability to engage Chinese mining investors in the region.

**Developing local government capability in economic management**
The Morawa Shire council employs just over 20 staff with half of them working in the area of hospitality and the maintenance areas. Thus, it has a small administrative team. However, the former CEO was very competent and skilful in economic management as he had been a deputy CEO of a regional port before joining the shire as CEO in 2004. Indeed, once in the new role, he was the key person who drove the shire’s engagement activities with Chinese investors. With the strong support of the Shire Council, he was able to use his business expertise to interact, negotiate and collaborate with Chinese investors on developing local communities, particularly in the areas outlined in the sections below.

**Leveraging Chinese investors’ marketing capability to generate revenue for local government**
The Morawa Shire owned the land wherein mining was conducted by one of the mining operations of Sinosteel Midwest Corporation (SMC), a wholly owned subsidiary of Sinosteel Corporation of China, in Morawa as the Shire acquired the mine site land in 1995 as a consequence of a public insurance issue. The mine site was one of WA’s earliest iron ore mines, but closed down in the 1960s due to its failure to be economically viable thus the business was not sustainable. When the mine was closed, a pile of over 300,000 tonnes of low-grade iron ore was left at the mine site.

Recognising SMC’s marketing capability in the Chinese market, the Shire of Morawa formed a partnership with SMC to sell the low-grade iron ore and used its business skills to negotiate with SMC around the profit sharing. As a result, the iron ore sale generated over AU$5 million profit for the shire. This profit was used to develop several major community amenities in the shire, including the upgrading of its sports oval and function room, building aged care units, and acquisition of a new street sweeper and a water tank truck for road maintenance. More importantly, the shire received state government funds to improve its community facilities through leveraging the profit from the sale of the iron ore. In addition, it leased out its street sweeper for generating extra revenue for the shire.

**Engaging Chinese investors to improve local community facilities and activities**
The shire engaged with Chinese investors in the region since 2009. The shire negotiated with SMC after it completed its investment transaction on establishing a community fund for developing, upgrading, and maintaining community facilities. This resulted in an annual contribution of AU$100,000 from Sinosteel to establish a community fund for four years. Annual applications for this fund were sought from community groups for improving local community services and facilities, such as a bowling green, a golf course, solar panels for the sports club, a sports pavilion, tennis and basketball courts, a local historical museum, and an op-shop building.

**Establishing a future fund**
As part of the mining company’s responsibility according to the WA Mining Act, SMC was responsible for the maintenance of a 20-kilometre road from its mine site to the major regional highway, used for transporting iron ore. Recognising the importance of future economic growth for the shire, the shire was innovative in negotiating with SMC to fulfil this responsibility and pay for the road maintenance in advance based on the estimated mine life and cash flow discount. As a result of several rounds of
negotiation, SMC agreed to pay AU$1.1 million to the shire. Consequently, the shire has contributed further funding of AU$900,000 towards setting up a future fund of AU$2 million for the community. The interest or investment earnings from this fund will be used for future projects.

Gaining Chinese investors' support for regional strategic priorities
One of Morawa Shire’s strategic priorities is to develop the shire into a regional education hub. As discussed above, education and training is a key industry for the shire. Indeed, Morawa Shire has been very active in engaging Chinese investors in the region to develop the education industry. This has resulted in KML’s provision of a total of 13 apprenticeships, eight tertiary scholarships, and eight traineeships between 2008 and 2014, which have helped to attract more students to the shire.

Lessons and challenges
Many local governments in the mining regions of Australia have faced challenges in engaging with mining companies on regional and community development, primarily due to the power imbalance between local governments and mining companies, and the limited resources of local governments. Moreover, mineral commodities are cyclic, which impacts on the financial performance of mining companies, and thus their commitment to developing the local community and regional economy.

The Morawa case shows that local government can use its power and economic management skills to communicate and negotiate with mining companies – in this case, Chinese investors – in relation to regional development. As the shire representative expressed, ‘our ability to communicate and negotiate’ is the key to good outcomes. Local government is well placed to connect mining companies with local communities, and can use such knowledge and networks to engage Chinese investors. On this point, a senior council representative stated, ‘You need to get a balance in terms of what, from a community perspective, what’s good for the community and what’s good for the mining company’.

One of the key challenges facing local governments seeking to engage with Chinese opportunities is around the development, maintenance and enhancement of economic coordination, knowledge and skills. Local governments in regional Australia are often small in size and have quite a high level of turnover, and responsibility for economic coordination often rests with just a few personnel. Thus, effectively maintaining and enhancing the knowledge on China engagement can pose a significant challenge for local governments, particularly those located in regional Australia.

City of Warrnambool: developing local government’s capability to serve its SMEs and local communities to engage with China
The City of Warrnambool is located in the southwestern region of Victoria approximately 260 km from Melbourne. It is the largest city along the Great Ocean Road coastline with a population of 34,000 people. Agriculture (dairy and meat), education and tourism represent the City’s major industries (Warrnambool City Council, 2016). Like many regional cities, Warrnambool’s initial engagement with China began through a sister-city program with the City of Changchun which is the capital city of the Jilin Province, located in the northeast of China. Warrnambool has advanced the level of engagement with Changchun beyond the traditional sister-city relationship that addresses
cultural and social programs, and student exchanges so that it also includes business-to-business economic activities.

As highlighted in the Latrobe City Gippsland case study, many regional cities have formed sister-city relationships with Chinese cities. These regional cities, such as Latrobe City and Warrnambool, have aimed to advance their sister-city relationships to include economic aspects and opportunities. Nevertheless, few regional cities have been able to achieve these ambitions for a range of reasons (e.g. lack of resources and capabilities, resistance from Council, strength of sister-city relationship, etc.). The Warrnambool case study, therefore, provides valuable lessons on how sister-city programs with China can be leveraged for mutual economic benefits when resources are provided and capabilities are developed at the local government level.

**Warrnambool-Changchun City Sister-City Partnership**

In 2010, Warrnambool City Council was approached by a delegation from the City of Changchun in regards to developing a sister-city relationship. Changchun is a major manufacturing hub with a 7.5 million population. Initially there was some initial hesitation on the part of Council due to the significant differences in population and economy between the two cities. However, the Council worked through these issues and by August 2012 a five-year formal sister-city agreement between Warrnambool and Changchun was signed. Economic development and the promotion of common prosperity became major priorities of this agreement. Both cities agreed that the sister-city relationship will be reviewed and evaluated in 2017.

For Warrnambool, the greatest trade opportunities were embedded in agricultural products, dairy, meat products and animal genetics. Indeed, Changchun’s initial interest in the Warrnambool region was in dairy products. The dairy industry in the region, however, is dominated by the large dairy processors such as Murray Goulburn, Fonterra and Saputo who was formerly known as Warrnambool Cheese and Butter. These were not in a position to export to Changchun due to various forward supply contract arrangements and production constraints. According to interviews with Warrnambool City representatives, it took some time for Changchun delegates to understand these industry constraints and the inability of local government to intervene in the business decisions of the dairy operators even those located within Warrnambool. This situation reflects the substantial differences in the roles played by local governments between China and Australia.

Warrnambool City led business delegations to Changchun to explore potential business opportunities in 2011 and 2013 after the initial visit by the Changchun delegation. The sister-city relationship and reciprocal visits from both cities captured the attention of the Victorian Government who assisted the Council with $225,000 in financial support in 2013 so as to help the City build export opportunities with Changchun (Warrnambool City Council, 2014). As a result, Warrnambool City Council set up its China Hot Desk (or Help Desk) to support local business and communities with their numerous China engagements. This Hot Desk support is more about providing local SMEs with a helping hand in their decision making when they navigate the complexity of doing business in China. Thus the SMEs feel “confident and engaged in capitalising in the engagement”, stated by a city representative. The promotion of regional export is a key objective of this initiative as “export activity is local activity and we [the local government] have the best knowledge and relationships with industry to progress these sorts of possibilities”. Part of the State’s
funding was used to employ a Chinese economic development officer whose role was to foster economic ties between the two cities, and he was located in Changchun for six months in 2014.

The China Hot Desk initiative has provided a wide range of services to the local SMEs, particularly those interested in advancing trade opportunities with Changchun. The SMEs are “supported from having a Project Manager” who can provide a variety of assistance and advice. This includes business intelligence about China, Chinese firms, Chinese business practices and culture, negotiation, interpretation and translation services. Furthermore, assistance is provided to organise meetings with high-level Chinese business executives in Changchun, and office space which is provided by the City of Changchun. A Warrnambool City representative expressed that this approach reduces “any fear of the uncertainty and the complexity of doing business in China and … makes it as practical and easy as possible to navigate all of that (business) and to ensure that the transaction is maximised on the products that are produced here locally”.

Developing an improved understanding and appreciation for the ways local government and business decisions are carried out between the two countries was critical in the early stages. According to Warrnambool City representatives, key components to developing this awareness were reciprocal visits between the two cities and hosting a Changchun visitor with industry connections to Changchun’s livestock breeding industry for 8 months. Since 2011, the local government led three delegations to visit China. These delegations included over 30 local businesses participating in the trips to China, thereby building strong people-to-people connections. These personal connections enhanced build trust and understanding between the two Cities and in addition, strengthened business networks and associations.

The sister-city program brought a number of benefits to the local community. A strong link was developed with the local SMEs and educations institutes and Changchun through the sister-city relationship. Two local businesses operating in the livestock and genetics industry commenced exporting to Changchun which was facilitated by the Changchun visitor. Two memorandum of understandings (MOUs) were signed between the university operating in Warrnambool and Chinese universities in Changchun so as to bring Chinese students to its regional campus at Warrnambool.

Another significant benefit of the sister-city relationship is the development of the local government’s capability to support and facilitate its local SMEs in their engagement with China. Through the four years of the sister-city relationship and the financial assistance from the State Government, the local government has developed its knowledge and skills to assist local communities and SMEs to connect with China, identify opportunities, and conduct business with or in China.

Local communities also benefit from the sister-city relationship. The local primary school has established an exchange relationship with a Changchun primary school. The school students have visited China to learn about the Chinese culture and language. The visits by Chinese tourists and businessmen have also strengthened the people-to-people relationship between the local
community and the Chinese people, which has laid down a solid foundation on which further bilateral trade and investment can be based.

Finally, the sister-city relationship between Warrnambool and Changchun has been leveraged for helping other Australian firms develop business opportunities in China, as evidenced by the recent trade between a Chinese firm in Changchun and an Australian engineering company in Victoria.

**Challenges**

A number of challenges emerged from the Warrnambool-Changchun sister-city relationship. The first challenge, relates to understanding the differences in the business-government relationship between the two countries. The way in which local governments may influence local business decisions is clearly different in Australia and China. It takes some time to understand the nuances of these differences. If not handled appropriately through connection, education and honest conversations, this may result in a relationship breakdown.

The second challenge relates to the number of local businesses with the inclination, capabilities and resources available to them to develop export opportunities with China. These are relatively few in the region and in most cases small in size. As highlighted in this case study, the larger firms have the greatest resources and capabilities to explore sister-city options but for various reasons may be constrained to do so. As a result, local governments tend to focus their attention on SMEs where they may have some influence and impact. Among these SMEs, however, there may be only a handful capable, or interested, in exploring new export opportunities particularly in a country where language and regulatory barriers are significantly different.

The third challenge is associated with local governments who have the additional challenge of not being perceived by the local community as ‘choosing winners’ among the business community. Warrnambool City has carefully managed these constraints by offering business support services to all interested businesses and providing support to businesses where their capabilities and resources may be limited. In addition, Warrnambool is careful not to be seen as solely working with one or two agricultural industries even if this is the primary interest of the City of Changchun and has actively worked with local tourism operators and education providers.

Connected to local community expectations is the fourth challenge where local governments find it challenging to maintain community support for the council to pursue international relationships and activities. As discussed in the Latrobe City study, a targeted international relationship strategy can be incredibly important for fostering social and economic development opportunities for regional areas. However, convincing local residents who are rate payers that this is a sound use of limited resources is often not easy. Thus these initiatives receive low priority by local councils and their respective mayors and council members. The Warrnambool-Changchun sister-city relationship is likely to confront these challenges in years to come as state-government funding comes to an end and council will be expected to provide additional resources to maintain the momentum and level of support. Demonstrating to council and local ratepayers that the program has delivered significant outcomes to Warrnambool businesses and the local economy, or at least that it is likely to do so in the near future, will be critical in securing ongoing council support.
The fifth and final challenge relates to the economy of scale differences between Australia’s regional cities and the much larger sister-cities they are associated with in China. While there are clear benefits to this situation, most importantly being larger market opportunities, there are also risks. Australia’s regional cities may feel like they are the ones having to ‘compromise’ in the relationship, as suggested by one Warrnambool city representative. Furthermore, local firms may not have the production capacity to deliver the volume of orders that might be expected by Chinese firms who are servicing much larger markets than what Warrnambool firms are accustomed to.

These challenges are not easily addressed but cannot be ignored if mutual benefits for both Warrnambool-Changchun cities are to be achieved from the sister-city relationships. The Warrnambool-Changchun sister-city case study, however, shows real initiative and innovation in advancing social and economic partnerships between regional Australia and China despite the many challenges and constraints.

City of Onkaparinga: playing a leadership role in coordinating local governments and SMEs for China engagement

The City of Onkaparinga (Onkaparinga) is located in the south of Greater Adelaide, about 35 minutes’ drive from the Adelaide CBD. The region covers an area of 518 square kilometres and has a population of about 170,000 people.

Onkaparinga is home to more than 9000 businesses operating in a variety of industries. The top three industries (by value added) are rental, hiring and real estate services, manufacturing, and health care and social construction (City of Onkaparinga, 2016c). As Onkaparinga is situated within the Fleurieu Peninsula, a key tourism destination in SA, and covers the wine region of McLaren Vale, tourism is also an important industry.

In 2013, Onkaparinga developed its Community Plan 2035. The plan has three key economic goals: a new economy, the south as a destination, and dynamic and resilient businesses. The plan also guided the development of the council’s Economic Growth and Investment Strategy, which is founded on three pillars: Grow Business, Grow Investment, and Grow Communities and Tourism (Dowd, 2015).

Onkaparinga has played an active leadership role in economic development and China engagement over the past three years, and taken an innovative approach in developing its engagement activities and programs for its local business and communities.

Onkaparinga’s China engagement: key programs and activities

Building government-to-government relationship with Chinese counterparts for economic cooperation and cultural exchange

Investing time and effort to build direct government-to-government, government-to-business and business-to-business relationships is crucial in doing business with China.

Onkaparinga forged a sister-city relationship with Changli in Hebei Province, and more recently a Friendly Cooperative City Agreement with Jinan in Shandong Province. Onkaparinga hosted its first
Chinese delegation from the City of Luzhou in 2013 and at the same time signed its first MOU with Luzhou government, aimed at maximising economic, trade and cultural exchange opportunities.

Onkaparinga also hosted a delegation from the City of Changli in 2013, and in August of the following year signed a sister-city agreement. This agreement focused on ‘strengthening of economic and regional ties, industry collaboration and innovation, and cultural awareness and appreciation’ (Onkaparinga, n.d.). Key industries in Changli include wine, agriculture and tourism, offering strong compatibility with Onkaparinga and opening the door to potential for trade promotion and knowledge transfer between the two cities.

Leveraging the sister-state relationship between the SA Government and Shandong Provincial Government, Onkaparinga then signed an MOU in May 2015 with the Jinan Bureau of Commerce for driving trade and investment.

Furthermore, a Friendly Cooperative City Agreement was signed with the Jinan Municipal Government in September 2016 (City of Onkaparinga, 2016a). The City of Jinan is the capital city of Shandong Province with a population of seven million, and is one of the 16 cities that were chosen by the Chinese Central Government in 2015 to pilot its ‘Sponge City Program’ for capturing water for reuse. Under the program, the Chinese Government provide funding of more than one billion dollars from 2016 to 2018 (Austrade, 2015).

Recognising the opportunities offered by this program and the water management capabilities in both locally based SMEs and more broadly across SA, Onkaparinga signed an MOU in December 2015 with a Jinan-based Chinese privately owned piping company, Shandong Ronghui Guantong (SRG). The MOU is aimed at facilitating local SMEs to export water collection products to China. Onkaparinga also signed a tripartite MOU with the Water Industry Alliance (WIA) of South Australia (which represents 160 water-related business members and specialist water management consultants) for potential collaboration between the WIA and SRG.

**Playing a leadership role in coordinating local governments’ effort in China engagement**

Guided by its vision to foster strong vibrant communities across the region, and the key goal of creating a prosperous economy, Onkaparinga established three objectives for its engagement with China. They are to promote and position Onkaparinga as a popular place to live, work and do business; strengthen partnerships and relationships in domestic and international markets with business and government; and identify and match investment and trade opportunities to facilitate connections for local businesses.

More specifically, Onkaparinga aims to progress strategic government to government relationships, represent local business, secure foreign investment, promote key investment projects, and support growth in the tourism, food, wine, water and agribusiness industries (Dowd, 2015).

Therefore, the council plays three main roles in its engagement with China:

1) strategy development
2) relationship building with Chinese government and targeted business
3) identification of key investment and trade opportunities for the city and region.

Recognising the importance of collaboration and cooperation with other local governments in SA, the Onkaparinga established a local government consortium in 2016 that consisted of five local
governments with their sister/relationship city in China. They are City of Salisbury (with Linyi), Charles Sturt (Yantai), Adelaide (Qingdao), Playford (Zibo), and Onkaparinga (Jinan).

This consortium aims to create scale and capacity to China, inter-government collaboration and coordination for best capturing the Chinese opportunities by the region.

**Developing innovative programs and activities to build local business capacity and capability to engage China**

Building local business capacity and capability to engage China has been a priority for the city council. Onkaparinga is also establishing the new ON Business Partner Program to offer local SMEs access to a range of services and support. A significant outcome of the program will be engaging with local export-ready business and facilitate opportunities to meet with investors and potential customers, including those from China.

The water sector in China represents a prime opportunity for potential investment and export arrangements between businesses in Onkaparinga and Shandong. The tripartite MOU between SRG, WIA and Onkaparinga is a major business initiative developed and facilitated by Onkaparinga, built on a high level of in-house expertise in water sensitive urban design. The council has developed such expertise through its successful management of large scale infrastructure projects including the five-year, AUD55 million ‘Waterproofing the South’ program. This is the largest water initiative of this kind in South Australia and aims to capture and reuse over three billion litres of rainwater annually. Another key achievement in water management is Onkaparinga’s approach to capturing, harvesting and reusing rainwater from existing and new landscapes to avoid using mains water. The winemaking region of McLaren Vale also uses 100% reclaimed water on all vineyards across the region.

There are several major water-related companies that are located within Onkaparinga. Given the relationship Onkaparinga has developed with the WIA and the ability to call on the expertise of 160 specialists operating in the water sector, there are many opportunities for collaboration, knowledge sharing, and IP transfer between WIA and SRG and the City of Jinan through the Sponge City Program (City of Onkaparinga, 2016b). This initiative therefore has the potential to have a major positive impact on the export of water-related products and services offered by SMEs in Onkaparinga – and throughout South Australia – to China in the future.

The council also engaged an Onkaparinga–China Ambassador, a Chinese native, to work closely with council’s Investment Attraction team. The ambassador offers a variety of professional and administrative services to the council and local SMEs, including translation services, cultural guidance, coordinating communications with China, and dealing with the administrative and logistic requirements of doing business internationally.

Onkaparinga encourages local SMEs to participate in China trade missions to gain first-hand experience of doing business in China. The government-to-government relationship developed by Onkaparinga is very helpful in this regard and directly assists local SMEs to connect with prequalified Chinese investors and trade partners. Such face-to-face meetings have helped both sides build trust and rapport, and develop a better understanding about what each party can offer. Onkaparinga has also delivered a series of seminars and events for its local SMEs, and provided advice on how to do business in China.
Onkaparinga is innovative in the promotion of the city and local businesses and investment opportunities through the use of social media. Understanding the popularity of social media in China, particularly the use of Wechat, Onkaparinga has used this social media platform as a primary communication medium with interested stakeholders throughout China.

**Benefits from the council’s engagement with China.**
A number of economic and social benefits have been generated as a result of the council’s China engagement effort. Through its work with the City of Luzhou, Onkaparinga facilitated an AU$5 million Chinese investment into a McLaren Vale winery in 2013 (Department of State Development (SA), 2014a). This helped the winery expand its vineyard holding and winery, and increase exports to China. Over the past three years there has also been a significant increase in exports to China across the entire McLaren Vale wine region, delivering positive flow-on effects to local grape growers and supporting industries, such as cardboard manufacturers, glass bottle producers and label printers, and providing growth in local employment and the local economy. The brand awareness and reputation of McLaren Vale as a premium wine growing region and an attractive eco-tourism destination has also been enhanced through exposure in one of the world’s largest export markets.

The development of the capability and capacity of local SMEs to engage with China has been a positive outcome of Onkaparinga’s China engagement strategy. Opportunities for cultural exchange have also arisen from the strategic relationships that Onkaparinga has developed with its government and business partners. The community has received further benefits from Onkaparinga’s engagement with China in the form of education exchange facilitated through secondary schools in Onkaparinga and Changli.

**Challenges**
Onkaparinga has successfully facilitated significant investment in the local region and brokered strategic agreements with government and business at all levels in China to create opportunities for local businesses to negotiate trade with potential partners. However, Onkaparinga is relatively large in size (population and thus financial resources) compared with a typical local government in regional Australia. Thus its size may provide Onkaparinga with various advantages in implementing strategies and programs when engaging with China. Nevertheless, it still encounters several challenges.

There is a marked difference in business practices between Australia and China. For example, the development and maintenance of relationships and networks, or ‘Guanxi’ as it is known in Chinese, with Chinese governments is very challenging. Government-to-government relationships in China are critical in opening doors for business opportunities. Onkaparinga has navigated these challenges to deliver outcomes for the region. As an example, over a period of more than 18 months at least three local businesses in the water, wine and waste management sectors have progressed to advanced negotiations with investors in Jinan to export their products or IP, following introductions directly facilitated by Onkaparinga.

Despite the strategic agreements Onkaparinga has in place with both government and business in China, some of the commitment behind these agreements is driven personally by representatives such as the relevant mayors, chief executive officers or other high level officials. In the case of Onkaparinga’s relationship with key partners such as the City of Jinan and SRG this works exceptionally well. Onkaparinga has, on occasion, experienced a temporary lack of engagement with
one or two of its China partners when high level officials have left office. This has necessitated a proactive approach to re-connection and more frequent communication to ensure all parties remain committed to achieving the strategic outcomes that have been intended.

Another challenge is the obvious difficulty in regular communication with Chinese counterparts due to the language barrier, cross-cultural understanding and the geographic distance. The Onkaparinga–China ambassador therefore plays a vital role in coordinating the exchange of bilingual correspondence with partners in China. To support the efforts of the ambassador, Onkaparinga has recently employed a part-time staff member to assist with translations and general engagement with the China market.

Finally, maintaining the support and patience of local communities for council to invest the necessary time and resources in engaging in the China market is another challenge facing local governments. This is because engaging with China usually requires significant time and effort to build trust and relationships first before any substantial business outcomes can be achieved. Moreover, the benefits of such engagement effort are often multifaceted (i.e., social vs economic, local vs regional) and influence each other. Therefore, the return on such investment is often realised in the long term and in many cases cannot be explicitly calculated due to the combination of intangible and tangible benefits arising from China engagement. Thus, maintaining transparency and accountability in China engagement and effective communication with local communities remains a critical issue for local governments in their endeavour to engage with China for sustainable economic growth and community development.
6. Case study: regional SMEs’ engagement with China

Regional SMEs are key players in regional Australia’s China engagement. They not only contribute substantially to national exports, but are also highly innovative and resilient in their international engagement. The signing and implementation of ChAFTA in 2015 have further reduced the tariffs for Australian exports to China and made Australian products more competitive in the Chinese market. Moreover, the number of Chinese tourists to Australia has rapidly increased over the past six years. All of these factors have provided many opportunities for regional SMEs to engage with China. The following sections present two case studies of regional SMEs engagement with China and the associated challenges.

Reid Fruits

The Australian cherry industry produced about 15,000 tonnes of cherries in 2014–15 (Cheery Growers Australia Inc, 2016b). A total of 3500 tonnes (22%) was exported to over 30 countries, generating AU$47.9 million (Cheery Growers Australia Inc, 2016a). It is expected that cherry production will be increased to 20,000 tonnes by 2020, with 50% to be exported.

The signing of the ChAFTA on 20 December 2015 has provided more opportunities for Australian cherry growers. The cherry tariff to China was reduced to 8% in 2016 from 13% before the implementation of ChAFTA, and will be further reduced to 0% in the next three years (2017–19). This will substantially increase the competitive advantage of Australian cherry growers in the Chinese market, and thus the volume of cherry exports to China.

With China’s rapid economic development over the past three decades since its implementation of economic reform and the open door policy in 1979, the purchase power of the Chinese has substantially increased. Given its 1.3 billion population, China is a big market for Australian cherry exports. In 2014, Australia exported 150 tonnes of cherry to China, and exports increased to 806 tonnes in 2015–16 (Cheery Growers Australia Inc, 2016c). However, China’s market is also diverse. Chinese culture and business practices are very different from those in Australia. Thus, there are still many challenges facing Australian cherry growers seeking to export to China. For example, China is a protocol country (using a fruit export terminology), which means that it requires fruit exporters to provide extra documentation, such as a Phytosanitary Certificate and Country of Origin, to Chinese customs for inspection. Additionally, Chinese consumers are ‘exceptionally fussy’ (Interviewee) about cherries in terms of freshness, taste and look. Chinese customs officials located in different ports may require different and specific import documentation.

Reid Fruits is a major fruit grower in Tasmania, with over 160 years in the industry. Tasmania is free from the fruit fly; thus, Tasmanian cherries can be directly exported to China as long as all the required documentation is provided, and there is no need for further fruit treatment, or end point treatments, at the Chinese importing customs. Reid Fruits was originally established as an apple grower, packer and exporter. In 2000, the current owner, after having made several trips to Asia, which involved seeking to improve market access for apples in China, believed that there was an opportunity to sell cherries to Japan and other Asian markets, partly because the harvest timing of the dark cherry aligns with Chinese/Lunar New Year. Consequently, Reid Fruits started planting cherry orchards to diversify its products. For some time, the firm has been exporting its fruit (both
apple and cherry) to Asian markets, such as Japan, South Korea, Taiwan and Hong Kong, before gaining formal access to Mainland China, which was granted in 2012.

The firm currently employs about 15 full-time ongoing staff, and about 80 full-time equivalent casual workers during the harvest season. In recent years, it has employed up to 650 people for picking and packing during the harvest season. The majority of these workers are backpackers (70%), while the other workers are locals, including ethnic groups such as Bhutanese.

Reid Fruits planted nine varieties of dark cherry and harvested about 1100 tonnes in 2015, representing approximately 20% of Tasmania’s total cherry production. Most of the cherries (87%) produced by Reid Fruits were exported, with the Mainland China market being the largest (37%), followed by South Korea (19%), Hong Kong (9%) and Taiwan (7%). There is no tariff in Hong Kong for cherry imports. With some recently planted cherry orchards coming into production this year, Reid Fruits expects its cherry production in 2016 to rise to 1500 tonnes.

Encouraged by its increased market access, particularly in China, Reid Fruits has acquired a new site for its cherry orchards. This new site is located about halfway between Hobart and Launceston. Importantly, due to Tasmania’s climate and geography, the cherry trees planted in this state and subsequently fruits are harvested later in the season compared to producers in other locations in the Southern Hemisphere. With the new orchard, Reid Fruits can extend the length of cherry supply from the usual five to six weeks to eight weeks to cater for Chinese New Year, which takes place between late January and early February. This expansion will increase the company’s annual cherry production by 30% to a total of 2000 tonnes in 2020, as cherry trees require five years to mature from plantation to production. The company will also employ five additional full-time people, and over 100 casual seasonal workers (20–30 full-time equivalent) once it is in full production.

Although the success of Reid Fruits in its engagement with Chinese trade opportunities can be partly attributed to it gaining market access in 2012 and the signing of ChAFTA in 2015, Reid Fruits management has played a significant role in entering in the Chinese market, particularly in the areas outlined below.

**Understanding the Chinese market and developing export capability**

Recognising the importance of the Asian market for the firm’s exports, the owner of Reid Fruits, Tim Reid, has made several trips to Asia every year since 2000 to sell apples and cherries, including to Japan, Korea and Hong Kong. The firm has also actively participated in trade shows, such as Asia Fruit Logistica. These visits and participation in trade shows have not only developed the firm’s ability to sell fruit to Asian markets, but also helped Reid Fruits gain greater insight into consumers’ needs and preferences for cherries in Asia and the timing of cherry selling, which aligns with Chinese New Year. The owner has been heavily involved in improving market access for cherries in China since the early 2000s through close collaboration with Fruit Growers Tasmania and Cherry Growers Australia Inc, which is based in Hobart.

Recruiting the new Marketing Manager has substantially increased Reid Fruits’ capability to export to China as she had previously worked for Fruit Growers Tasmania where she was heavily involved in establishing market access to China since the mid-2000s before joining the firm. Moreover, the owner and senior managers of Reid Fruits have made at least two trips to China each year over the past five years in order to better understand the Chinese market and develop business relationships.
with the firm’s distributors in China. The experience gained from exporting to Japan, Korea and Hong Kong and the understanding of the Chinese market accumulated through the visits to China have ensured that Reid Fruits was well prepared for its rapid growth in cherry exports to China last year. Therefore, the firm’s careful planning and networking has clearly been a key factor underpinning its success in the Chinese market.

**Developing a marketing strategy and reviewing it every year**

Due to the significant differences in culture and business practices between China and Australia, it has been crucial for Reid Fruits to develop a marketing strategy to capture Chinese opportunities, while at the same time minimising the risks involved in exporting to China.

Recognising the risks of becoming dependent on a single market, Reid Fruits has adopted a country diversification strategy to minimise the risks associated with a ‘single point of failure’, as described by a senior manager at the Fruit Growers Tasmania. Although China is a major market for cherry exports, Reid Fruits has allocated a market share to numerous countries and capped its export share to China. It exported cherries to 20 countries in 2015.

Regarding market coverage, Reid Fruits has focused on Tier 1 cities over the past two years, such as Beijing, Shanghai, Guangzhou and Shenzhen. However, it has also begun to develop Tier 2 and 3 city markets in China. Its strategy is to directly export to retailers and consumers using both online and offline channels, and to reduce the channel length by directly dealing with the key purchasing managers. As the Marketing Manager stated: ‘Our key is to minimise exposure in the volatile wholesale market and maximise online and retail’ as ‘the wholesale channel is very prone to variations in price and demand’, and ‘the programs of doing online and doing retail are more planned and more reliable’.

This marketing strategy has been very effective. However, it is being reviewed after every season, and refined accordingly.

**Packaging and response to counterfeiting in the Chinese market**

Based on its good understanding of Chinese culture, Reid Fruits has specifically tailored its packaging to the Chinese market. Red and yellow, often perceived by the Chinese as happy and auspicious, are used as the base colours for its packing boxes, which include pictures of a hopping, golden kangaroo indicating the country of origin and fresh dark cherries, to convey the message of ‘Premium Cherries from Australia’, as the Marketing Manager explained. This packaging facilitates cherry sales in China as Chinese importers and consumers can simply ask for ‘Gold Kangaroo’ cherries (see Figure 11).
Particularly because the cherries produced in Tasmania have a very good reputation in China and so enjoy a price premium there, a major counterfeiting problem emerged in 2014. In order to minimise the potential for such counterfeiting to occur, in 2015 Reid Fruits worked with key suppliers to adopt technological and packaging innovations which included sourcing products from reliable Australian suppliers to reduce the risk of copy products being produced overseas.

In addition to changing the package supplier, three other measures aimed at preventing counterfeiting have been adopted (see Figure 11):

1) A laser-cut logo, which is almost impossible to copy, was introduced in 2015, and is now included on all cherry cartons. Moreover, a different logo will be used each year, making it even more difficult to copy.

2) A watermark is now printed onto the packing box, making it difficult to copy.

3) A unique QR code is used for each box of cherries. Consumers can scan the QR to determine the authenticity of the cherries. The first time consumers scan the code, the scanner presents them with the message ‘Congratulations you’ve got an authentic box of cherries’. If the QR code is rescanned, the message reads, ‘This has already been scanned’. The use of a QR code not only helps address the counterfeiting problems, but also assists the firm to collect information about consumers’ locations. This information is then used to inform the firm’s marketing activities, such as sweep and online contests. Additionally, consumers are choosing Reid Fruits cherries in particular because they can authenticate the product.
Following the change in package supplier and introduction of the above measures, there were no reports of counterfeit Reid Fruits cherry cartons in the Chinese market in 2015.

**Careful selection of distributors and skillful management of channel conflicts**

Prior to gaining market access to China in 2012, Reid Fruits had used several importers from Hong Kong and developed a database of potential Chinese cherry importers. Due to the significant demand for high-quality Australian cherries, the company was swamped by visitors after the Chinese Government opened its market to Australian cherry exports, including calls and emails from potential Chinese importers. As of early 2016, there were more than 200 Chinese cherry importers on the company’s waiting list. Reid Fruits used several channels in 2015 to export its cherries to China, including wholesalers, retailers and online. Given the potential conflict among these different channels, it is very important to select the right Chinese importers and distributors to manage such conflicts as this is ‘integral to the success of your business because you want them to make money and you don’t want them to start competing against each other’, as the Marketing Manager explained.

**Bridestowe Estate, Tasmania**

Bridestowe Estate is a family-owned agri-tourism business located in Nabowla, north-east Tasmania. It covers 107 hectares of farmland and is currently owned by four family members. The owners bought the business from Orica, a multinational company, in February 2007. At the time of the acquisition, the business was operating primarily as a lavender farm, producing lavender oil, and also as a tourist attraction for international and domestic tourists. However, ‘the business was in very poor health and very run down, and had lost its credibility’, as one of the owners and Managing Director, Robert Ravens, explained during our interview.

Nine years after the acquisition, Bridestowe Estate has been developed into the largest lavender farm in the Southern Hemisphere and one of the top tourism sites in Tasmania through three major strategic development initiatives.

The first strategic initiative was the improvement of the lavender farm to bring it ‘back to its magnificent status’. Thus, the owners invested heavily in agriculture to make the farm agriculturally strong, and to create a unique and outstanding tourist destination to generate a ‘wow’ factor for tourists, as the foundation of the business lies in tourism and lavender oil production. Although this process was expensive and slow, taking around five years, it turned the business around such that it has been cash positive since September 2010. The second strategic initiative commenced in 2008, focusing on upgrading the tourism facilities and new product development, such as Bobbie the Lavender Bear and lavender ice cream. This initiative was aimed at improving the tourist experience and generating extra revenue by increasing the sales of goods at the farm site. The third initiative was to leverage the firm’s brand name and reputation to develop new value-added products with business partners. The firm has set up an office in Sydney, which focuses on design and R&D, and establishing new products that are authentic, unique, and difficult to replicate. At the same time, it has established partnerships with two mainland firms – one in film production, to produce a series of short films set around *The Adventures of Bobbie the Bear*; and another for lavender pillow and quilt production for export to China and other countries.
The firm employs between 30 and 50 full-time equivalent people, depending on the season. It generated about AU$6 million in revenue in 2015. The business has enjoyed growth at a compound rate of over 20% per annum over the past nine years since its acquisition, and is 10 times bigger than when it was acquired in 2007.

Bridestowe Estate has become one of the most recognised Australian businesses in China and attracts over 65,000 tourists a year to its lavender farm at Nabowla. Among these tourists, over 70% are of Chinese heritage, either from China or overseas Chinese, representing an increase from about 4000 in 2011 and an annual compound growth rate of more than 80% over the past four years (2011–15). The factors outlined below can be considered the key drivers for its success in engaging with China.

**Innovation to create a unique experience for tourists**
Creating and developing a unique and magnificent lavender farm has been the foundation for attracting international tourists, particularly Chinese ones. After nine years of substantial improvement of the lavender farm and its tourism facilities, the farm has become a major tourist attraction in Tasmania. The farm’s uniqueness, augmented by its innovative products, such as Bobbie the Lavender Bear and lavender ice cream, generates long-lasting memories for the tourists who visit. Although the number of Chinese tourists visiting Australia exceeded 1 million in 2015, they tend to be attracted to larger, more well-known tourist destinations. Therefore, developing the farm into a large and unique tourist attraction is critical to entice more Chinese tourists.

**Marketing, social media and celebrity endorsement**
Recognising the importance of marketing to the promotion of its farm to tourists, the firm has been innovative in this area. It uses a variety of media, particularly its website and social media such as Facebook and Twitter. It has also collaborated with a film-making firm in Sydney to produce a series of short animated films about its lavender farm and bear. These short films have been shown on its website and in some focus media, such as the in-flight screenings of several airline companies, including Qantas and Cathay Pacific Airlines.

Celebrity endorsement is probably one of the most powerful promotional tools to promote the firm’s business in China so far. In 2013, a Chinese celebrity (who had over 7 million followers at the time) posted a photo of herself cuddling the fluffy lavender-coloured bear on her personal account of Weibo, one of the most popular social media sites in China, generating millions of hits from China on the firm’s website. The number of hits was so big that the firm’s web host was unable to cope with the volume and had to take the website offline temporarily. Consequently, sales of the lavender bears rocketed from 7000 in 2012 to over 30,000 in 2013. The demand for the lavender bear rose so abruptly that the firm had to implement a ‘one person, one bear’ policy, limiting sales to one lavender bear per customer. Since the celebrity post, nearly a quarter of a million lavender bears have been sold. More importantly, the number of Chinese visitors to the lavender farm has also substantially increased since the celebrity endorsement.

**IP protection**
Although the rapid increase of demand for the lavender bear in China generated much revenue for the firm, it also led to a counterfeiting problem in China. Eight shipments of counterfeit lavender bears were destroyed by Chinese customs between April and July 2014 due to their poor quality and thus biosecurity risk they posed. Subsequently, the Chinese quarantine authority issued a blanket
ban on the importation of all lavender bears in 2014 (Australian Broadcasting Corporation (ABC), 2014).

Bridestowe Estate has taken the counterfeit problem very seriously since then and taken legal action against the counterfeit manufacturer and trader. At the same time, it developed an ‘authenticity’ identification label for each of its products, which has proved effective so far. Although the legal expense has been substantial for the firm, it is now able to sell its lavender bears to discerning Chinese consumers from its website, while they ignore the plethora of counterfeit products in the Chinese markets.

**Contractor and partner selection**

Contractor selection is critical for Australian firms in their engagement with China in order to protect IP. Although the lavender bears are now hand-stuffed with local lavender at the firm’s factory in Tasmania, prior to the occurrence of counterfeiting, the firm had contracted a Chinese manufacturer to produce the furry external material for the bears. This outsourcing to a Chinese company may have led to the counterfeiting of the firm’s products in the Chinese market, so Bridestowe cancelled this contract with the existing Chinese manufacturer and implemented very strict quality control supervision with a new manufacturer in China. Therefore, while using Chinese contractors can minimise costs, and help build partnerships that create shared value in the Chinese market, it is critical to only use reputable contractors in order to protect IP.

**Securing government support and building business relationships in China**

The owners of Bridestowe Estate have participated in the China outbound delegations organised by the Tasmanian State Government and federal government over the past five years. Due to the importance of tourism to its economy, the Tasmanian Government has committed a significant amount of state resources to international engagement with China. Seeing Bridestowe as a key player in the Tasmanian tourism industry, the state government has invited the firm to be part of the delegation to China, connected the Chinese visitors to the firm, and helped promote the firm’s business to potential Chinese tourists. Both the current and previous state governments have been ‘remarkable partners in helping us get our product recognised’, the Managing Director commented. Indeed, the lavender bear was presented as a gift to Chinese President Xi Jinping and his wife by the state government when the couple visited Tasmania in November 2014. The strong support from the Tasmanian and federal governments has helped the firm build its credibility and reputation in the Chinese market.

The owners have also expended a great deal of effort on building relationships with Chinese travel agents and other key stakeholders. As the Managing Director commented:

> We’ve been working hard on our Chinese tourism strategy for years ... We spend a lot of time in China talking to stakeholders in China, to travel agents, to government officials. So we have a very open dialogue with those in Shanghai, Beijing, and Guangzhou. We spend a lot of our years ... chatting about Tasmania ... our farm and opportunities to build a level of interest and expectation which does underpin part of the tourism interest.

**Leverage brand name to further grow business**

For several years, the firm has been leveraging its well-recognised brand name for new product development. It has concentrated on home products, such as soap, liquid hand wash, pillows and
quilts. In doing so, it has developed partnerships with other SMEs and individuals. For example, it has partnered with a Melbourne-based manufacturer to produce a lavender quilt, targeted primarily at the Chinese market. It also partners with individual designers in developing other new products.

**Using e-commerce for exports**

Besides using retailers at international and domestic airports to sell its products, the firm also uses e-commerce, primarily through its own website, to generate extra sales. Although only a small proportion of sales is generated by e-commerce, the firm understands the importance of e-commerce for enhancing its brand name and attracting tourists to its website. Thus, it aims to provide high-quality services to its online buyers by offering a 24-hour turnaround on orders from its website.

**Challenges in engaging with China**

The discussion above reveals how innovation and dynamic capability development are key success factors in engaging with Chinese business opportunities. ‘Being different, being innovative and being very fast moving’ are critical to success for small, family-owned businesses. Moreover, it is crucial to have a vision and business strategy that coordinate a firm’s business activities through their marketing and product innovation. IP protection and business partner selection are also important factors to be considered when entering the Chinese market. Leveraging a well-developed brand name has the potential to significantly enhance business growth. Nevertheless, Bridestowe Estate has faced several challenges in seeking success in the Chinese market.

Besides the common challenges of running a small business in regional Australia, such as those related to location and transportation, funding, and seasonal fluctuations in sales, two particular challenges facing Bridestowe concern IP protection in the Chinese market and the selection of an appropriate partner in China. The firm is currently looking for a business partner with whom to collaborate on its business expansion, and would like to partner with firms that have a shared vision and rich experience in the tourism and retailing industries.
7. Case study: Chinese investors’ engagement with the regional community

Although Chinese investment in Australian agribusiness is still relatively small (about 2% of its total investment in Australia), it has gradually increased since 2014 (KPMG & Sydney, 2016). Chinese investment in regional Australia so far can be characterised by several large deals of AU$100 million or above, with many small transactions (valued at less than AU$10 million in total). Nevertheless, the impact of Chinese investment on the region invested in can be substantial as the population size and employment in the region can be relatively small. Moreover, Chinese investors in regional Australia often rely on the local community for critical inputs for their business, such as workforce, business services and employees’ accommodation. Therefore, the engagement of Chinese investors with local community and government can be important for community development and the survival and prosperity of Chinese investment. The following case study shows how Chinese investors in regional Australia can achieve such a win-win solution.

Kimberley Agricultural Investment (KAI)

Kimberley Agricultural Investment (KAI) is a wholly owned subsidiary of Shanghai Zhongfu Group, a privately owned company in China. KAI was established in November 2011 in preparation for its bidding for the Ord-East Kimberley Expansion Project Stage 2. In November 2012, KAI was announced by the WA State Government as the preferred proponent for leasing 13,400 hectares of land in East Kimberley for the development of Ord Stage 2, following a public tender process. The lease covers two pieces of land: Goomig farmland which comprises 7400 hectares and is adjacent to the Ord Stage 1 area, and Knox Plain lands which covers 6000 hectares near the border of WA and the Northern Territory. Subsequently, KAI signed the Ord Development Agreement with the WA Government in December 2013 to develop the leased land into irrigated farmland. The company can lease the land for 50 years, and renew for a further 25 years if it meets the significant milestones specified in the agreement.

To realise the full potential of land and water resources in East Kimberley, the federal government invested AU$195 million as part of a stimulation package in response to the Global Financial Crisis in 2009 to improve the social infrastructure, such as schools and hospital, in East Kimberley. The WA State Government spent AU$322.5 million before 2012 to improve the state’s economic infrastructure, such as telecommunications, road and irrigation systems.

KAI has been managed since its establishment in 2011 by a Chinese expatriate (the CEO), and a locally engaged General Manager. Currently, KAI employs over 50 people, of whom more than 20% are Indigenous people.

In the three years since it started developing the leased land into irrigated farmland, KAI has spent over AU$40 million on land clearing, levelling and construction of irrigation channels and water recycle systems. By the end of June 2016, all 7400 hectares of land in Goomig had been cleared and over 4000 hectares of land levelled. It is expected that all of the Goomig farmland will be completed and ready for cropping by the end of 2017.
Since 2015, KAI has been planting crops, such as chia, quinoa, sorghum and corn. In 2016, KAI planted chia, corn and quinoa in 1400, 200 and 30 hectares, respectively, in Goomig. Besides the Ord Stage 2 development, KAI has expanded its investment portfolio in the East Kimberley region with several acquisitions, including an old sugar mill in Wyndham, and more recently 476,000 hectares of Carlton Hill Station near Kununurra from a private cattle-holding, Consolidated Pastoral Company, for about AU$66 million, which includes around 17,000 hectares of freehold arable land. The total investment made by KAI in the region has reached AU$200 million so far.

![Figure 12 Some package and anti-counterfeiting technologies used by Reid Fruits](image)

(Top left: the land before development; Top right: land after clearing and levelling; Bottom left: irrigated farmland; Bottom right: Chia planted on the irrigated farm land).

**Implementing the local employment policy**

Since its establishment in 2011, KAI has only sent two Chinese expatriates to Australia: the CEO and his assistant. All other KAI employees are Australian and most of them are from local communities. Based on our interviews with the CEO, KAI believes that it is more effective and efficient to employ local people than foreigners for several reasons. First, local employees are highly skilled and knowledgeable in management and operations, such as land clearing, construction, servicing and cropping. These skills and knowledge are difficult to obtain from foreigners. Second, local employees are more stable as they consider East Kimberley to be their home, thereby reducing staff turnover and associated recruitment costs. Third, local employees are part of the local community and are therefore more likely to participate in local community activities, thus strengthening the social fabric between the company and the community. This also enhances the social links between the Chinese
investor and local community. Finally, local employees have established social and business networks with other relevant commercial organisations, government departments and social organisations – and such networks are important resources for KAI to operate and succeed in the region.

**Engaging with Indigenous communities**

Engaging with Indigenous people has been extremely important to KAI. At Kununurra, there are about 2000 Indigenous people, who make up 40% of the total population. Recognising the high unemployment rate and huge potential of local Indigenous people as a source of employment, KAI has not only actively participated in the pre-employment training programs for Indigenous people by providing its machinery to a local training organisation for the training, but has also maintained a high proportion of Indigenous people in its workforce. Indigenous employees comprised over 30% of its workforce at the peak time. Currently, more than 20% of its workforce is Indigenous people. Moreover, several Indigenous employees have been employed on an ongoing basis. As KAI’s office is 20 kilometres away from the town, the company provides free bus services to its employees to get to the office and back to town in the morning and afternoon, respectively.

In collaboration with the Department of Regional Development and Lands, and the Department of Culture and Arts, KAI jointly sponsored an Aboriginal art exhibition, ‘Our Living Land’, in Shanghai in 2013. Four Aboriginal artists from Kununurra were invited to the opening of this exhibition. This not only promotes the understanding of Chinese people about Australian Aboriginal culture and arts, but also helps improve the understanding of Aboriginal people about China. By the exhibition’s close, the owner of Shanghai Zhongfu had purchased all of the artworks exhibited.

Another innovative way to engage with Indigenous people has been the agreement – or Aboriginal Development Package (ADP) – reached between MG Corporation, an organisation representing traditional owners, and KAI, to develop Knox Plain lands. This agreement represents the first time that an incentive scheme has been included in such an agreement that ties investors’ financial contribution to traditional owners to the project’s progress, such as the start of the land clearing, the environmental approval and start of the plantation. Conventionally, financial contributions by investors to traditional owners have been made on a compensation basis. The ADP has set up a good model which has since been followed by several other investment projects. As stated by the Department of Regional Development, WA (n.d.):

> The project also sets a precedent in Aboriginal engagement and maximises Aboriginal involvement. The project continually engaged the Miriuwung and Gajerrong traditional owners to develop meaningful business partnerships and employment opportunities.

**Local procurement and contracting for local development**

KAI has joined the local farmer cooperative (the Ord River District Cooperative [ORDCo]) and procures all of its fertiliser and chemicals from ORDCo. As KAI’s CEO expressed, this is an important way to integrate KAI into the local business community and is also cost-effective for its business operations as it will reduce KAI’s logistics costs, such as warehousing and inventory control, compared with directly importing from overseas. Indeed, due to its large size, KAI has become one of the top five clients of ORDCo. According to the CEO of the cooperative, KAI has contributed to the
scale of economics of its operations and employment, and benefited other members of the cooperative through the reduction of their fertiliser and chemical costs.

Besides its local procurement of chemicals and fertiliser, KAI has outsourced extensively to local contractors for services, supply and maintenance. Moreover, the firm has invested heavily in procuring heavy machinery and agriculture equipment, such as bulldozers, tractors and harvesting machinery, from domestic dealers for its land clearing, farm cropping and harvesting. In addition, KAI runs a regional dealership for Case IH agricultural machinery and equipment. This makes economic sense to KAI as Kununurra is far from the main capital cities (3000 kilometres from Perth and 800 kilometres from Darwin) and ports, which means that high costs would incur from transporting the machinery to Kununurra from the port, and servicing it when it breaks down.

Finally, KAI has cooperated with the local farmer cooperative on its plantation activities. For example, ORDCo needed more farmers to grow corn to meet the tonnage in order to secure a large contract with an overseas buyer in 2016, and KAI offered to grow corn to lift the total corn production. Although corn has a relatively low yield, KAI was happy to agree to fill the corn production gap in the region.

Engaging with local communities to enhance social understanding and economic development

Recognising its long-term investment objectives and dependence on the local community for its business survival and growth, KAI has actively engaged with local community and industry associations. For example, the company has joined the local farmer and industry associations, including ORDCo and the Kununurra Chamber of Business and Industry. One of the KAI senior managers was also elected as a director of the board of ORDCo.

KAI has sponsored major social events in Kununurra, such as the Kimberley Moon, one of the largest social events in the region. It has also initiated several activities for the local community to enhance social exchange. For example, since 2014 it has organised annual open days for the local school and community to visit its office and farmland. Approximately 80 people from local communities visited KAI in 2016. It also organised an event for local female residents to celebrate International Women’s Day, where about 40 local residents were invited to morning tea followed by a site visit to KAI’s office and the farmland.

KAI is also actively engaged with local schools to enhance social exchange. As the local school has run Chinese as the second language for its Year 6 class, KAI has sent its employees to support the language program when needed. Moreover, KAI has developed a partnership with the local school whereby the school can recommend Year 12 graduates for traineeships at KAI. The housing of Chinese expatriates and Chinese Australian employees in the local town has raised the interest of the local community in China and its culture and activities.

At the individual level, KAI’s CEO, who has been described by the local community as ‘colourful’ and ‘a local resident’, has been very actively engaging with key stakeholders in the region by participating in local events, such as attending local football games and social club activities, and visiting and communicating with local and state governments. KAI’s senior managers and employees also play a crucial role in engaging with local communities. Most of KAI’s executive team are local
and have become a strong bridge connecting KAI with the local community, business networks and Indigenous groups.

As a result of KAI’s investment in the region, awareness of China and Chinese culture has been raised in the local community. The number of local people visiting China has been growing; indeed, 14 people from Kununurra visited China in the first six months of 2016, and more than 40 people from Kununurra have visited China over the past three years. Such visits to China have further strengthened the social connections between China and Australia and deepened bilateral cultural understanding.

Although KAI is owned by a Chinese company, the Ord Stage 2 is not run by the Chinese alone. The work is organised and managed by a team of Chinese and Australian executives and carried out by locally engaged employees. Indeed, it is the local people, who work for KAI, cooperate with KAI or support KAI with their relevant skills and local knowledge, who drive the project and keep it going forward.

**Benefits of the engagement for the local community and business**

The close engagement between KAI and the local community has generated many social and economic benefits for both sides. From the local business and community perspective, several major benefits are derived from the engagement with KAI. First, KAI’s investment in the region through its local employment and local procurement practices has directly and indirectly created jobs and promoted economic growth, and its greater investment in the region into the future will further increase local employment and economic activities.

Second, the economies of scale for local farmers have been improved in many areas, such as procurement, supply and logistics. The new large agricultural producer in the region can substantially enhance the procurement and supply power of farmers collectively in the region through the sharing of infrastructure, resources and activities.

Third, the capability of the Indigenous community and local businesses has been improved through employment and training. From the Indigenous community perspective, this not only enhances their skills and capabilities, but also helps reduce social problems in the region. From the local business perspective, engaging with KAI can enhance companies’ knowledge and skills in relation to working with international investors, and marketing their products to international markets.

Fourth, the growing employment at KAI has attracted more people to the region, thereby contributing to its overall growth and prosperity. This also helps to alleviate social problems in the region.

Finally, KAI’s engagement with the local community has substantially enhanced understanding of China and Chinese culture among the local community through KAI’s business and social activities, the Chinese program in the local school, and the visits by local residents to China. These social activities have also helped develop people-to-people relationships, which will benefit both Australia and China in the long run.

As a senior government official said during our interview: ‘With a project like KAI, it can only benefit Australia’.
**Benefits of engaging with the local community for KAI**

From KAI’s perspective, its active engagement with the local community has brought many benefits to its business and will further its investment expansion. From the start, gaining community support for KAI’s application for this project was considered an important criterion by the WA Government in selecting its preferred tender in 2012. KAI employed local people as its senior managers before the WA Government announced its preferred proponent for the project. The company’s relationship with the local Aboriginal community has also been greatly appreciated by both the state and local governments. KAI’s reputation as ‘a good local citizen, employer, and agricultural business’, as described by Australian Government officials, has further enhanced its business expansion (Neales, 2016).

KAI has been able to access extensive skills, knowledge and experience through its employment of senior managers and workforce from the local community for its agribusiness operations, such as land clearing, construction of irrigation systems and cropping. The Ord Stage 1 was developed in the 1970s and its employees have accumulated much local knowledge over the past four decades about land clearing, construction and cropping. Such knowledge is essential to the success of KAI’s operations. The employment of local senior managers has also enabled KAI to comply with local business regulations, thereby alleviating much risk for KAI as the new Chinese investor in the Australian agribusiness industry. Moreover, by employing from the local community, KAI has ensured that it will have a stable, skilled and cost-effective workforce.

In addition, KAI benefits from its participation in local business networks and collaboration with national and local research organisations, such as the Department of Agriculture and Food WA and Chia Co. In doing so, it has not only improved its cropping effectiveness and efficiency, but has also reduced its business costs.

As the CEO of KAI stressed, ‘it is the joint effort made by Chinese and Australian employees that makes the project work’.

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**How this case study was conducted**

A field trip was made to Kununurra, WA, where KAI is operating. Interviews were conducted with four managers on their engagement with governments and local community, two local government officials, the CEO of ORDCo, and the Director of Major Projects, Department of Regional Development WA. A field tour of KAI’s operations was also undertaken during the field visit.

Interviews were also conducted in Perth with four government officials at the Department of State Government WA, and at the Department of Regional Development, capturing their views on how government can work with Chinese investors and local communities on regional development. Two senior managers from KPMG were also interviewed about how KAI manages its business. A total of 15 government officials, community leaders and Chinese managers were interviewed for this case study.
8. Summary

The economic rise of China is probably one of the greatest phenomena globally in the 21st century. Tremendous effort has been devoted by both Australia and China to build, maintain and grow their bilateral relationships over the past four decades since 1972, when formal bilateral diplomatic relations were established. The complementary nature of economic activity between Australia and China, coupled with their geographic proximity, has provided a solid foundation for bilateral trade and investment over the past decade which should continue well into the future. With its massive population and rising average income, China can provide vast opportunities for Australia, including regional Australia, to export and attract investment.

To further strengthen bilateral relations between Australia and China, a multifaceted and multilayered approach is needed, and the engagement of regional Australia is vital to this process.

Regional Australia plays a crucial role in Australia’s economy. It has vast potential capacity for trade and investment in many areas. However, regional Australia faces several competitive disadvantages, including deficits around transport, and lack of infrastructure and business support. To generate benefits for regional Australia from China engagement, new ways of engagement and better integration of resources and markets by both countries are needed.

This report provides a snapshot of how regional Australia engages with Chinese opportunities, drawing on the results of a nation-wide survey of RDA committees, and the findings of several case studies based on 52 interviews with key stakeholders in regional development, including government officials at both the state and local government levels, SME managers/owners, community leaders, and Chinese investors operating in regional Australia. A number of critical factors have been identified for successful China engagement by local government and SMEs, as well as for Chinese investors seeking to engage with regional Australia. The findings of our RDA survey and case studies have implications for local government, SME owners/managers and Chinese investors.

For local government

The first implication is that local government, which is democratically elected by local communities, is well placed to engage China for economic development activity in regional Australia. Therefore, it is critical for local government to develop a China engagement strategy as they are well placed to provide clear objectives and directions for such engagement and to secure the support from local communities for such engagement endeavours.

Second, local governments should consider developing their own business capability to engage with Chinese governments and investors. In addition, they should assist, facilitate and coordinate local SMEs in their engagement with China, thus ensuring better economic and social outcomes from such engagement efforts.

Third, assisting local SMEs to develop their capability to export should be a priority for local government. By and large, international trade is the most common form of international engagement for SMEs in this globalisation era. The economic performance of SMEs is critical to
regional economic growth and prosperity. Nevertheless, many SMEs are currently lacking capability in international trade.

Fourth, local governments need to improve their understanding of local businesses in terms of their capability, products/services and willingness to engage with China. This can help develop a targeted approach to assisting local SMEs in their China engagement, leading to better outcomes from such engagement. It can also assist in the development of a business case, and justify local governments’ efforts and expenditure on China engagement activities.

Fifth, the government-to-government relationship developed by local governments with their Chinese counterparts is critical in China’s engagement. Nevertheless, it should be leveraged to help local businesses and community engage with China in order to generate economic and social benefits for local communities.

Finally, given the size difference in government, business and market between Australia and China, a cluster/consortium approach could be effective in order to scale up and facilitate local SMEs and local governments, such as those currently used by some local governments in SA, for their China engagement. However, the governance of such clusters and consortia could pose a challenge to move the potential business transaction beyond the MOU stage.

**For Australian SMEs**

Local SMEs are the major players in China engagement and have a substantial impact on the regional economy and community. Our interviews and case studies identified several factors that are crucial for SMEs’ successful engagement with Chinese opportunities.

Understanding the Chinese market is critical. China is a big country and can be segmented into many regions based on economic development and consumer behaviour. Moreover, the Chinese market is very dynamic. Thus, SMEs need to develop their knowledge about China. One effective way to do so is to undertake frequent visits to China by participating in government programs, trade shows, and developing partnerships and networks in China.

Many regional SMEs are operating in highly regulated industries, such as dairy, foods and meats. As the Chinese Government has been gradually implementing regulations in food-related areas, understanding the Chinese regulatory environment, regional differences in regulation administration and their development has also become crucial.

Having competitive or ‘value for money’ products or services for the Chinese market is absolutely necessary for successful exports to China. Developing new products or services can be the separating point between exporters and non-exporters, and the backbone for sustainable export performance.

Careful business partnership selection, whether as equity partners, distributors or contractors, when doing business with China is very important as business partners can have a major impact on the performance of Australian SMEs. This process can be facilitated through the building of personal relationships with key stakeholders.

Protecting IP in the Chinese market is critical. Although this can be difficult, a well-planned IP strategy can help Australian SMEs to alleviate the risks around IP. IP protection technology may also be leveraged to enhance a firm’s competitive advantage in the Chinese market.
Having a marketing strategy specifically tailored to the Chinese market can help firms promote their products, command a premium price, and develop their brand name in China. The brand name can also be leveraged for new product development.

In summary, developing the capabilities required to better deal with China is fundamentally important for regional SMEs to engage with Chinese opportunities.

For Chinese investors
Chinese investing in regional Australia is welcomed by local community and government, and can be successful if managed appropriately. There are challenges facing international investors – in this regard, a few isolated incidents have been reported in the media related to business practices of Chinese investment in regional Australia. Furthermore, Chinese investment is still a relatively new phenomenon to the world, including to Australia. Thus, the questioning of Chinese investment is not restricted to Australia (Callick, 2016). Regional Australia should be more conservative and cautious about the potential benefits of Chinese investment. Therefore, the success of Chinese investment in regional Australia demands not only professional due diligence and competitive transaction, and strategic management of the investment after the transaction (Huang & Zhu, 2016), but also trust-building and effective engagement with key stakeholders, including local communities, governments and the media (Huang & Staples, 2015). Indeed, the relationship between Chinese investment and regional development in Australia is symbiotic. A better developed region, on the one hand, can provide a good environment for business to operate, including foreign investors, and also offer critical resources and inputs to Chinese investors to operate, grow and prosper. On the other hand, high-performing Chinese investors in regional Australia can provide employment and resources to local communities, and cooperate with other key stakeholders on regional development. Local employees are also strong links to local communities and governments, and thus are critical for Chinese investors to secure local support for business operations and expansion. Therefore, engaging local communities on local development is very important, representing a win-win solution for both Chinese investors and local communities.

To perform successfully in regional Australia, it is critical for Chinese investors to employ a local workforce, including managers. The skills and knowledge of local managers and employees are often indispensable to the survival and development of Chinese-invested business in regional Australia, given the difference in physical environment and climate, business operations and management practices between China and Australia, particularly regional Australia, in the primary sectors.

Chinese investors should also develop a good understanding of the Australian legal environment, including industry relations, environment protection and industry-specific regulations. Their business operations will be more successful if they comply with Australian laws and regulations.

Stakeholder communications and management is critical to Chinese investors. Key stakeholders include state and local governments, media, local communities and business, and business and industry associations. Specifically, Chinese investors need to understand the role of governments at different levels and their decision-making processes, and how these stakeholders interact and connect with each other. Moreover, Chinese investors should develop effective communications with these key stakeholders to support the progress of their investment project.
Industry and business associations in Australia are well established and are key players in regional development, both economically and socially. Chinese investors can collaborate with these local business associations on improving business performance and developing local communities.

Last, but not least, the use of professional services, such as legal, accounting, and business consultancy, to assist with Chinese investment decisions and business operations has been proven critical to Chinese investment performance in regional Australia. Their services can be very valuable in investment decisions and business operations.

Note: 1 - Dr Darryn Snell was involved in data collection and writing up of this case. However, the final responsibilities remain with the authors of this report.
References


