ADDRESS BY JAMES PACKER, EXECUTIVE CHAIRMAN CROWN LTD
TO ASIA SOCIETY, 14 March 2013 (Check on delivery)

Ladies and Gentlemen,

Thank you Andrew for that wonderful introduction and the opportunity to address such an esteemed audience.

Can I of course acknowledge former Premier Nick Greiner, former Minister Bruce Baird and all the Executive Members of the Asia Society.

Like all of you, I am passionate about Asia and believe forums such as this are critical to our relationship with what is now the world’s economic engine room.

When Warwick Smith asked me to speak, I was quite taken aback.... I have had little experience in foreign affairs and diplomacy is not something my family has ever really excelled at.

But I acquiesced when Warwick assured me that my time working in the media had prepared me well for geo politics....

....he said if I can survive the media and still be friends with the Murdoch’s, David Gyngell, Kerry Stokes and even Steve Conroy.... then I am a born diplomat and well qualified to address you.

I note Warwick is not here today; maybe he is using his legendary diplomacy skills in relations to the proposed media reforms.

In all seriousness, Warwick is a very good man, a friend and I thank him for his leadership and hard work in building Australia’s ties with Asia.
Ladies and Gentlemen,

2012 was a big year for our business.

It was the culmination of much effort, to position ourselves almost entirely out of the Australian media sector and into international tourism and services.

It’s been a long journey, but a journey based at its core on the power of Asia.

My family has been involved in the media since 1918; the media is in my blood.

But when I look at the business opportunities over the coming decades, I see the rise of Asia, particularly China as the most significant force in my life-time and the life-times of my children.

Today I will focus mostly on China because of its profound impact on this country, but I also acknowledge the incredible and transformational changes that are taking place right across Asia.

THE OPPORTUNITY – CHINA’S RISING MIDDLE CLASS

Economists continue to debate when… but sometime in the next decade China’s GDP will surpass the United States to become the world’s largest economy.

China’s growing wealth and its future transformation from a production based to a consumption based economy make it a sure bet for a long time to come.

Significantly the social and demographic changes we are seeing in China are extraordinary.

When it comes to the task of improving living standards, China is delivering like no other country in the history of the industrialized world.
China has now lifted 500 million of its citizens out of poverty in a very short timeframe. The Chinese Government receive little credit for this achievement; in fact it is largely ignored by the west.

And this rise in living standards is the key to the development of a new demographic... a group of people that will have a profound impact on global economic growth for decades to come... the Chinese middle class.

I have said this time and time again and I'll repeat it today... China’s middle class will change the world.

There are over 300 million middle class consumers in China today – equal to almost the entire population of the USA....

...and by 2030, China is expected to have 1.4 billion middle class consumers.

... It is impossible to fully grasp the significance of these consumers for the international community. Through their spending power and tastes, they will profoundly alter every aspect of our economy.

But for Australia to take advantage of this once in a lifetime opportunity we must embrace China and deepen our ties at every level.

This is not an easy task and will require a complete change in the way we think about our place in the world and for that matter China’s place in the world.

Most importantly as a country, we need to stop viewing China as a strange foreign land, which has little in common with Australia.

The truth is the complete opposite.

Australia has had long and extensive relations with China, links we rarely talk about or acknowledge.
One of the greatest periods of immigration to Australia was in the 1890s when Chinese migrants flocked to the Victorian gold fields to make their fortune.

During this Australian gold rush, Chinese immigrants made up over 3% of our population, the most it has ever been.

During World War Two, of course we were allies with China and last year Australia recognized the 40th anniversary of former Prime Minister Gough Whitlam’s formal recognition of China, one of the first international leaders to do so.

Our commercial and trade links are also well established and long standing.

I was recently reminded by the Australian head of The Bank of China that they began their business here in 1942 and I acknowledge their representatives who are in the audience today.

China by its actions has been a good friend to Australia and both countries have benefited greatly from the relationship.

Ladies and Gentlemen,

If we are to succeed with China commercially and diplomatically in future, then we must do as former Prime Minister Paul Keating urged us to do…

…we must truly become part of Asia.

To this end, I welcome the ‘Australia in the Asian Century’ White Paper from Ken Henry and the Federal Government; it is a big step in the right direction- the challenge now is to have the courage to go even further and to put our words into action.
BUILDING ON OUR RELATIONSHIP THROUGH PEOPLE EXCHANGES

The best way to build our relationship with China and for that matter Asia is through exchanges of people at every level.

One of the most impressive forms of relationship building I have seen in recent times was the visit last year of Chinese naval vessels to Sydney.

The symbolism of two Chinese frigates docking at Garden Island combined with the sight of Chinese sailors strolling through the CBD was outstanding for relations between our two countries.

We should be doing a lot more of these reciprocal defence visits here at home and of course in China.

These types of exchanges build trust, understanding and long term friendships; they also help to break down ignorance and stereotypes that exist between our people.

To this point, it often amazes me that so many senior corporate leaders, public servants and MPs have not made the trip to China and still view it as a communist state.

You cannot possibly afford to be in a position of power and not have visited Mainland China.

It should almost be compulsory for all senior executives and government officials to make the trip to gain an appreciation of the incredible rise of western commerce.

But it shouldn’t just be politicians, bureaucrats and CEOs making these trips.

We need to place much greater emphasis on lower level business, student and cultural exchanges which will help build key relationships for the future.
An example of this thinking is the new Colombo Plan being proposed by Shadow Foreign Affairs Minister Julie Bishop.

The original Colombo Plan is acknowledged widely as doing a tremendous job in encouraging student exchanges between Australia and Asia.

My long time friend and University of NSW Chancellor David Gonski recently mentioned that he attended a reunion of the commencement of the Colombo Plan at his university where he met up with alumni who are or have been at the top echelons of business, politics and medicine in their native countries.

All the attendees proudly remembered and continue to have affection for both UNSW and Australia generally. The personal relationships that were developed from the program are clearly still delivering significant benefits today.

The U.S. has recognised this form of relationship building. When President Obama visited China in 2009 he announced a program known as the “100,000 Strong Initiative” to increase the number of American students studying in China from around 14,000 to 100,000.

Ladies and Gentlemen,

There are few better ways to forge Australia into China and the Asian Century than through student exchanges.

As a country we need to dramatically increase the number of Chinese and Asian students studying in Australian universities, the economic benefits are immense and so are the personal to person contacts.

As of September 2011, there were 150,000 Chinese students studying at Australian tertiary institutions, representing around 27% of our total foreign students.

It’s a big contribution to the economy when you recognise that the Australian education export market was worth A$19 billion dollars in 2010.
But the opportunity for Australia is so much more than dollars.

Experience has shown that these students enriched from their time here, return to their homeland after graduating to play a role in the cultural and economic life of their country.

In China, graduates returning home with overseas degrees and qualifications are highly sought after by business and government, providing critical professional skills and helping to alleviate a tight white collar labour market.

Thankfully, these graduates also become Australia’s most passionate ambassadors.

Our universities and businesses report that the linkages made with Chinese and foreign students provide pathways to industry partnerships and collaborations across a range of important areas.

And the significance of being able to pick up the phone to an overseas colleague to help solve a problem or create an opportunity should never be underestimated.

It also surprises me the number of senior Chinese business leaders I meet who are visiting Australia to see their son, daughter, niece or nephew who are studying here.

This is the real power of these student exchanges.

Our universities across the board are doing an outstanding job, but the international competition for Chinese students is fierce.

Some of the most prestigious universities in the U.S. Europe and Canada are working furiously to build their Chinese student base.
Peggy Blumenthal the Vice President of the US State Department's Institute of International Education put it best when she stated last year:

“There’s a growing middle class in China that wants to find the best education for their children, and they have a lot of resources to pour into their one child”

For the U.S. this is a very lucrative business.

Economists with the Los Angeles Economic Development Corporation, estimate that in 2011 Chinese students helped the local economy by contributing over $100 million locally and more than $4.5 billion to the U.S. economy.

For the Chinese middle class education is the best gift they can give their child. The United States gets it and unless we direct more resources to the task and have a co-ordinated strategy we will fall behind.

Our Federal and State Governments must actively work with the university sector to make Australia even more attractive to Chinese students and their parents.

The government can and must do more in China and Asia through our missions and Austrade to help market our country and lifestyle to potential students.

And most importantly, we need in an election year to ensure that our universities have the funding they need to considerably raise their academic and student offerings.

I never attended university, but the one thing I do know about them is that they are always the power house behind an advanced western economy- the incubator of ideas and innovation.

By investing in our tertiary education system we are investing in our best asset… our people.

If we fail to increase investment in our learning institutions then we will move backwards economically and lose these soft power opportunities.
And finally on this issue of person to person exchanges…. We can’t leave the task of building long term personal contacts in China to government; the corporate sector has to take responsibility, show initiative and yes…. lead the way.

Australian business can be and will be the game changer when it comes to building real and lasting personal relations with China and I urge all Australian business leaders to make this a goal in their boardrooms.

I pledge to play my part.

**OUR FOREIGN POLICY MUST PUT AUSTRALIA’S INTERESTS FIRST**

But Ladies and Gentlemen,

For Australia to build and deepen these friendships, we must have a foreign affairs policy that reflects our intentions and ambitions.

A foreign policy that recognizes we are part of Asia and puts Australia’s interests first.

With the rise of China, we must have a more Independent foreign policy.

We can talk about friendship with China as much as we want, but actions speak larger than words…. 

….and it’s clear despite our attempts- when it comes to China our words and actions are not yet aligned.

Australia must be a good friend to the United States and to China.

This independence is absolutely essential to our national interest.
Now some of my critics will argue I am just talking up my own business interests.

I say to them- yes the relationship with China is important to my business …but it’s also of critical importance to the future living standards of over 23 million Australians.

And I am not saying we should choose China over the United States.

The United States should and will always be a very close ally, but I believe it is in Australia’s best interest to be friends with both countries.

This takes on even more significance with our voting position on the UN Security Council.

If you are seeking a model or a country that has succeeded in doing just that, I urge you to look at Singapore.

For a country small in size, Singapore has been successful in treading an independent line globally that has advanced their own interests and given them recognition as an honest broker in Asia.

Just like Singapore, Australia is in a very important geographic, economic and political position and we should be exploiting that strength in the interest of the Australian public.

To his credit, I think our Foreign Minister Bob Carr truly understands China and won’t waiver in putting Australia’s interest first. I urge whoever wins the next federal election to ensure Bob Carr is at the forefront of our diplomatic relations with China….

….as a country we could not have a better envoy and standard bearer in the region.

And while I am ranting about politics, with your indulgence ladies and gentlemen just let me make one final point.
As we all are aware we are soon due for an election and of course much of the day to day governing gets put on the back burner and campaigning takes over.

Elections are important and necessary, but they can be destabilising and send the wrong messages overseas.

If I can urge our political leaders across all parties to keep in mind when it comes to the issue of foreign and domestic affairs the rhetoric we casually throw around is keenly followed throughout the region.

Some of the recent public debate does not reflect well on any of us.

Even worse it plays on fears and prejudices and is completely unnecessary. We are all better than that. To succeed in China and Asia we must be better than that.

Foreign investment, foreign workers and migrants are part of this country’s proud history; in fact they built this great country we live in.

These issues should be bi-partisan.

As members of Australia’s business community we have a responsibility to ensure our representatives remain balanced and responsible on these issues and to make our voice heard.

**PREPARING OUR ECONOMY FOR CHINA’S NEXT PHASE**

Ladies and Gentlemen

Having got that off my chest, I’ll now turn to an area that I am much more comfortable with…. business.

It’s clear that while our mining and resources sector will continue to be profitable for some time to come, but the boom won’t last forever.
We can’t be complacent – we must be preparing now for the next phase of China’s economic development.

As the Chinese economy matures and becomes even more consumer focused, we need to turn our attention on future growth industries that meet the needs of China’s middle class.

This change is dictating my business strategy and those of smart businesses globally.

Australia must become a professional services centre for China, specializing in; education, health care, financial products, environmental services, entertainment, tourism and e-commerce.

This is without doubt the best way that we can build on our prosperity; by playing to our country’s productive strengths- a mature professional services sector and our highly skilled workforce.

This is how we keep our kids in jobs and this is how we continue to raise living standards as the mining sector returns to more normal levels.

This sort of change is not easy, change never is, but it is necessary. Sadly if we fail to adapt the result for Australia is a slow growth, slow jobs future.

**MY INVESTMENTS IN CHINA**

Like many of you in this room, I am investing capital in China and am seeing the benefits of engaging the Asian region.

The key for me has been to seek out local joint venture partners who understand the regulatory environment and have a strong and proven business record.
And that is exactly what we are doing with two companies we’ve invested in; Zhaopin.com and Melco Crown.

Zhaopin.com is a successful online recruitment business; it was founded in China in 1999 and continues to grow strongly.

SEEK as you know an Australian company, initially invested in Zhaopin in 2006, I was fortunate enough to be chairman of SEEK back then. At the time, Zhaopin was the number three player in the market and making substantial losses. CPH, my family company became a substantial investor in 2008.

After much hard work and a sharing of expertise, Zhaopin is now one of two leading players in China and is clearly first in a number of key provinces.

Zhaopin is highly profitable. Online Revenues have increased at a compound annual growth rate (CAGR) of 40% since the global financial crisis in 2008.

Incredibly there were 45 million completed resumes and 61 million registered users in the Zhaopin database at the end of 2012.

We believe Zhaopin is very well placed to continue its growth trajectory, capitalising on favourable macroeconomic trends in China, including a shortage of skilled labour.

Zhaopin has a strong management and ownership model that other Australian businesses should consider. By partnering with local companies you help reduce risk and open opportunities that otherwise would be very difficult for a foreign company to take advantage of.

**MELCO CROWN**

We have a very similar and successful business model in place in Macau with our Chinese resort and casino partner Melco.
Crown’s 33.6% interest in Melco-Crown Entertainment has been a major financial success for us and the investment has now grown in size to be one of the largest Australian joint venture partnerships operating inside China.

Melco Crown is one of only six licensed concessionaries in Macau, the world’s largest and fastest growing gaming market.

Our relationship with Melco has been tested through tough times during the GFC and continues to blossom with tremendous growth. Melco Crown’s EBITDA has more than doubled since 2010, increasing from US$428 million in 2010 to US$920 million in 2012.

And Melco Crown driven by a surging Chinese tourist market is continuing to expand in Macau and now throughout Asia, with major investments in new hotels and attractions.

**AUSTRALIAN TOURISM**

What is happening with Melco Crown is characteristic of the opportunities that are now available to the Australian tourism industry.

Australian Tourism has been struggling over the past decade, suffering from a decline in our traditional tourism markets and the impact of a high exchange rate.

Again China is the way forward.

China’s outbound travel market is now one of the fastest growing in the world as the middle class spend increasing amounts of money on their preferred leisure activity…. luxury travel.

In the year 2000, just over 10 million Chinese people travelled abroad. This number has risen over 566% to 70 million people in 2011, and is now estimated to reach 100 million by 2015.
In the first six months of 2012 alone, over 38 million Chinese travelled abroad. That is nearly a 20% rise over the same period last year.

While the tourism opportunities on our doorstep are massive, unless we appreciate exactly what the rising Chinese middle class wants, and unless we can cater for their desires, then we have little hope of taking advantage of the opportunity.

So the question is, what do Chinese tourists want from Australia apart from blue skies, fresh air and beautiful scenery?

**UNDERSTANDING WHAT THE RISING MIDDLE CLASS WANT**

A 2011 McKinsey study into the consumption habits of China’s middle class found that the rapid increases in wealth, and the shifting social conventions that sanction the display of that wealth, are driving a growing infatuation for luxury goods.

The study found that by 2015 China will account for 20% of the global luxury goods market.

No one should be in any doubt, the wealthy Chinese middle class want luxury travel, luxury hotels, signature restaurants, quality entertainment and high-end retail.

And yes - luckily for Crown they also don’t mind spending some time at our gaming tables.

These factors explain why Chinese tourists prefer visiting our major cities, where they can enjoy these luxury experiences.

In fact according to last year’s tourist figures, Chinese tourists spend 83% of their nights in Sydney, Melbourne, Brisbane and Adelaide when travelling in Australia.

It also explains why they are attracted to Luxury Integrated Resorts, which meets all of their travel needs under one roof.
To make this point, Dr Mark Faber a well known US investment analyst found that “80% of Chinese travelling outside the country for the first time head for a casino and 90% of Chinese who travel to the US visit Las Vegas”

It’s a staggering figure and Crown is responding to this market.

The ‘Australia in the Asian Century White Paper’, singled out Crown’s tourism offering as an example of what is required to succeed.

“Importantly, the tourism industry needs to develop culturally relevant products to capitalise on growing Asian interest in Australia as a tourist destination. This will mean developing sophisticated luxury urban tourism opportunities, such as those offered by Crown Limited, as well as showcasing Australia’s outstanding natural beauty.”

Not a bad reference from Ken Henry if I say so myself.

Every year Crown’s Australian resorts attract approximately 25 million visitors, with more than $1 billion of Crown’s $2.8 billion revenue in financial year 2012 estimated to be generated from international visitors.

This makes Crown one of the most significant international tourism operators in Australia.

Crown’s resorts are renowned in Asia for their focus on luxury experiences and world-class entertainment.

To achieve this level of international success, Crown has worked very hard to build a luxury brand in China and is investing over $2.8 billion upgrading and opening new attractions.

And this success is being shared by many Australians- through their shareholdings in Crown and through the 14,400 people employed at our Australian resorts.
THE MARKET IS BIG ENOUGH

Ladies and Gentlemen,

The really promising news here is that the rise of China’s middle class; means our domestic tourism industry is coming out of its long decline.

Serious capital investment is returning to the sector as operators realise they need to improve the quality of their product and that they are no longer competing against each other for a limited number of visitors.

If we understand what the Chinese middle class want and we deliver a high quality product to attract them, then every part of the tourism industry can benefit.

As they say the high tide lifts all boats.

Singapore again has shown what can be achieved when you meet the China market with a co-ordinated tourism offering.

In 2004, the Singaporean Government decided to build two of the world’s largest integrated resorts with an extremely diverse range of leisure and entertainment activities, including casinos.

This decision was made despite decades of opposition to the notion of casinos, with the former Prime Minister, Lee Kuan Yew, reportedly saying it would only happen ‘over his dead body’.

Just two years after the opening of these two integrated resorts; Sentosa and Marina Bay Sands, Singapore is reaping economic and employment benefits beyond anyone’s expectations.

In 2010, the year the integrated resorts opened, Singapore’s GDP increased by 14.5% and tourism revenue driven largely by Chinese tourists soared 49%.
In the early days there were fears that the facilities would cannibalise other hotels, but the exact opposite has happened….as the resorts have successfully attracted thousands of international business conferences and events.

Hotel rooms in Singapore have significantly increased in number – but so too has hotel occupancy and average room rates.

Given the success of Singapore and the size of the market, governments and tourist authorities globally have taken notice.

New integrated resorts with gaming facilities are now being planned or developed in Vietnam, the Philippines, Korea, Japan and even in cities like Madrid, Barcelona and New York.

In Australia, major resort upgrades are underway in Adelaide and Perth with new integrated resorts being earmarked for Brisbane and hopefully one day at Barangaroo.

Thankfully other Australian tourism operators are also responding to the China opportunity.

A report released a few weeks ago by Deloitte Access Economics showed local and international investors have committed to developing 60 projects across major Australian cities- projects that will help Australia attract more Asian tourists.

It’s a very good sign for the future.

Ladies and Gentlemen,

I have made many many mistakes in my life, but investing in China is not one of them.

As a country the opportunity is clear.
If we get our policies right, if we get our priorities right and if business take the lead- we will see long term jobs and economic prosperity for our people.

If we fail to embrace China, then growth will unfortunately slow and living standards will eventually contract.

I know which side of the argument I want to be on.

I appreciate you all being here and your commitment to this great cause.

Enjoy the rest of the lunch and thank you for the opportunity.

Thank you.