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The **Chinese** talk confidently about moving from an economy that makes things to an economy that creates things. The difference may sound subtle but it's huge in impact. And that transition will have an ever-greater influence on the global economy.

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The idea that **China** was merely trading off its ability to copy other people's ideas and then mass manufacture them more cheaply actually lost most of its currency a while ago. Now the **Chinese** not only constantly focus on improving innovation as a way of transforming the structure and vitality of their economy. They are also doing it with rapidity and scale that is little understood. But that makes it even more important for Australian companies seeking to do **business** or to find new **business** partners in **China** to offer sophisticated expertise or specialised products and services.

Much of the lower-cost and lower-skill manufacturing capacity has moved to other, cheaper, countries in the region anyway as part of the inevitable pressure to reduce costs. But that's certainly not considered a problem within **China**.

Instead, it is determinedly increasing its spending on research and development but also releasing the dynamism of its private sector and a more entrepreneurial and innovative culture as well as modernising the traditional state-owned enterprises.

At a The Australian Financial Review and Macquarie lunch on the Asian Century on Tuesday, former Australian ambassador and now **board** director and consultant Geoff Raby said the extraordinary growth of the private sector in **China** was not sufficiently appreciated.

But he also pointed out that last year, for the first time, the services sector became the most important in the **Chinese** economy, accounting for 46 per cent of the economy, outpacing manufacturing at 44 per cent.

The two other guest speakers, Nev Power from Fortescue Metals, and Andy Penn from Telstra, also reflected on the degree of technological innovation driving every industry in **China** – resources to communications to financial services.

Power talked about the technological innovation in the **Chinese** steel industry as well as in the various supplies of material for Fortescue mining – even in something as seemingly basic as truck tyres.

Penn is not only Telstra's chief financial officer. He is now also head of Telstra's international operations and a former chief executive of Axa Asia Pacific – a rare and early success story in expanding Australian financial services throughout the region, now **sold**. Australians too cautious

That experience has helped persuade Penn that too many Australian companies remain too cautious and conservative in their approach to expansion offshore – even if it can take a long time to build the necessary relationships and projects.

He does concede that the level of foreign restrictions in areas like telecommunications and financial services can be daunting, but that the opportunities are greater than ever – thanks to the pace of technological change. Smart phone usage has doubled in the past few years in **China**, for example, as people increasingly look to the internet for everything – largely on mobile.

"If you are going to invest in the mobile market it would be 20 years ago or today," he says. "Part of this is because of the digital transformation."

Geoff Raby recalls introducing Wesfarmers directors to a **group** of **Chinese** internet entrepreneurs, most of them under 35 with American accents, and all forming part of the new form of economic revolution under way in **China**.

He also says that he recently spoke to **China's** third-largest **dairy company**, which was keen to invest in the Australian **dairy** industry but wanted majority control to institute changes in the backward local industry.

Not that Raby discounts the traditional momentum of the **Chinese** economy that is built on investment and heavy industry and mass urbanisation. For all the consumption on show and the range of designer shops in the cities, **China** is still the 84th poorest country in the world.

Its steel consumption per capita is on a par with the US in the 1950s so there is still a lot of growth to come from the old model of investment, he says. And much of that will continue to be based on coal-fired generation, which still meets close to 70 per cent of **China's** energy needs.

But Raby has seen first hand **China's** ability to adapt over a long period, calling himself one of the Pamplona crowd, because he's been running with the bulls for 30 years.

Neither Power nor Penn disagree with what remains an essentially optimistic view of the major forces driving the **Chinese** economy.

That is different from the cyclical ups and downs currently most obvious in the property market where high vacancy rates combined with the dizzying rate of apartment building are making all the **China** bears extremely pessimistic.

Yet with another 300 **million** people – roughly the population of the US – due to move from the rural areas to the cities over the next several years, the panel doesn't doubt the demand for housing in **Chinese** cities will continue to grow.

Along with the demand for just about everything else.

What is changing is the way that **Chinese** innovation and technology are increasingly used over time to deal with the many problems that accompany rapid development – ranging from too much pollution to too little infrastructure. Australian **business** has a chance to be part of that. But it won't come easy.

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