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**GOVERNMENT RESPONSE TO THE
SENATE FOREIGN AFFAIRS DEFENCE
AND TRADE COMMITTEE'S INQUIRY
INTO AUSTRALIA'S RELATIONS WITH
CHINA**

Australia's Relations with China

GOVERNMENT RESPONSE

The Government thanks the Senate Foreign Affairs Defence and Trade Committee for the comprehensive review of the relationship between Australia and China.

The report consists of two parts and makes thirty five recommendations regarding political, strategic, trade, economic and social issues. The Government's response to these recommendations as at 10 October 2006 is provided below.

PART ONE - Opportunities and challenges: Australia's relationship with China

Recommendation 1

The committee recommends that the Australian government increase its efforts through the WTO, Asia-Pacific Economic Cooperation (APEC) and bilaterally to encourage China to promulgate laws that comply with the WTO and to ensure that they are interpreted and applied consistently and without discrimination throughout the country. In particular the committee cites the contract and intellectual property laws and local government intervention as areas of most concern to Australian businesses.

Australia uses a range of multilateral and bilateral mechanisms to press China to implement WTO-consistent laws which are applied consistently and without discrimination. Under the terms of its WTO Accession Protocol, China's implementation of its WTO commitments is subject to a Transitional Review Mechanism. This review will be conducted annually for eight years following China's full accession (December 2001), with a final review in the tenth year after accession. The annual review of China's implementation is undertaken in the relevant WTO councils and committees. Australia has participated in each annual review so far and will continue to use the review mechanism to monitor China's compliance with its WTO commitments. Australia also uses the regular WTO committee processes to raise issues of compliance.

When necessary, we use the WTO's dispute settlement mechanisms to press China to enforce fair and WTO-consistent laws. For example, Australia is currently participating as a third party in dispute settlement proceedings on Chinese measures affecting imports of automobile parts. The measures have been challenged by the European Commission, United States and Canada. Other third parties are Japan and Mexico. Australia has substantial trade interests at stake. Our bilateral trade in automobiles and automotive parts has developed considerably with China over a relatively short period. Automotive exports to China increased more than four-fold in

2005 to \$284 million - \$170 million in vehicles and \$114 million in components. The dispute is still at the consultations stage. Initial consultations, which relate to discriminatory Chinese import tariffs and local content requirements, were held in Geneva on 11-12 May 2006.

Australia has also been working hard to ensure that the WTO Doha Round negotiations deliver commercially meaningful outcomes. A successful outcome to the Doha Round will be crucial to providing Australian exporters with improved access to international markets. Both Australia and China's industries have much to gain from further liberalisation of goods and services.

We use APEC to reinforce these efforts in the WTO. The Australian Government is actively involved in APEC's provision of capacity-building support which assists APEC economies, including China, to adopt and implement laws and policies that comply with the WTO. This includes institutional training, such as workshops and seminars, which help facilitate a better understanding of the WTO and the benefits it confers on its participants, for example:

- The Australian Department of Foreign Affairs and Trade (DFAT) and the Chinese Ministry of Commerce held a two-and-a-half day APEC training workshop on *Negotiating Free-Trade Agreements* in Beijing on 8-10 December 2004;
- In February 2005, DFAT organised an APEC workshop on preferential rules of origin in Seoul. The workshop was attended by Chinese participants;
- The Malaysian Ministry of International Trade and Industry and DFAT co-hosted a three day workshop on *Negotiating Free Trade Agreements* in Kuala Lumpur on 23-25 January 2006. Two Chinese delegates attended the workshop as sponsored participants; and
- DFAT is currently organising a workshop on goods trade under FTAs and a Trade Policy Dialogue to be held in Da Nang, Vietnam. It is expected that Chinese delegates will attend both events.

The Government employs various bilateral mechanisms to press China to implement WTO-consistent laws in a fair and consistent manner. A program of regular high-level visits and meetings has established a relationship based on trust in which we can raise issues with China frankly and constructively. This level of communication would not have been possible without the frequent high-level exchanges we have maintained over the past 15 years. During several recent visits, Australian ministers have urged China to implement an effective and fair commercial arbitration system, emphasising that the failure to implement arbitral and court rulings undermines the confidence of foreign companies.

Established in 1986, the Joint Ministerial Economic Commission (JMEC) has been the main institutional mechanism for advancing Australia's economic interests with China. Chaired by the two trade ministers, JMEC allows both countries to address specific problems, including in relation to intellectual property protection and commercial law, and identify opportunities to liberalise trade in a wide range of sectors such as energy and minerals, agriculture, manufacturing and services. The Government is committed to reinvigorating JMEC, ensuring that it remains relevant to the needs of Australian business. At a JMEC intersessional senior officials meeting in

Canberra in January 2006, Australia raised several issues concerning the business environment in China. The 11th ministerial meeting of JMEC was held in Sydney on 3 October 2006, marking the 20th anniversary of the foundation of the process.

In addition to re-energising JMEC, the Government has ensured that our engagement with China on economic issues is as effective as possible by establishing a new High-level Economic Cooperation Dialogue (HECD) with China's principal economic planning and reform agency, the National Development and Reform Commission (NDRC). Chaired by the Australian Trade Minister and the NDRC Chairman, HECD complements JMEC, allowing the Government to advance core Australian economic interests in areas such as resources, investment, intellectual property and local government intervention. Australia used the first HECD meeting in Canberra on 3 April 2006 during Premier Wen Jiabao's visit to stress, for instance, that price negotiations in the resources sector should be conducted on a commercial basis and that investment conditions in China for Australian companies should be fair and transparent.

The Government is also seeking to use the Australia-China Free Trade Agreement, currently under negotiation, to strengthen and supplement China's existing international obligations concerning transparency and the administration of regulatory measures. In responding to industry concerns about intellectual property protection and the transparent administration of laws and regulations in China, Australia and China have been discussing disciplines on transparency during the FTA negotiations.

The Government will continue to encourage China, through bilateral and multilateral forums, to implement laws that comply with WTO rules and to ensure that they are interpreted and applied consistently and without discrimination throughout the country.

Recommendation 2

The committee recommends that the Australian government place a higher priority on developing and implementing practical measures to assist China manage its transition from a planned economy to a market economy, especially to improve its corporate governance regime. For example, by facilitating exchange programs between Chinese and Australian departments or agencies or offering special training and education programs for Chinese officials in the area of corporate governance.

The Government recognises the importance of developing and implementing practical measures to assist China to improve its corporate governance regime. The Government's development cooperation program with China, as articulated in the *China Australia Country Program Strategy 2006-2010*, aims to 'build capacity in selected sectors in China, in particular governance, environment and health' through 'targeted assistance in areas where Australia has relevant and valued expertise.' The China Australia Governance Program (CAGP), which runs from 2004-2010 with a total Australian contribution of \$20 million, supports China's governance reform and development agenda. Priorities include helping China with its fiscal reforms, social security reforms, and trade-related reforms.

The CAGP is flexible program and has the capacity to address a range of issues. Areas of future work currently under consideration include:

- defining targets and strategies to improve the Chinese banking sector's capacity for risk management;
- helping China to address the implications of economic restructuring and productivity improvement; and
- assisting China build WTO-related regulatory frameworks such as food and drugs regulation, quarantine, and banking supervision.

The Australia China Environment Development Program aims to support China's policy of balancing sustainable economic development with the needs of the environment. Australia has responded to a request by the Chinese Government for assistance in preparing a framework for the introduction of a new regime of water entitlements and trading in China. The framework will support China's transition from a system of planned water resource allocation to a market based approach, similar to that of Australia.

Through the aid program, the Government also provides Australian Development Scholarships for Chinese officials to undertake masters-level courses in Australia. Approximately half of these scholarships are awarded to officials who undertake governance-related courses. Twenty-four officials commenced scholarships in 2006, of whom 13 are studying courses which relate to China's economic transition, including public policy, public administration, economics, accounting and finance.

As set out in the White Paper on the Australian Government's overseas aid program, *Australian Aid: Promoting Growth and Stability*, Australia will expand its scholarships program from 1 July 2006. Chinese nationals (including those who wish to undertake governance-related studies) will be eligible to apply for scholarships under the expanded program. It will include Australian Development Scholarships; new Australian Leadership Awards, aimed at future leaders, administered by AusAID; and Endeavour Program scholarships administered by the Department of Education, Science and Training (DEST). The Endeavour Program is an Australian Government initiative designed to bring together under one umbrella all of DEST's international scholarships.

In addition to initiatives undertaken under Australia's aid program, Government agencies and other institutions are working under a variety of other arrangements with Chinese counterparts to train Chinese officials in areas of governance relevant to China's reforms:

- Treasury is working with the National Development and Reform Commission (NDRC) and Ministry of Finance (MOF) to provide training courses on fiscal management, in Australia, for NDRC and MOF officials;
- the Attorney-General's Department is working with the Chinese Ministry of Justice to develop an exchange program for Chinese lawyers;
- DFAT and Beijing University are organising two Agriculture Trade Policy Dialogues, which have brought together Australian and Chinese trade officials and specialists to help China better integrate trade policy into China's development strategies;

- the Australian Bureau of Agriculture and Resource Economics and the Chinese Institute of Agricultural Economics are implementing an exchange project, which is assisting China to develop its agricultural trade policy analysis and modelling capacity;
- as part of the work under the Australia-China FTA negotiations, a program of capacity building workshops involving external consultants is providing Chinese officials with training in technical aspects of negotiating FTAs;
- training for Chinese officials is being considered under the new agricultural technical cooperation program in areas such as structural adjustment in the rural sector;
- Monash University is providing technical assistance to the NDRC, relating to government procurement and investment; and
- the implementation of a range of projects involving a number of Australian and Chinese organisations designed to help China reform its fiscal system and assist it to remove barriers to domestic and international trade.

The Government will continue to place a priority on developing and implementing practical measures to assist China to manage its transition to a market economy, and especially to increase its corporate governance regime.

Recommendation 3 (see also recommendation 16)

The committee recommends that Austrade establish a system for handling complaints on China's provincial regulations. This system would:

- *encourage Australian companies to register such complaints;*
- *record the complaints in a central register and monitor their management;*
- *disseminate information about these complaints among the Australian business community; and*
- *report the complaints to the Australian government.*

The Government adopts a systematic approach to handling Australian business complaints about China's legal system, including complaints about inconsistent or discriminatory regulations at the provincial and central government levels. The Department of Foreign Affairs and Trade (DFAT) and Austrade in particular encourage business to bring these issues to the Australian Government's attention, both in Australia and through their offices in China. As part of its consultation process for the FTA negotiations with China, DFAT has also urged Australian businesses to raise concerns about Chinese regulations and the lack of transparency in the legal system in general. The Government also networks closely with the Australia-China Business Council to this end.

DFAT and Austrade in turn investigate and assess complaints business brings to us, bearing in mind that the Australian Government can only intervene in those cases where Chinese regulations are inconsistent with China's international, including its WTO, obligations, or where we believe that Chinese provincial or central authorities have disregarded or violated China's own laws, for example, by failing to enforce a judgment by a Chinese court. If a complainant has exhausted all legal avenues in China, the Australian Government then raises these issues with provincial and central

Chinese authorities, including, on occasion, at ministerial level. (For example, in March this year in response to concerns by Australian iron ore suppliers, DFAT made representations to the Chinese Ministry of Commerce about regulations which imposed a price cap on imported iron ore. Chinese authorities subsequently withdrew the relevant regulations.) In addition to bilateral representations, the Australian Government also uses international forums to raise concerns about Chinese regulations which constitute trade barriers: WTO committees and the WTO Trade Policy Review provide regular opportunities to do so.

DFAT and Austrade keep systematic records of business concerns and Chinese responses through standard filing and record-keeping procedures. But, given the commercial sensitivity of the details of many complaints, it would not be appropriate to open our records to scrutiny by other businesses (or the public in general). We will continue to urge business to contact us about their experiences in dealing with China's provincial regulations.

Recommendation 4

The committee recommends that Australia's agricultural exporters—in cooperation with key government agencies such as the Department of Agriculture, Fisheries and Forestry (DAFF) and Austrade—put particular effort into researching the China market. There will be significant export opportunities for Australian primary producers as China's incomes rise and the restrictions on trade are removed (see recommendation 14). For these opportunities to be recognised, it is imperative that Australian exporters have up to date information about consumer tastes and producer requirements as they vary from region to region.

The Government supports further research by Australia's agricultural exporters into the China market.

The Government recognises that China presents important market opportunities for Australian agricultural, food, seafood and forestry products. Both the Department of Agriculture, Fisheries and Forestry (DAFF) and Austrade work closely with industry stakeholders to identify and target market access priorities across a range of agricultural markets, including identifying areas where the Government can help to remove technical and other barriers to trade with China.

A key resource developed by DAFF to help industry explore the opportunities presented by the emerging Chinese market is the recent report - *Agriculture in China: Developments and significance for Australia* - released by the Australian Bureau of Agriculture and Resource Economics (ABARE) in 2006. Other mechanisms for exploring market opportunities in China include the Australia-China Agricultural Cooperation Agreement (ACACA), and a range of consultative mechanisms with industry.

The ABARE report confirms that Chinese economic growth is likely to lead to significant market opportunities for Australian agricultural exporters. This publicly available report provides a comprehensive examination of agricultural supply and demand in China. It provides information that will enable primary producers to gain

an understanding of the changes in China's production and consumption patterns, which in turn will help them gain an appreciation of future market opportunities.

The ACACA is a long-standing, treaty-level bilateral agreement that provides funding through the International Agricultural Cooperation component of the Government's Agriculture Advancing Australia program for agriculture-oriented exchange missions between Australia and China. The ACACA covers all activities relating to agriculture, fisheries and forestry, from inputs and technology through to food processing and distribution. It helps Australian industry to capitalise on China's market expansion by facilitating the development of commercial linkages between Australian and Chinese agriculture, fisheries and forestry sectors and associated agribusiness enterprises.

Since ACACA's inception in 1984, over 180 exchange projects have been undertaken across a range of sectors. Exchange missions focus on specific areas of agribusiness, with the overall objective of promoting bilateral cooperation in the agriculture, fisheries and forestry sectors. Farmers, small, medium or large agri-businesses, industry groups, rural and regional associations and educational and research academic institutions are encouraged to develop proposals for short-term projects in China to pursue commercial cooperation in agriculture, fisheries/aquaculture and forestry. The ACACA program facilitates trade by allowing missions to visit China to observe first-hand consumer tastes and producer requirements as they vary from region to region and by providing the opportunity to explore supply chains.

The Government recognises that China will present valuable opportunities to Australian exporters of a wide-range of agricultural products. However, establishing market access for new products continues to be a key challenge. In recognition of the importance of China as an emerging market for Australian agricultural production, DAFF, through the International Food and Agriculture Service, recently established a Counsellor (Agriculture Policy) position in Beijing in addition to the pre-existing Counsellor (Agriculture Technical) position.

To further advance Australia's market access interests in China, DAFF has established a range of consultative mechanisms with Chinese agencies. These mechanisms, such as the Memorandum of Understanding on Cooperation in Sanitary and Phytosanitary Matters, provide an opportunity to discuss both Australia's and China's market access priorities.

Industry market access priorities are identified through bodies such as the Horticultural Market Access Committee (HMAC). The HMAC is an industry committee with government representation which considers, prioritises, promotes and communicates all market access issues that are of significance to the Australian horticulture industry. The committee works in consultation with DAFF, individual industry associations and their members, and the research community to advance market access priorities.

Recommendation 5

The committee recommends that as part of a national strategy to promote innovation and value-adding in manufacturing, the Australian government must develop a wider range of incentives for CSIRO, the universities, private sector research centres and manufacturing companies to collaborate and invest in research and development (R&D).

The Government recognises that innovation is a driver of productivity and economic growth. The Government's 2001 *Backing Australia's Ability* and 2004 *Backing Australia's Ability: Building Our Future through Science and Innovation* packages constitute a ten-year, \$8.3 billion funding commitment to science and innovation. This is in addition to ongoing support for agencies such as the Australian Research Council, the National Health and Medical Research Council and CSIRO. The Government's support for science and innovation totalled over \$5.9 billion in 2005-06 (2006-07 Science and Innovation Budget Tables).

The *Backing Australia's Ability* packages have three major themes:

- strengthening Australia's ability to generate ideas and undertake research;
- accelerating the commercialisation of ideas; and
- developing and retaining skills.

A fundamental objective of the second *Backing Australia's Ability* package is to boost collaboration between business, tertiary institutions and publicly funded research agencies. There are now a variety of specific programs already in place that directly support a range of public-private sector and business-business collaboration.

Cooperative Research Centres, the Industry Cooperative Innovation Program, CSIRO's Flagship Collaboration Fund, the Australian Research Council Linkage grants, the Biotechnology and Information and Communications Technology Centres of Excellence, and the Rural Research and Development Corporations all directly foster public-private sector and/or business-business collaboration.

The Government has also funded pilot work on collaboration – the Innovation Exchange Intermediaries network was supported through the Innovation Access Program. It is a network of intermediaries who work with companies and universities and other public sector organisations to identify and establish links and alliances for the benefit of both partners. The TechFast program was supported to pilot university-small and medium sized company collaboration over an 18 month period through the transfer of intellectual property. The program is due for evaluation in the second half of 2006.

Specific initiatives, such as the Pre-Seed Fund, are aimed at assisting the commercialisation of public sector research. This fund is designed to encourage private sector venture capitalists to take an active role in funding and managing the commercialisation of research from universities and Australian Government research agencies such as CSIRO, the Australian Nuclear Science and Technology Organisation, the Australian Institute of Marine Science, the Defence Science and Technology Organisation, and Cooperative Research Centres.

Substantial policies are also in place to support businesses undertaking research and development. Most notably, the Government provides a 125 per cent tax concession for investment in R&D. Moreover, the concessional arrangements were expanded as part of *Backing Australia's Ability* to provide a 'premium' 175 per cent concession for additional business investment in labour-related components of R&D and a Tax Offset for small businesses in tax loss was introduced.

On 15 June 2006, Minister for Industry, Tourism and Resources, the Hon Ian Macfarlane, launched the Advanced Manufacturing Action Agenda report *Making it Globally*, saying the title captures the vision and strategy for the industry, which must use this opportunity to plan for new ways of plugging into global supply chains. Recognising the power of company collaboration in winning business in the global market, the Minister announced that industry would be consulted on plans to broaden the guidelines of the Industry Cooperative Innovation Program to increase support for projects involving international collaboration.

The Productivity Commission is currently conducting a study of public support for science and innovation which will give the Government an opportunity to review Australia's innovation system and the Government's role within it. The Commission has been asked to identify impediments to the effective functioning of Australia's innovation system (including knowledge transfer, technology acquisition, skills development, commercialisation, collaboration between research organisations and industry, and intellectual property) and scope for the system's improvement. The Commission is expected to release its findings in early 2007. The report will provide the Government with a sound basis for determining whether current policies to promote innovation, collaboration and investment in R&D are optimal.

The Prime Minister's Science, Engineering and Innovation Council (PMSEIC) was presented with a report on the emergence of China and India and the implications for Australia's science and technology system at its 2 June 2006 meeting. The report was prepared by a working group tasked with examining opportunities and threats arising from the emergence of China and India as global economic powers. The report focused on the changes needed in Australia's science and technology system if Australia was to remain competitive and called for a three-pronged strategy to achieve this by: capturing opportunities emerging for Australian science and innovation; enhancing Australia's science and technology linkages with China and India; and strengthening Australia's science and innovation foundations for competitiveness. The Government will respond to the report at the next PMSEIC meeting in December 2006.

Recommendation 6

The committee recommends that the government follow through with recent initiatives to improve the manufacturing skills base, particularly the creation of independent technical schools and a streamlined national system of apprenticeships.

The Government is implementing initiatives to improve the manufacturing skills base by establishing 25 Australian Technical Colleges to strengthen Australia's vocational and technical education system, and promote excellence in the acquisition of trade

skills. In 2005-06, the Government will have spent a record \$2.5 billion on vocational and technical education, including an additional \$280.6 million for a suite of new initiatives designed to address skills needs, particularly in the traditional trades.

Recommendation 7

The committee recommends that Australian government agencies strengthen the coordination of efforts to promote Australian exports to, and investment in, China and East Asia. To this end, it is important that Austrade continue to establish offices outside of Shanghai and Beijing, and to develop further the avenues for consultation between large and small Australian manufacturers operating in China.

Austrade has 15 offices in China: four hub posts, co-located with Australia's diplomatic missions in Beijing, Shanghai, Guangzhou and Hong Kong; and 11 smaller regional sub-posts in Chengdu, Dalian, Hangzhou, Kunming, Macau, Nanjing, Ningbo, Qingdao, Shenzhen, Wuhan and Xian. Austrade has trade correspondents to identify opportunities and set up networks on its behalf in a further 11 cities, giving a total of 26 points of presence within the market. This network is a major asset for Australian businesses and provides a competitive advantage in accessing export and investment opportunities in the highly diverse Chinese market. Austrade and the Department of Foreign Affairs and Trade work together closely, both in China and in Australia, to monitor market developments with a view to ensuring that the Government is responsive to emerging opportunities.

Recommendation 8

The committee recommends that Australia as a major exporter and consumer of coal take a lead role in promoting the cleaner use of fossil fuels and encourage further joint research and development between China and Australia in the area of environmental protection and climate control.

The Government recognises the importance of collaboration with China on environmental protection and climate and the value of further promoting the cleaner use of fossil fuels. This is demonstrated by the work occurring through Australia's bilateral climate change partnership with China, established in 2003, and the Australian sponsored coal summit with China in 2005. The Government is also working with China on climate change multilaterally through the APEC Energy Working Group, the Carbon Sequestration Leadership Group, the Methane to Markets Partnership and more recently the Asia-Pacific Partnership on Clean Development and Climate (AP6).

Australia hosted the inaugural ministerial meeting of the AP6 in Sydney on 11-12 January 2006. This successful meeting of ministers and senior officials, together with industry CEOs from the six partner countries agreed on a framework for Partnership activity, including establishing eight industry/government taskforces on priority areas, including a taskforce on cleaner fossil energy.

Australia and China, as chair and co-chair respectively of the Taskforce on Cleaner Fossil Energy, will cooperate in leading the work of this taskforce, which has the objectives of:

- building on the range of existing national (and other international) measures and initiatives to develop an Asia-Pacific Partnership cleaner fossil energy technology development program;
- identifying the potential for, and encourage uptake of, CO₂ carbon capture and storage opportunities in Partnership countries;
- further developing coal bed and waste coal mine methane gas and LNG/natural gas opportunities and markets in the Asia-Pacific region; and
- building the research and development base and the market and institutional foundations of Partners through technology-supporting initiatives, such as education, training and skills transfer.

At the bilateral level, the Australia-China Climate Change Partnership will continue to promote cooperation on a broad range of climate change issues, including measures to reduce greenhouse gas emissions through the cleaner use of fossil fuels. In addition, renewable energy, the capture and use of coal mine methane, and adaptation have been identified as key areas for project activity under the Partnership.

Further bilateral commitments to undertake research and collaborate on environmental protection and cleaner use of fossil fuels exist under the Australia-China Special Fund for Scientific and Technological Cooperation. The Fund, established in 2000 under a Memorandum of Understanding, identifies the environment as well as mining and energy as two of the six priority areas for research collaboration. The Fund has supported a number of projects in these fields.

The Australian coal industry has taken a leading role in developing and promoting the cleaner use of fossil fuels. It has made a major contribution to reducing emissions in Australia including through its active participation in the Greenhouse Challenge Program, its ongoing support for clean coal utilisation research, and the deployment of innovative greenhouse abatement technologies through COAL21 and the newly established \$300 million COAL21 Fund. COAL21 is a program which is aimed at fully realising the potential of advanced technologies to reduce or eliminate greenhouse gas emissions associated with the use of coal. The Australian coal industry is working in partnership with government, the power industry and researchers on a national clean coal strategy to reduce future greenhouse gas emissions from expanding coal use in Australia. This strategy is supported by the Australian Government's Energy White Paper and the Low Emission Technology Demonstration Fund.

Several Australian companies are now moving to commercialise new clean coal technology. For instance, Australia's HRL and China's Harbin Power Engineering signed an MOU at the first meeting of the HECD, to work together on the construction of a 400MW power plant in Victoria's Latrobe Valley using Australian clean coal technology. If this project proceeds it will be the first clean coal and low emissions project between Australia and China. It will use HRL's clean coal technology, the Integrated Drying and Gasification Combined Cycle, developed after more than 10 years of research, and the investment of \$140 million.

Recommendation 9

The committee recommends that the Australian government:

- a) work closely with the states and educational institutions to support and promote the work being done to enhance the welfare of overseas students in Australia;*
- b) in consultation with state governments and educational institutions review the visa requirements for overseas visitors with a view to allowing greater access for foreign students; and*
- c) take a lead role in discussions with Australian and Chinese educational institutions, professional bodies and responsible government agencies to achieve mutual recognition of qualifications across all professions.*

Response to Recommendation 9(a)

The Government is working closely with state and territory governments and educational institutions to achieve the objectives of this recommendation. The Department of Education, Science and Training (DEST) regulates the provision of education services to overseas students by administering the *Education Services for Overseas Students Act 2000* (the ESOS Act) and complementary legislation, including the *National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students* (the National Code). One of the purposes of the ESOS Act and its National Code is to protect the interests of people coming to Australia on student visas by ensuring registered education institutions meet relevant standards, including those relating to the support and welfare of their students.

The ESOS Act was reviewed recently. Implementation of the review's findings will further clarify and strengthen the National Code's support service obligations by establishing standards which will more clearly articulate the institutions' responsibilities in regard to the welfare of overseas students in Australia.

In 2003, the Department of Immigration and Multicultural Affairs (DIMA) established Student Welfare Reference Groups involving relevant government agencies, education providers, and student, community and industry representatives. Since early 2004, reference groups in four states have met to share information and discuss concerns, liaise with police and welfare agencies, and identify examples of best practice to be disseminated more broadly throughout the sector.

To improve understanding of Australia's ESOS Act in China, DEST wrote an *Easy Guide to ESOS*, which it gave to the Chinese Ministry of Education in January 2006 to post on its website. The guide, which consists of a two-page explanation of the education services applying to overseas students studying in Australia, was accompanied by a one-page checklist of questions that prospective students should ask themselves before coming to Australia. Five thousand copies of each document were translated into Chinese and supplied to the DIMA Shanghai office in early February 2006 for inclusion in visa documentation that the DIMA Shanghai office sends to prospective students. The DIMA Shanghai office is responsible for evidencing student visas in mainland China.

DEST has also developed a guide for studying and living in Australia. The guide was initially developed for Chinese students to inform them of their rights and obligations as international students in Australia. The guide will be made available to Chinese students through DEST's international network, including Australian embassies and consulates in China, from July 2006.

Response to Recommendation 9(b)

The Government, on an ongoing basis, reviews visa requirements and related issues including visa processing controls, with a view to increasing efficiency while ensuring that rates of non-compliance with visa conditions remain within acceptable limits. DIMA engages with the peak bodies that represent the education industry on a regular basis to discuss ways in which DIMA can support the sector, and to identify opportunities for reform.

A successful trial of electronic lodgement of student visas (eVisa) began in China in November 2004 through approved education agents. Around 30 per cent of student visa applications are now being lodged electronically. Processing times for both paper and eVisa applications have improved significantly.

In terms of student numbers, during 2005 there were more than 81,000 enrolments by Chinese students at Australian education and training providers, representing more than 24 per cent of international student enrolments in Australia. This figure represents a 70 per cent increase in the number of Chinese student enrolments in Australia since 2002. (The next largest source country was India at 27,000.) China continues to be Australia's most important market for international students and the prospects for further growth are positive.

Response to Recommendation 9(c)

DEST takes a lead role in discussions with Australian and Chinese educational institutions and government agencies working towards increased recognition of educational qualifications between Australia and China. Qualifications recognition discussions with China take place at joint working group meetings between DEST and China's Ministry of Education under the Memorandum of Understanding on Education and Training Cooperation.

The Government supports Australian professional bodies taking a lead role in discussions with their Chinese counterparts in the area of professional recognition of qualifications. The regulatory framework of professional occupations at the state and territory level in Australia and the role played by professional bodies in establishing standards for entry into practice in a profession mean they are best placed to agree to standards for professional recognition of qualifications.

The Australia-China *Higher Education Qualifications Recognition Arrangement* was established by both governments to improve qualifications mobility between Australia and China. Under the arrangement, DEST has funded pilot studies (conducted by Australian and Chinese universities) aimed at identifying how universities can successfully conclude agreements on qualifications recognition. These studies will

assist talks with China on how to promote recognition of higher education qualifications by Australian and Chinese universities.

Recommendation 10

The committee recommends that:

- a) the Australian tourist industry and the federal, state and local governments and their respective agencies, work together to identify the areas that Chinese tourists consider could be improved;*
- b) following this study, the Australian tourist industry direct its energies to assist or encourage service providers to make appropriate changes;*
- c) the Australian government note the criticisms raised by witnesses in this report about visa requirements, and review these requirements and the procedures for processing visa applications and clearances through customs;*
- d) the Australian government place a priority on extending the Approved Destination Status (ADS) program beyond the regions now covered by the scheme;*
- e) the Australian government, in planning and allocating funds for infrastructure development or in attracting investment for infrastructure development, take account of the increasing importance of Australia's tourist industry to the Australian economy and devote resources to ensuring that transport and associated travel facilities are of a high standard; and*
- f) the Australian government acknowledge the work being done by local councils such as the Wollongong City Council in attracting tourists to their region and support such councils in their endeavours to boost Australia's tourist industry, for example through the promotion of such regions as part of Australia's tourist promotion campaign.*

China is Australia's fastest-growing inbound tourism market, with potential for high-yield export income over the medium to long term. Three significant initiatives have been completed during the past 12 months, which will underpin overall growth of outbound tourism from China and enhance Chinese tourists' experiences in Australia. These initiatives are:

- the National Tourism Emerging Markets Strategy: China and India;
- the National Tourism Investment Strategy; and
- the Approved Destination Status scheme.

Response to Recommendation 10(a) and 10(b)

In December 2005, the *National Tourism Emerging Markets Strategy: China and India* (EMS) was published. Prepared by an industry consultative group, the EMS identifies impediments to Australia's capacity to maximise tourism potential from the China and India markets and provides 12 recommendations addressing the issues associated with tourism growth from China.

The EMS demonstrated the need for more in-depth market research to build a greater understanding of the needs and wants of potential visitors from China and India. It

emphasised the responsibility of the private sector to engage and provide leadership during the early years of market development, and the supporting role of government in entering new markets.

In March 2006, the Government released the *National Tourism Investment Strategy* (NTIS), which identifies impediments to private and public sector investment in tourism assets to enable the industry to take advantage of strong tourism growth expected over the next 10 to 20 years from growth markets, particularly the emerging markets of China and India. The Government is currently considering its response to the recommendations in the EMS and NTIS, and will make further statements on these matters in late 2006.

Response to Recommendation 10(c)

The Australian Government reviews visa requirements, processing procedures and related issues on an ongoing basis. It has established a high level Passenger Facilitation Taskforce to progress a whole-of-government approach to quantify the many complex issues that affect passenger facilitation at airports and to develop possible solutions to those issues requiring specific attention by the Government. The Australian Customs Service chairs the taskforce, membership of which includes the Department of Immigration and Multicultural Affairs, the Australian Quarantine and Inspection Service, the Department of Industry, Tourism and Resources, the Department of Prime Minister and Cabinet and the Department of Finance and Administration.

The taskforce will make recommendations that will ensure that the elements of the service delivery chain over which the Government has influence are able to accommodate increasing passenger numbers.

Response to Recommendation 10(d)

Australia's Approved Destination Status (ADS) is a bilateral tourism arrangement between the Chinese Government and a foreign destination whereby Chinese tourists are permitted to undertake leisure travel in groups to that destination. The scheme provides rapid visa processing for tour groups travelling from China. In most cases, ADS visa applications are turned around in under 48 hours.

Australia's ADS scheme continues to deliver strong results in terms of both tourist growth and immigration compliance rates and is seen by many countries as a model to be emulated. The total number of Chinese visitors travelling to Australia has grown dramatically from fewer than 9,000 in 1991-92 to over 285,000 in 2005. The ADS scheme has also grown rapidly since its inception in 1999 to more than 45,000 arrivals in 2004-05. Visa processing arrangements associated with the ADS scheme have allowed DIMA to effectively manage this substantial growth in visitor numbers.

The Government is now preparing for expansion of the ADS scheme to all Chinese provinces. It is expected that this will be achieved progressively during 2006 as appropriate travel agents are identified and trained in the new provinces able to access the ADS scheme. This is an important step in facilitating an increase in the number of

Chinese agents participating in the ADS scheme and is likely to increase the number of visitors from China.

A further government initiative was the announcement in late June 2005 of administrative reforms to the ADS program. These reforms strengthen the governance of ADS and minimise the opportunity for unethical behaviour by tour operators.

These enhancements represent part of the Government's ongoing commitment to continually improve visa processing procedures and related matters. They have resulted in significant benefits to both Chinese citizens and Australian industries supporting Chinese visitors.

Response to Recommendation 10(e)

Tourism is a significant driver of demand on Australia's transport network and tourism data is included in the development of a strategy for each corridor of the AusLink National Network.

The Corridor Strategies will provide guidance in formulating network initiatives and inform development of the next and subsequent National Land Transport Plans.

In order to meet Australia's transport needs the Australian Government has implemented AusLink, the Government's policy for improved planning and accelerated development of Australia's land transport infrastructure. In the first AusLink five-year investment plan (2004-09), the Government has committed \$15 billion to road and rail infrastructure projects.

The AusLink investment plan focuses on:

- developing a safer, more efficient and reliable AusLink National Network comprising nationally important roads and railways and links to major ports and airports; and
- local and regional transport improvements through the Roads to Recovery and Strategic Regional funding programs.

Future needs on the AusLink National Network will be informed by long-term transport strategies currently under development. Transport strategies will take into consideration major infrastructure needs, including servicing the tourism industry, and current and future travel demand drivers, such as growth in tourism-related traffic.

In line with the Government's commitment to liberalising international air services, new arrangements were settled with China in July 2003 which created increased opportunities for both Australian and Chinese airlines to grow the market between the two countries. The new arrangements provided for a more than doubling of capacity from 4000 to 8500 seats per week for services to and from Sydney, Melbourne, Brisbane and Perth.

They also included reciprocal regional access arrangements allowing unlimited services between all points in China and regional international gateways in Australia

and between those Australian gateways and all points in China. Unlimited all-cargo services between and beyond both countries were also agreed. The Department of Transport and Regional Services will continue to monitor the adequacy of air services arrangements between the two countries.

Response to Recommendation 10(f)

The Government acknowledges that many local councils operate excellent tourism growth programs, incorporating product development and quality marketing. It has developed the Tourism Impact Model (TIM) to provide local governments with a tool to gain a better understanding of the impact of tourism on their local economy and population (using tourism data and economic modelling), and its impact on council revenues and expenditure. The TIM has been distributed to all local councils in Australia.

The Government has committed more than \$31 million (from 2004-05 to 2007-08) to the Australian Tourism Development Program to increase the diversity of regional tourism products and services. Local councils are eligible to apply for funding under this program. The Government has also provided \$20 million in funding for 11 regional tourism projects as part of its 2004 election commitments. Funding for these projects is aimed at developing tourism product in regional Australia to attract domestic and international visitation. Many of these projects are managed by local councils.

The Government also works cooperatively with Australia's states and territories on domestic and international marketing. Through Tourism Australia the Government focuses on delivering sustainable and dispersed visitor spend throughout Australia.

Tourism Australia recognises that beyond its own marketing activities it needs to partner with organisations, including government and industry, that market to potential tourists. Tourism Australia works closely with the states and territories in developing and promoting new product experiences that specifically appeal to the Chinese market, and in educating consumers in China to strengthen the appeal of Australia as a destination. Tourism Australia is also working to support the state and territory tourism bodies through the establishment and development of national marketing activity designed to improve domestic tourism yield and dispersal.

Tourism Australia launched a new global destination campaign with the tagline 'So Where the Bloody Hell Are You?' in Sydney on 23 February 2006. This campaign issues a familiar yet unique invitation to 'our overseas friends' to visit Australia now. In particular, the campaign aims to increase the intention to travel to Australia amongst Tourism Australia's key target group, the 'Experience Seekers'. These Experience Seekers disperse more readily into regional Australia and tend to spend more while they are here.

This campaign has been rolled out progressively across Tourism Australia's key international markets during the first half of 2006, and was launched in Hong Kong on 20 March 2006, in Shanghai on 22 March and in Beijing on 24 March. The campaign is now running on television, print and online in China. Following the launch of the campaign, there has been a 71 per cent increase in traffic to the Tourism

Australia websites and more than 700,000 people in nearly 200 countries have now downloaded and played the advertisement online. The campaign has now been seen by more than 180 million people in eleven markets since it was launched in February 2006, with an estimated 10 million people seeing the campaign in China.

Recommendation 11

The committee recommends that the Australian government:

- a) *review the visa requirements for Chinese people seeking to conduct business in Australia with the intention of improving their access to Australia; and*
- b) *confer with the relevant Chinese authorities to improve access conditions for Australians intending to visit China to conduct business. This matter of easier access to China for Australian business people should be a priority in the Free Trade Agreement (FTA) negotiations but Australia should not wait for the finalisation of this process to reach agreement with China.*

Response to Recommendation 11(a)

Australia's temporary business entry arrangements aim to address the demands of a modern and dynamic economy through a flexible and transparent regulatory framework. All procedures are streamlined to ensure an efficient, expeditious and transparent service to overseas business visitors and companies seeking to obtain visas for skilled workers necessary for the conduct of their businesses. Australia has a universal visa system and seeks to facilitate the movement of people across the Australian border, while protecting the community and maintaining appropriate compliance. Australia's visa arrangements are non-discriminatory.

While there are no exclusive visa arrangements for Chinese business people, the Department of Immigration and Multicultural Affairs (DIMA) continually reviews visa requirements, processing procedures and related issues for Chinese visa applicants in order to facilitate business travel as much as possible. The Government is actively promoting the Sponsored Business Visitor Visa as the visa of choice for Australian companies seeking to do business with China. The Sponsored Business Visitor Visa allows visa applications to be lodged by approved Australian organisations, at DIMA offices in Australia, on behalf of Chinese visitors. The initiative provides more streamlined processing and greater certainty of outcomes than standard business visitor visas.

Response to Recommendation 11(b)

Improving mutual access for the temporary entry of Chinese business persons into the territory of Australia and for Australian business persons into the territory of China has been the subject of discussions in the FTA negotiations. Australia and China have agreed in principle to a chapter on the Movement of Natural Persons and each side has flagged strong interest in improving access conditions for its nationals. Discussions on this issue will continue as the negotiations proceed.

Both Australia and China are participants in the APEC Business Travel Card (ABTC) scheme. Those nationals of Australia and China (along with those passport holders of other participating APEC member economies) who are regular business travellers in the APEC region, who hold a valid passport and have not been convicted of a criminal offence, can apply for an ABTC. The ABTC is valid for three years, and offers pre-cleared short-term multiple entry authority and faster arrival and departure immigration processing through special APEC fast-track entry and exit lanes at airports. More expeditious pre-clearance processing by China of Australian ABTC holders is considered to be the most effective way of securing better access to China for Australian business visitors. DIMA liaises closely with Chinese government agencies through the APEC Business Mobility Group and bilaterally on an ongoing basis to secure timelier processing of ABTC clearances by China.

Overall Australian companies have not reported major difficulties in visiting China to conduct business. The Government nonetheless recognises the importance of improving access for Australians doing business with China. The ABTC scheme and other discussions will continue to be reviewed to assess the possibility of implementing improvements in the timeliest way possible. The Government is committed to ensuring that the Chinese authorities address any barriers that hamper the ability of Australian business people to visit China. Specific cases can be raised in bilateral ministerial forums, such as the High-level Economic Cooperation Dialogue and the Joint Ministerial Economic Commission should the need arise.

Recommendation 12

The committee recommends that the Australian government continue its support for the Doha Round of multilateral trade negotiations, most immediately through the sixth WTO ministerial meeting in Hong Kong in December 2005.

Australia was represented at the Hong Kong Ministerial Meeting in December 2005 by Deputy Prime Minister and then Minister for Trade, The Hon Mark Vaile MP. Ministers agreed at that meeting on an end date of 2013 for the elimination of agricultural export subsidies. In addition, progress was made on defining the method of cutting industrial tariffs and on an 'aid for trade' package for the least developed countries.

Since then, Australia has continued to push for an ambitious package across the negotiations which will deliver commercially meaningful outcomes. The Minister for Trade has been in regular contact throughout 2006 with key WTO members, as have senior officials. In late July WTO Director General Lamy suspended the negotiations indefinitely because of the difficulty of closing gaps between the key players on the core issues of agricultural market access and domestic support. This is a significant setback, however the Government does not accept that the Doha Round is dead. Doha remains the best vehicle for creating new commercial opportunities for Australian farmers, manufacturers and service providers and the Government will continue to look for possible ways forward.

Recommendation 13

The committee recommends that the Australian government conclude an FTA with China that abolishes tariffs and addresses the range of non-tariff or 'beyond the border' issues. Australian negotiators must:

- *ensure that the FTA is comprehensive covering all sectors including the services sector;*
- *assist, wherever possible, with China's efforts to conform to WTO standards on intellectual property rights;*
- *encourage China to reduce its subsidies for local industry;*
- *encourage China to adopt the WTO's sanitary and phytosanitary (SPS) agreements for quarantine; and*
- *encourage China to develop greater transparency and uniformity in its corporate tax system.*

The Government is strongly committed to achieving an ambitious and comprehensive outcome on the FTA that delivers real benefits to Australian business. The Memorandum of Understanding agreed between Australia and China on the launch of FTA negotiations on 18 April 2005 stipulated that the negotiations would proceed on the basis that all sectors were negotiable with a view to achieving a balanced outcome through a single undertaking.

In keeping with the Government's commitment to achieving a comprehensive and high-quality FTA, Australian negotiators have been pressing their Chinese counterparts on intellectual property rights and on the issue of subsidies to Chinese industry. We are also seeking to enhance cooperation on sanitary and phytosanitary (SPS) obligations through enhanced cooperation on SPS measures, making SPS measures more transparent and building on existing consultative arrangements.

With respect to the final point in Recommendation 13, it should be noted that in keeping with other FTAs, the FTA with China will not specifically address inconsistencies in the administration of China's corporate tax system. However, Australian negotiators have taken the opportunity to encourage China to address inconsistent and opaque administration of taxation measures affecting Australian business during general discussions on transparency and through the information exchange phase of the negotiations, in which we have strongly reflected industry concerns.

More generally, the 2005 APEC Ministerial Meeting (AMM) in Busan agreed that by 2008 APEC would develop comprehensive model measures on as many commonly accepted Regional Trade Agreement (RTA)/FTA chapters as possible. The model measures develop further the Best Practices for RTAs/FTAs which were adopted by the 2004 AMM in Santiago. The purpose of the model measures is to promote high-quality and comprehensive FTAs, while at the same time promoting consistency and coherence across RTAs/FTAs in the Asia-Pacific region.

Recommendation 14

The committee recommends that the Australian government consult extensively with stakeholders in the negotiation phase of the FTA. It is important that both the process and the outcomes of the FTA gain credibility and acceptance in the wider community. To this end:

- *it is important the various stakeholders recognise that China's different systems of law and government may produce an FTA unlike the Australia–US agreement*
- *there should be a timetable for periodic review of the FTA during the implementation phase.*

The Government agrees on the importance of consultation with stakeholders in relation to the FTA negotiations with China. In order to ensure that industry and community views and concerns are fully taken into account, the Department of Foreign Affairs and Trade (DFAT), in concert with other government agencies, has run a broad consultation program since the negotiations commenced, involving *inter alia*:

- regular broad-based stakeholder meetings in Canberra of peak organisations, community groups and NGOs, unions and industry bodies covering a wide range of sectoral interests;
- stakeholder meetings in state and territory capitals as well as in regional centres. These have involved general sessions including NGOs and unions, and sector-based sessions covering manufacturing, education, tourism, professional services, agriculture, financial services, processed food, wine, seafood, freight and logistics. Consultations have been held in each State and Territory capital and in regional centres including Rockhampton, Mildura, Swan Hill, Mackay, and Bundaberg;
- one-on-one meetings at the request of stakeholders including companies, peak bodies and community bodies, as well as industry and professional associations;
- regular sector-specific consultations in Canberra and other centres to brief peak body stakeholders on the progress of negotiations and to continue to receive feedback on industry concerns;
- consultation with Australian businesses and business organisations including Australian chambers of commerce and industry in China and Hong Kong;
- regular meetings and consultations with state and territory governments, including following each negotiating round or other significant development in the negotiations;
- in the current financial year to date, DFAT have held approximately 190 meetings of the type outlined above with industry and community groups, companies and professional associations and state and territory governments in connection with the FTA; and
- calling for submissions. So far the DFAT has received over 200 submissions, 155 of which are available on its website.

The Government notes the committee's recommendation that there should be a timetable for periodic review of the FTA during the implementation phase. The

Government agrees that this is a helpful recommendation. At this stage of the negotiations, it is too early to comment on what type of review mechanism will eventually be agreed and adopted by the parties. However, negotiators are conscious that an appropriate review mechanism would be desirable to address issues that arise during the implementation of FTA commitments and to provide a mechanism for on-going cooperation between each side on certain issues.

Recommendation 15

The committee recommends that, to ensure there is a pool of highly skilled China experts in Australia ready to advise government and business leaders on developments in that country, the Australian government:

- a) actively endorse and sponsor 'in country' training of students at the tertiary and post graduate level where Australian students are supported in undertaking studies in China;*
- b) work with private enterprises, particularly large firms with established business links in China, to provide more scholarships for tertiary students which would include work experience with companies conducting business in China; and*
- c) encourage Australian tertiary students, through the use of scholarships and sponsorships, to undertake the study of a Chinese language and/or Chinese culture in combination with another discipline such as law, economics, commerce, actuarial studies, architecture or engineering (also see recommendation 21)*

Response to Recommendation 15(a)

The Minister for Education, Science and Training, the Hon Julie Bishop MP, announced a review of Australian student mobility overseas in April 2006. The review will examine current Australian student mobility practices and make recommendations to increase the number of Australians studying overseas, both in the higher education and vocational and technical education sectors.

As part of the review process, the needs of industry will be considered, with a view to improving the match between international study opportunities for Australian students and the skills and knowledge required by their subsequent employers. The recommendations which flow from the review can be expected to enhance the development of expertise in Australia to assist government and business in their relationships with China.

As part of the Endeavour Program, the Department of Education, Science and Training (DEST) administers the Endeavour Research Fellowships and the Endeavour Australia Cheung Kong Awards, which enable Australian postgraduate students and postdoctoral fellows to undertake short-term research in China and for Chinese researchers to do the same in Australia. (The Endeavour Program is an Australian Government initiative designed to bring together under one umbrella all of the DEST international scholarships.) From 2007, there will be up to 104 incoming and 94 outgoing Endeavour Research Fellowships available to the Asia-Pacific Region and

up to 20 Endeavour Australia Cheung Kong Awards (14 to China). Awards are valued at up to \$25,000 each.

The awards aim to:

- enable high achieving scholars from participating countries to undertake research in Australia, and Australians to do the same abroad;
- further develop award holders' knowledge and skills in their field of research;
- strengthen bilateral ties between Australia and the participating countries;
- showcase Australia's education sector around the world;
- strengthen mutual understanding between the peoples of Australia and the peoples of the participating countries; and
- build international linkages and networks.

In addition, as part of the Australian University Mobility in Asia and the Pacific Program and the Endeavour Cheung Kong Student Exchange Program, opportunities are provided for Australian undergraduate students to undertake at least one semester of their undergraduate degree at an accredited higher education institution in either China or the Hong Kong SAR under an institution-to-institution student exchange arrangement. In 2006, 66 Australian students will undertake such an exchange in China.

The Government also provides financial assistance for eligible undergraduate students who wish to undertake part of their studies overseas. Through OS-HELP, students can seek financial assistance for a range of expenses, such as airfares and accommodation. In 2006, students will be able to receive up to A\$5,095 per six-month period.

DEST offers Executive Awards for high achievers in business, education, government and industry to undertake professional development opportunities abroad. While these awards are not targeted at tertiary or postgraduate students, they do build on the pool of highly skilled China experts in Australia ready to advise government and business leaders on developments in that country.

The Department of Foreign Affairs and Trade (DFAT) actively supports the provision of scholarships in China through the Australia China Council (ACC). Scholarships and youth exchanges currently constitute the biggest single category of spending. The Council runs three scholarship programs in China, ranging from high school children to postgraduates. The Young Business and Professional Scholars program has been offered by the Council since 2001 (see below).

Response to Recommendation 15(b)

The Government would be pleased to consider new scholarship sponsorship arrangements with private enterprise. DEST has entered into such an arrangement with the Cheung Kong Group. In 2004, the Government and the Cheung Kong Group signed a \$7.5 million sponsorship agreement, allowing up to 836 undergraduate exchanges and up to 132 postgraduate and postdoctoral fellowships to take place over five years. Two-thirds of the awards are to be allocated to China, with half of these providing the opportunity for Australians to travel to China.

The ACC's Young Business and Professional Scholars (YBPS) in China program encourages young Australian graduates with Chinese language abilities to develop a career that builds on Australia-China relations in any field. The YBPS program consists of one year of study and work, commencing with a four-week language skills refresher course, followed by a semester of language and business studies.

Scholarship-holders are then expected to obtain an internship of approximately six months with either an Australian or Chinese company. The internship is facilitated through the Australian chambers of commerce in China. In line with its seed funding policy, the Council is now handing this program to the National Centre for Language Training (NCLT). It is envisaged that the NCLT will be able to expand the program to include corporate-sponsored places. Changes to the academic element will also make the program attractive to a wider range of people.

Response to Recommendation 15(c)

The Government supports this recommendation in principle. Under the Memorandum of Understanding (MOU) on Cooperation in Education and Training, a Joint Working Group (JWG) of senior Australian and Chinese officials meets to consider priorities in the bilateral education and training relationship and to identify cooperative activities. The JWG provides a forum for discussing ways, at government level, to further encourage tertiary students to undertake Chinese language and cultural studies in conjunction with other disciplines.

Recommendation 16 (see also recommendation 3)

The committee recognises a need for Australian business, especially small and medium-sized enterprises (SMEs), to be part of an effective communication network so they can benefit from the experiences of others conducting business in China, especially those with established business associations in China. It recommends that the Australian government improve the dissemination of market intelligence about China in Australia by:

- *providing a forum whereby Australian businesses can meet and discuss their experiences in conducting business with the Chinese;*
- *establishing a more effective communication network in Australia that will alert Australian companies intending to conduct business in China, or already doing so, to the deficiencies in China's legal framework;*
- *increasing the focus on facilitating the formation of strategic partnerships between Australian and Chinese companies; and*
- *reviewing the concerns about the poor quality of data available on Australia's trade in services with a view to identifying ways to improve the current system of gathering statistics.*

A number of government and private sector mechanisms, both formal and informal, exist which keep Australian businesses informed about the China market. DFAT, as the department primarily responsible for Australia's trade relationship with China, is directly involved in a number of these.

The Department of Foreign Affairs and Trade (DFAT) works closely with the Australia China Business Council (ACBC) in organising a variety of events throughout the year which help educate Australian businesses about China. The ACBC provides Australian businesses, including small and medium enterprises, with networking, information and promotion services related to doing business in China. DFAT plays a leading role in the ACBC's annual national Networking Day in Canberra. This includes briefings for ACBC members by DFAT, Austrade, Invest Australia and other government departments, meetings with Chinese Embassy officials and sessions at Parliament House with relevant ministers and parliamentarians. DFAT helps facilitate a number of other events with the ACBC, including various forums, briefings and dinners. These events are held around Australia. DFAT state offices work closely in conjunction with state governments and ACBC branch offices in the facilitation of these events.

DFAT posts in China have close links with the Australian chambers of commerce in Beijing, Shanghai, Guangzhou and Hong Kong, which provide networking and information services for Australian businesses that already have a presence in China. Both the ACBC and the chambers of commerce welcome membership from businesses of all sizes, allowing smaller enterprises to benefit from the experience of larger or more established firms. The ACBC and the chambers of commerce in Beijing and Shanghai jointly organise an Australia China Business Forum on the practicalities of doing business in China for Australian businesses. The forum is held on a biennial basis with the last in 2004 and the most recent in October 2006. Austrade supports the chambers and the ACBC through such means as identifying expert speakers, assisting in the organisation of events and facilitating of visit programs.

DFAT officers also regularly brief companies, conferences and seminars about business conditions in China. These briefings are held across Australia, including in regional centres. As mentioned in DFAT's responses to other recommendations of this report, DFAT also undertakes detailed consultation with Australian businesses about market conditions in China through the outreach and consultation process associated with our Free Trade Agreement negotiations with China.

Austrade provides regular briefing sessions on issues relating to the China market, including outlining barriers to trade and investment and deficiencies in the Chinese legal system. While the most commercially productive business partnerships emerge organically out of the marketplace rather than being engineered by the Government, Austrade works effectively to match Australian businesses with suitable partners overseas. Given Austrade's extended regional reach in China (see response to recommendation 7), Austrade is well placed to put Australian businesses in contact with potential Chinese partners.

DFAT works closely with state and territory governments to develop our trade relationship with China and exploit market opportunities. DFAT's network of state and territory offices provides governments with a direct liaison point across the foreign affairs and trade portfolio, including on trade issues. In addition, DFAT meets regularly with the Senior Trade Officials Group (STOG) – a consultative body comprised of senior officials representing each of the state and territory governments on trade matters – to provide updates on the Government's trade agenda.

Other government departments have a range of mechanisms through which they communicate and consult with Australian companies about doing business in China, some of which are referred to elsewhere in the Government's responses to these recommendations. In summary, they include the following:

- The Department of Transport and Regional Services (DOTARS) and the Department of Industry Tourism and Resources (DITR) co-chair a National Tourism and Aviation Advisory Committee comprising officials from the Australian Government, state and territory governments and industry representatives.
- DOTARS runs an annual Aviation Stakeholders Forum to engage stakeholders from the aviation industry, state and territory governments and tourism bodies on bilateral air rights negotiation priorities.
- DITR holds a bilateral dialogue on energy and minerals with China on a regular basis. The dialogue is held under a Memorandum of Understanding (MOU) between DITR and the National Development and Reform Commission. The consultations are centred on policy and information exchanges, trade and investment issues, identifying commercial opportunities and collaborating in the energy and mineral resources sectors. Australian industry representatives are invited to participate and information on key outcomes is conveyed to interested parties.
- DITR has helped establish the Australia-China Coal Summit. The Summit brings together senior Chinese government and industry representatives, the Australian Coal Association, the Minerals Council of Australia and Australian coal suppliers to discuss coal mine safety, mining technology services, mining equipment, education and training.
- The Department of the Environment and Heritage manages an active bilateral climate change partnership with China which has a major focus on developing sectoral strategies and fostering business to business cooperation and practical projects in a range of fields including coal mine methane, renewable energy and energy efficiency. Further opportunities will be developed when the Minister for the Environment and Heritage leads a major renewable energy and energy efficiency business mission to China in October 2006.
- Australian Bureau of Agriculture and Resource Economics (ABARE) has conducted a number of studies into aspects of the Chinese economy for selected Australian industries (including automotive, aluminium, steel, iron ore and coal). It has also recently published a more general report on the agricultural sector, *Agriculture in China: Developments and Significance for Australia*. These reports are available free of charge on ABARE's website.
- The Department of Agriculture, Fisheries and Forestry (DAFF) manages the Australia-China Agricultural Cooperation Agreement (ACACA). It provides funding for agriculture-oriented exchange missions between Australia and China. Farmers, small, medium or large agri-businesses, industry groups, and rural and regional associations are encouraged to develop short-term projects related to Australian-Chinese commercial cooperation in agriculture. ACACA facilitates the development of commercial ties between the Australian and Chinese agriculture, fisheries and forestry sectors.
- DAFF has concluded a MOU on Cooperation in Sanitary and Phytosanitary Matters with China to discuss Australia and China's market access priorities.

- DAFF represents the Australian Government at the Horticultural Market Access Committee, an industry committee which considers, prioritises, promotes and communicates all market access issues (including those relating to China) that are of significance to Australia.
- The China Approved Destination Status (ADS) Joint Monitoring Group allows discussion between government agency and the tourism industry on ADS related issues. It includes representatives from DITR, the Department of Immigration and Multicultural Affairs (DIMA), Tourism Australia, the Australian Tourism Export Council, a government tourism organisation nominated by each state and territory, and two representatives of licensed ADS inbound tour operators.
- Tourism Australia engages with industry on the China market through a number of forums: the Australian Travel Mission to China, the Australian Tourism Exchange; the Australian Tourism Export Council Symposium; the Destination Australia Marketing Alliance and annual market briefings with Australian industry. It also disseminates information to industry through the Tourism Australia Corporate website and delivers statistical information and market research through Tourism Research Australia and the Tourism Forecasting Committee.
- The Department of Education, Science and Training (DEST) consults with industry on the China market through FTA consultations, China market research projects and industry interface through its staff at posts in China. It communicates market intelligence via the Australian Education International Market Information Package on the DEST website. DEST also has a Government-Industry Stakeholder Consultation Group which discusses China-related issues.

Recommendation 17

The committee recommends that the Australian government adopt a whole-of-government approach whereby all departments that have an interest or involvement in matters dealing with China have China experts on staff who form part of an Australian-wide departmental and agency network.

The China Policy Group brings together officials from Government departments working on China to provide updates on each department's current China policy priorities and to discuss the broad relationship with China. Meetings are held two to three times each year. The China Policy Group was established in 1997 as a result of a Government decision to review and provide strategic planning and coordination of Australia's China policy. Membership comprises the portfolios represented in the National Security Committee of Cabinet (the Department of Prime Minister and Cabinet, the Department of Foreign Affairs and Trade, the Treasury, the Attorney-General's Department, the Department of Defence and the Department of Immigration and Multicultural Affairs), as well as the Office of National Assessments, the Department of Agriculture, Fisheries and Forestry, the Department of Industry, Tourism and Resources, Austrade and AusAID. The Department of the Environment and Heritage, the Department of Transport and Regional Services, the Department of Education, Science and Training, the Department of Families, Community Services and Indigenous Affairs, the Department of Health and Ageing, Invest Australia, the

Australian Customs Service, Food Standards Australia and New Zealand and the Australian Federal Police have also participated in China Policy Group meetings in the past.

Recommendation 18

The committee recommends that the Australian government place on the public record a statement making clear that all people resident in Australia are entitled to the protection of its laws and to exercise their fundamental freedoms without interference from any individual, organisation or government.

Australia's National Framework for Human Rights: National Action Plan (NAP), launched by the Attorney-General, the Hon Philip Ruddock MP, and the Minister for Foreign Affairs, the Hon Alexander Downer MP, in December 2004, is a publicly available national statement of human rights protections in Australia. The NAP reflects the Australian Government's commitment to the protection and promotion of human rights and affirms the role of government in safeguarding the dignity and rights of individuals, whose lives should be free from violence, discrimination, vilification and hatred. The NAP comprehensively describes how all Australians are entitled to equal recognition and protection before the law. This is achieved primarily by the operation of the rule of law, democratic institutions such as the independent judiciary, and open and accountable judicial, executive and administrative review processes.

In relation to specific obligations under international law, Australia reports to the United Nations Human Rights Committee on the implementation of its obligations under the International Covenant on Civil and Political Rights (ICCPR). Article 2(1) of the ICCPR requires Australia, as a party to the ICCPR, to 'ensure to all individuals within its territory and subject to its jurisdiction the rights recognised in the present Covenant...'. Article 26 states that 'All persons are equal before the law...'. In its reports to the Committee, the Government has detailed the range of protections which implement Australia's ICCPR obligations and are available to all people subject to Australia's jurisdiction. This includes anti-discrimination and privacy legislation and other human rights machinery including the Human Rights and Equal Opportunity Commission. There is no question that all people in Australia are entitled to the protection of its laws and to lawfully exercise their fundamental freedoms without undue interference from individuals, organisations or government.

Recommendation 19

The committee recommends that Australia encourage China, as part of the human rights dialogue, to reach an agreement that both countries:

- *release an informative agenda on the human rights dialogue before the dialogue commences;*
- *make public a joint statement immediately following the talks that provides a detailed assessment of the progress made since the last meeting, a discussion*

of the topics considered during the dialogue, and the agreements reached for future action; and

- *consult with non-government organisations (NGOs) working in the area of human rights before each dialogue, or at the very least find a more effective way to engage them in the process.*

The committee believes that such a measure, while still taking account of the need for both parties to be able to talk frankly about sensitive issues in private, would add greatly to the value of the talks.

The Minister for Foreign Affairs issues a press release to announce each round of dialogue. A more detailed list of topics discussed at each dialogue round is provided on the Department of Foreign Affairs and Trade's (DFAT) website. DFAT has provided a full list of topics discussed at each past round of the dialogue to the Human Rights Sub-Committee's inquiry into Australia's human rights dialogue process. The Government considers that the public release of a detailed agenda before the dialogue would compromise the guarantees of confidentiality that have been so important in ensuring that each round of the dialogue features frank discussion of sometimes sensitive issues.

Australia and China released joint press statements at the conclusion of some past rounds of dialogue. The Government considers that the current practice of delegation heads holding a joint press conference is more effective and informative.

The Government has already established a number of effective mechanisms through which NGOs are able to convey their comments about upcoming dialogues. These include written invitations to provide input which is then distributed to all members of the Australian delegation in advance of the dialogue. Points raised by NGOs are frequently included in the brief and are raised during the formal talks. NGOs have the opportunity to raise particular concerns about human rights in dialogue partner countries during DFAT's biannual consultations with them on human rights issues. DFAT also uses this forum to brief NGOs on the outcomes of dialogue including, where appropriate, any responses to points NGOs raised prior to the dialogue. The Government has also facilitated NGO exchanges with Chinese officials in parallel with the human rights dialogue. The Government will continue to brief NGOs at their request in advance of each round of the dialogue.

Recommendation 20 (also see recommendation 13)

The committee recommends that Australia join with other countries that have ratified the International Labour Organization (ILO) conventions to urge China to adopt all the conventions and to improve their observance of core labour standards of Chinese workers.

The Government urges all members of the International Labour Organisation (ILO) to observe core labour standards. As part of the Australia-China human rights dialogue process, the Government raises labour standards with Chinese officials. The theme of this year's human rights dialogue was labour rights. Issues discussed in previous

rounds have included safe and healthy working conditions, fair remuneration for Chinese workers, and the enforcement of occupational health and safety standards.

China is a member of the ILO. The Australian Government regards the ILO as the competent body to promote the observance by member States of their obligations in regard to international labour standards. The ILO's 1998 Declaration on Fundamental Principles and Rights at Work provides for enhanced supervision and implementation of core labour standards, whether or not member States have ratified the associated conventions.

Recommendation 21

The committee recommends that the Australian government consult with NGOs and businesses operating in China with a view to formulating a policy on how they could jointly best promote the observance of core labour standards in China.

The Government has established consultative mechanisms for interested parties to contribute to the Australia-China human rights dialogue process. Comments received from interested individuals and organisations inform the Government's dialogue with Chinese officials in relation to a range of issues, including labour standards. These mechanisms are detailed in the Government's response to recommendation 19. It is not appropriate for the Government to formulate policy on how Australian businesses and NGOs operate in China, provided they do so within the limits of applicable domestic law.

Recommendation 22 (see also recommendation 15)

The committee recommends that the Australian government place a high priority on encouraging China literacy in Australia by:

- a) working with the state and territory governments to reinvigorate the National Asian Languages and Studies in Australian Schools (NALSAS) strategy to promote the study of Asia across subject areas at both the primary and tertiary level and to support and encourage teachers to develop their Asia literacy;*
- b) providing more support for in-country language training for undergraduates and post graduates and encouraging and supporting universities to create degree programmes that incorporate in-country experience;*
- c) promoting 'double degrees' for example by setting up scholarships in a discipline combined with Asian language/cultural studies; and*
- d) introducing incentives, such as scholarships and sponsorship to encourage Chinese students to apply for courses in the humanities and social sciences.*

Response to Recommendation 22(a)

The Government contributed over \$200 million through the National Asian Languages and Studies in Australian Schools (NALSAS) Strategy from 1994 to 2002. As well as redressing an imbalance between European and Asian languages in

schools, the strategy contributed to a significant increase in the study of the priority NALSAS languages (including Chinese) at primary and secondary school levels. The NALSAS also contributed to deeper knowledge and understandings about Asia more generally.

The termination of government funding for NALSAS was foreshadowed at the start of the NALSAS Strategy. In 1999, when the Government extended its NALSAS funding of \$30 million a year for three years, it was on the understanding that the strategy should have become self-sustaining in schools by the end of 2002.

The Government continues to make a substantial contribution to supporting Chinese language education for Australian schools through its School Languages Program (SLP). The Program assists schools and communities to improve the learning of Asian, European and Indigenous languages. Through this program the Government is providing over \$112 million over the next four years to State and Territory education authorities to support languages education. The majority (95 per cent) of SLP funds is distributed directly to State and Territory education authorities. These authorities decide on the most strategic use of the funds to support languages education in their jurisdiction. Under this program, the Australian Government does not allocate a priority status to any particular language.

The remainder of SLP funds (5 per cent) is being used to support national projects to assist in the implementation of the National Statement and Plan for Languages Education in Australian Schools 2005-08, developed by the Ministerial Council on Employment, Education, Training and Youth Affairs and recently endorsed by all Ministers of Education in Australia. This document affirms the value of all languages and particularly highlights the intercultural benefits derived from languages study.

In addition to SLP funding, the Government supports the study of Asian languages, including Chinese, in Australian schools through the following:

- an allocation of \$2 million per year for the Endeavour Language Teacher Fellowships Program. Since 2003 study programs have been offered to teachers of Chinese, Japanese, Vietnamese and Indonesian (see also response to Recommendation 22(b));
- \$3 million towards the development of online curriculum resources for the teaching of Chinese, Indonesian and Japanese, through the Le@rning Federation; and
- \$2 million in 2006 and 2007 for a national professional learning program on intercultural language teaching and learning for teachers of Asian and European languages under the Australian Government's Quality Teaching Program (AGQTP). This program builds on the successful \$1.2 million Asian Languages Professional Learning Program (ALPLP) project, which concluded in June 2005.

The Government will also provide \$1.8 million per annum over the next three years to the Asia Education Foundation (AEF) to support studies of Asia and Australia in schools.

One of the key areas of the AEF's work is to develop Asia-related resources for primary and secondary schools in order to increase students' knowledge and understanding of the Asian region. A further area of the AEF's work is the development and delivery of professional learning programs to support teachers in the take-up of the new resources. The AEF works in partnership with State and Territory education authorities in the delivery of professional learning programs.

A National Statement for Engaging Young Australians with Asia in Australian Schools was endorsed out-of-session by the Ministerial Council for Education, Employment, Training and Youth Affairs (MCEETYA) last November. The *National Statement* reflects the significant work undertaken over the last decade by schools and education jurisdictions across Australia in improving the study of Asia, including Asian languages. It draws on this experience to outline six interlinked elements for education jurisdictions, schools and teachers which assist all our students to gain these essential capacities from their schooling. The Statement was the result of extensive consultation with key stakeholders in the States and Territories, including education authorities in the government and non-government sectors.

Response to Recommendation 22(b)

The Government recognises the valuable linguistic and cultural benefits to be derived from in-country study programs and provides support for languages teachers to participate in this type of professional learning through the Endeavour Language Teacher Fellowships Program (ELTF). These Fellowships are part of the broader Endeavour program, administered by the Department of Education, Science and Training, and were announced in the 2003 Federal budget.

The ELTF program offers language teachers currently working in Australian schools an intensive three-week language and cultural study program held in January each year. Since the program's inception, 340 languages teachers have taken part in it. Each year, six to eight destinations are chosen from countries where one of the ten most commonly studied languages in Australian schools is spoken – Japanese, French, Chinese, German, Italian, Indonesian, Greek, Spanish, Arabic and Vietnamese. Fellowships cover the costs of all international return air travel and domestic air travel to connect to an Australian international airport, accommodation for the duration of the program, some meals, language tuition fees and field trip costs.

The ELTF program has been significantly expanded with the recent Australian Government announcement bringing together existing Australian Government Scholarships and Awards programmes under the *Australian Scholarships* umbrella. The ELTF programme now includes a category for trainee (pre-service) teachers of Chinese, Japanese, Indonesian and Arabic and offers an increased number of places to practising teachers of Chinese, Japanese and Indonesian.

In relation to support for the creation of degree programs that incorporate in-country experience, it is relevant to note that Australian universities are generally established as autonomous institutions under State legislation. The Australian Government has no direct role to play in the structure of universities' academic programs.

However, through the Overseas Student – Higher Education Loan Program (OS-HELP), the Australian Government provides financial assistance for eligible undergraduate students whose academic programs involve undertaking part of their studies overseas.

Response to Recommendation 22(c)

Under the Memorandum of Understanding (MOU) on Cooperation in Education and Training between Australia and China, a Joint Working Group (JWG) of senior Australian and Chinese officials meets to consider priorities in the bilateral education and training relationship and to identify areas for further cooperation. The JWG provides a forum for discussing, at a government level, ways to further encourage and promote Chinese language and cultural studies.

Response to Recommendation 22(d)

The Endeavour Scholarship Program, administered by the Department of Education, Science and Training, is open for all fields of study.

The Government recognises that the sustainable growth of Australia's international education and training engagement depends on diversification of both source markets and the courses undertaken by international students. The Government is supportive of initiatives that seek to diversify the courses that international students undertake, including in the humanities and social sciences.

Under the MOU on Cooperation in Education and Training between Australia and China, the JWG provides a forum for discussing ways to encourage Chinese students to undertake a broader range of studies in Australia.

Recommendation 23

The committee recommends that the Department of Education, Science and Training (DEST) take a more active role in working with Australian educational institutions to develop an effective alumni programme.

On 26 April 2006, the Minister for Foreign Affairs, the Hon Alexander Downer MP, and the Minister for Education, Science and Training, the Hon Julie Bishop MP, jointly announced the \$1.4 billion *Australian Scholarships* package for the Asia-Pacific region. As part of this package, an *Australian Scholarships* alumni association will be established to build enduring people-to-people and institutional linkages between the participating countries.

DEST recognises the value of strong alumni networks and is developing a database to record Australian alumni overseas. DEST's international network also undertakes a range of activities to promote the establishment and growth of alumni networks.

Recommendation 24

The committee recommends that the Australian government embark on a number of initiatives that would give greater recognition to the contribution made by the Chinese community, from its earliest presence in Australia to the present day, to Australia's development. For example, it would be timely for the production of a book that records such a contribution and also details the achievements of Australians in China.

The Government recognises the significant contributions made by all ethnic groups, including Australian Chinese, to Australia's development. Reference is made, for example, through media releases, speeches and messages of support to the Chinese community by the Government on an ongoing basis.

While the Government is aware that books have been produced to record achievements of a number community groups, generally these are community-based initiatives.

Recommendation 25

The committee recommends that the Australian government consider the appointment of a dedicated Science Counsellor based in China to promote Australian science and technology.

The Government recognises the importance of strengthening the links between Australian and Chinese science and technology sectors. This has been demonstrated by the success of the Australia-China Joint Science and Technology Commission as a vehicle for high-level government dialogue in these sectors.

For a number of years the Department of Education, Science and Training (DEST) has had two education, science and training Counsellors posted to China (one in Beijing and the other in Shanghai). In 2005, in recognition of their growing importance, and the demand on these positions, DEST elevated the Beijing Counsellor's classification to Senior Executive Service level (Minister Counsellor). The Minister Counsellor is supported in Beijing by six locally engaged staff. The Counsellor position in Shanghai is supported by three locally engaged staff. DEST, through its Australian Education International network, is also represented in Hong Kong and Guangzhou, with three and two locally engaged staff respectively.

In April 2006, a locally engaged Science Information Officer was appointed to the office of the Minister Counsellor in Beijing. This position has been funded initially for a two year period. The Science Information Officer position is responsible for promoting Australian science in China. Specific duties include: undertaking research, developing strategies, and managing promotional activities, as well as supporting a whole-of-government approach to science and technology promotion in China more broadly.

DEST will further assess the need for a dedicated Science Counsellor position in the light of the recent expansion of the bilateral Australia-China Research Fund, which was announced by Minister Bishop in Beijing on 24 April 2006.

Recommendation 26

The committee recommends that the Department of Foreign Affairs and Trade consult with representatives from the states and cities involved in a sister city relationship to develop strategies that will help them forge better trade ties and social and cultural links with their respective sister relationships in China. An annual gathering of interested parties, coordinated by DFAT, would provide an ideal forum for all involved in sister city relations to develop effective communication networks so they can benefit from each other's experience and provide valuable advice for those considering entering a sister city relationship.

The Government recognises the important role that sister city relationships play in fostering cultural and economic exchange at the local government level. The growing network of people-to-people links between Australian communities, cities and states in China can be of mutual benefit.

The Australian Sister Cities Association (ASCA) is the peak sister cities body in Australia. ASCA's predominant purpose is to assist its members to establish, maintain and continually improve sister city relationships. There are more than 82 member municipalities of ASCA with more than 495 sister city relationships involving over 45 countries. Australian cities considering establishing a sister relationship with a Chinese city have a wealth of experience within the ASCA network to draw upon. The Department of Foreign Affairs and Trade (DFAT) already has contact with ASCA and many of its members and is giving consideration to possible areas of closer cooperation across the range of its activities.

DFAT also consults with and supports states and cities as appropriate on aspects of relations with China. Support, both financial and in kind, was provided for the Western Australian Symphony Orchestra during its tour including to Zhejiang Province, the sister-state of Western Australia. The Queensland Government's sister state relationship with Shanghai has been taken into account in consideration of Australian participation at the International Exposition to be hosted by China in 2010.

PART TWO - China's emergence: implications for Australia

Recommendation 1

The committee recommends that the Australian government demonstrate to East Asian countries a genuine interest in and support for ASEAN and the ARF, redouble its efforts to reinvigorate APEC and remain fully engaged with the East Asia Summit. The committee believes that the Australian government should look upon these forums as complementary.

Australia bases its relations with the member countries of ASEAN, both individually and collectively, on mutual respect and shared interests. The Government's efforts in a wide range of areas, including political, economic and trade ties, security matters, as well as cultural and educational fields, demonstrate continuing strong support for our relations with ASEAN members and for existing and emerging regional architecture.

Australia became ASEAN's first dialogue partner in 1974. To mark the 30th anniversary of Australia's dialogue partnership, the Prime Minister, the Hon John Howard MP, attended the inaugural ASEAN-Australia-New Zealand Summit in Vientiane on 30 November 2004.

Australia, together with New Zealand, is currently negotiating a comprehensive, WTO-consistent Free Trade Agreement (FTA) with ASEAN. When concluded, possibly by the end of 2007, the FTA will further consolidate Australia's economic integration with the region and complement our existing FTAs with Singapore and Thailand, as well as the FTA under negotiation with Malaysia. These FTAs support economic relations which are now much stronger than they were before the 1997 Asia financial crisis: in 2005, Australia's total trade with ASEAN totalled \$55.3 billion, while Australia's investment in ASEAN in 2004 was \$19.1 billion and ASEAN's investment in Australia was \$27 billion.

Australia is also working to strengthen its security relations with ASEAN. Following the signing of the ASEAN-Australia Joint Declaration for Cooperation to Combat International Terrorism in July 2004, we have concluded Memoranda of Understanding (MOU) on counter-terrorism with six ASEAN countries: Brunei, Cambodia, Indonesia, Malaysia, the Philippines, and Thailand. Australia remains an active member of the Five Power Defence Arrangements with Malaysia, Singapore, New Zealand and the United Kingdom.

Australia works to ensure that activities in various regional forums are complementary. The Government is strongly committed to APEC as the premier regional grouping. Over the past few years, APEC has also taken on an important human security element as an essential element to maintaining security, economic stability and prosperity in the region. The Government's decision to host APEC in 2007 reflects its commitment to the organisation. As APEC host, the Government will give priority to bolstering APEC's economic and security agendas and to advancing APEC's reform program. Australia views the ASEAN Regional Forum (ARF) as the primary forum for multilateral security dialogue in the region. Australia

contributes to debate on the ARF's institutional development and supports efforts to develop ARF's practical capacity to respond effectively and meaningfully to regional security issues.

In December 2005, Australia participated as an inaugural member in the first East Asia Summit (EAS) in Kuala Lumpur, along with the ten ASEAN countries, China, Japan, India, New Zealand and the Republic of Korea. The next EAS is scheduled for 13 December 2006 in Cebu, the Philippines. The Summit is an important new forum for dialogue between leaders in the region. The forward work agenda is still under consideration, and it will take some time for the grouping to establish its own distinctive role within regional architecture. Australia plays an active role in the discussions on its future direction.

Recommendation 2

The Australian government, through its good relations with the United States, encourage the United States to use its influence more effectively in the region, and in so doing, to improve its relationship with ASEAN and its member countries.

Australia has a strong interest in the United States maintaining its influence in the region and values its regional policies. We maintain an ongoing dialogue on regional issues, including on relations with ASEAN.

The Government welcomes the US role and active involvement in APEC and the ARF as primary regional structures. The United States remains deeply involved in APEC and plays a key role in developing APEC initiatives for trade and investment liberalisation and for addressing issues that demand multilateral cooperation, such as confronting the threat of an avian influenza pandemic and regional security. The United States has also been an active participant in the counter terrorism-related activities of the ARF, especially in the areas of maritime security cooperation, counter-terrorism, non-proliferation and cyber security.

The Australian Government welcomes United States engagement with ASEAN member countries and the grouping as a whole. The US engages with ASEAN collectively under the 2005 ASEAN-US Enhanced Partnership, which articulates mutual goals and priorities, and sets a foundation for sustaining and expanding US-ASEAN ties. The United States and ASEAN members have undertaken cooperation on a range of important issues, including economic, educational, cultural and security. ASEAN and the United States cooperate, for example, to combat terrorism under the US-ASEAN Counterterrorism Work Plan which covers information exchange and law enforcement cooperation, as well as increasing law enforcement and capacity building efforts through training and education. The United States is also engaging ASEAN members through the container security and proliferation security initiatives.

The United States engages actively with key individual member states in ASEAN. It has formal alliance relations with Thailand and the Philippines, and cooperates closely on strategic matters with Singapore under the Strategic Framework Agreement signed in 2005. The United States has a Free Trade Agreement (FTA) with Singapore and is negotiating FTAs with Thailand and Malaysia. The Government welcomes

intensifying US-Indonesia cooperation, including the visit to Indonesia by Secretary of State Rice in March 2006.

Recommendation 3

The committee recommends that the Australian government work with countries, which have a common interest in regional stability and security, in the ARF, APEC and EAS to promote confidence building measures, such as increased transparency in reporting on military spending and capability, that will contribute to greater regional stability.

The Australian Government works in regional forums to promote confidence building measures (CBMs) aimed at contributing to greater regional stability. The ARF CBM process is aimed at increasing transparency and information sharing, including in terms of defence spending and strategic direction. In the past year Australia has participated in ARF CBM workshops on civil-military cooperation (co-chaired by Australia and the Philippines), maritime security and export controls, and in 2006 will co-host ARF workshops on stockpile security of Man-Portable Air Defence Systems (MANPADS) and other small arms and light weapons, and civil-military cooperation on pandemics. Australia has also initiated an ARF process for information sharing on disaster relief capabilities of regional defence forces, and has proposed sharing information and capabilities on peace building.

Australia supports APEC's growing human security agenda, including in counter-terrorism, food chain supply security and anti-terrorist financing. Given its primary economic focus, APEC does not directly address strategic and defence issues.

As raised in the Government's response to recommendation one, Australia participated as an inaugural member in the first East Asia Summit (EAS) in Kuala Lumpur. The forward work agenda for EAS is still under consideration, and it will take time for the grouping to establish its own distinctive role within regional architecture. Australia plays an active role in discussions on its future direction.

The Australian Government holds annual regional security talks with China. These aim to increase mutual understanding of regional security issues and encourage China in the habit of greater transparency.

Recommendation 4

The committee recommends that the Australian government use its good relationship with China, and its defence links in particular, to encourage China to be more open and transparent on matters related to its military modernisation such as its objectives, capability, and defence budget.

Through defence engagement with China, the Government actively encourages China to adopt an open and transparent approach to its program of military modernisation and to play a constructive role internationally.

In the December 2005 Australian Department of Defence publication, *Australia's National Security: a Defence Update 2005*, the Government recognised that the pace and scale of China's defence modernisation may create the potential for misunderstandings, particularly with the development of new military capabilities that extend the strike capability and sustainability of its forces. The report emphasised the importance of China making its defence modernisation program more transparent and of its capability decisions remaining consistent with its legitimate security needs. The Defence Update noted that Australia is developing a modest defence relationship with China, aimed at increasing the level of mutual understanding on security and defence issues. Since the Defence Update, the Government has continued to seek opportunities to develop the relationship and to raise strategic and defence policy matters with Chinese counterparts.

Australia's discussions with China on military issues include the annual Australia-China Strategic Dialogue (military to military talks); the Australia-China Regional Security and Arms Control Talks; and periodic bilateral security talks involving officials from both DFAT and the Department of Defence. This engagement is complemented by a program of senior level visits and high-level dialogue between the Australian Defence Force (ADF) and People's Liberation Army (PLA). The Australian and Chinese militaries maintain working level relations through an established program of education cooperation, including: PLA attendance at the Australian Defence College and Australian participation in the annual Chinese National Defence University Symposium; the hosting of regular reciprocal study groups; and periodic ship visits, occasionally including low-level maritime exercises. The ADF and PLA also propose to expand contacts through increased language training exchanges. These contacts are designed to build trust and understanding, and in the process, promote greater transparency between our two forces.

Recommendation 5

The committee notes the suggestions by Professor Tow and Mr Jennings for a regional arms control agreement and recommends that the Australian government work with like minded countries in the region to promote such an agreement.

The Government notes the committee's suggestion for a regional arms control agreement.

The Government is currently involved in a series of regional arms control measures, including bilateral and multilateral outreach to promote the prevention of weapons of mass destruction (WMD) proliferation through export controls, and in support of the key WMD counter-proliferation regimes (the *Chemical Weapons Convention*, the *Biological Weapons Convention*, the *Nuclear Non-Proliferation Treaty*, and the *Comprehensive Nuclear Test-Ban Treaty*). This outreach program draws on the extensive arms control and non-proliferation experience of various agencies, including DFAT, the Department of Defence, the Australian Customs Service, and the Australian Safeguards and Non-Proliferation Office.

The Government uses similar bilateral and multilateral approaches with regard to conventional weapons, actively engaging regional countries on regimes including the

Mine-Ban Convention, the Certain Conventional Weapons Convention and the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All its Aspects. The Government is also supporting the UK initiative to negotiate an international *Arms Trade Treaty*, which will be the subject of a UNGA First Committee Resolution later this year. The Government notes that the scope of such a treaty might impact on any regional initiative.

The Government is also actively promoting arms control through established regional forums such as the ARF. In response to the threat to civilian aircraft by terrorist acquisition and use of Man Portable Air Defence Systems (MANPADS), the Government has established an international MANPADS initiative to promote implementation of national controls and international cooperation to prevent unauthorised acquisition of MANPADS. This international initiative has a specific regional focus.

The Government is actively pursuing arms control in the region through a range of practical and effective measures. The Government is of the firm view that regional arms control would not be advanced through the commencement of an indeterminate negotiating process which would compete for the scarce resources available to regional countries in this important area, and could not ensure the active participation and commitment of all regional countries.

Recommendation 6

The committee recommends that the Australian government continue its efforts to encourage North Korea to abandon its nuclear weapons program and resume full receipt of international aid. It notes the success of China's efforts to date in the six-party process and urges the Australian government to continue supporting China in its efforts to broker and implement a strategy for disarmament.

The Government has actively engaged China and the other members of the six-party talks on the DPRK nuclear issue in working toward denuclearisation on the Korean Peninsula, most recently through high level Ministerial dialogue in the margins of the ASEAN Regional Forum (ARF) in late July 2006. Mr Downer participated in a meeting of the five parties plus Indonesia, Canada, New Zealand and Malaysia. Mr Downer also met with DPRK Foreign Minister Paek Nam Sun on 28 July to register Australia's grave concerns over North Korea's recent provocations and unwillingness to engage in multiparty dialogue. Australia has sent several delegations to Pyongyang in the years since late 2002 to urge the DPRK to abandon its nuclear weapons program. This firm message has been conveyed repeatedly to the North Korean Embassy in Canberra.

North Korea's nuclear weapons and nuclear weapons programs pose a grave threat to regional security, the integrity of the international non-proliferation regime, and Australian interests directly. The DPRK's 5 July test-firing of seven short, medium and long-range missiles, despite calls by Australia and the international community to exercise restraint, cast serious doubt on its commitment to the six-party talks process.

Australia has actively supported the six-party dialogue. The Government considers it to be the best mechanism for resolving the DPRK nuclear issue peacefully, and for the DPRK to gain the security assurances it seeks, realise its economic potential, and achieve normalised relations with the international community. Australia recognises China's efforts as Chair of the six-party talks, and is concerned that the DPRK has not responded positively to China's constructive efforts to reconvene the talks, instead taking a confrontational path that seeks to pressure the international community and compel acceptance of the DPRK's agenda. The unanimous adoption by the United Nations Security Council resolution 1695 (15 July), fully supported by Australia, underlined the depth of concern in the international community over the DPRK's actions.

Australia is mindful of the difficulties the six-party talks have experienced to date, and the DPRK missile tests have placed additional strain on an already deadlocked process. Australia will continue to work closely with like-minded countries to apply firm and consistent pressure on the DPRK to return to the six-party talks without delay and without precondition, and to implement its 19 September 2005 Joint Statement commitments.

We will continue to encourage China to play an active and constructive role as a convenor of and participant in the six-party talks, while recognising that the onus for finding a durable solution rests with the DPRK. We also recognise the importance of China's constructive role in underlining international resolve on the nuclear issue, including through its vote in favour of UNSC resolution 1695.

Australia remains firmly committed to providing humanitarian assistance through multilateral channels, provided those channels continue to operate effectively and transparently in North Korea. Australia has made repeated representations calling on the DPRK Government to provide appropriate access and monitoring conditions for humanitarian relief efforts, including during a visit to Pyongyang by Ambassador Thomas in December 2005, and on several occasions through the DPRK Embassy in Canberra. The DPRK Government must take the action required to build international confidence concerning investment in long-term development projects in North Korea.

Australia has denied the DPRK's request for Australian bilateral development assistance, reinforcing our commitment to multilateral humanitarian assistance. Australia has provided \$56 million in humanitarian assistance to the DPRK since 1995. The DPRK itself, however, interrupted the flow of humanitarian assistance in 2005-6 by restricting in-country aid delivery operations. As a result, the World Food Program did not finalise its new Protracted Recovery and Relief Operation (PRRO) until 10 May 2005. The PRRO will now provide 1.9 million of the most vulnerable with food aid in 30 counties across North Korea.

Through our bilateral human rights dialogue with China, most recently in July 2006, Australia has urged China to give the United Nations High Commissioner for Refugees access to DPRK border crossers in north-east China.

Recommendation 7(a)

The committee recommends that the Prime Minister of Australia place the highest priority on attending all Pacific Forum Meetings.

The Prime Minister places a high priority on the Pacific Islands Forum and will continue to attend Forum leaders' meetings wherever possible.

Recommendation 7(b)

The committee recommends that the Australian government, through the Pacific Islands Forum, encourage members to endorse the OECD principles on official development assistance.

As a member of the OECD, Australia promotes international best practice for effective official development assistance in a number of international forums, including in the Pacific Islands Forum. Australia continues to encourage Pacific Islands Forum members to endorse the OECD principles and to take them into account, including through their relations with donor partners.

The Government also encourages other donor partners in the region to adhere to international best practice principles, including on policy coherence, transparency and donor harmonisation.

Recommendation 7(c)

The committee recommends that the Australian government, through the Post Pacific Islands Forum, encourage China to adopt, and adhere to, the OECD principles on official development assistance for the islands of the Southwest Pacific.

The Government frequently raises OECD best practice principles with senior Chinese officials, urging China to ensure that its international assistance contributes constructively to regional stability and fosters good governance, economic growth and sustainable development.

Recommendation 7(d)

The committee recommends that Taiwan should also be encouraged to adhere to the OECD principles on official development assistance for the islands of the Southwest Pacific.

The Government supports the recommendation. The Government will continue to encourage Taiwan to adopt practices conforming to the OECD principles on official development assistance for Pacific island countries.

The Government encourages Taiwan to work closely with Pacific island countries to ensure that Taiwan's aid to the region is aligned with partner government priorities,

has policy coherence and is transparent. We have emphasised the importance of contributing constructively to regional stability by using their aid to support economic reform, good governance and sustainable development.

Recommendation 7(e)

The committee recommends further that Australia work closely with China to encourage both countries to enter joint ventures designed to assist the development of the island states of the Southwest Pacific.

Australian Government policies aim to assist the development of the island states of the Southwest Pacific, including through the promotion of good governance, transparency and the rule of law. The Government encourages China to adopt policies that similarly promote these aims. That said, any decision to enter a joint venture is a commercial matter for private companies to determine.

Recommendation 8

The committee recommends that the Australian government support Australian institutions that are using their initiative and resources to bring together colleagues from the region to discuss means to reconcile differences that exist between countries such as those currently between China and Japan.

The Government welcomes initiatives taken by Australian institutions to bring together participants from the region to discuss East Asian affairs. The Government looks to support, including financially, such initiatives where possible.

The Australia-China Council (ACC), the Australia-Japan Foundation, and the Australia-Korea Foundation promote understanding between Australia and East Asian countries and to foster people-to-people links. These foundations have occasionally funded, through their competitive grants programs, academic and expert exchanges on regional issues.

The Government provides financial and other support to a range of institutions involved in researching regional affairs, including academic institutions and think-tanks. The Government provides funding to the Australian Strategic Policy Institute (ASPI) to encourage independent research into and analysis of defence and security issues relevant to Australia, increase public awareness of those issues and provide a centre of expertise to support government decision-making on strategic and defence issues. ASPI's key focus is on Australian concerns and priorities, and its program of research and publication, seminars and workshops, and hosting international experts on visits to Australia, serves to help others understand Australia's strategic perceptions and responses.

Recommendation 9

The committee recommends that the Australian Government:

- *place a high priority on building-up a pool of highly trained, skilled and experienced analysts specialised in East Asian affairs, and*
- *review the incentives it now has in place to attract and train highly skilled strategic analysts to ensure that Australia's current and future needs for such trained people will be met.*

The Australian Government is highly regarded internationally for its expertise on East Asian affairs. The Government places a high priority on developing and maintaining the skills of analysts working on East Asian affairs.

DFAT is at the forefront of these efforts, and continually reviews its skills base, recruitment, training and development strategies to ensure that it fills positions, including in East Asia Branch and missions, with staff with appropriate expertise and experience. More than 80 per cent of DFAT policy staff in Australia's missions in China, for example, have Chinese language qualifications.

For staff posted to relevant positions in Australia's overseas missions, DFAT is committed to training in priority languages (including those of East Asia) that reflect Australia's foreign and trade policy interests. Many agencies, including DFAT, Defence and DIMA, also encourage staff to maintain language proficiency through financial rewards (a language proficiency allowance) and the provision of immersion courses and discussion classes.