

# Chapter 11

## The proposed Australia–China free trade agreement

11.1 This chapter examines the proposed Australia–China free trade agreement (FTA). On 18 April 2005, the Australian Prime Minister, the Hon. John Howard, and the Chinese Premier, His Excellency Mr Wen Jiabao, agreed to commence negotiations on an FTA. Prime Minister Howard described the possibility of an FTA with China as a 'desirable next step in this already very substantial trading relationship'.<sup>1</sup> Both countries have recently completed FTAs with other nations: Australia with Singapore, Thailand and the United States; and China with the Association of South East Asian Nations (ASEAN).<sup>2</sup>

11.2 In addition to its discussions with China, Australia is in the early stages of FTA negotiations with Malaysia, Japan and the United Arab Emirates; China is currently negotiating an FTA with Chile, Singapore, South Africa and the Gulf Cooperation Council (see Table 11.1).

**Table 11.1: Australian and Chinese FTAs**

	<b>Australia FTAs</b>	<b>China FTAs</b>
Signed and implemented	New Zealand Thailand Singapore United States	ASEAN
Currently negotiating	China Malaysia United Arab Emirates	New Zealand Australia South Africa Chile Singapore Gulf Cooperation Council— <i>UAE, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia</i>
Proposed negotiations	Japan (feasibility study)	

1 The Hon. J. Howard, 'Announcement of Free Trade Agreement negotiations between Australia and China', Press Release, 18 April 2005, [http://www.pm.gov.au/news/media\\_releases/media\\_Release1332.html](http://www.pm.gov.au/news/media_releases/media_Release1332.html) (accessed 1 October 2005)

2 Both the Australia–US and the Australia–Thailand free trade agreements came into force on 1 January 2005. The Australia–Singapore FTA came into force on 28 July 2003. The China–ASEAN FTA—covering trade in goods—was signed in December 2004 and came into effect on 1 January 2005.

11.3 This chapter is divided into three parts:

- the conditions that need to be satisfied to negotiate an Australia–China FTA under WTO rules;
- the recent joint economic modelling for an Australia–China FTA; and
- the March 2005 DFAT feasibility study on an Australia–China FTA.

## **Satisfying the conditions for an Australia–China FTA**

### ***The early debate in Australia on an FTA with China***

11.4 The proposal for an Australia–China FTA is relatively new. In 1999, the Leader of the Opposition and the Federal Labor Party, the Hon. Kim Beazley, raised the issue of a trade treaty with China's President Jiang Zemin. Following a positive response at this meeting, the Shadow Minister for Trade, Senator the Hon. Peter Cook, proposed the idea publicly. In October 2000, Senator Cook pledged that the Labor Party would:

...upon returning to Government, seek to negotiate with the Government of China a comprehensive bilateral trade and investment framework agreement...We will be proposing to the Chinese that the two countries jointly undertake a thorough examination of the potential for closer, practical trade and investment links...<sup>3</sup>

11.5 Senator Cook highlighted the complementarity of the Australian and Chinese economies. The Labor Party intended to use an FTA with China as a way to revitalise the Asia–Pacific Economic Cooperation (APEC) forum. It was also intended as a statement of strategic intent about Australia's role in the region.<sup>4</sup>

11.6 At that time, the Australian government's efforts were concentrated on signing various Memoranda of Understanding relating to trade and investment in the mining and energy sectors and cooperation in science and technology.<sup>5</sup> In 2002, the federal government took the first positive steps toward an FTA with China when it agreed to start work on a trade and economic framework agreement with China (see paragraph 11.22).

### ***Market economy status and anti-dumping laws***

11.7 The Chinese government has made known that nations wishing to sign a bilateral agreement with China under Article XXIV of the GATT must accord China 'market economy status' (MES). The vast majority of WTO members have MES.

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3 P. Cook, 'Australia and China: A new partnership', *The China–Australia Chamber of Commerce*, The Swissotel, Beijing, 24 October 2000, p. 4.

4 P. Kelly, 'Labor sells China trade policy to Asia', the *Weekend Australian*, 23 December 2000.

5 See N. Minchin, 'Commercial relationship is focus of visit to China', Press Release, 24 January 2000.

China, however, under the terms of its WTO accession, is to be treated as a 'non market economy' until 2016.

11.8 For practical purposes, the term 'market economy status' is generally only used in relation to anti-dumping investigations. As noted in chapter 6 (paragraph 6.48), 'dumping' refers to a situation where 'the export price of a product exported from one country to another is less than the comparable price...for the like product when destined for consumption in the exporting country'.<sup>6</sup> The WTO Anti-Dumping Agreement, based on Article VI of the GATT, requires the aggrieved party to show that there is genuine injury to the competing domestic industry.<sup>7</sup> Where this is demonstrated, WTO rules allow a member nation to impose anti-dumping duties against the dumped goods to the value of the margin between the export price and the 'normal value' of the product.

11.9 The calculation of the 'normal value' of a product is determined by national anti-dumping legislation. How this calculation is made depends on the status of the importing country (see paragraph 11.11). In theory, there will be fewer anti-dumping investigations against countries with MES than without it. A country with MES is less likely to receive a positive dumping finding than a country with non-market economy status.<sup>8</sup>

### ***Australian anti-dumping rules***

11.10 Anti-dumping rules are a contentious issue in the Australia–China bilateral relationship. In the decade since 1994–95, Australian industry has initiated 18 anti-dumping actions against imports from China.<sup>9</sup> As discussed below, China was willing to open FTA negotiations with Australia only on the condition that it is treated as a market economy for anti-dumping purposes under Australian law.

11.11 Australian law does not explicitly mention MES or non-MES. However, subsection 269 of the *Customs Act 1901* does define three categories of country for anti-dumping purposes, and the basis for measuring the 'normal value' of their imports.

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6 World Trade Organization, *Agreement on implementation of Article VI of the GATT 1994, Uruguay Round Agreement*, Part 1, Article 2.1, [http://www.wto.org/english/docs\\_e/legal\\_e/19-adp\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/19-adp_01_e.htm) (accessed 8 November 2005).

7 World Trade Organization, 'Agreement on implementation of Article VI', [http://www.wto.org/english/docs\\_e/legal\\_e/ursum\\_e.htm#fAgreement](http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#fAgreement) (accessed 1 October 2005).

8 M. Priestley, 'Anti-dumping rules and the Australia–China Free Trade Agreement', *Research Note No. 38*, Parliamentary Library, 14 March 2005, p. 1.

9 M. Priestley, 'Anti-dumping rules and the Australia–China Free Trade Agreement', *Research Note No. 38*, Parliamentary Library, 14 March 2005, p. 1.

- A country with non-market economy status is identified in subsection 269TAC(4) as a country where the government has 'a monopoly, or substantial monopoly, of the trade of the country [and] determines or substantially influences the domestic price of goods in that country'.<sup>10</sup>
- A country with 'economy in transition' status is identified in subsection 269T(5C) as a country where government once had a monopoly on trade and pricing, but does not currently. As in the European Union (EU), 'normal value' for non MES importers is based on a comparable country's import price.<sup>11</sup>
- A country with market economy status is identified under subsections 269TAC(1), (2) and (6). Section 1 assesses the 'normal value' of an import from a country with MES as the price in the exporter's domestic market. Subsection 2 notes that where the information appropriate to subsection 1 is not available, 'normal value' will be calculated based either on production costs in the country of origin or the comparable price of the like product when exported to an appropriate third country.<sup>12</sup>

### ***The decision to award China market economy status***

11.12 In April 2005, Australia awarded China 'market economy status' under WTO definitions. Australian interests were clearly focused on an FTA and, as noted earlier, China had made it clear that it was unwilling to negotiate unless it was accorded MES under Australian anti-dumping legislation.<sup>13</sup> As the Australian Minister for Trade, the Hon. Mark Vaile, explained on 13 April 2005:

I believe the time is right for Australia to move into free trade negotiations with China...Australia must be at the front of the queue in this market. The Chinese economy grows stronger by the day and Australia simply cannot afford to be left behind.<sup>14</sup>

11.13 The main effect of Australia's decision is that Chinese imports will now be judged no differently for anti-dumping purposes to imports from the US and the EU. Prior to April 2005, Australia's treatment Chinese exports for anti-dumping purposes

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10 *Customs Act 1901*, <http://139.134.5.123/kapala/freelegal/scaleplus.html> (accessed 1 October 2005).

11 Alternatively, the Australian rules may calculate the price based on the production costs in the third country, or the price of the good (or one similar) in the Australian market.

12 The Act notes that it is at the Minister's discretion as to which of these determinations applies in the first instance.

13 A. Stoler, 'What it would mean for Australia to treat China as a market economy: Impact of removing China from EIT Status for Antidumping purposes', *Institute for International Business, Economics and Law*, p. 1.

14 The Hon. Mark Vaile, 'Time is right to enter into FTA negotiations with China', Media Release, 13 April 2005, [http://www.trademinister.gov.au/releases/2005/mvt027\\_05.html](http://www.trademinister.gov.au/releases/2005/mvt027_05.html) (accessed 1 October 2005).

was as an 'Economy In Transition' (EIT), and therefore used 'third country' measures for anti-dumping cases.

11.14 There were mixed views about the decision to give China MES. The Australian Services Roundtable was 'strongly supportive' of the Australian government's decision.<sup>15</sup> It emphasised that the announcement would overcome the threshold obstacle to commencing FTA negotiations. The group also argued that according China MES will not 'deprive Australian producers and manufacturers of adequate remedies in the event of any future dumped imports'.<sup>16</sup>

11.15 This argument was also put by Mr Andrew Stoler, the Executive Director of the Institute for International Business and Law at the University of Adelaide. Mr Stoler claimed the decision 'would in no material way affect Australia's ability to protect industry against legitimate cases of dumping and arrive at accurate antidumping margins'.<sup>17</sup> To argue otherwise, he claimed, is to suggest that WTO rules on anti-dumping are deficient.

11.16 Mr Stoler argued that the calculation of 'normal value' based on either MES or EIT is a procedural issue: it should not affect the accuracy of dumping margins. The interests of Australian industry will be protected from dumping regardless of China's anti-dumping status. Equally, Mr Stoler also insisted that Australia's MES provisions will treat China no differently from other nations accorded the same status. Even when China had EIT status, he claimed it was 'a distinction without a difference'.<sup>18</sup>

11.17 Prior to the April 2005 announcement, the *Australian* argued that although China's MES 'would make it harder for our manufacturers to invoke anti-dumping rules...the real issues...go to the heart of China's transitional economy'.<sup>19</sup> The editorial insisted that the development of China as a fully developed market economy will depend 'less on technical rules about predatory pricing than on evidence of movement towards internal liberalisation'.<sup>20</sup>

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15 Australian Services Roundtable, 'China: Market Economy Status', *Newsletter*, April 2005, <http://www.servicessaustralia.org.au/pdfFilesNewsletters/April05Newsletter.pdf> (accessed 1 October 2005).

16 Australian Services Roundtable, 'China: Market Economy Status', *Newsletter*, April 2005, <http://www.servicessaustralia.org.au/pdfFilesNewsletters/April05Newsletter.pdf> (accessed 1 October 2005).

17 A. Stoler, 'What it would mean for Australia to treat China as a market economy: Impact of removing China from EIT status for anti-dumping purposes', *Response to questions*, Australia-China FTA Conference, Sydney, 13 August 2004.

18 A. Stoler, 'Market economy status for China: Implications for anti-dumping protection in Australia', Australia-China FTA Conference, Sydney, 13 August 2004, p. 4, <http://www.apec.org.au/docs/China04Stoler.pdf> (accessed 12 October 2005).

19 Editorial, 'No dumping on China deal', the *Australian*, 14 March 2005, p. 14.

20 Editorial, 'No dumping on China deal', the *Australian*, 14 March 2005, p. 14.

### ***Australian opposition to China's 'market economy status'***

11.18 There was also strong opposition to the decision within Australia. Some expressed concern that the Howard government had played its trump card too early, given that the lure of MES could give Australia important leverage in FTA negotiations. The main opposition has come from manufacturing interests. The Australian Industry Group (AiG) campaigned strongly to ensure that domestic manufacturers were protected from Chinese dumping under an FTA. The Group's Chief Executive, Ms Heather Ridout, explained in March 2005 that AiG had had discussions with the Australian government to put arrangements in place that would protect Australian industry. This, in turn, will 'remove a major barrier to declaring China a market economy'.<sup>21</sup>

11.19 The Australian Manufacturing Workers Union (AMWU) and the Australian Council of Trade Unions (ACTU) both made submissions to the committee which insisted that the proposed Australia–China FTA must protect Australian industry from dumping of Chinese imports. The ACTU's submission noted that the issue of dumping has featured prominently in the public debate on China's 'illegitimate cost advantages'.<sup>22</sup> It expressed the ACTU's concern that an Australian FTA with China would significantly lessen the burden of proof for Chinese importers in anti-dumping cases. Mr Doug Cameron, the National Secretary of the AMWU, told the committee:

We are concerned about dumping. We do not believe that we should have given market economy status to China—there is absolutely no reason for that. The definition that the United States gives to the term 'market economy' should be at least the minimum position that we adopt in terms of market economy status.<sup>23</sup>

11.20 In the event, the announcement of MES shortly preceded the concessions for Australian manufacturers. In May 2005, the federal government amended the Customs Manual to allow officials to investigate the effect of government influence on the price of any goods coming into Australia from China.<sup>24</sup> Indeed, the change will allow the Australian government to investigate the price of imports from any country, regardless of its status. The main difference in the treatment of EIT and MES status economies for Australian anti-dumping purposes, therefore, is in the investigation of prices: the basis for assessing 'normal value' is unchanged.

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21 H. Ridout, 'Warning issued over China Free Trade deal', *AM, ABC Radio National*, 14 March 2005, <http://www.abc.net.au/am/content/2005/s1322663.htm> (accessed 12 October 2005).

22 *Submission P42*, p. 5.

23 D. Cameron, *Committee Hansard*, Sydney, 29 June 2005, p. 76.

24 F. Brenchley and T. Sutherland, 'Win in dumping fight', *Australian Financial Review*, 13 May 2005, p. 23.

### **Committee view**

11.21 The committee believes the Australian government made the correct decision in awarding China MES. It does not believe that this decision will impact adversely on Australia's capacity to prove that Chinese imports have been dumped. The committee recognises that there are several issues that concern the international community regarding China's transition to a market economy. However, it does not believe that withholding MES is an appropriate or adequate response to these concerns.

### ***The Australia–China Trade and Economic Framework***

11.22 In May 2002, Minister Vaile and the Chinese Vice Minister for Commerce, Mr Yu Guangzhou, signed an agreement to start work on a new framework agreement 'to enhance the economic and trade relationship'.<sup>25</sup>

11.23 On 24 October 2003, the Trade and Economic Framework agreement was signed in Canberra between Prime Minister John Howard and President Hu Jintao, with Ministers Vaile and Yu also present. The Framework strengthens the Australia–China Joint Ministerial Economic Commission and improves the commercial and policy linkages between Australia and China across a range of sectors.

11.24 Potentially the most significant outcome of the Framework was both governments' commitment to study the feasibility and benefits of an Australia–China FTA. It was agreed that this study was to be completed by October 2005 and would provide the basis for deciding whether to negotiate an FTA.

### **Modelling the FTA**

11.25 A team of Australian and Chinese economists conducted the economic modelling for an Australia–China FTA. The Australian Department of Foreign Affairs, Defence and Trade (DFAT) commissioned Dr Yinhua Mai and Professor Phillip Adams from the Centre of Policy Studies at Monash University. The Chinese Ministry of Commerce (MOFCOM) commissioned Dr Mingtai Fan from the Chinese Academy of Social Sciences in Beijing and Professor Ronglin Li and Dr Zhaoyang Zheng from Nankai University in Balitai.

11.26 The March 2005 report simulates three aspects of an FTA: the removal of border protection on merchandise trade, the impact of investment liberalisation, and the removal of barriers to services trade. The authors argued that these measures will increase capital, improve productivity and better utilise both nations' resources. They estimated that the removal of these trade barriers will add \$US18 billion to Australia's

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25 The Hon. M. Vaile, 'Launch of Framework Agreement to enhance the economic and trade relationship between Australia and China', Media Release, Department of Foreign Affairs and Trade, 22 May 2002, [http://www.dfat.gov.au/geo/china/framework/economic\\_framework.html](http://www.dfat.gov.au/geo/china/framework/economic_framework.html) (accessed 1 October 2005).

real GDP and \$US64 billion to China's real GDP between 2006 and 2015.<sup>26</sup> For each of these years, an FTA will directly contribute an increase of 0.39 per cent in real GDP to the Australian economy and 0.42 per cent to China's real GDP.<sup>27</sup>

11.27 The model found that the greatest mutual benefit from an Australia–China FTA is from a quick and comprehensive agreement. Slower implementation would result in fewer benefits. The data presented in the tables below assume comprehensive trade liberalisation in 2006. Compared with the immediate removal of trade barriers, the model estimated that gradual liberalisation between 2006 and 2010 would reduce GDP gains from an FTA by over 25 per cent.<sup>28</sup>

11.28 Table 11.2 shows the Australian goods and services that attract a Chinese tariff of at least ten per cent, and the corresponding Australian tariff on Chinese imports.<sup>29</sup> It clearly illustrates that China imposes tariffs on Australian goods and services at significantly higher rates than the Australian levy on equivalent Chinese imports.

11.29 Chinese tariffs on Australian imports average 15.9 per cent, compared with an average 3.3 per cent Australian tariff on Chinese imports. Indeed, Australian tariffs on Chinese imports exceed ten per cent for only two products—wearing apparel and dairy goods. Excluding these items, the average Australian tariff on the remaining goods is only 1.8 per cent.

11.30 Table 11.3 shows the predicted impact in ten years' time of removing restrictions on merchandise trade on both the Chinese and Australian economies. It shows that if full liberalisation proceeds in 2006, by 2015, Chinese exports to Australia will have increased by 7.3 per cent and Australian exports to China by 14.8 per cent.

11.31 As one would expect, the impact of full trade liberalisation is proportionately greater for the Australian economy as a whole than for the Chinese economy. A comprehensive FTA would increase the overall volume of Australian exports by 0.6 per cent, compared with a 0.2 per cent increase in China's exports. The overall volume of Australian imports would increase by 1.3 per cent, compared with a 0.2 per cent increase in China's imports. Australian real GDP would increase by 0.12 per cent compared with a 0.05 per cent increase in China's real GDP.

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26 Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', *An independent report prepared for the Australia–China Feasibility Study*, 2 March 2005, p. iii.

27 Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', *An independent report prepared for the Australia–China Feasibility Study*, 2 March 2005, p. 65.

28 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 131.

29 The figures are 'ad valorem' estimates for 2005.



**Table 11.2: 2005 ad valorem percentage rates on bilateral trade**

Product / service	China's tariffs (over 10 per cent)	Australia's tariffs
Wheat	30	0.0
Beverages and tobacco	26	3.4
Sugar	25	2.1
Wearing apparel	16.7	14.8
Motor vehicles and parts	16.3	5.2
Food products	15.8	2.2
Oil seeds	15	0.0
Wool	15	0.0
Other meat	14	1.0
Vegetable oils	13	0.6
Fishing	12.8	0.0
Meat: cattle, sheep, goats	12	0.6
Mineral products	11	4.0
Metal products	11	3.8
Processed rice	10.6	1.7
Dairy products	9.9	12.0

Source: Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', An Independent report prepared for the Australia–China Feasibility Study, 2 March 2005, p. 52.

**Table 11.3: Impact (by 2015) of removing merchandise tariffs in 2006**

	Australia (%)	China (%)
Chinese exports to Australia		7.3
Australian exports to China	14.8	
Increase in overall export volume	0.6	0.2
Increase in overall import volume	1.3	0.2
Change in real GDP (%)	0.12	0.05
Change in agricultural output (%)	1.2	–0.1
Change in mining output (%)	0.2	0.0
Change in manufacturing output	0.2	0.1
Change in services traded	0.0	0.0

Source: Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', An independent report prepared for the Australia–China Feasibility Study, 2 March 2005, p. 54.

11.32 The modelling also computed the sectoral impact of a comprehensive FTA on both economies. Full trade liberalisation in 2006 would increase Australian agricultural output in 2015 by 1.2 per cent, whereas the Chinese agricultural sector would contract by –0.1 per cent. The Australian mining and manufacturing sectors would both increase output by 0.2 per cent: the Chinese mining sector would remain unchanged while manufacturing would increase in size by 0.1 per cent.

11.33 Table 11.4 combines the effect of liberalising merchandise trade, services trade and inward investment. The table shows that the bulk of the anticipated increase in real GDP in both nations will come from liberalising services trade and investment. On this measure, the welfare gain to both China and Australia from a comprehensive FTA is very similar. The other notable feature of Table 11.4 is the projected increase that removing restrictions on services and investment will have on China's output in agriculture, manufacturing, mining and services. Table 11.3 shows that removing barriers on merchandise trade alone will have minimal effect on these Chinese sectors. Removing barriers on trade in services and investment, however, will uniformly increase Chinese output in these sectors.

**Table 11.4: Impact (by 2015) of removing *all* trade barriers in 2006**

	Australia (%)	China (%)
Chinese exports to Australia		7.8 (+0.5)
Australian exports to China	15.1 (+0.3)	
Increase in overall export volume	0.9 (+0.3)	0.5 (+0.3)
Increase in overall import volume	1.5 (+0.2)	0.4 (+0.2)
Change in real GDP (%)	0.37 (+0.25)	0.39 (+0.34)
Change in agricultural output (%)	1.3 (+0.1)	0.2 (+0.3)
Change in mining output (%)	0.5 (+0.3)	0.4 (+0.4)
Change in manufacturing output	0.5 (+0.3)	0.5 (+0.4)
Change in services traded	0.3 (+0.3)	0.4 (+0.4)

Source: Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', *An independent report prepared for the Australia–China Feasibility Study*, 2 March 2005, p. 64. Figures in brackets are the increases accounted for by services and investment liberalisation.

11.34 Table 11.5 examines this analysis for its impact on Australian industry. The three columns plot the simulated effect of full trade liberalisation in 2006 on industries' output, employment and import competition from China in 2015. It shows that the Australian wool industry is likely to benefit substantially from an immediate and comprehensive FTA with China. By 2015, the Australian wool industry's output is expected to increase by 7.1 per cent, and employment by 9.2 per cent.

**Table 11.5: Impact of full liberalisation in 2006 on Aust. industries by 2015**

	Output (%)	Employment (%)	Imports from China (%)
<b>Agriculture</b>	<b>1.2</b>	<b>1.4</b>	<b>1.8</b>
Wheat	0.4	0.4	n.s.
Wool	7.1	9.2	n.s.
<b>Mining</b>	<b>0.2</b>	<b>0.0</b>	<b>0.6</b>
Minerals	0.7	0.5	1.7
<b>Manufacturing</b>	<b>0.2</b>	<b>0.0</b>	<b>8.1</b>
Meat products	0.4	0.5	n.s.
Dairy products	0.1	-0.1	n.s.
Sugar	1.8	1.7	n.s.
Food products	0.2	0.0	5.1
Textiles	3.2	2.9	9.0
Motor vehicles	-0.6	-0.8	31.5
Wearing apparel	-5.5	-11.9	24.5

Source: Y. Mai et. al., 'Modelling the potential benefits of an Australia-China Free Trade Agreement', An independent report prepared for the Australia-China Feasibility Study, 2 March 2005, p. 56.

11.35 The contrast is with the wearing apparel industry, which is forecast to reduce its output by 5.5 per cent and shed almost 12 per cent of its current workforce by 2015. The model also predicts that several Australian manufacturing industries will face more intense competition from Chinese imports, particularly the car and wearing apparel industries. Notably, the projected increase in the level of Chinese agricultural and mining imports to Australia is comparatively low at 1.8 per cent and 0.6 per cent respectively.

11.36 Table 11.6 shows the estimated impact of comprehensive Australia-China trade liberalisation in 2006 on Chinese industries by 2015. Again, the most notable aspect of the table is the anticipated fall in output and employment in China's wool industry. The small anticipated impact on other industries reflects that the Chinese economy is much larger than the Australian economy. Still, Table 11.6 shows that the opportunities for Australian exporters from an FTA with China will be significant in the wheat, wool, dairy, sugar, food products, car and wearing apparel industries.

11.37 The modelling report conceded that some adjustment of labour between sectors will occur following the removal of border protection on merchandise trade.

However, '[b]ecause of the complementarity of the two countries...such reallocation of labour...tends to facilitate the natural course of adjustment already occurring...'<sup>30</sup>

**Table 11.6: Impact of full liberalisation in 2006 on China's industries by 2015**

	Output (%)	Employment (%)	Imports from Aust (%)
<b>Agriculture</b>	<b>-0.1</b>	<b>-0.1</b>	<b>16.3</b>
Wheat	-0.1	-0.1	20.5
Wool	-4.8	-6.9	19.2
<b>Mining</b>	<b>0.0</b>	<b>-0.9</b>	<b>6.6</b>
Minerals	-0.2	-0.5	6.4
<b>Manufacturing</b>	<b>0.1</b>	<b>0.0</b>	<b>20.3</b>
Meat products	0.0	-0.1	12.3
Dairy products	-0.5	-0.6	27.1
Sugar	-0.4	-0.8	40.2
Food products	0.0	-0.1	33.9
Textiles	0.3	0.1	17.2
Motor vehicles	0.1	0.1	116.9
Wearing apparel	0.4	0.1	93.0

Source: Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', *An independent report prepared for the Australia–China Feasibility Study*, 2 March 2005, p. 56.

### The FTA Feasibility Study—principles and conclusions

11.38 In March 2005, DFAT and MOFCOM released a joint feasibility study into an Australia–China FTA. The study identified seven principles that should guide the FTA negotiations. The agreement must:

- allow the two sides to negotiate as equal trading partners (hence Australia's recognition of China as a market economy);
- be consistent with WTO rules, and take into account APEC's goals for trade and investment liberalisation and facilitation;
- go beyond WTO commitments and include products across all sectors covering merchandise trade, services and investment flows, 'with a view to achieving a balanced outcome through a single undertaking';
- be capable of delivering significant outcomes as soon as it enters into force;

30 Y. Mai et. al., 'Modelling the potential benefits of an Australia–China Free Trade Agreement', *An independent report prepared for the Australia–China Feasibility Study*, 2 March 2005, p. 31.

- acknowledge that the nations are at different stages of economic development with different adjustment costs;
- include dispute settlement issues; and
- include a timetable for periodic review.<sup>31</sup>

11.39 The Monash–Nankai universities' modelling was a major input into the FTA feasibility study. Each of the feasibility study's five conclusions drew from the econometric analysis. The study concluded that:

- there are significant net trade and economic benefits for both countries within a short timeframe;<sup>32</sup>
- the positive impact of an FTA on output and employment in both countries is significant, with structural adjustment expected to be minimal (see above),<sup>33</sup>
- the greater the scope and coverage of the FTA, the greater the benefits;
- the faster the implementation across goods, services and investment, the greater the benefits; and
- an Australia–China FTA would be trade-creating for the world as a whole.<sup>34</sup>

11.40 Accordingly, DFAT and MOFCOM recommended that negotiations on an FTA 'should begin as soon as possible'.<sup>35</sup>

### ***Committee view***

11.41 The committee supports Australia's decision to sign an FTA with China. It does not believe that the early concession of MES will leave Australia without negotiating power in the FTA discussions. In principle, the committee supports abolishing tariff and non-tariff barriers across all sectors within the quickest possible timeframe. Chapters 4, 5, 6 and 7 noted the intransigence of China's non-tariff barriers and their affect on a range of Australian industries' to export and invest in China. This chapter noted Australia's average tariff levels are significantly less China's (see paragraph 11.28). However, as the next chapter observes, there is likely to be significant opposition to rapid tariff reduction from the Australian manufacturing

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31 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 4.

32 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 131.

33 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 126.

34 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 127.

35 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 134.

sector and parts of both the Australian and Chinese agricultural sectors. This opposition will be accentuated if Australian negotiators do not use the FTA to address adequately China's various non-tariff barriers (see chapter 12). The committee is pleased that the FTA negotiations to date have engaged Chinese officials in discussion on these issues (see paragraphs 11.45, 11.46 and 11.47).

### **Recommendation 13**

**11.42 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 SPS agreements for quarantine; and**
- **encourage China to develop greater transparency and uniformity in its corporate tax system.**

### **The progress of negotiations (October 2005)**

11.43 In 2005, DFAT conducted a number of public and stakeholder consultations on the proposed Australia–China FTA. The department also held the first two rounds of negotiations with MOFCOM officials.

11.44 On 23 May 2005, Trade Minister Vaile and China's Vice Minister of Commerce, Mr Wei Jianguo, launched the first round of Australia–China FTA negotiations in Sydney. These talks focussed on procedural issues and included an Australian offer to provide training for Chinese officials on FTA negotiating processes (see recommendation 2).<sup>36</sup>

11.45 In August 2005, the second round of negotiations was held in Beijing.<sup>37</sup> This was divided into four working groups: agriculture and quarantine; trade in goods; trade in services; investment and trade facilitation issues. The purpose of the discussions was for both sides to exchange information about each other's trade and investment regimes. China's officials asked questions to the Australian delegation about quarantine, foreign direct investment, movement of natural persons, and anti-

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36 Australia–China FTA negotiations, Subscriber update, Department of Foreign Affairs and Trade, 26 May 2005, [http://www.dfat.gov.au/geo/china/fta/050526\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/050526_subscriber_update.html) (accessed 28 September 2005).

37 By chance, the talks coincided with the visit of three committee members to the capital.

dumping. Australia emphasised the need for relevant and up-to-date information about China's policies and administrative regimes in all sectors.<sup>38</sup>

11.46 DFAT's review of these discussions noted:

We used the session on non-tariff barriers and industry assistance to raise issues of concern to the Australian business community, in particular in relation to the kinds of government assistance and subsidies provided to domestic Chinese industries.<sup>39</sup>

11.47 It added:

On intellectual property, the Chinese side was well prepared. We had a robust exchange not only on technical issues but also on broader issues, especially enforcement and concerns raised by Australian industry. Importantly, China revealed that it is undertaking several reviews of its intellectual property laws, and accepted the Australian offer to provide detailed materials for consideration in the reform of China's intellectual property regime.<sup>40</sup>

11.48 The third round of negotiations was due to commence on 31 October 2005. The committee shares the Australian government's insistence that future negotiations must continue to consult widely with the Australian community; that time is taken to ensure a quality agreement; that expectations on the benefits of the FTA are not exaggerated; and that, once implemented, there is a timetable for periodic review.<sup>41</sup>

#### **Recommendation 14**

**11.49 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:**

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38 Australia–China FTA negotiations, Subscriber update, Department of Foreign Affairs and Trade, 1 September 2005, [http://www.dfat.gov.au/geo/china/fta/050901\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/050901_subscriber_update.html) (accessed 28 September 2005).

39 Australia–China FTA negotiations, Subscriber update, Department of Foreign Affairs and Trade, 1 September 2005, [http://www.dfat.gov.au/geo/china/fta/050901\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/050901_subscriber_update.html) (accessed 28 September 2005).

40 Australia–China FTA negotiations, Subscriber update, Department of Foreign Affairs and Trade, 1 September 2005, [http://www.dfat.gov.au/geo/china/fta/050901\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/050901_subscriber_update.html) (accessed 28 September 2005).

41 Department of Foreign Affairs and Trade 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 134. See also, The Hon. M. Vaile, 'Free trade agreement needed more than ever with vast and protected China market', the *Age*, 25 October 2005, p. 8.

- **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.**