

# Chapter 12

## Attitudes to the proposed FTA

12.1 The Department of Foreign Affairs and Trade (DFAT) FTA joint feasibility study highlighted the benefits to be gained from the proposed FTA with China. This chapter looks at the response to this proposal from the various sectors of the Australian economy.

### Support for the FTA

12.2 A November 2004 'DHL Export Barometer' survey of Australian exporters found strong support for an FTA with China.<sup>1</sup> Almost 45 per cent of exporters surveyed thought an agreement with China would be positive—with 20 per cent of these very positive—while 45 per cent were neutral and only 10 per cent were negative. Austrade's chief economist, Mr Tim Harcourt, noted that support for an FTA with China was considerably stronger than for the agreement with the US (25 per cent positive) and Thailand (21 per cent positive).<sup>2</sup> He added:

Generally speaking, in these surveys exporters usually take time to warm to the free-trade agreements, but in the case of China they took to it positively in terms of the potential business opportunities almost straight away.<sup>3</sup>

12.3 A May 2005 'DHL Export Barometer' survey (Table 12.1) also supported this observation, although the Thailand and US FTAs had increased in popularity.<sup>4</sup> Forty-one per cent of respondents were positive about an FTA with China, compared with 37 per cent for the Australia–US FTA and only 31 per cent for the FTA currently operating with Thailand.

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1 *DHL Export Barometer: Australian Export Trends*, November 2004–April 2005, Issue 3, <http://www.austrade.gov.au/publications/DHLExportBarometerOct2004.pdf?1101100342820> (accessed 14 August 2005).

2 T. Harcourt, 'Debunking some Chinese myths', *Australian Financial Review*, 1 August 2005, p. 25.

3 T. Harcourt, 'Debunking some Chinese myths', *Australian Financial Review*, 1 August 2005, p. 25.

4 *DHL Export Barometer: Australian Export Trends*, May 2005, Issue 4, [http://www.austrade.gov.au/publications/DHLExportBarometer\\_May05.pdf?1116566660773](http://www.austrade.gov.au/publications/DHLExportBarometer_May05.pdf?1116566660773) (accessed 14 August 2005).

**Table 12.1: Australian exporters' attitudes to the FTAs**

	China	US	ASEAN	Malaysia	Thailand	UAE
Very positive	<b>15</b>	15	12	10	11	9
Somewhat positive	<b>26</b>	22	22	23	20	20
No impact	<b>51</b>	56	61	61	63	68
Somewhat negative	<b>6</b>	6	4	4	5	3
Very negative	<b>2</b>	1	1	1	1	0

Source: DHL Export Barometer: Australian Export Trends, May 2005, Issue 4, p. 4.

### ***The National Farmers Federation***

12.4 Australia's agricultural representatives are generally supportive of an FTA with China. The committee received evidence from the National Farmers' Federation (NFF). It was unequivocal: an FTA must give Australian agriculture entirely free access, on the basis of a single undertaking, over the shortest timeframe possible.<sup>5</sup> Moreover, it insisted that the agreement must not only reduce tariff barriers and quotas, but also promote a 'more transparent and predictable Chinese import system'.<sup>6</sup> The NFF also stressed the importance of reducing non-tariff barriers. It viewed the FTA as an avenue to:

- improve transparency of China's sanitary and phytosanitary (SPS) standards;
- seek Chinese recognition of Australian quarantine and SPS regulations;
- negotiate further improvements in China's customs procedures; and
- remove investment barriers in China to enable joint ventures.

12.5 The NFF's enthusiasm for an FTA with China stems from 'the impressive growth of the Chinese economy, strong population growth...the rapid urbanisation of the population and westernisation of the Chinese diet'.<sup>7</sup> It also noted that China is an important supplier of pesticides, herbicides and fertilizers to Australia, adding:

[I]t is important that Australian farmers continue to have access to these competitively priced products to ensure that we are not placed at a global disadvantage compared to producers in other countries with which we compete on the global market.<sup>8</sup>

12.6 The NFF argued that Australian agricultural exports to China would increase with or without an FTA. It acknowledged that the Australian agricultural sector was

5 National Farmers' Federation, *Submission P64*.

6 National Farmers' Federation, *Submission P64*, p. 3.

7 National Farmers' Federation, *Submission P64*.

8 National Farmers' Federation, *Submission P64*.

eager to secure an FTA with China, but not at the expense of a comprehensive agreement.

12.7 The Department of Agriculture, Fisheries and Forestry's (DAFF) submission to the committee was based on very similar lines. It maintained that the FTA 'has the potential to deliver great benefits for the Australian agriculture, fisheries and forestry industries', provided it is comprehensive in abolishing tariff and addressing non-tariff issues.<sup>9</sup> The department also viewed non-tariff issues as important, particularly import licensing and labelling and import risk assessment.

12.8 This is consistent with the attitude of various Australian agricultural industries to the FTA. Table 12.2 shows that all five of these key export industries have expressed concern that the FTA must address non-tariff issues.

**Table 12.2: Agricultural industries' attitudes to the FTA**

Wool	'We want to see the tariffs and quotas removed, but the key with China is the post-border issues.' <sup>10</sup> '...a comprehensive FTA will clear obstacles along the wool supply chain that restrain export growth to this \$1 billion annual wool export market. The FTA should increase capacity for real export growth through the liberalisation of not only tariffs and quotas, but also by addressing beyond the border issues such as quota administration and the mandatory re-testing of Australian wool.' <sup>11</sup>
Pork	'Australian Pork Limited supports efforts by the Australian government aimed at establishing a free trade agreement between Australia and China...To lay the platform for the Australian pork industry's long term expansion into the high value end of the Chinese pork market, there should be an emphasis on reducing tariffs, reducing red tape in China, ensuring China adopts international standards for food production and residue levels such as defined by CODEX.' <sup>12</sup>
Wine	'There are considerable benefits to the wine industry from commencing negotiations with China on a Free Trade Agreement...Clearly it will be difficult for China to accept a rapid reduction in tariff barriers...[T]herefore, while we should seek elimination of tariffs over the longer term, the major benefits to the Australian wine industry will come from liberalising technical regulations. In particular, these include labelling, certification procedures...and food standards inconsistencies.' <sup>13</sup>

9 Department of Agriculture, Fisheries and Forestry, *Submission P41*, April 2005.

10 S. Guthrie, Australian Wool Innovation, cited in K. Murphy, 'Cash cows and open doors', the *Weekend Australian*, 16–17 April 2005, p. 22.

11 L. Stephens, 'Wool industry welcomes green light for China FTA', *Australian Wool Innovation Limited*, 20 April 2005, <http://www.wool.com.au/LivePage.aspx?pageId=1841> (accessed 28 September 2005).

12 Australian Pork Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', 18 June 2004, pp. 4–5.

13 Winemakers' Federation of Australia, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', pp. 8–9.

- Cotton 'An open market and no tariffs and quotas will give us much greater access to an extremely significant customer and this is great news for our industry that exports over 95% of its crop. However, we are concerned about some of China's spinning mills honouring contracts, due to their ability to selectively choose between domestic supplies and imports, depending on the better price. We consider it vitally important that sanctity of contract be addressed in these negotiations.'<sup>14</sup>
- Dairy
- 'Immediate removal of all tariffs on dairy product lines' or 'a maximum of three years to phase the tariffs to zero'.
  - An undertaking that Australia will have no worse treatment for dairy imports than is negotiated between China and any other country (particularly New Zealand).
  - Specific and detailed harmonisation provisions on dairy SPS, animal welfare and residue levels for food imports.<sup>15</sup>

### *Australian mining representatives*

12.9 The committee heard that the strength of current and projected Australian mineral exports to China principally reflects the unprecedented demand for energy and strategic minerals. Chapter 4 noted that the general tariff rate on iron ore is zero: chapter 7 highlighted China's increased need for various Australian mining exports.

12.10 In this context, an FTA is not a necessity for the Australian mining sector. The head of government and corporate relations at Rio Tinto, Mr Lyall Howard, told the committee:

We have no need of an FTA to sell iron ore, but there are small trade issues that can be dealt with in the context of an FTA. DFAT has cast the net around, in the industry, to find out what issues to take to the table, and we have come up with a long list of issues. If any of them can be resolved, that will be good news for us, but the fact that there is not an FTA at the moment is not a barrier to the growth of our business.<sup>16</sup>

12.11 However, Rio Tinto representatives did indicate that an FTA could address quarantine and non-tariff barrier issues. Under Chinese law, iron ore is listed for compulsory examination under import.<sup>17</sup> Mr Bill Hart from Rio Tinto Iron Ore told the committee, '[w]e have the right processes in place here in Australia to manage our products there, so we see it as an unnecessary impediment'.<sup>18</sup> Rio Tinto's submission

14 C. Campbell, 'Cotton to benefit from free trade agreement with China', Media Release, 19 April 2005, <http://www.cottonaustralia.com.au/news/DisplayNews.aspx?id=64&NewsCategoryID=2>.

15 Australian Dairy Industry, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, pp. 1–2.

16 L. Howard, Rio Tinto, *Committee Hansard*, 1 August 2005, p. 57.

17 Rio Tinto Iron Ore, *Submission P34*, p. 8.

18 B. Hart, Rio Tinto Iron Ore, *Committee Hansard*, 1 August 2005, p. 51.

to the inquiry indicated that an FTA might also lift current restrictions on the transportation—by rail and water—of iron ore imports to inland locations. Other issues of concern for the company are the Chinese law prohibiting a wholly owned foreign enterprise from obtaining a full import–export licence, and the need for enforceable competition laws and contracts in China to attract Australian joint ventures.<sup>19</sup>

12.12 While Rio Tinto's interest in an FTA is directed at non-tariff barriers, the Minerals Council of Australia noted that China retains 'commercially significant' tariff barriers on a number of products.<sup>20</sup> The Council insisted that these tariffs 'serve no apparent industry policy purpose and appear to have been retained solely as revenue raising measures'.<sup>21</sup> It also believed that China's recent imposition of import licences on iron ore should be reconsidered, given that the recent increase in iron ore prices was a reflection of the increased demand for the product.

## Opposition to the FTA

### *The horticultural industry*

12.13 Within Australia's agricultural sector, the horticultural industry has expressed strongest concern about the prospect of free trade with China. Representatives of this industry claim that horticulture is the one area of agricultural production in which China has a competitive advantage. They fear that free trade with China will mean cheap imported food will 'flood' into Australia.<sup>22</sup> One analyst has claimed that Australia could become a net importer of vegetables within three to five years.<sup>23</sup>

12.14 The horticulture industry's peak body, Ausveg, estimated that the influx of Chinese fruits and vegetables will cost 5,000 jobs and lose the industry \$500 million a year.<sup>24</sup> Ausveg chief executive, Mr Euan Laird, claimed the existing five per cent tariff on some vegetable imports was the difference between commercial viability and bankruptcy.<sup>25</sup> Mr Laird was among several in the Australian horticultural industry who have accused the NFF of trading off horticulture to aid broadacre industries such as wool and grain.<sup>26</sup>

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19 Rio Tinto Iron Ore, *Submission P34*, p. 8.

20 Minerals Council of Australia, *Submission P55*, p. 12.

21 Minerals Council of Australia, *Submission P55*, p. 12.

22 K. Adamson, 'Cripple' fear on China deal', *Weekly Times*, 4 May 2005, p. 10.

23 D. McKinna, Strategic Insights, quoted in N. Hooper and S. Mitchell, 'Food fight: Why our farmers are being slaughtered', *Australian Financial Review*, 6 August 2005, p. 24.

24 D. McKinna, Strategic Insights, quoted in N. Hooper and S. Mitchell, 'Food fight: Why our farmers are being slaughtered', *Australian Financial Review*, 6 August 2005, p. 24.

25 D. McKenzie, 'NFF dismisses China threat', *Weekly Times*, 22 June 2005, p. 25.

26 D. McKenzie, 'NFF dismisses China threat', *Weekly Times*, 22 June 2005, p. 25.

12.15 The prospect of an FTA with China has reignited arguments in Australia about the need for more comprehensive and prominent country-of-origin food labelling laws. Ausveg, representing Australian fruit and vegetable growers, strongly supported the need for improved food labelling laws for agricultural goods sold in Australia. The Minister for Agriculture, the Hon. Peter McGauran, agreed. As Chapter 5 noted, in October 2005, the Australian government strengthened food labelling laws by requiring unpackaged fruit, vegetables, seafood, pork and pork products to display a specific country-of-origin label. It is anticipated that country-of-origin labelling laws for packaged foods with mixed ingredients will be introduced in 2006.<sup>27</sup> The Australian government has also initiated a \$4 million HomeGrown program to encourage Australian consumers to buy Australian food.<sup>28</sup>

12.16 However, the Australian Food and Grocery Council warned that an onerous labelling system would be costly to Australian industry.<sup>29</sup> Moreover, survey evidence suggested that Australian consumers would—among products of similar quality—often choose the cheaper product.<sup>30</sup> In other words, better country-of-origin labelling is not in itself a solution.<sup>31</sup>

12.17 The *Australian Financial Review* argued that the solution is not 'protection by stealth', but rather 'has a lot to do with consistency on trade policy'.<sup>32</sup> It claimed that the Australian Trade Minister:

...should urge vegetable growers to consolidate to lower costs—and that's already happening. Then the consolidated industry must leverage off niche markets. Australian producers can deliver competitively priced product in certain seasonal windows... Those are the types of products and markets to target.<sup>33</sup>

12.18 The NFF President, Mr Peter Corish, the Federation's Trade Chairman, Mr Allan Burgess, and the Australian Trade Minister, the Hon. Mark Vaile, all agreed that

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27 The Hon. C. Pyne, 'Country of origin labelling', Press Release, 25 October 2005.

28 This funding was announced in the 2005 federal budget, <http://www.budget.gov.au/2005-06/ministerial/html/dotars-03.htm>.

29 J. Breusch, 'Vegie farmers dig deep to meet challenges', *Australian Financial Review*, 11 August 2005, p. 61.

30 See M. Priestley, 'Country of origin labelling: Are consumers willing to pay more for Australian products?', *Research Note no. 8*, Parliamentary Library, 5 September 2005, p. 1. The survey found that only 45 per cent of surveyed consumers buy Australian made products whenever possible.

31 J. Breusch, 'Vegie farmers dig deep to meet challenges', *Australian Financial Review*, 11 August 2005, p. 61.

32 Editorial, 'Protection hiding under false label', *Australian Financial Review*, 19 July 2005, p. 54.

33 Editorial, 'Protection hiding under false label', *Australian Financial Review*, 19 July 2005, p. 54.

China is a challenge for horticulture producers with or without an FTA. Mr Burgess maintained that given there are no trade barriers now to Chinese produce, 'a free trade agreement with China will make no difference to whether that country's fruit and vegetables come into Australia'.<sup>34</sup>

12.19 Minister Vaile noted that horticultural production in Australia and China 'is largely counter-seasonal'. He cited the DFAT FTA joint feasibility study (see chapter 11) which argued that 'there is scope for the development of a complementary trade that would benefit both Australian and Chinese producers by ensuring year-round availability of product'.<sup>35</sup> In similar vein, Mr Frank Costa, executive chairman of a large Geelong-based vegetable company, argued of China:

They've got a population of around 1.3 billion and ours is 20 million. They're in the northern hemisphere and we're in the southern hemisphere so there are times in the year, if the borders can be opened into China, that Australia can get direct access...with our fresh produce. There's a much bigger chance of us selling more fresh produce into China than there is of China selling it to us.<sup>36</sup>

### ***Australian manufacturing representatives***

12.20 The Australian manufacturing sector is apprehensive about the prospect of an FTA with China. In its July 2004 submission to the DFAT FTA joint feasibility study, which was also submitted to the committee, the Australian Industry Group (AiG) claimed that:

...a large proportion of this [the manufacturing] sector is not convinced that an FTA with China would be advantageous. Further, manufacturers are deeply concerned about the level of transparency and compliance that China could deliver under any proposed FTA.<sup>37</sup>

12.21 This finding was based on AiG's survey of 848 manufacturers. To the question, 'Would an Australia–China Free Trade Agreement be beneficial to your firm?', 45.2 per cent answered 'no', 41.7 per cent answered 'don't know' and only 13.2 per cent answered 'yes'.<sup>38</sup> A slightly higher proportion of exporting firms

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34 D. McKenzie, 'NFF dismisses China threat', *Weekly Times*, 22 June 2005, p. 25.

35 The Hon. M. Vaile, 'FTA fears misguided', *The Land*, 26 May 2005, p. 12.

36 Cited in J. Breusch, 'Vegie farmers dig deep to meet fresh challenges', *Australian Financial Review*, 11 August 2005, p. 61.

37 Australian Industry Group, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, July 2004, p. 1.

38 Australian Industry Group, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, July 2004, Appendix 1. The AiG's report is titled 'Australian manufacturing and China: Opportunities and Challenges', August 2004, [http://www.AiGroup.asn.au/AiGroup/pdf/economics/surveys\\_and\\_reports/economics\\_surveys\\_nat\\_ChinaReportAug04.pdf](http://www.AiGroup.asn.au/AiGroup/pdf/economics/surveys_and_reports/economics_surveys_nat_ChinaReportAug04.pdf).

(16.8 per cent) believed an FTA would be beneficial. Sixty-eight per cent of those surveyed claim that China affects either their customer or supplier markets. Based on its survey, the AiG estimated that over the past year (2003–04), trade with China cost Australian manufacturers \$560 million in turnover.<sup>39</sup>

12.22 The AiG's submission to the committee—and to DFAT previously—made several recommendations to assist Australian manufacturers should an FTA with China proceed. These include that:

- the agreement is comprehensive—covering all sectors of trade, services and investment—and fast, with any phased tariff reductions achieved within ten years;
- China is required to 'implement and enforce effective and commercially realistic penalties' to protect intellectual property; and
- the FTA uses the product-specific 'rules of origin' employed in the Australia–Thailand FTA.<sup>40</sup>

12.23 The Australia–China Business Council (ACBC) told the committee that:

...the challenge that the growth of Chinese productive capacity will pose for Australia's manufacturing sector highlights the need for a clear articulation in Australia of an overarching national policy and framework in support of manufacturing. This is something that the country's manufacturing sector considers is currently lacking.<sup>41</sup>

12.24 The AiG also urged the Australian government to adopt several measures to support the manufacturing sector more broadly. These include:

- acknowledging the strategic importance of Australia's manufacturing sector within the proposed FTA framework;
- introducing a forward-looking 'Advance Manufacturing Program' to enhance the competitiveness of Australian industry—it should include the encouragement of research and development, the diffusion of new technologies and manufacturing strategies, export development and skills enhancement;

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39 Council of Textile and Fashion Industries, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 11.

40 Australian Industry Group, *Submission to the Australia–China Free Trade Agreement Feasibility Study*, July 2004, p. 3, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma24.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma24.pdf) (accessed 10 October 2005). An explanation of the Australia–Thailand FTA's 'rules of origin' is available at <http://www.fta.gov.au/default.aspx?FolderID=263&ArticleID=209>.

41 *Submission P40*, p. 15.



- abolishing the three per cent tariff applying under the Tariff Concession Scheme, imposed on imported business inputs from all countries;<sup>42</sup> and
- the immediate establishment of a 'China Help Desk' to allow industry to address any issues relating to Australian companies' involvement with China.<sup>43</sup>

Recommendations 5, 6 and 7 of this report respond to these proposals.

12.25 The submission to this inquiry from the Australian Manufacturing Workers' Union (AMWU) firmly opposed an Australia–China FTA. It recommended:

...that Australia not enter into a free trade agreement with China [and that] the Australian Government abandon its strategy to negotiate bilateral free trade agreements and instead seek to... reinvigorate multilateral negotiations.<sup>44</sup>

12.26 The AMWU expressed concern that an FTA with China would exacerbate Australia's reliance on imported Chinese manufactures and China's reliance on Australia's primary produce. This situation 'would have significant (and negative) consequences for Australia, particularly those communities who rely on manufacturing'.<sup>45</sup> The Union's submission emphasised the importance of manufacturing to the Australian economy, given its status as the largest employer of full-time permanent workers and its high share of national exports. It described the manufacturing sector as 'vastly more important to the Australian economy in terms of jobs and contribution to GDP than the mining, agriculture, forestry and fishing sectors combined'.<sup>46</sup>

### *Plastics and chemicals*

12.27 The Plastics and Chemicals Industries Association's (PCIA) submission to the DFAT FTA joint feasibility study found 'little support for an FTA' with China among its members.<sup>47</sup> It identified a number of concerns about access to the Chinese market, including restrictions on foreign enterprises operating in China, higher supply costs

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42 The May 2005 federal budget abolished this tariff.

43 Australian Industry Group, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', July 2004, pp. 4 and 35, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma24.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma24.pdf) (accessed 10 October 2005).

44 Australian Manufacturing Workers' Union, *Submission P36*, Recommendations 2 and 8, p. 4.

45 Australian Manufacturing Workers' Union, *Submission P36*, p. 13.

46 Australian Manufacturing Workers' Union, *Submission P36*, p. 15.

47 Plastics and Chemicals Industries Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', July 2004, p. 3, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma23.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma23.pdf) (accessed 8 September 2005).

for foreign enterprises, lack of intellectual property protection, and collusion with the domestic Chinese market.<sup>48</sup>

12.28 With regard to its members competing with Chinese imports, the PCIA favoured phased tariff reductions. Its submission to DFAT noted that the chemicals and plastics industries are 'import replacement industries and thus price takers', which made the existing five per cent tariff 'vital to profitability'.<sup>49</sup> The submission claimed that the Australia–Singapore FTA's failure to phase out tariffs had cost domestic chemicals and plastics suppliers their price margin over imports.<sup>50</sup> The PCIA claimed an FTA with China must phase out assistance to allow local manufacturers the time to make the investment and structural adjustment necessary to survive.

#### *Automotive and tyre industries*

12.29 The Department of Industry, Tourism and Resources' (DITR) submission to the committee noted that an FTA offered opportunities for Australian automotive component producers to increase their role in China's supply chains, and their own foreign direct investment in China.<sup>51</sup>

12.30 These are also key expectations of the Federation of Automotive Products Manufacturers. It argued that an FTA with China should focus on lifting foreign investment restrictions, rather than eliminating tariff barriers. It claimed that the 'structural impediments' to foreign investment in China are the 'most significant practical constraints on Australian companies gaining a bigger share of the booming Chinese market'.<sup>52</sup> The abolition of the already 'low rate' of tariff, by contrast, 'is unlikely to have any significant impact on potential exports of automotive components

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48 Plastics and Chemicals Industries Association, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, July 2004, p. 4, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma23.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma23.pdf) (accessed 8 September 2005).

49 Plastics and Chemicals Industries Association, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, July 2004, p. 6, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma23.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma23.pdf) (accessed 8 September 2005).

50 Plastics and Chemicals Industries Association, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, July 2004, p. 6, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma23.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma23.pdf) (accessed 8 September 2005).

51 Department of Industry, Tourism and Resources, *Submission P69*, 21 June 2005, p. 5.

52 Federation of Automotive Products Manufacturers, 'Australia–China FTA: Issues and Implications for Australia's Automotive Components Industry', *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 4.

from Australia to China'.<sup>53</sup> The Federation did concede that the removal of duty on Chinese imports is likely to hurt Australian production. However, it argued that an FTA could be of most assistance to the industry if it could identify suitable joint venture partners for Australian automotive component companies in China.

12.31 The Australian Tyre Manufacturers' Association (ATMA) argued that even if an FTA eliminates tariff barriers, there would remain many 'indirect barriers to trade and cultural and economic impediments'.<sup>54</sup> These indirect barriers enable China to produce large volumes of tyres at a low unit cost, which outprices Australian tyre exports. The Association noted that Australian tyre manufacturers were not expecting that an FTA with China would lead to any significant increase in the export of Australian cars to China. It surmised that export opportunities for Australian tyre manufacturers would remain limited.<sup>55</sup>

12.32 Under the current Automotive Plan established in 1996, tariffs on imported passenger car tyres are levied at 10 per cent until 1 January 2010. The ATMA argued that an FTA with China would probably cut this protection entirely at an earlier date. It feared that this 'may mean a substantial increase in the volume of [Chinese tyre] importation...at very competitive prices'. This 'may render tyre manufacture in Australia uneconomic and may force the closure of existing plants'.<sup>56</sup> Most of the anticipated increase in passenger vehicle imports from China will not have tyres sourced from Australian manufacturers. The ATMA also noted that an FTA with China may compel Australia to grant similar concessions to other importers such as Japan and Korea.

### ***Committee view***

12.33 The committee urges Australia's trade negotiators to address both tariff and non-tariff issues facing Australian car components and tyre exporters to China. It is encouraged by the ATMA's assessment that if Australia had free access to the tyre markets of Taiwan, Malaysia, Thailand, Korea and 'particularly' China, Australian tyre

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53 Federation of Automotive Products Manufacturers, 'Australia–China FTA: Issues and Implications for Australia's Automotive Components Industry', *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 20. The submission noted that by 2006, both the Chinese and Australian tariff rate on imported components will be 10 per cent.

54 Australian Tyre Manufacturer's Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3.

55 Australian Tyre Manufacturer's Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_atma.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_atma.pdf) (accessed 1 October 2005).

56 Australian Tyre Manufacturer's Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_atma.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_atma.pdf) (accessed 1 October 2005).

manufacturers 'may be able to increase their export effort substantially'.<sup>57</sup> However, given the high level of tyre overproduction and entrenched non-tariff barriers in China, the ATMA is 'yet to be convinced' that an FTA is in the best interests of the Australian economy.<sup>58</sup>

12.34 In the committee's opinion, if China does not agree to remove all tariffs on tyres and substantially address non-tariff issues, the Australian government has strong grounds for retaining the terms of the current Automotive Plan. If an FTA proceeds with China's agreement to cut tariff and non-tariff barriers substantially, the Australian government must intensify its efforts to encourage the local industry's investment in technology, equipment and skills. There is also a need for smaller car component manufacturers to form alliances and research and development networks to enable these companies to share costs and develop economies of scale.

#### *Textile, clothing and footwear industries*

12.35 The Textiles, Clothing and Footwear Union of Australia (TCFUA) was also apprehensive about the prospect of an FTA with China. China's clothing imports account for 75 per cent of all Australian clothing imports. Chinese footwear imports account for 63 per cent of all Australian footwear imports.<sup>59</sup> In its June 2004 submission to DFAT, the TCFUA's warnings were dire for the industry:

[the] scale of the Chinese TCF industry is so great that differential tariff arrangements with China could see what has been a flood of imports turn into something that will completely obliterate the Australian TCF industry.<sup>60</sup>

12.36 The Council of Textile and Fashion Industries of Australia (TFIA) was similarly apprehensive. Its submission to the DFAT FTA joint feasibility study recommended that the Australian government oppose an FTA with China until Australian industry 'considers that there is a level playing field between the two

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57 Australian Tyre Manufacturer's Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 2, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_atma.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_atma.pdf) (accessed 1 October 2005).

58 Australian Tyre Manufacturer's Association, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 6, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_atma.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_atma.pdf) (accessed 1 October 2005).

59 Council of Textile and Fashion Industries of Australia, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 2, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma06.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma06.pdf) (accessed 1 October 2005).

60 Council of Textile and Fashion Industries of Australia, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 2, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma06.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma06.pdf) (accessed 1 October 2005).

economies'.<sup>61</sup> It insisted that any FTA must force China to reduce its non-tariff barriers, contain specific safeguard measures for the TCF sector, and follow the rules of origin adopted in the Australia–Singapore FTA.<sup>62</sup> It also argued that the phase-out of Chinese tariffs on Australian imports must be at a faster rate than Australian tariffs on Chinese imports.<sup>63</sup> TFIA supports the current Australian government policy on TCF tariffs, which will reduce the rate across the industry to five per cent by 2015 (see chapter 6).

12.37 In 2003, TFIA conducted a survey of industry attitudes to the proposed Australia–China FTA.<sup>64</sup> The respondents included textile and clothing manufacturers, retailers, distributors and exporters, who collectively employ 10,263 people.

12.38 A majority of respondents (54 per cent) indicated that duty-free access to China would not increase their export sales. A further 20 per cent believed the increase in sales would be less than \$A500,000. TFIA claimed that this result reflects the large number of non-tariff barriers applying in China. In terms of the impact of Chinese imports on the Australian textile and clothing industry, 54 per cent of respondents believed an FTA would have at least a 20 per cent net negative impact on their company.<sup>65</sup> The TFIA submission noted that all but one respondent indicated that an FTA with China would have a negative impact on their employment decisions.

12.39 The TFIA survey also found that:

- 69 per cent agreed that TFIA remain opposed to the FTA until 'there is a level playing field between the two countries'; (see below)

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61 Council of Textile and Fashion Industries, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 1, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma06.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma06.pdf) (accessed 1 October 2005).

62 The Australia–Singapore FTA requires that all products—whether originating from Australia or Singapore—need to meet a minimum level of local value content of 50 per cent. See <http://www.fta.gov.au/default.aspx?FolderID=275&ArticleID=221> (accessed 30 September 2005).

63 Council of Textile and Fashion Industries, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 1, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma18.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf) (1 October 2005).

64 Council of Textile and Fashion Industries, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 12, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma18.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf) (accessed 1 October 2005).

65 Council of Textile and Fashion Industries, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 12, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma18.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf) (accessed 1 October 2005).

- 69 per cent supported a phased reduction in TCF tariffs 'such that zero tariffs are not reached until 2015'; and
- 62 per cent agreed that Chinese TCF tariffs should be abolished immediately and Australian tariffs should be phased.<sup>66</sup>

### **Committee view**

12.40 The committee notes the concerns of the TCF sector and agrees that the FTA must address China's non-tariff barriers in TCF trade. This should be a priority of Australia's trade negotiators (see recommendation 13). However, there should be no 'carve-outs' to protect Australian industry. The committee also foresees that the Australian government may have to revise its current policy on TCF tariff reductions if the FTA is to secure Chinese concessions on agriculture. As chapter 6 noted, the federal government must continue to develop and refine the assistance package for the industry and encourage a more strategic mindset.

### **China's reservations on the FTA and the Australian trade relationship**

12.41 This section looks at two Chinese reservations about an FTA with Australia, prior to negotiations commencing. The first is the effect of cheap imports on China's agricultural sector: the second is Australia's treatment of imports.

#### ***Agricultural issues***

12.42 The main area of concern for China in an FTA with Australia is the impact of lifting agricultural tariff barriers on its poor rural regions. Over one billion Chinese people (79 per cent of the population) live outside urban areas: 270 million people (21 per cent of the population) live below the poverty line on less than \$US1 a day.<sup>67</sup>

12.43 It is reported that Chinese officials fear that cheap Australian agricultural imports will increase the pressure on the population in rural areas to move to the urban areas. For example, in March 2005, during a two-day symposium between Australian and Chinese government officials in Beijing, several Chinese officials expressed concern that a large quantity of cheap Australian agricultural imports would hurt China's poor western provinces.<sup>68</sup>

12.44 Officials from the Chinese Ministry of Agriculture noted that Australian agricultural products already have a significant niche in China's marketplace. Ms Mu

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66 Council of Textile and Fashion Industries, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, pp. 13–14, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_4ma18.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf)

67 See 'China: Country Statistics', *Oxfam Australia*, <http://www.oxfam.org.au/world/asia/china/index.html#profile>.

68 C. Ryan, 'Beijing sends warning over farm exports', *Australian Financial Review*, 22 March 2005, p. 3.

Jingjun, the Vice President of the China Dairy Industry Association, argued that domestic producers should accommodate the anticipated increase in demand for dairy products in China.<sup>69</sup> Mr Pan Wenbo, a deputy director of the Ministry of Agriculture, noted that Australia exported 20 times more agricultural produce to China than it imported.<sup>70</sup> He expressed particular concern that Australian grain exports—a major component in an FTA with China—would undercut China's farmers.

12.45 China's Ministry of Commerce (MOFCOM) reinforced these sentiments. The Vice-Minister of Commerce, Ms Ma Xiuhong, argued:

If we start the talks for an FTA, I personally believe...we should be aware of the sensitivity of China's agriculture sector and do special studies on the agricultural trade and consider the issue flexibly.<sup>71</sup> Australia should be fully aware of the sensitive nature of the agricultural issue and give special consideration and thought to the liberalisation of agriculture.<sup>72</sup>

12.46 Vice-Minister Ma expressed strong concern at the effect of trade liberalisation on social cohesion.<sup>73</sup> Many have speculated that the continuing pressure of trade liberalisation on China's agricultural sector will accelerate the shift in population from rural to urban regions. Chinese authorities are understandably concerned that the pace of this transition is sustainable and that rural workers find work in urban industries. Premier Wen Jiabao has also made several recent statements emphasising the challenge and importance of increasing rural incomes.<sup>74</sup>

12.47 However, the Australian government and the NFF, among others, insist that these fears are unfounded given the small size of the Australian agricultural sector.<sup>75</sup> Dr Geoff Raby, the Deputy Secretary of DFAT, has indicated that the disruption of Australian agricultural imports under an FTA to poor rural regions would be minimal. He noted that Australia's total production of agricultural goods was small compared to

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69 C. Ryan, 'Chinese a long way from sold on FTA', *Australian Financial Review*, 24 March 2005, p. 7.

70 C. Ryan, 'Chinese a long way from sold on FTA', *Australian Financial Review*, 24 March 2005, p. 7.

71 Cited in J. Taylor, 'China fears FTA's impact on farming', *bilaterals.org*, 22 March 2005, [http://www.bilaterals.org/article.php?id\\_article=1497](http://www.bilaterals.org/article.php?id_article=1497). John Taylor is the ABC's China correspondent.

72 C. Ryan, 'Beijing sends warning over farm exports', *Australian Financial Review*, 22 March 2005, p. 3.

73 C. Ryan, 'Beijing sends warning over farm exports', *Australian Financial Review*, 22 March 2005, p. 3.

74 See, for example, Premier Wen Jiabao's press conference on 14 March 2005, <http://www.chinability.com/Wen%20Jiabao%20press%20conference.htm>.

75 See R. Myer, 'Many obstacles to clear on the way to China's pot of gold', *the Age*, 27 July 2005, p. 5.

China's and that Australia's capacity to increase this output is constrained 'by available arable land and water resources'.<sup>76</sup>

12.48 The NFF's Chief Executive Officer, Mr Ben Fargher, told the committee that Australian exports of wool and milk are in fact complements to Chinese production, and would not cause widespread job loss in China's agricultural industries.<sup>77</sup> He explained further that:

... although we [Australia] are an extremely big exporter of wool to China...we will not, under an FTA or any other arrangement, become a threat to local Chinese wool producers because we are producing a different type product, a different micron. We would like greater access but that does not mean we are going to displace and threaten the livelihoods of Chinese wool producers, because of our complementary and different structure.<sup>78</sup>

12.49 By and large, Australia's agricultural exports to China under an FTA will not compete directly with local Chinese products. Australian agriculture has different seasonal patterns to China and, as in the case of wool, often produces a different product type. Furthermore, a July 2005 Australian Bureau of Agricultural and Resource Economics (ABARE) report questioned whether Chinese farmers would be able to satisfy China's growing and changing food demands given the country's severe land and water degradation. The report, titled *Developments in Chinese Agriculture*, identified a likely shift in China's food consumption from traditional staples such as rice and noodles toward meat and dairy products. It noted that these changing preferences, combined with the anticipated growth in China's demand for primary products, will benefit Australian exporters significantly.<sup>79</sup> In particular, there is an expectation that Australian grain exporters will benefit greatly from the Chinese market, despite China's official policy of promoting self-sufficiency in food grains.<sup>80</sup>

### ***China's opposition to aspects of Australia's trading system***

12.50 In May 2005, a report from the Chinese Ministry of Commerce noted some of the Chinese government's grievances with its Australian trading relationship. The Ministry highlighted a range of market access issues, including an Australian tax on imported wine, a 'harsh' approval and labelling system for biotech foods, the recent

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76 G. Raby, cited in J. Taylor, 'China fears FTA's impact on farming', *bilaterals.org*, 22 March 2005, [http://www.bilaterals.org/article.php3?id\\_article=1497](http://www.bilaterals.org/article.php3?id_article=1497). See also Department of Agriculture, Fisheries and Forestry, *Submission P41*, p. 26.

77 National Farmers' Federation, *Committee Hansard*, 22 June 2005, pp. 16–17.

78 National Farmers' Federation, *Committee Hansard*, 22 June 2005, p. 16.

79 K. Murphy, 'China hungry for produce', the *Australian*, 15 July 2005, p. 4.

80 K. Murphy, 'China hungry for produce', the *Australian*, 15 July 2005, p. 4.



increase in antibiotic limits for pig and bovine products and the expensive registration system for imported medicines.<sup>81</sup>

12.51 The report reserved strong criticism for the medicine imports accreditation process.<sup>82</sup> It noted that only 20 Chinese businesses have passed the requisite Good Manufacturing Practice (GMP) accreditation. The accreditation process involved on the spot investigations by two officials from Australia with 'all travelling expenses incurred, including first-class flight and plushy hotel expenses...by the applicant'.<sup>83</sup> However, the *Australian* reported the view of a Ministry of Commerce official who claimed these comments were from the China Chamber of Commerce and Medicines and Health Products Importers and Exporters.<sup>84</sup> Moreover, the Director of the Chinese Chamber of Commerce, Mr Liu Zhanglin, was quoted in the *Australian* as commending the efficiency of the Australian audit teams and their right to the hospitality they receive.<sup>85</sup>

12.52 The report cited the Holding Order that Australia imposes on Chinese foodstuff imports because the labels attached to these goods do not comply with the regulations of Food Standards Australia and New Zealand. It also criticised the inconsistency of state regulations on food safety standards in Australia, which have caused 'a lot of trouble for Chinese enterprises, and...make Chinese exporters more susceptible to Holding Orders'.<sup>86</sup> Significantly, the report also noted that Australia has the fifth most anti-dumping complaints against China—41 up until 2004.<sup>87</sup>

12.53 The Australian Minister for Trade, Mark Vaile, has made clear that bio-security standards are outside the scope of any FTA with China. However, both Australia and China are committed to science-based standards for the importation of food and animal products.<sup>88</sup>

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81 'Foreign Market Access Report', Ministry of Commerce, People's Republic of China 2005, p. 28.

82 The Therapeutic Goods Administration's GMP Audit form for an overseas manufacturer is available at <http://www.tga.gov.au/docs/pdf/gmpaudit.pdf>.

83 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

84 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

85 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

86 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

87 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

88 C. Armitage, 'Chinese picture of Aussie trade less than rosy', the *Australian*, 27 May 2005, p. 10.

**Committee view**

12.54 The committee notes China's objections to these non-tariff issues and anticipates that the FTA negotiations will incorporate their discussion.

**Australia's concerns with China's labour standards**

12.55 China's record on human rights and labour standards is dealt with in chapter 14. It acknowledges Australia's concerns about the treatment of Chinese citizens and workers and urges the Australian government to press for change. An important avenue for this process to continue is through the FTA negotiations.

12.56 Some witnesses called on the Australian government not to sign an FTA with China because of China's poor record on the protection of human rights and the treatment of its workers. For example, the Secretary of the Australian Council of Trade Unions (ACTU) has argued:

From a union standpoint, it is fundamental that respect for international labour standards form a basis for any free trade agreement. Chinese workers must have basic rights and Australian workers should not have to compete in a rigged market.<sup>89</sup>

12.57 The AMWU reinforced this view:

It is the AMWU's position that Australia should not enter trade agreements with countries that do not guarantee that parties subject to the agreement must observe the core labour standards contained in the International Labour Organisations' (ILO) Declaration of Fundamental Principles and Rights at Work.<sup>90</sup>

12.58 The committee also received a submission from the Australian Fair Trade and Investment Network (AFTINET) that stressed an FTA with China should:

- not undermine human rights, labour rights and environmental protection, as defined by the United Nations and the International Labour Organisation; and
- be considered in the context of the likely impact on human rights and labour conditions, employment, the environment, particular demographic groups, particular regions and particular industries.<sup>91</sup>

**Committee view**

12.59 The committee believes that issues such as labour standards and human rights should not be included in the proposed FTA. Nonetheless, it is the committee's view

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89 G. Combet and H. Ridout, 'Sweet and sour outlook for our next FTA', *Australian Financial Review*, 21 September 2004, p. 63.

90 *Submission P36*, p. 24.

91 J. Bailey and P. Ranald, Australian Fair Trade and Investment Network, *Submission P16*, p. 3.

that such matters should be raised as part of the negotiation process. The committee accepts that there is a need for sensitivity in the way these matters are handled. In other words, the committee believes that labour standards and human rights should be broached with Chinese officials as an issue of general concern in the bi-lateral relationship, not as a bargaining tool in the FTA negotiations.

12.60 Moreover, it is unrealistic to expect that a small economy such as Australia could, through bilateral trade negotiations, achieve such wide ranging reforms in the standards and conditions of tens of millions of Chinese workers. As chapter 14 explains, this is properly the role of the international community through organisations such as the ILO. Foreign-owned companies conducting business in China also have a role to lead by example on labour standards (see chapter 6).

12.61 The most Australia's FTA negotiators should pursue on the issue of China's labour standards is to continue and strengthen the existing dialogue. The committee believes that this is a far more measured and realistic response than using the issue to flatly reject an FTA or as a bargaining chip in the course of negotiations. By and large, freer trade between Australia and China will create greater opportunities for the workers of both nations. An FTA is an important means through which to engage China and to strengthen the dialogue on issues of human rights and labour standards.

### **Will an FTA with China work and is it in the national interest?**

12.62 There are some doubts as to whether an FTA with China will work in Australia's national interest.

12.63 First, there are questions as to whether China will take the FTA negotiations seriously, given that greater trade and strategic opportunities lie elsewhere. Mr Alan Oxley, the Director of ITS Global, has argued that the case for a trade-off in mutually beneficial interests 'looks weak'. He notes that 'Australia does not have that much to offer China by way of concessions' given its open market and that it is already a preferred supplier of strategic materials.<sup>92</sup> Australia's businesses in services are much smaller than those in the US and the EU, which means that 'China has less incentive to give tangible benefits to Australian businesses'.<sup>93</sup> Europe and North America are the main sources of China's FDI, which may lead China to sideline Australia's concerns with non-tariff barriers. Mr Oxley also claims that China may not see much merit to an FTA that provides common legal frameworks for trade but does not deliver trade concessions. Despite the complementarity of the two economies, therefore, the disparity in their relative trading power may jeopardise Australia's efforts to gain greater export and investment access to China.

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92 A. Oxley, 'An Australia–China free trade agreement: Getting the focus right', *Australian Chief Executive*, December 2004, p. 17.

93 A. Oxley, 'An Australia–China free trade agreement: Getting the focus right', *Australian Chief Executive*, December 2004, p. 16.

12.64 Ross Garnaut, professor of economics at the Australian National University, has voiced similar sentiments. He argued that if political preferences rather than competitiveness on business criteria come to dominate trade decisions, China will favour—for foreign policy reasons—the ASEAN countries over Australia. Professor Garnaut notes that China has already negotiated an FTA in agriculture with ASEAN, and adds:

If trade decision-making descends into tit-for-tat bilateralism, many developing countries will have fewer scruples than Australia about the abandonment of sound commercial principles.<sup>94</sup>

12.65 Beyond the workability of the actual agreement, a broader risk for Australia in signing an FTA with China is the geo-political dimension. Dr Alan Dupont, a senior fellow at the Lowy Institute for International Policy, has explained this issue in the following terms:

When China was weak and two-way trade non-existent...the strategic choice for Australia was relatively simple. In any contest between the US and China, Australia would side with the US because it was overwhelmingly in its interests to do so. This is no longer the case. China today has far greater say over external policy than at any time in our history, an influence that is likely to increase in line with economic interdependence.<sup>95</sup>

12.66 Dr Dupont argued that an Australia–China FTA has 'an overt political purpose which is to challenge US supremacy in Asia and Japan's position as the dominant economic power'.<sup>96</sup> An FTA with China may pressure Australia to recognise China as an ally outside of the trade relationship, which could potentially strain the US–Australia relationship.

### **Committee view**

12.67 The committee recognises that an FTA with Australia cannot offer China either the trade or the strategic benefits that other nations could provide. Still, the fact that negotiations have progressed as far as they have to date suggests that China is enthusiastic about a free trade agreement with Australia.

12.68 The committee notes that an FTA with China may cause some tension in Australia's key strategic relationship with the US. However, it is the committee's view

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94 R. Garnaut, 'Australia and China: Risks in a good story', *Australian Chief Executive*, December 2004, p. 10.

95 A. Dupont, 'The political and strategic implications of a free trade agreement with China', Paper prepared for the Australia–China Free Trade Agreement Conference, Sydney, 12 August 2004, p. 4.

96 A. Dupont, 'The political and strategic implications of a free trade agreement with China', Paper prepared for the Australia–China Free Trade Agreement Conference, Sydney, 12 August 2004, p. 4.

that the economic and political benefits of signing the FTA far outweigh these possible tensions.

## **Conclusion**

12.69 This chapter has identified broad support for an immediate and comprehensive FTA with China among Australia's exporters and the agricultural and mining sectors. On the other hand, there is widespread apprehension among many of Australian manufacturing industries. Although Australia's existing tariff levels are low, many manufacturing industries would favour the current five to ten year timetable for tariff reduction. The agricultural, mining and manufacturing sectors all emphasise the importance of non-tariff or 'beyond the border' issues. It would be difficult for the Australian government to argue for a more rapid reduction in protection if China were unwilling to reciprocate on both tariff and non-tariff issues.

12.70 This chapter has also acknowledged China's concerns that an FTA will lead to an influx of cheap, high-quality Australian agricultural produce, which will in turn lead to unemployment and social instability in China. Chinese officials also have various concerns about Australia's non-tariff barriers.

12.71 The committee recognises that a China–Australia FTA will create winners and losers on both sides. As Chapter 11 emphasised, it is important that the negotiations cover all sectors and all industries—the greatest benefits to both nations will result from a rapid and complete agreement. However, it is also important that both the Australian and Chinese governments attend to those industries that are adversely affected. The FTA is an important opportunity for both governments not only to provide opportunities for their nations' exporters and investors, but also to work cooperatively to ensure that the impact of the agreement is monitored carefully.

12.72 Finally, this chapter has responded to some broad concerns about the merit of Australia signing an FTA with China:

- various Australian organisations object to an FTA on the grounds of China's poor labour standards and record on human rights. While the FTA negotiations provide an important opportunity for Australia to continue to raise these concerns, they are not a basis upon which to reject the agreement outright or a means to bargain.
- there is a view that China's negotiators may stall discussions given China has already been awarded MES, and that China—with higher tariffs—will have far more concessions than Australia. The effort that China has invested in talks since the MES decision suggests that this will not be the case.
- there is some concern that the FTA may complicate the US–Australia alliance. Although an FTA would clearly be a significant statement of economic cooperation between Australia and China, it is unlikely to be a point of strategic disagreement between Australia and the US.

