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Foreign Affairs, Defence and
Trade References Committee

Opportunities and challenges:
Australia's relationship with China

November 2005

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Terms of reference

On 8 December 2004, the following matter was referred to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report to the Senate:

- (a) Australia's economic relationship with China with particular reference to:
 - i. economic developments in China over the last decade and their implications for Australia and the East Asian region;
 - ii. recent trends in trade between Australia and China;
 - iii. the Australia-China Trade and Economic Framework and possibility of a free trade agreement with China;
 - iv. ongoing barriers and impediments to trade with China for Australian businesses;
 - v. existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth agencies and Australian Government programs;
 - vi. opportunities for strengthening and deepening commercial links with China in key export sectors;

- (b) Australia's political relationship with China with particular reference to:
 - i. China's emerging influence across East Asia and the South Pacific;
 - ii. opportunities for strengthening the deepening political, social and cultural links between Australia and China;
 - iii. political, social and cultural considerations that could impede the development of strong and mutually beneficial relationships between Australia and China; and

- (c) Australian responses to China's emergence as a regional power with particular reference to:
 - i. China's relationships in East Asia, including in particular the Korean Peninsula and Japan;
 - ii. the strategic consequences of a China-ASEAN free trade agreement;
 - iii. China's expanded activities across the South West Pacific.

TABLE OF CONTENTS

Members of the Committee	iii
Terms of Reference	v
Acronyms and abbreviations	xiii
Executive Summary and recommendations	xvii
CHAPTER 1	
INTRODUCTION AND CONDUCT OF THE INQUIRY	1
Referral of the inquiry	1
Timing of the inquiry	1
Terms of reference	2
Conduct of the inquiry	3
Advertisement	3
Submissions	3
Public hearings	3
Visit to China	3
Structure of the report	5
Acknowledgments	6
CHAPTER 2	
ECONOMIC DEVELOPMENTS IN CHINA	7
Background to China's economic development	7
Recent economic performance	8
Maintaining economic stability in a rapidly changing economic environment	10
Maintaining political and social stability as China opens up to the world	13
Inequality between rich and poor	18
China's energy and resources needs	23
Environmental degradation	26
External threats	27
China's growing importance and the need to understand the nature of change	28
Conclusion	29
CHAPTER 3	
TRADING LINKS BETWEEN AUSTRALIA AND CHINA	33
Background to Australia's trading relationship with China	33
Diplomacy and trade	33
China's growing importance as a trading partner	34
Complementarity in trade	35
Trade deficit with China	39
Conclusion	41
CHAPTER 4	
BARRIERS TO TRADE	43
From planned economy to market economy	43
Tariffs and import quotas	45
Doing business in China	50

The influence exerted by the Chinese government in the marketplace	50
State-owned enterprises (SOEs)	51
Corporate governance	53
Corporate governance—Australia	57
Legal and regulatory framework for foreign enterprises	57
Specific problems in the current legal system	61
Contract law	61
Intellectual property (IP)	62
Enforcement	65
Summary	68
Local government interference—'the mightiest dragon cannot crush the local snake'	68
Suitable mechanisms	71
Chinese companies in Australia	73
Barriers to trade with Australia	73
Conclusion	75
CHAPTER 5	
TRADE IN AGRICULTURE	
Recent developments in China's agricultural sector	77
Recent developments in China's rural incomes and trade policy	79
Australia–China trade in agricultural products	81
The role of Australian government agencies in agricultural trade with China	89
The impact of free trade on Australian agriculture	91
Quarantine and 'beyond the border' issues for Australian exporters	91
Conclusion	94
CHAPTER 6	
TRADE IN MANUFACTURED GOODS	95
Recent developments in China's manufacturing sector	95
The changing composition of China's manufactured exports	97
The growth and impact of China's machinery and electronics exports	99
Australia–China trade in manufactures	101
The deficit with China in elaborately transformed manufactures (ETMs)	101
Australia's imports from China	102
Australia's exports to China	103
Australia's car and TCF industries	104
Attitudes of Australian manufacturers to China	108
Fair and unfair advantages	110
Responding to China's manufacturing sector	112
The committee view on prospects and options for Australian manufacturing	117
Policy recommendations	118
Conclusion	122
CHAPTER 7	
TRADE IN MINERALS AND ENERGY	125
China's demand for minerals and resources	125
China's domestic capacity	126
Australia as a producer of minerals and resources	127
China's concern with dependency on overseas supplies and energy efficiency	128

Security of supply an important consideration	128
Australia's reputation as a supplier	130
Energy efficiency and conservation	130
Liquefied natural gas (LNG)	134
Iron ore	137
Licence requirement—example of trade barriers	138
Other important export commodities	139
Australian investment in the minerals and resources sectors in China	139
China's investment in the minerals and resources sectors in Australia	142
Conclusion	143
CHAPTER 8	
TRADE IN SERVICES	145
The term 'service'	145
Statistics on investment and services	146
The service sector in China	147
Opportunities for Australian companies to trade in services with China	149
Financial services sector	151
Stock market	152
Education	153
Chinese students in Australia	154
Education services in Australia	154
Securing the reputation of Australia as a safe place	155
Arrangements for student entry to Australia	156
Joint ventures	158
Recognition of qualifications	158
Providing education services in China	159
Tourism	161
Approved Destination Status (ADS)	163
An attractive destination	165
Australians visiting China	168
Conclusion	168
CHAPTER 9	
INVESTMENT	169
Foreign investment in China	169
Australia investing in China	170
Barriers to investing in China	171
Legal framework	172
Multiple layers of regulation	173
Mandatory use of local labour service companies and dispute resolution	173
Restrictions on travel to conduct business in China	174
Opportunities for investment in China	175
China's 'go global' strategy	176
Chinese investment in Australia	176
Restrictions on travel to conduct business in Australia	179
Conclusion	180

CHAPTER 10	
BILATERAL OR MULTILATERAL AGREEMENTS?	183
What is a free trade agreement?	183
The benefits of FTAs	184
The pitfalls of FTAs	186
Strategic concerns	189
The progress of multilateral negotiations	191
CHAPTER 11	
THE PROPOSED AUSTRALIA–CHINA FREE TRADE AGREEMENT	193
Satisfying the conditions for an Australia–China FTA	194
The early debate in Australia on an FTA with China	194
Market economy status and anti-dumping laws	194
Australian anti-dumping rules	195
The decision to award China market economy status	196
Australian opposition to China's 'market economy status'	198
The Australia–China Trade and Economic Framework	199
Modelling the FTA	199
Product / service	201
China's tariffs (over 10 per cent)	201
Australia's tariffs	201
The progress of negotiations (October 2005)	206
CHAPTER 12	
ATTITUDES TO THE PROPOSED FTA	209
Support for the FTA	209
The National Farmers Federation	210
Australian mining representatives	212
Opposition to the FTA	213
The horticultural industry	213
Australian manufacturing representatives	215
Agricultural issues	222
China's opposition to aspects of Australia's trading system	224
Australia's concerns with China's labour standards	226
Will an FTA with China work and is it in the national interest?	227
Conclusion	229
CHAPTER 13	
BUILDING A BETTER TRADING RELATIONSHIP AND STRENGTHENING TIES	231
Australia's reputation as a trading partner	231
Business practices in China	232
Relationships (guanxi) and building a business in China	233
Assisting Australian companies to understand the Chinese business world	237
Understanding the market in China	240

CHAPTER 14	
HUMAN RIGHTS	245
Points of agreement	245
Human rights in China	246
Australia's human rights dialogue with China	252
Criticism of the effectiveness of the human rights dialogue between Australia and China	
A stronger approach	257
Australia—setting an example	259
Labour standards in China	260
Labour standards and Australian companies operating in China	265
Corporate Code of Conduct	267
CHAPTER 15	
PROMOTING 'CHINA LITERACY'?	273
Do Australians need to be 'China literate'?	273
Australia's capacity to deliver 'China literacy'	275
Policy responses	278
Organisations promoting China literacy	279
The Confucius Institute	282
Suggestions for improvement	284
Broader government strategy	284
Sector-specific suggestions	286
Tertiary education	287
Findings and recommendations	288
Chinese students in Australia	288
Conclusion	291
CHAPTER 16	
PUBLIC DIPLOMACY, CULTURE AND SPORT, AND THE CHINESE- AUSTRALIAN COMMUNITY	293
Cultural interaction and public diplomacy	293
Fostering Australia–China relations	295
Promoting China in Australia	297
Promoting Australia in China	299
The WASO – A case-study in soft diplomacy/cultural exchange	301
Other links	302
Sport	303
General sporting links	303
The 2008 Beijing Olympic Games	304
Getting the message across?	306
The contribution of Chinese-Australian community groups	307
Recognising our Chinese–Australian history	308
Recognising and appreciating the Chinese community in Australia	310
Conclusion	310

CHAPTER 17	
SCIENCE AND TECHNOLOGY	311
Chinese science and technology	311
Sino-Australian linkages in science and technology	312
The extent of current linkages	312
The flow-on benefits	316
Strong foundations for building the relationship	318
The scientific community's role in promoting goodwill and understanding	319
The potential for closer relations	320
The right place at the right time?	320
The way forward	321
CHAPTER 18	
POLITICAL LINKS	325
Political visits and exchanges	325
Exchanges between future leaders	325
Cross jurisdictional policy cooperation	326
Sub-national government links	329
State and territory governments	330
Local governments	334
Sub-national linkages—working together effectively?	338
Non-government organisations	341
NGO relations with China	342
The benefits of NGO relations	343
Conclusion	348
ADDITIONAL COMMENTS BY AUSTRALIAN DEMOCRATS	351
APPENDIX 1 - PUBLIC SUBMISSIONS	353
APPENDIX 2 - PUBLIC HEARINGS AND WITNESSES	357
APPENDIX 3 -ADDITIONAL INFORMATION, TABLED DOCUMENTS AND ANSWERS TO QUESTIONS ON NOTICE	365

Acronyms and abbreviations

AAS	Australian Academy of Science
ATSE	Australian Academy of Technological Sciences and Engineering
ABARE	Australian Bureau of Agriculture and Resource Economics
ABS	Australian Bureau of Statistics
ACACA	Australia–China Agricultural Cooperation Agreement
ACBC	Australia–China Business Council
ACC	Australia–China Council
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
ACFTA	Association of South East Asian Nations–China Free Trade Agreement
ACIAR	Australian Centre for International Agricultural Research
ACFTU	All China Federation of Trade Unions
ACTU	Australian Council of Trade Unions
ADS	Approved Destination Status
AEF	Asia Education Foundation
AFTINET	Australian Fair Trade and Investment Network
AiG	Australian Industry Group
ALGA	Australian Local Government Association
AMF	Australian Multicultural Foundation
AMWU	Australian Manufacturing Workers' Union
APEC	Asia–Pacific Economic Cooperation
APFN	Asia–Pacific Futures Network
APRA	Australian Prudential Regulation Authority
AQIS	Australian Quarantine Inspection Service
AQSIQ	Administration for Quality Supervision and Inspection and Quarantine
ARC	Australian Research Council
ASAA	Asian Studies Association of Australia
ASEAN	Association of South East Asian Nations
ASIC	Australian Securities and Investment Commission
ATMA	Australian Tyre Manufacturers' Association

AUSFTA	Australia–United States Free Trade Agreement
AustCham	Australian Chamber of Commerce
AWI	Australian Wool Innovation Ltd
BCC	Brisbane City Council
CAR	Comalco Alumina Refinery
CAS	Chinese Academy of Science
CCP	Chinese Communist Party
CEO	Chief Executive Officer
CIETAC	China International Economic Trade Arbitration Commission
CITIC	China International Trust and Investment Corporation
CNOOC	China National Offshore Oil Corporation
COAG	Council of Australian Governments
CODEX	Codex Alimentarius Commission
CRCs	Cooperative Research Centres
CSIRO	Commonwealth Science and Industrial Research Organisation
CSU	Charles Sturt University
DAFF	Department of Agriculture, Fisheries and Forestry
DCITA	Department of Communications, Information Technology and the Arts
DEH	Department of Environment and Heritage
DEST	Department of Education, Science and Training
DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DITR	Department of Industry, Tourism and Resources
EIT	Economy in transition
ELICOS	English Language Intensive Courses for Overseas Students
EOAP	Expanded Overseas Assembly Provisions
ETMs	Elaborately transformed manufactures
EU	European Union
FaCS	Department of Family and Community Services
FDC	Federation for a Democratic China
FDI	Foreign direct investment
FECCA	Federation of Ethnic Communities' Councils of Australia
FIRB	Foreign Investment Review Board

FTA	Free trade agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GMP	Good manufacturing practice
GONGO	Government organised non-government organisation
HREOC	Human Rights and Equal Opportunity Commission
IBC	Illawarra Business Chamber
ICEAPS	International Centre for Excellence in Asia–Pacific Studies
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organization
IMF	International Monetary Fund
IP	Intellectual property
IPR	Intellectual property rights
IRA	Import risk assessment
IRDB	Illawarra Regional Development Board
ISL	International Science Linkages Programme
IWTO	International Wool Textile Organisation
JSTC	Joint Science and Technology Commission
LNG	Liquefied natural gas
MES	Market economy status
MFN	Most favoured nation
MOFCOM	Ministry of Commerce, People's Republic of China
MOST	Ministry of Science and Technology
MOU	Memorandum of Understanding
NALSAS	National Asian Languages and Studies in Australian Schools
NDRC	National Development and Reform Commission
NFF	National Farmers' Federation
NGOs	Non-government organisations
NLA	National Library of Australia
NPLs	Non-performing loans
NTBs	Non-tariff barriers
NWS	North West Shelf
OECD	Organisation for Economic Cooperation and Development

PCIA	Plastics and Chemicals Industries Association
PDV	Professional Development Visa
PRC	People's Republic of China
R&D	Research and development
RMB	renminbi
RTAs	Regional trade agreements
RTIO	Rio Tinto Iron Ore
S&T	Science and Technology
SARS	Severe Acute Respiratory Syndrome
SAWS	State Administration of Work Safety
SES	Senior Executive Service
SIMITARS	Safety in Mines Testing and Research Station
SIP	Strategic Investment Program
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
SPS	Sanitary and phytosanitary
SUV	Sports utility vehicle
TAFE	Technical and Further Education
TCF	Textiles, clothing and footwear
TCFUA	Textiles, Clothing and Footwear Union of Australia
TFIA	Council of Textile and Fashion Industries of Australia
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TW	Tourism Wollongong
UN	United Nations
UWA	University of Western Australia
VAT	Value Added Tax
WA	Western Australia
WASO	West Australian Symphony Orchestra
WCC	Wollongong City Council
WOFE	Wholly owned foreign enterprise
WTO	World Trade Organization

Executive summary and recommendations

China's entry into the World Trade Organization (WTO) in 2001 and the opening up of its domestic markets to international competition has transformed the country. Over recent years, China has experienced sustained rapid development and implemented wide-ranging economic reforms, including the lowering of trade and investment barriers. In opening up its markets, China has become a dynamic, strong and expanding economy offering opportunities for countries such as Australia to strengthen and deepen links. Even so, significant obstacles hinder trade with China.

Barriers to trade with China

The committee found that in some cases there were grounds for Australian businesses to consider China a 'risky place to do business'. Evidence pointed to a legal and regulatory environment that is complex, time-consuming, expensive, uncertain and at times discriminatory. China is a country that, despite reform, still has inadequate legal protections, poor corporate governance, intellectual property rights violations, government interference particularly at the local level and corruption. In respect of intellectual property rights, Mr Ian Heath, Director of IP Australia, stated that 'counterfeiting is rife' across most industrial sectors in China. Other witnesses complained that it is common practice in China 'to simply copy products without fear of reprisal.'

More generally on corporate governance and corruption, the committee notes the conclusions drawn in a recent OECD Policy Brief on China's governance:

Corruption is one of the most important problems in China today...more attention should be paid to reviewing areas prone to corruption, eliminating opportunities for corruption and creating conditions conducive to ethical behaviour.¹

Aspects of the business environment in China also discourage Australian investors. For example, the committee chronicled a long list of impediments for foreign businesses wishing to invest in the minerals sector in China. The Minerals Council claimed that 'there are restrictions to minerals investment in China at nearly every point in the process'.² The committee urges the Australian government to increase its efforts in bilateral, regional and multilateral fora to encourage China to remove its barriers to trade and investment, particularly non-tariff impediments.

Corruption was also cited as a major difficulty for investors. A recent OECD report concluded:

Despite significant efforts from the CPC and government leaders, corruption remains a serious problem for both citizens and businesses,

1 OECD, 'China's Governance in Transition', *Policy Brief*, September 2005.

2 See chapter 7, paragraph 7.61.

particularly for foreign direct investment. It continues to pose a significant challenge as a particular feature of the transition process.

Poor corporate governance is a sure breeding ground for corruption.

Recommendation 1

p. 70

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

The committee believes that Australia is well placed to encourage and assist China, in a practical way, to achieve a more open economy and efficient markets. For example, in light of Australia's experience in reforming its corporate law, it is able to provide a model and practical assistance to China in its endeavours to develop a better corporate governance regime.

Recommendation 2

p. 70

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

In addition to its efforts in regional and multilateral fora, the committee urges the Australian government to monitor and report Australian businesses' complaints on provincial regulations. Austrade emphasises that Australian companies must be prepared for sudden changes in Chinese government policy, and that business conditions and policies in different regions of China are 'very diverse'.³ For large Australian investors in China, it can be difficult to establish a national operating system.⁴ There is also evidence that foreign companies receive less favourable treatment than local operations.

Recommendation 3 (see also recommendation 16)

p. 70

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

3 See 'China Profile: Assisting Australian exporters', Austrade, http://www.austrade.gov.au/australia/layout/0,,0_S2-1_CLNTXID0019-2_-3_PWB156799-4_doingbusiness-5_-6_-7_,00.html.

4 AustCham Beijing, *2004 Business Issues Paper*, p. 14.

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

Agriculture

There are significant opportunities for Australian agricultural exporters in China. The size of China's textiles industry—and the fact that it has not moved to become self-sufficient—presents Australian cotton growers with a large export market. Australian Pork Limited anticipates that 'as the Chinese market develops and consumer incomes rise, there are likely to be significant opportunities for high quality products from 'clean green' countries such as Australia'.⁵ Dairy Australia anticipates that China's consumption of cheese will increase from its current low base as incomes increase and the diet westernises. However, 'most older Chinese still find the taste and smell of cheese offensive' which may mean that imported cheese products will have to adapt in the short-term to be competitive in certain regions in China.⁶

Recommendation 4

p. 87

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

Manufacturing

The committee notes the concern expressed during its inquiry about Australia's reliance on the export of raw materials to boost its balance of trade figures. For example, taking a longer term look at the pattern of Australia's exports, Mr Martin Feil, a former director of the Industries Assistance Commission, pointed to the fact that Australia adds 'virtually no value to natural resources and raw materials other than

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

6 Dairy Australia, *Australian Dairy Industry 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_2ag14.pdf.

extraction and some logistical services⁷. The Australian Manufacturing Workers' Union (AMWU) noted that for every plasma television Australia imported, it had to export 'in the vicinity of 150 tonnes of iron ore'.⁸

There has been strong support for the Australian government to have an overarching national policy on manufacturing to address China's challenge.⁹ This was recommended by both the Australia–China Business Council (ACBC) and the AMWU in their submissions to the committee.¹⁰ The committee supports this proposal. It believes that two key pillars of a national manufacturing policy must be to fund and coordinate research and development in value-added technologies, and to support skills development in technical education.

Although the level of industry expenditure on research and development (R&D) was higher in 2003–04 than when the Howard government came to office in 1996, it is still less than one per cent of gross domestic product (GDP). On this basis, Australia ranked 15th among Organisation for Economic Cooperation and Development (OECD) nations.¹¹ The weakness of Australian investment in R&D has also been reflected in Australia's \$85.4 billion balance of trade deficit in elaborately transformed manufactures (ETM) in 2004–05. This deficit has acted as a constraint on national growth and reinvestment in research and development.¹²

Recommendation 5

p. 116

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

The committee is also concerned that Australia has the workforce to complement this focus on a high-tech, value-added manufacturing sector. It is important that the manufacturing and technical education sectors continue to collaborate to ensure the supply and flexibility of the skills base.

Recommendation 6

p. 117

7 M. Feil 'Australian entrée on Chinese menu', the *Age*, 5 September 2005, p. 6.

8 See chapters 3 and 6, paragraphs 3.21, 3.23, 6.60 and 6.62.

9 Australia–China Business Council, *Submission P40*, p. 15. See also T. Sutherland, 'Policy needed for China FTA', *Australian Financial Review*, 15 April 2005, p. 22.

10 *Submission P36*, p. 2; *Submission P40*, p. 15.

11 'Research and Experimental Development, Businesses', *Australian Bureau of Statistics, Cat. No. 8104.0*, 2003–04, p. 6, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/\\$File/81040_2003-04.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/$File/81040_2003-04.pdf).

12 P. Roberts, 'Make or break: why manufacturers are doing it tough', *Australian Financial Review*, 28 September 2005, p. 1.

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

Several witnesses praised Austrade, the consul generals and the Australian Chamber of Commerce in Beijing and Shanghai for their assistance in establishing Australian businesses in China. Mr Duncan Calder of the Western Australian branch of the Australia–China Business Council noted that these organisations are 'extraordinarily helpful in terms of acting as an interface between the local community and the Australians going up there [China]'.¹³

Austrade has recently established several offices in large regional cities such as Ningbo, Xian, Chendu, Nanjing and Qingdao.¹⁴ In 2005, the number of Australian companies that Austrade assisted in China was more than double the corresponding number for 2002.¹⁵ It is important that these networks continue to develop to assist large and small to medium sized manufacturing enterprises establish an export market or investment base in China.

Recommendation 7

p. 117

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

Conservation

China's growing demand for minerals and energy has created enormous opportunities for Australian companies to both export their commodities to China and to assist China with some of the problems they are grappling with such as environmental degradation. Environmental degradation is a serious problem in China and one that is worsening as the country accelerates down the path of industrialisation. Australia needs to join the international community in helping China better manage its economic development in a way that will not only prevent further damage to its environment but help China repair damage already done. In the bilateral context, Australia can make a contribution. It has the research and development capacity to assist China and should place a high priority in using this capacity to participate in joint ventures with China to combat its environmental problems.

13 *Committee Hansard*, 1 August 2005, p. 11.

14 Chanticleer, 'Big opportunities, but be patient', *Australian Financial Review*, 22 September 2005, p. 64.

15 Chanticleer, 'Big opportunities, but be patient', *Australian Financial Review*, 22 September 2005, p. 64.

The committee believes that Australia and China, who are major greenhouse emitters and rely heavily on fossil fuels for their energy, have much to achieve in the area of research and development toward the use of cleaner fuels and renewable sources of energy. The committee commends the work being done by Australian private enterprises, institutions such as CSIRO and state governments jointly with Chinese organisations to address conservation and climate change matters.

Recommendation 8

p.129

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

Education

Clearly, Australia has established its name in China as a preferred country for the education of its students. The education market, however, is highly competitive and Australia must match or better other countries in the quality of the education services it offers if it wants to maintain or expand market share. To remain competitive, Australia must ensure that it maintains and promotes its reputation as a safe place for young students, that conditions for entry and stay in Australia do not discourage overseas students and finally, that the reputation of Australia's educational institutions and the quality of their education remains high.

Recommendation 9

p. 155

The committee recommends that the Australian government:

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

Tourism

The Australian tourist market is poised to benefit from the increasing number of Chinese now travelling abroad. Australia has the opportunity to build on its reputation as a desirable place to visit and to capitalise on the potential for growth in this market. The industry, however, should not simply look to China's expanding market to bolster their productivity nor rely solely on Australia's natural attributes to attract Chinese tourists. The findings of a 2003 survey and the observations of the Chinese

Ambassador to Australia, Her Excellency, Madam Fu Ying suggest that Australian providers should lift their standards.

The committee believes that there is no place for complacency or lack of imagination in the tourist industry. It must ensure that service delivery standards are high and meet the expectations of Chinese visitors. This would apply not only to private enterprise concentrating on accommodation and tour guide services, shopping and recreational activities but to governments who have a role in promoting the industry and ensuring the processes involved in visa applications, customs clearance and entry requirements do not discourage tourists. Australian governments are also responsible for ensuring that the infrastructure is in place—for example transport facilities, airports, roads and rail, that will go toward making a tourist's stay in Australia more enjoyable.

Recommendation 10

p. 163

The committee recommends that:

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

Facilitating trade

The committee has made a number of recommendations addressing problems arising from restrictions placed on people from China applying for visas. These were concerned with students and tourists. Evidence suggests that Australia could do more to facilitate the travel of Chinese business people to Australia. China could also do

more to assist Australian business people travelling to China. The committee believes that Australia should not wait for a free trade agreement to provide easier access for business travellers between the two countries. It acknowledges the work that Australia has done in encouraging APEC members to support the APEC business card but believes that the Australian government should review the visas requirements for Chinese people wanting to travel to Australia to conduct business in Australia.

Recommendation 11

p. 175

The committee recommends that the Australian government:

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

An Australia–China FTA

An Australian FTA with China must be pursued concurrently with opportunities for multilateral trade liberalisation through the WTO. The focus of the current Doha Round is to assist developing countries by cutting agricultural protection. The Australian government has strongly supported this agenda.¹⁶ However, the most recent Ministerial Conference in Cancun, Mexico, in September 2003 failed to achieve consensus on cutting protection for farm products. Some developed nations—notably the European Union (EU)—insisted that progress on reducing agricultural tariffs and subsidies should be conditional on addressing the so-called 'Singapore issues': investment, competition, transparency in government procurement and trade facilitation. Certain developing nations opposed the inclusion of the Singapore issues, believing they were irrelevant to their interests.¹⁷ This impasse contributed to the failure of the Cancun negotiations.

Recommendation 12

p. 188

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

The committee supports the Australian government's recent decision to negotiate an FTA with China and accord China 'market economy status'. China should be treated

16 M. Vaile, 'Europe's hurting the poor', the *Australian*, 25 November 2005, p. 12.

17 J. Robertson, 'Cancun to Hong Kong: Prospects for the WTO', *Research Note*, Parliamentary Library, 10 October 2005, p. 1.

the same as Australia's other WTO trading partners. In principle, the committee supports abolishing tariff and non-tariff barriers across all sectors within the shortest possible timeframe. The modelling clearly shows that this course will reap the greatest overall benefits to both nations.

Recommendation 13

p. 202

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

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

The progress of FTA negotiations to date is promising. The committee shares DFAT's insistence that future negotiations continue to consult widely with the Australian community and that, once implemented, there is a timetable for periodic review.¹⁸ However, there is likely to be significant opposition to the FTA from the Australian manufacturing sector and parts of both the Australian and Chinese agricultural sectors.

Recommendation 14

p. 204

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

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

Greater understanding of the Chinese business world

Clearly, the business environment in China presents challenges for Australian enterprises doing business there. Australian business people should understand the

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

legal and regulatory framework operating in China to ensure that they are fully aware of the legal and business implications of any decision or agreement entered into and are in a position to protect their interests adequately. In particular, Australian business should not underestimate the influence of provincial or municipal bodies in China.

The committee recognises that government agencies and private organisations have taken on board the importance of having well-informed Australian business people operating in China. It believes, however, that more could be done in this area. It believes that the government needs to take the initiative to ensure that Australian students are exposed to the study of Chinese culture and have the opportunities and incentives to undertake further studies in Chinese languages and culture. This requires governments to think more creatively and ambitiously about providing incentives and opportunities for students to pursue advanced studies in Chinese languages and culture.

The following recommendations are targeted specifically to ensure that Australia has a pool of Australians, proficient in the Chinese language and with a sound appreciation of the Chinese culture, ready to advise business and governments on business practices in China.

Recommendation 15

p. 235

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

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

Market intelligence

The following recommendation builds on the previous recommendation but is concerned more with market intelligence. There are potential social, political and economic factors that could derail China's economic progress. The committee believes that, in light of changes taking place in China and China's growing importance to Australian exporters, it is becoming increasingly important for governments and businesses to be well informed about China's market. It believes that the Australian government has a responsibility to ensure that sound market intelligence is available

and disseminated throughout the Australian business community based not only on an understanding of China's market place but on a appreciation of the social culture and political factors likely to impinge on the performance of China's economy. The committee found that it is important for Australian companies to understand the diversity and complexity of China's market and to be well placed to adapt to and manage change. Adequate information flows and a sound knowledge of the particular tastes and preferences of Chinese consumers underpins the success of foreign companies in China. It believes that Australia needs to monitor developments in China and the region and have specialists available who are able to analyse events and accurately predict future trends.

Recommendation 16 (see also recommendation 3)

p. 239

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

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

The committee also believes that the Australian government has the responsibility to ensure that there is a whole-of-government approach to China and that the states and the federal governments together with their respective agencies are working co-operatively as partners in pursuing their particular interests in China.

Recommendation 17

p. 240

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

Human rights

Without doubt, China has made progress toward reform in some areas of human rights. Organisations such as Amnesty International, however, argue that serious and widespread human rights violations are still perpetrated across the country.¹⁹ In its 2005 report, it concluded:

Tens of thousands of people continued to be detained or imprisoned in violation of their fundamental human rights and were at high risk of torture or ill-treatment. Thousands of people were sentenced or executed, many after unfair trials. Public protests increased against forcible evictions and land requisition without adequate compensation.²⁰

Many witnesses believed that Australia could do more to encourage China to improve its human rights record. In particular, some emphasised that a timid approach could do more damage than good to Australia's relationship with China. Most urged the government to participate in strong and vigorous debate.²¹

Falun Gong in Australia

The committee believes that the public allegations about the surveillance of Falun Gong practitioners in Australia requires the Australian government to offer assurances that any such allegations are or will be investigated and the findings of those investigations made public. The committee also believes that in light of these allegations, it would be timely for the government to make a public statement to the effect that all people residing in Australia are entitled to enjoy their fundamental freedoms without interference from any individual, organisation or government.

19 Amnesty International Report 2005, <http://web.amnesty.org/report2005/chn-summary-eng> 9 August 2005.

20 Amnesty International Report 2005, <http://web.amnesty.org/report2005/chn-summary-eng> 9 August 2005. It should be noted that this same report criticised Australia stating that the rights of indigenous Australians remained a concern and that measures to combat 'terrorism' led to legislative amendments with implications for civil rights. It also noted that 'limited options for permanent residency were introduced, although thousands of refugees remained in limbo' and 'refugee families were kept separate by the government's policy of mandatory and indefinite detention'.

21 S. Morgan, *Committee Hansard*, 27 June 2005, pp. 6–7.

Recommendation 18

p. 248

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

The committee believes that Australia and China could take better advantage of the human rights dialogue to promote the protection of human rights. There are people not only in Australia but in China who want confirmation that both countries are committed to advancing the rights of individuals. Both countries should welcome the opportunity to present an accurate assessment of the work they are doing to improve their human rights record. They should not shy away from showing the world their short comings and achievements in protecting human rights. The committee believes that the human rights dialogue provides an opportunity for Australia and China to demonstrate to the peoples of both countries and more broadly to the international community that they are strong advocates of the protection of human rights. Such demonstration cannot take place behind closed doors and be further masked by bland statements about progress.

The committee endorses the recommendations made by the Joint Standing Committee on Foreign Affairs and Trade²² but believes that additional measures should be taken to improve transparency in the dialogue process.

Recommendation 19

p. 253

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

- **release an informative agenda on the human rights dialogue before the dialogue commences;**
- **make public a joint statement immediately following the talks that provides a detailed assessment of the progress made since the last meeting, a discussion of the topics considered during the dialogue, and the agreements reached for future action; and**
- **consult with non-government organisations (NGOs) working in the area of human rights before each dialogue, or at the very least find a more effective way to engage them in the process.**

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

22 For example, the Joint committee recommended that the Minister for Foreign Affairs table an annual statement on the dialogues in Parliament. It also recommended that DFAT, Ausaid and the Human Rights and Equal Opportunity Commission (HREOC) make more effective use of their websites to convey up-to-date information on the dialogues.

Labour standards

A number of witnesses criticised China for not adhering to international labour standards. They cited as major concerns, systemic exploitation of women in the workplace, discrimination against and victimisation of migrant workers, frequent occupational health and safety failings, excessive work hours, denial of the right to form independent trade unions and to hold peaceful protests, and harsh recriminations, in some cases imprisonment, for workers who speak out against working conditions.²³ There have been roughly one million industrial accidents in China each year since 2001.²⁴

The committee notes that China has ratified only three of the eight International Labour Organization Conventions on Fundamental Principles and Rights at Work.

It believes that a trade agreement would not be the most effective way to ensure that all enterprises in China abide by international labour standards. The issue extends beyond Australian businesses in China and requires multinational cooperation. This does not mean that in consultations with China on the FTA that Australia ignore the matter. Indeed, the Australian government should take every opportunity, including the negotiations for a FTA, to raise Australia's concerns about violations of human rights and labour standards in China. The FTA consultation process should provide the opportunity for Australia to express its concerns and urge China to adopt international standards. The committee believes, however, that concerted pressure applied through multilateral fora would be a more productive way of convincing China of the need to improve its record on labour standards.

Recommendation 20 (also see recommendation 13) **p. 265**

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

Recommendation 21 **p.265**

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

23 Amnesty International, *Fundamental Rights at Work, Amnesty's International Concerns to the International Labour Conference (4–20 June 2002)*, Amnesty International Report, 2005.

24 See also 'China's deathtrap mines claim 30 more lives', *Australian Financial Review*, 10 June 2005, p. 10. This article notes that unofficial sources suggest that as many as 20,000 miners may have died in industrial accidents in 2004.

China literacy

The committee recognises the vital role that education plays in promoting greater understanding and affinity between the Chinese and Australian people. Education at the primary, secondary and tertiary levels provides an effective means through which 'China literacy' can be formally promoted, equipping Australian children with the language skills and knowledge base to interact successfully with China. The committee urges the federal government to adopt a more proactive stance in encouraging the development of greater China literacy. If Australia is to gain the most from our growing relationship with China, it needs the capacity to understand and identify how, where and when opportunities to draw closer to China arise. The committee recommends that the Australian government and state governments take a far more active and constructive role in improving China literacy in Australian schools.

Recommendation 22 (see also recommendation 15)

p. 286

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

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

Recommendation 23

p. 287

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

Culture and sport

In light of the evidence suggesting that Australia may not adequately value the contribution that the Chinese community in Australia has made, and continue to make, to Australia's development as a nation, the committee makes the following recommendation.

Recommendation 24

p. 306

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

Science and technology

The committee acknowledges the invaluable contribution that the scientific organisations have made to the bilateral relationship. The benefits already gained from current linkages demonstrate that it is in Australia's long term interest to support the work of these organisations and develop closer science and technology links with China. Moreover, based on evidence to this inquiry, the time would also appear to be right to undertake a concerted effort to augment the bilateral relationship.

The committee considers that establishing at least one highly skilled science-literate counsellor, based perhaps in Australia's embassy in Beijing, should be a priority. The 'Science Counsellor' position would be geared towards building bilateral links between government organisations, and acting as a conduit for research agencies wishing to establish or strengthen their presence in China. The Science Counsellor would have extensive knowledge of the Australian scientific context and be supported in his or her role by a science-literate locally engaged staff member with a high degree of familiarity with the Chinese scientific context. The science unit would be in a position to monitor and report on significant developments in Chinese science, indicate where there is potential for Australian involvement, and actively promote Australian innovation and scientific achievement. It would encourage Chinese researchers to view Australia as a destination of choice for international scientific collaboration and promote the trade-related aspects of innovation.

Recommendation 25

p. 319

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

Sister city links

The committee considers that the ability of local governments to foster people-to-people links, promote economic cooperation, and increase understanding and cultural exchange should not be understated nor under valued. The work of local governments, such as Wollongong City Council and Brisbane City Council, is vital to strengthening the overall bilateral relationship between China and Australia.

In 1966, the committee made specific recommendations regarding the need for greater intergovernmental cooperation and coordination. It believes that almost a decade later, the situation still needs to be addressed. While ever there is a lack of awareness and cooperation between all levels of government, opportunities go begging. Australia cannot fully extract the possible benefits arising from growing numbers of links

between Australia and China unless it acts in a considered and coordinated manner. Given the current FTA negotiations, it would seem timely to acquire a more complete picture of the multiple levels of engagement and activity in China, and work to develop and implement a coordinated strategy.

Recommendation 25

p. 337

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





Chapter 1

Introduction and conduct of the inquiry

Referral of the inquiry

1.1 On 8 December 2004, the Senate referred the matter of Australia's relations with China to the committee for inquiry and report by 15 September 2005. On 13 September 2005, the Senate granted an extension to the committee's reporting date to 10 November 2005.¹ This report is the first part of a two-part report. It concentrates on the trading, commercial, social and cultural links with China. The second report builds on the first part but is primarily concerned with the political and strategic aspects of Australia's relationship with China. It will be tabled some time after this first report is presented.

Timing of the inquiry

1.2 This is the third inquiry conducted by a Senate committee into Australia's relationship with China. In 1984, the former Senate Standing Committee on Industry and Trade inquired into prospects for Australia–China trade. In 1996, the Senate Foreign Affairs, Defence and Trade References Committee examined the wider bilateral relationship including the political relationship, trade and investment links and social and cultural ties. Since then Australia's relationship with China has continued to develop and grow.

1.3 China's entry into the World Trade Organization (WTO) in 2001 and the opening up of its domestic markets to international competition has transformed the country. Over recent years, China has experienced sustained rapid development and implemented wide-ranging economic reforms, including the lowering of trade and investment barriers. In opening up its markets, China has become a dynamic, strong and expanding economy offering opportunities for countries such as Australia to strengthen and deepen links.

1.4 China is Australia's second largest merchandise trading partner and one of Australia's most important trading allies.² Its size and growing political, cultural and strategic influence in the Asia Pacific region, however, is also of great long-term significance to Australia. The rate and nature of change in China, its continuing economic development and its emerging influence in our near region present both risks and opportunities for Australia.

1.5 The inquiry is being conducted at a significant juncture in the Australia–China relationship. In 2002, Australia and China celebrated the 30th anniversary of the re-

1 *Journal of the Senate*, 13 September 2005, p. 1094.

2 Department of Foreign Affairs and Trade, *People's Republic of China Country brief*, September 2005, p. 1.

opening of diplomatic relations.³ Since then the relationship has grown stronger. In August 2003, Australia and China entered into an agreement, the Australia–China Trade and Economic Framework, and in April 2005 both countries agreed to commence negotiations for a bilateral free trade agreement.

1.6 The committee believes that at a time of such rapid economic and political development in China and the broader region, it is timely to review Australia's relationship with China. In particular to explore the ways in which Australia can take advantage of the opportunities presented by the changes taking place in China. The following terms of reference allow the committee to do so.

Terms of reference

1.7 The terms of reference for the committee's inquiry into Australia's relationship with China as set out below recognise that economic, political and strategic factors are intertwined.

- (a) Australia's economic relationship with China with particular reference to:
 - i. economic developments in China over the last decade and their implications for Australia and the East Asian region;
 - ii. recent trends in trade between Australia and China;
 - iii. the Australia–China Trade and Economic Framework and possibility of a free trade agreement with China;
 - iv. ongoing barriers and impediments to trade with China for Australian businesses;
 - v. existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth agencies and Australian Government programs;
 - vi. opportunities for strengthening and deepening commercial links with China in key export sectors;

- (b) Australia's political relationship with China with particular reference to:
 - i. China's emerging influence across East Asia and the South Pacific;
 - ii. opportunities for strengthening the deepening political, social and cultural links between Australia and China;
 - iii. political, social and cultural considerations that could impede the development of strong and mutually beneficial relationships between Australia and China; and

- (c) Australian responses to China's emergence as a regional power with particular reference to:

3 The Hon. Alexander Downer, MP, Minister for Foreign Affairs, Media Release, No. FA123, 30 August 2005.

- i. China's relationships in East Asia, including in particular the Korean Peninsula and Japan;
- ii. the strategic consequences of a China-ASEAN free trade agreement;
- iii. China's expanded activities across the South West Pacific.

Conduct of the inquiry

1.8 The committee sought views from a range of people and organisations including: sectors of the business community who have or would like to establish commercial links with China; Chinese companies who have business ties with Australia; mutual friendship associations both here and in China; organisations and associations interested in fostering links between the two countries; academics with expertise in East Asia and the South Pacific; and people who are concerned about Australia's future relations with China.

Advertisement

1.9 The committee advertised the terms of reference and called for submissions in *The Australian* on a number of occasions leading up to the close of submissions on 24 March 2005.

Submissions

1.10 The committee received 81 public submissions which are listed at Appendix 1.

Public hearings

1.11 The committee held nine public hearings. They were held in Canberra, Melbourne, Sydney and Perth. A list of the committee's public hearings, together with the names of witnesses who appeared, is at Appendix 2.

Visit to China

1.12 In August 2005, four Australian senators made a private and unofficial visit to Beijing, Shanghai and Xi'an at the invitation of the Foreign Affairs Committee of the National People's Congress of China. The travelling party included the Chair of the Senate Foreign Affairs, Defence and Trade Committee, Senator Steve Hutchins, Senator David Johnston, who is now Deputy Chair of the committee, the Deputy President of the Senate and committee member Senator John Hogg, and participating member Senator Brett Mason. Senators Hutchins and Johnston were accompanied by their partners. At the request of the senators, Dr Richard Grant, from the secretariat accompanied the delegation.

1.13 Members of the delegation and the secretariat express their gratitude to the National People's Congress for their hospitality and generosity, and to Ms Ou Boqian and Mr Wang Xingguang from the Chinese Embassy in Canberra for their assistance with organising visas and the itinerary.

1.14 The purpose of the visit was to enable the senators to develop greater understanding of China's economy, culture and society, following the committee's hearings in Australia. This was the first visit to mainland China for all four senators. In Shanghai, the senators met with the Pudong District People's Congress and Mr Zhou Muyao, Vice-Chairman of the Standing Committee of the Shanghai Municipal People's Congress.

1.15 The delegation then visited Beijing where they had discussions with the Hon. Jiang Enzhu, Chairman of the Foreign Affairs Committee of the NPC, Mr Yi Xiaozhun, the Assistant Minister of the Ministry of Commerce, the Hon. Yang Jiechi, Vice Minister of the Ministry of Foreign Affairs, Mr Ye Kedong, Assistant Minister of the Taiwan Affairs Office, and Mr Xu Jialu, Vice Chairman of the Standing Committee of the NPC.

1.16 The senators also met with Mr Wang Shilin, the Deputy Director of the 2008 Beijing Olympic Games Organising Committee. In Xi'an, the senators had discussions with various members of the Shaanxi Provincial People's Congress, including the Chairman, Mr Bai Zhimin and the Vice Chairman, Mr Gao Yixin. The committee thanks all these officials for their willingness to talk openly on a wide range of issues.



On 25 August 2005, the Australian delegation met with the Hon. Xu Jialu (front row, fourth from left), Vice Chairman of the National People's Congress at the Great Hall of the People in Beijing. Also present was Mr Graham Fletcher (front row, second from right) the acting Australian Ambassador to China.



In Shanghai, the Australian delegation travelled on the Meglev train, which runs from Pudong International airport to the city. It is one of the fastest trains in commercial use, reaching a maximum speed of 435 kilometres per hour.

1.17 The senators met Australian officials based in China, including Mr Sam Gerovich and Mr Tony Ambrosino from the Australian Consulate General in Shanghai, and Mr Graham Fletcher, Mr Kym Hewett, Mr Stephen Joske and Mr Trevor Holloway from the Australian Embassy in Beijing. In addition to these officials, the committee thanks Ms Bonnie Williams, Second Secretary of the Political Section at the Australian Embassy, who accompanied the senators throughout their visit.

Structure of the report

1.18 As noted earlier, the committee agreed to produce and table two separate reports. This first report is divided into four parts and covers the following main topics:

Part 1—Background to the relationship between Australia and China

- Chapter 1 Introduction and conduct of inquiry
- Chapter 2 Economic developments in China

Part 2—Trade between Australia and China—incentives and obstacles to trade

- Chapter 3 Trading links between Australia and China
- Chapter 4 Barriers to trade—tariffs and non tariff barriers

- Chapter 5 Trade in agriculture
- Chapter 6 Trade in manufactured goods
- Chapter 7 Trade in minerals and energy
- Chapter 8 Trade in services
- Chapter 9 Investment

Part 3—Formal trade agreements as a means to strengthen the trading relationship

- Chapter 10 The connection between the multilateral trade agreement, regional arrangements and bilateral agreements
- Chapter 11 The proposed Australia-China Free Trade Agreement (FTA)
- Chapter 12 For and against the proposed FTA
- Chapter 13 Building a better trading relationship and strengthening ties with China
- Chapter 14 Human rights and labour standards in China

Part 4—Developing broader political, cultural and social links

- Chapter 15 Promoting 'China literacy'
- Chapter 16 Public diplomacy, culture and sport, and the Chinese–Australian community
- Chapter 17 Science and technology
- Chapter 18 'Political' links

Acknowledgments

1.19 The committee thanks all those who contributed to the inquiry by making submissions, providing additional information or appearing before it to give evidence.

Chapter 2

Economic developments in China

China has only been carrying out its 'reform and opening' policy for twenty years. It has only trod the path of the market economy for ten. The changes that have swept China were unimaginable twenty years ago. The changes to take place in the coming twenty years are even harder to imagine.¹

Background to China's economic development

2.1 China has taken just over two decades to make the successful transition from a closed economy to one of the leading trading nations in the world. Economic reforms were central to this transformation and have paved the way for China's integration in the global trading system.

2.2 Prior to 1979, China followed a policy of socialist economic development where the country's economic output was directed and controlled by the state. According to one analyst, by 1978 nearly three quarters of industrial production in China was 'produced by centrally controlled state-owned enterprises (SOEs) according to centrally planned output targets'.² Another noted that the State Planning Commission's import plan covered more than 90 percent of all imports.³ In this highly protected and planned economy there was little room for private enterprises and foreign investment firms.

2.3 In the late 1970s, however, China began to open its doors to foreign trade and to reform its SOEs. In 1978, the Deng Xiaoping-led government promoted the 'opening-to-the-outside world' principle as its national policy. China's integration with the global economy started in earnest with the implementation of this policy and the introduction of market oriented reforms. Since then, China has begun to dismantle the planned economy apparatus and has allowed the private sector to assume a more prominent part in the economy.

2.4 Although slow at first, the pace of reform quickened during the 1990s. In 1993, China revised its constitution to include the statement that 'the State adopts [a] socialist market economy mechanism'. This declaration recognised the role of the non-state sector as an important and legitimate activity of the nation's economy and

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- 1 Wang Zhan and Huang Renwei, 'What will the World Gain from China in Twenty Years?', *The China Business Review*, March–April 2003. Wang Zhan is President, Shanghai WTO Affairs Consultation Center and Huang Renwei is Director, Pudong Institute for the US Economy.
 - 2 Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 21 September 2000, p. 2; Update, 5 April 2005.
 - 3 Nicholas R. Lardy, Senior Fellow, Institute for International Economics, Washington, D.C., 'Trade Liberalization and its Role in Chinese Economic Growth', prepared for an International Monetary Fund and National Council of Applied Economic Research Conference, New Delhi, 14–16 November 2003, p. 4.

provided 'a legal basis for the continued development of a market economy in China'.⁴ The rate of change accelerated in the lead-up to China's accession to the World Trade Organization (WTO) in 2001 and has continued.

2.5 In moving from a centrally planned economy to a market-oriented one, China has increased competition in its domestic market and emerged as a major force in international trade. At the moment, China is one of the major drivers of global growth and has also become a magnet for foreign direct investment.⁵ The Organisation for Economic Co-operation and Development (OECD) has predicted that China 'could become the largest exporter in the world by the beginning of the next decade'.⁶

Recent economic performance

2.6 Over recent years, the Chinese economy has been growing at rates hovering around the nine per cent mark. This trend shows little sign of abating with the prospect of rates remaining above 8 per cent for 2005.⁷ Indeed, China has set itself a gross

4 *Submission P19*, p. 3. See also OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

5 There are numerous sources quoting figures and commenting on China's rising prominence. See for example, Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Paper* WP/05/79, April 2005, p. 1; Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper* 232, 2004, p. 4.

6 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

7 The Reserve Bank of Australia records China's GDP growth at 9.5 per cent for 2004 with a predicted 8.4 for 2005. Malcolm Edey, Assistant Governor, Reserve Bank of Australia, 'Notes for a Talk to CEDA/Promina Economic and Political Overview', Sydney, 25 February 2005. In August 2005, the World Bank Office, Beijing, recorded a stronger than expected 9.5 per cent real GDP growth for the first half of 2005. World Bank Office, *Quarterly Update August 2005*, p. 3. Numerous commentators have made the point about China's growing importance in the world economy. See for example, Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005; Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper* WP/04/36, March 2004, p. 3; Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper* 232, 2004, p. 4; Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 21 September 2000, p. 1; *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005; ABARE predicts economic growth rates of 8.7 in 2005, before easing to 8.2 per cent in 2006, *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 277.

domestic product (GDP) growth target of around 8 per cent for 2005.⁸ The World Bank is of the view that the external environment and domestic macroeconomic conditions suggest 'a favourable outlook for 2005'.⁹ Looking longer term, the Department of Foreign Affairs and Trade noted that official projections of real annual GDP growth over the next decade continue to be in the 7–9 per cent range.¹⁰

2.7 As China's participation in global trade increases so its influence on the world economy grows. Its overall share in world trading was 1 per cent in 1979, 1.9 per cent in 1990: 4 per cent in 2000 and by 2003 had reached 6 per cent.¹¹ China's share of world imports has also increased from 1.5 per cent in 1990, to 3.6 per cent in 2000 and 5.7 per cent by 2003.¹² China's exports and imports have grown at an average rate of 15 per cent each year since 1979, compared with a 7 per cent annual growth of world trade for the same period.¹³

2.8 In 2004, China's foreign trade 'leapt to a new level'.¹⁴ The volume of China's imports and exports totalled US\$1.15 trillion, an increase of 35.7 per cent, moving China to third place in the world from fourth.¹⁵ China is confident that the domestic

8 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

9 World Bank Office, Beijing, *China Quarterly Update*, February 2005, p. 6.

10 *Submission P19*, p. 4. The OECD also suggested that China's economic growth 'seems likely to continue at that pace [9½ per cent] for some time'. OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

11 See for example, Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper 232*, 2004, p. 1; Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005, p. 2.

12 Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005, p. 2.

13 Eswar Prasad (ed.), 'China's Growth and Integration into the World Economy: Prospects and Challenges', *IMF Occasional Paper 232*, 2004, p. 1.

14 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

15 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005. See also *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005. See also National Bureau of Statistics of China, *Statistical communiqué of national and social development in 2004*.

economy will continue to grow rapidly and the demand for imports will also rise and expand.¹⁶

2.9 Although China's economic development over the past decade has been remarkable, it has presented the Chinese government with some challenges. Chinese leaders accept that as China moves from a planned to a market economy, the country will face 'thorny domestic issues as well as complicated and volatile international situations'. Indeed the Chinese Ambassador to Australia, Her Excellency, Madam Fu Ying acknowledged that China's development is 'not all rosy and is not without challenges'.¹⁷

2.10 Many China specialists agree with this assessment. While optimistic about China's economic prospects, they maintain that the country faces a variety of problems in maintaining its economic growth. Some questioned whether China could sustain the momentum and identified factors that could undermine China's steady economic progress.¹⁸

2.11 The following section examines some of the challenges to China's growing economy. They include: the Chinese government's ability to manage effectively a rapidly expanding economy; the potential for social and political discord as the country opens up to new ideas and its people's expectations change; the disparity between rich and poor; China's growing demand for energy resources; and environmental degradation.

Maintaining economic stability in a rapidly changing economic environment

2.12 A booming economy brings many advantages, but one expanding at a rapid pace can pose particular problems for a government. China is aware of the importance of managing its rapidly growing economy in order to avoid disruptions or distortions in the market place. In the first quarter of 2004, the Chinese government took steps to slow growth to a more sustainable pace. In particular it introduced measures to strengthen and improve macro regulation with the intention of addressing 'the problem of overheating especially in fixed asset investment'.¹⁹ By mid-year, the fast growth in the problem sectors had eased and China was confident that it could maintain economic growth at a sensible and healthy rate.²⁰

16 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

17 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

18 See for example, Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, updated 26 May 2005 p. 9.

19 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

20 See Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

2.13 The actions taken in 2004 to manage the expanding economy continued to produce positive results in 2005. The World Bank noted that investment was shifting away from 'sectors previously considered as overheated such as steel and cement'.²¹ It found that the risk of China's economy overheating had declined, as domestic demand growth and consumer price inflation had come down in the wake of measures taken to cool the economy'.²² In April 2005, it reported:

A rebound in investment in early 2005 raised concern among analysts, but the trend remains one of a slowdown. Indeed, while investment remains high, also as a ratio of GDP, the changing composition should give some comfort to policy makers that the policies introduced in 2004 are working.²³

2.14 ABARE similarly noted a 're-acceleration' in fixed asset investment and industrial production in early 2005. It suggested that while growth in money supply and inflation had slowed from the high rates in 2004, 'excessive investment spending could lead to further bottlenecks in China's economy, as energy and transport are still in short supply'. It surmised that China could introduce further tightening measures to ease economic growth to more sustainable levels.²⁴

2.15 China acknowledged that it had had some success in keeping the economy progressing at a steady pace. Premier Wen Jiabao told a press conference in March 2005, that China avoided 'major ups and downs in the economy, preventing excessive price hikes, keeping prices at a stable level and maintaining steady and fairly rapid economic growth'.²⁵ The Chinese government, however, realises that careful management of the economy is needed.

2.16 In March 2005, Premier Wen presented a report on the work of the Government to the 10th National People's Congress. This report recognised a number of problems that had emerged in China's economic activities over the previous two years. They included tight grain supply, overheated investment in fixed assets, excessive money and credit, and shortages of coal, electricity, petroleum and transportation.²⁶ The report noted that China had entered a period of important strategic opportunities in which the economy should grow rapidly but should 'not be allowed to overheat'. It stated:

Maintaining steady and rapid economic development is an important issue that the government must successfully handle...Both drastic upturns and

21 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 2.

22 World Bank Office, Beijing, *China Quarterly Update*, February 2005, p. 2.

23 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 2.

24 ABARE, *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, pp. 271–272.

25 'Premier Wen Jiabao's press conference', 14 March 2005.

26 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

downturns in economic growth are bad for economic development, reform and opening up, and social stability.²⁷

2.17 Premier Wen recognised the need to find a sensible balance:

...a slow economic growth rate won't do, because it would make it more difficult for us to create jobs, increase revenue, and engage in necessary undertakings for society. Yet too fast economic growth rate won't do either, because it may make the economy to stretch out for a long time in an unsustainable situation.²⁸

2.18 The Chinese government made a commitment to follow prudent fiscal and monetary policies in 2005 to ensure the 'correct orientation of macroeconomic policies'. Its objective was to cut the budget deficit and keep in check increases in general spending.²⁹ It was determined to 'improve coordination of macroeconomic policies and to continue to curb excessively rapid growth of fixed asset investment'.³⁰ The government intended to control the supply of money and credit appropriately in order to support economic development while guarding against inflation and financial risks.³¹

2.19 The World Bank was of the view that the prudent monetary and fiscal policies announced by the government were appropriate, 'if this means that there is flexibility to adjust the policy stance to changing circumstances'.³² An OECD report stated that China's fiscal policy has been 'run in a stabilising fashion'.³³

2.20 Witnesses to the inquiry also noted the cautious approach adopted by the Chinese government to manage the economy. Observing China's changing economy over time, Dr Stephen Morgan told the committee that even Deng Xiaoping talked about crossing the river by grasping stones—'moshi guohe'. In his opinion, China at first really muddled through; there had been no plan. He maintained that:

If you look at the original documents from late 1978 when the so-called plenum committee of the CCP launched economic reform, you will not see

27 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

28 'Premier Wen Jiabao's press conference', 14 March 2005.

29 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

30 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

31 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

32 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 4.

33 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://www.oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1_1,00.h (accessed 19 September 2005).

reference to economic reform—'jingji gaige'. It does not appear in any of the documents. A number of initiatives were taken there that set in train developments that were in part already taking place.³⁴

2.21 Turning to the future, however, Dr Morgan noted the various incremental changes occurring and was confident that those ready to take over the reigns in China were well equipped to deal with and manage change.³⁵

Committee view

2.22 The committee notes the prudent approach Chinese leaders have adopted to ensure that growth remains steady and sustainable. Success in guiding the economy through this phase of rapid growth depends, in large measure, on the Chinese government's ability to prevent overheating in the economy. It has shown a readiness to reduce deficits and keep expenditure under control in order to maintain a stable macro-economic environment. The committee has studied closely China's Report on the Work of the Government and notes the commitment made by the government to continue economic reform in an effort to further open its markets and to make China an attractive place to do business.

Maintaining political and social stability as China opens up to the world

2.23 China is a country of great diversity: its economy is expanding rapidly, its social structures are undergoing reform and its people are being exposed to new ideas and changing expectations. According to the Chinese Ambassador to Australia, there are 80 million internet users in China, over 300 million cell phone users, 9,000 newspapers and 2,000 magazines in circulation, diverse TV programs showing on 70 channels and 'serious and sensitive social issues are openly debated on TV and in newspapers'.³⁶ Twenty million and more Chinese visit abroad each year. She noted

34 Stephen Morgan, *Committee Hansard*, 27 June 2005, p. 6. Dr Morgan appeared in a private capacity. He is from the University of Melbourne and is a member of the Department of Management and a research associate of the Australian Centre for International Business.

35 Stephen Morgan, *Committee Hansard*, 27 June 2005, p. 6. He stated: 'We are seeing a new sophisticated group of officials emerging, many of whom trained overseas and many of whom have PhDs from universities in the USA, Europe, Australia and so on who are as competent and confident working in English as they are in Chinese. Those sorts of people are giving governments of the West and businesses of the capitalist world great cause for optimism in terms of managing orderly transition, managing reforms to corporate governance, instituting more effective market framework mechanisms and so on. So on the economic front I am quite optimistic.'

36 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004. The August 2005 CRS Issue Brief for Congress recorded that China currently has the world's largest mobile phone network and one of the fastest growing markets. In 2002 it replaced Japan as the world's second-largest PC market and the world's second-largest Internet user (after the United States) with almost 94 million users at the end of 2004. Congressional Research Service, CRS Issue Brief for Congress, 'China-U.S. Trade Issues', Updated 4 August 2005, p. 3.

that the dynamics of a changing China have 'unleashed so much creativity and vitality'.³⁷

2.24 The Chinese government accepts that its people face many new situations as the country opens up to 'the outside world'. Maintaining stability in such a large country emerging from a tightly controlled and planned political, social and economic system is a major challenge. Premier Wen described the task most pointedly:

In China with 1.3 billion people, any small problem multiplied by 1.3 billion will become a huge issue. Any big amount of wealth divided by 1.3 billion will be reduced to a small amount of per capita figure.³⁸

2.25 How China manages the various social and political forces at work as the economy expands and the society becomes exposed to new ideas has generated lively debate among China specialists. Professor Ross Garnaut was of the view that the biggest test for China to sustain economic growth would arise as pressures grow within the country for democratisation of the political process.³⁹ Of the same view, Professor David Goodman noted the potential for conflict caused by a political structure out of step with the expectations of people living in a country undergoing significant economic and social change.⁴⁰

2.26 Mr Charles Woodard, former Australian Ambassador to China, also commented on the magnitude of the problems confronting the leadership in China. He observed:

But the range of difficulties within China, the range of vulnerabilities that the Chinese leadership themselves see within their own country, are very great...Holding China together is a fantastically difficult thing for a government to do...the range of problems that China faces every day is so vast compared with ours that it was really impossible for us to understand how the leadership there grappled with them. I think China will not advance as quickly in some respects as we would like it to. However, that is their decision to make and we cannot be too judgmental, because of the range of those difficulties that I outlined.⁴¹

37 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

38 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004, p. 15.

39 Ross Garnaut, Professor of Economics, 'India, China and Australia: Lessons from Different Paths in Economic Reform', The 2004, Sir John Crawford Lecture, National Council of Applied Economic Research, New Delhi, 28 September 2004, p. 17.

40 D. Goodman, *Committee Hansard*, 29 June 2005, p. 54. He stated: 'The Chinese people, Chinese society, have no problem in dealing with the pluralism that is quite clearly on the way. The problem we are facing from the outside now, particularly in government-to-government relations, is that there is an increasing tension between social and economic change in China and the unwillingness of the people who control the Communist Party at the moment to change along with those trends'.

41 C. Woodard, *Committee Hansard*, 27 June 2005, p. 27. He was Australia's Ambassador to China 1976-1980.

China's cautious approach to change

2.27 Mr Woodard shared with many other China specialists the view that the leadership in China would take a careful and considered approach to dealing with any elements likely to cause unrest. He stated further:

At the moment I think we have a very cautious leadership in Beijing, partly because it is tackling many other problems which are disruptive. It is tackling corruption, which applies particularly at higher levels of the party and affects the reputation of the party throughout the country. It is grappling with the uncertainties of unequal economic development and always fears an uprising of the workers, particularly when associated in some way with intellectuals. That is how significant changes have come about in China in this century and in previous centuries. In some respects it probably just does not know what to do in terms of whether, for instance, to revalue the currency, and I think it has genuine problems about how it makes decisions. With all those political problems I expect that the leadership will be cautious and will continue to put emphasis on stability.⁴²

2.28 Dr Robert Davis, Australian Chamber of Commerce and Industry, also thought that incremental change in the political system was most likely in China. He thought that political reform would be, 'in continued roll-out at the town and village level. You will see probably a bit more competition emerge for elected positions such as mayors'.⁴³ He was of the view that democracy is evolving slowly; that 'at the town and village level there is a choice between party members. There is progress now that entrepreneurs can become party members'.⁴⁴

2.29 Mr James Harrowell, Hunt and Hunt Lawyers, posed similar questions about the ability of China's leaders to guide the country through its transformation. He supported the notion that there would be careful and steady management of the changes under way in China with the focus fixed on maintaining stability:

China has tried to have controlled development. I have to say that, yes, there are fundamental issues that have to be addressed by China but the most important thing for China and, I suspect, for us as their major trading partner, or one of them, and the region is to ensure stability as China moves through the process of change. We have to be careful of pushing our friend China too hard and too fast and destroy stability. One of the stark comparisons between China and some other countries in the region is that China does an extraordinary job of feeding its people, educating its children and in economic development. You do not see that desperate, desperate poverty in Chinese cities that you can see elsewhere. So it is a balance. It is certainly not perfect but it is a balance and it is working and there is enormous growth. For the first time in our history we have this major

42 C. Woodard, *Committee Hansard*, 27 June 2005, p. 29.

43 R. Davis, *Committee Hansard*, 29 June 2005, p. 19.

44 R. Davis, *Committee Hansard*, 29 June 2005, p. 30.

trading partner that is well disposed to us, in essentially the same time zones and very close. So there are huge opportunities there. There has been tremendous change...What has happened is quite breathtaking.⁴⁵

2.30 The Chinese government acknowledges the difficult task it has in navigating the nation through this period of transition. President Hu Jintao noted that 'social conflicts are emerging in great numbers and in more varied forms'. He told a high-level Party seminar that:

Independent thinking of the general public, their newly-developed penchant for independent choices and thus the widening gap of ideas among different social strata will pose further challenges to China's policy makers.⁴⁶

2.31 As with their cautious management of a rapidly growing economy, Chinese leaders are taking the same considered approach to political and social change. Internal stability is of paramount concern to Chinese leaders who equate stability with prosperity. For example, in noting that China's reform is 'unprecedented in its history', Madam Fu stated that given the country's size and complexity, 'it can only be carried out in an incremental manner'.⁴⁷ Premier Wen has indicated that the government would 'energetically yet prudently promote political restructuring and develop socialist democracy'. On various occasions, Chinese leaders have stated their commitment to paying close attention to social stability placing a heavy emphasis on building a 'harmonious society'.⁴⁸

Falun Gong

2.32 The attempt to suppress the activities of the Falun Gong is an example of actions taken by the Chinese government to shut down a group it perceives as a threat to the country's stability. Some commentators consider that China has over-reacted and regard the measures taken against the practitioners of Falun Gong as extreme and in some cases a violation of human rights.

2.33 A number of witnesses, however, who have lived and worked in China, place the actions of the Chinese government firmly in the context of a country undergoing rapid transformation. Rather than looking at the human rights issue from the outside, they try to appreciate the Chinese perspective.

45 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 41.

46 'Building harmonious society crucial for China's progress: Hu', *People's Daily Online*, 27 June 2005.

47 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004, p. 16.

48 *Report on the Work of the Government*, 5 March 2005.

2.34 Dr Rosita Dellios, an international relations analyst, noted that China is not the West and furthermore that it needs to move through this period of development where it still feels internally vulnerable.⁴⁹ In referring to the Falun Gong, she stated:

It is a human rights issue insofar as individuals feel that they have been targeted because of their beliefs. But China is not the West. China is transforming itself into perhaps a Confucian style democracy in the future, but it is going through a process and it needs to be assured of its security. In China there is a greater sensitivity to such cults as the Falun Gong.⁵⁰

2.35 She acknowledged that the arrest and torture of people are of great concern to the outside world and that China has a lot of work to do in dealing with the activities of dissident groups. In her view, China needs 'to match the excitement the world has about the Chinese market and the boom that China represents with some form of legitimacy in terms of human rights'. She stated further:

...it needs to get into political reform mode to get it out of the problem of legitimacy—but at a pace that it can sustain so that it will not collapse. If it is given time and if its pace is directed towards opening up and not overreacting to such groups as Falun Gong, it will be successful. I would say it is a mistake on the part of the Chinese government, but it is a mistake which is of the nature of the concept in the Chinese saying, 'We cross the river by feeling the stones with our toes.' They feel a stone, they draw back, and then they will move on again. It is this process of gradual transformation of the Chinese state that needs to take place. Falun Gong is perhaps a tutorial for China of how not to do things, but, at the same time, it cannot let groups such as Falun Gong run away with the political agenda and take over. China is experiencing that kind of balancing act at the moment.⁵¹

2.36 Mr Reginald Little, an experienced former DFAT officer, also looked at the suppression of the activities of the Falun Gong from the perspective of China's leaders. He told the committee:

I would also mention, in passing, that it is hard to be critical of the Chinese approach to Falun Gong at a time when they have seen the example of Aum Shinrikyo in Japan, which attacked the subway there with sarin gas. You also have Islamic movements very actively engaged in terrorism. I think the Chinese government would be somewhat amiss if it did not seek to follow

49 *Committee Hansard*, 1 August 2005, p. 61. Dr Dellios, International Relations Analyst, Centre for East-West Cultural and Economic Studies, Bond University.

50 *Committee Hansard*, 1 August 2005, p. 61.

51 *Committee Hansard*, 1 August 2005, p. 65.

very closely the activities of an organisation that was trying to use a form of religion for political purposes.⁵²

Committee view

2.37 The committee notes that Chinese leaders perceive the activities of the Falun Gong as a threat to their one party state and more generally to the stability of Chinese society. Their harsh suppression of Falun Gong practitioners highlights the extent to which they believe that dissidents within their society are a real danger and should not be tolerated. The committee understands the Chinese government's desire to maintain social and political stability as it moves from a tightly controlled planned economy to a country more open to world ideas and influences. It heeds the advice from some witnesses that Australia in its dealings with China must take account of the changes taking place in that country and appreciate the cautious approach taken by leaders, described as 'crossing a river by feeling the stones with its toes'. The committee is of the view, however, that Australia should not fall silent or ignore issues such as human rights abuses in order to remain in good favour with a major trading partner. It believes that any criticism of China should be informed and constructive. This matter is discussed further in chapter 14.

Inequality between rich and poor

2.38 As noted previously, most analysts agree that China's economy will continue to expand. Even so, China faces a number of challenges to ensure that all its citizens benefit from reform and change. One of the most concerning developments is the growing inequality between various sectors in China, particularly the divide between the urban and rural areas, and possibility of such conditions creating social unrest.⁵³

Poverty in China

2.39 Official Chinese statistics show a steady decline in the number of people living in poverty since 1978. The annual decrease of poverty population, however, has slowed down in recent years. The Rural Survey Organisation reported that the population of rural poor fell from 250 million in 1978 to 85 million in 1990 and decreased further to 32.1 million in 2000. It noted that the poverty population increased 80,000 in 2003, due mainly to natural disasters, and stood at 29 million.⁵⁴ It stated that the disparity between different regions was 'huge' with 58.6 per cent of the

52 *Committee Hansard*, 1 August 2005, p. 45. Mr Little served for 25 years in the Department of Foreign Affairs and Trade, was taught both Japanese and Chinese in country by the department and who has subsequently regularly participated in conferences in China and elsewhere in East Asia.

53 See for example Dr Rosita Dellios, *Submission P52* and Ambassador Fu Ying, Address to the National Press Club, 28 July 2004. Also see chapter 5, paragraphs 5.9–5.13.

54 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004, p. 8 and Table 1, p. 9.

poor living in 12 western regions.⁵⁵ One group of analysts described the poverty population in the western areas as 'very large' and the degree of poverty 'very deep'.⁵⁶

2.40 Analysts tend to agree that China has achieved significant results in alleviating poverty since 1978.⁵⁷ A number of analysts note, however, that poverty decrease has not corresponded with economic growth and, as the above figures show, the rate of decline has slowed in recent years at a time when the economy is booming.

Potential for unrest

2.41 The committee took evidence from a number of witnesses who referred to the gap between rich and poor in China and its attendant problems. Dr Morgan noted:

If the WTO accession is going to work the huge mass of farmers and rural based people in China will have to get something out of it. Sixty-five per cent of the population are dependent upon agriculture and they are going to have to get something out of WTO accession not just those who live in East China, in the big cities of Shanghai, Nanjing, Beijing and so on. The committee, Australian businesses and the Australian government need to understand that incredible diversity and extremes from those who can afford to buy a Lamborghini, although they may not have much room to drive it, to those who cannot even buy a bus ticket to go and find a job.⁵⁸

Rural poor

2.42 Supporting this view, Dr Patrica Ranald, Australian Fair Trade and Investment Network, noted that China is still a developing country but that development is very uneven. She also drew attention to the contrast between the bigger and prosperous cities of China with the poorer regions.⁵⁹ Mr Harrowell drew a

55 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004, p. 8.

56 Hu Angang, Hu Linlin and Chang Zhixiao, *China's economic growth and poverty reduction (1978–2002)*.

57 See for example the recent OECD Economic Survey of China. It states that economic change in China has 'delivered higher incomes and a substantial reduction of those living in absolute poverty'. OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1,00h (accessed 19 September 2005).

58 S. Morgan, *Committee Hansard*, 27 June 2005, p. 10.

59 P. Ranald, *Committee Hansard*, 29 June 2005, p. 8. See also Dr Davis who stated: 'You have to bear in mind that you are going from areas like the south-east coastal provinces that are probably at 15, 18 or even 20 per cent growth rates—enormous rates—to the western districts, like Xinjiang, and the north-east provinces, where they are either very poor and backward or they have the old industrial dinosaurs which they are unravelling... We believe that they are probably likely to remain at a six to eight per cent growth rate.' R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

direct connection between the inequality between urban and rural areas and the potential for social unrest:

There is a major gap between the prosperity of eastern China, along the seaboard, and western China. In provinces like Inner Mongolia and out to Urumqi, near Kazakhstan, people are not getting the benefits. Two things are going to happen. Firstly, they are going to get very cross with the government and there will be political and social instability. In western China, in the city of Urumqi, for instance, there are ethnic groups. It surprises people sometimes that the street signs are in Arabic as well as Chinese. It is said that people cannot worship in China, but you will hear the Muslim prayer calls in the afternoon. That is happening in China right now. Secondly, people will all rush to the east and you will get slum dwellers there, as there are around the city of Manila in the Philippines, for instance. Everyone heads east to find their fortune. That means that you lose people who would otherwise work in the west. The Chinese government has a big program at the moment to try to help balance that internally by encouraging people in eastern China to invest in the west.

...To some extent, the Chinese government has got a tiger by the tail. That tiger has to keep running because that is what is getting them through the economic reform process. Some people are out of work but for a lot of people the standard of living is growing.⁶⁰

2.43 Similarly, Mr Edward Murphy, Australian Council of Trade Unions, drew attention to the poorer paid, underpaid or unpaid working class people, who are often transitory migrants to the cities, and the 700 million people who are still rural based. He noted the potential for social disruption should they become disillusioned with what they perceive as the uneven distribution of benefits. In his view if that were the case:

... in the absence of ameliorative action by the government, it will be the biggest cause of social tensions in China. It is probably the reason that recently the government ordered an increase in the remuneration of its peasantry for their products. That was partly designed to stop or limit or at least control the flow of rural migrants to the cities but was also designed in recognition of the fact that they were becoming relatively impoverished.⁶¹

2.44 Dr Dellios stated that, because of the rich-poor divide, China is highly focused on the internal dimension of its security.⁶² Dr Davis was also of the view that the Chinese government, aware of the differences between regions, was seeking to address emerging problems. He stated:

The principal benefit is that the Chinese leadership know the challenges they have. There is no denial of the problems. They are aware of and

60 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 43.

61 *Committee Hansard*, 27 June 2005, p. 77.

62 *Committee Hansard*, 1 August 2005, p. 62.

acknowledge the problems. I think they are working their way through what they can do about them.⁶³

2.45 Indeed, China has progressed through a number of phases since 1978 in its struggle against poverty. In 2001, the Development Orientated Poverty Alleviation Program was initiated with the aim of solving 'the subsistence problems of the remaining absolute poor and to help the low-income group to improve their development capability'.⁶⁴ In May 2004, Premier Wen noted that despite their achievements in alleviating poverty, China faced a daunting task in reducing poverty. He stated that China still had 'nearly 30 million rural citizens who do not have adequate food and clothing, over 20 million urban residents whose incomes are lower than minimum standard, and over 60 million handicapped in need of help'.⁶⁵

2.46 In March 2005, he told journalists that he was 'deeply aware of the paramount importance of agriculture, rural areas and farmers in China'. In his view, there would be no moderate prosperity in the whole country without moderate prosperity in the countryside. He stated that he had a long-term plan, made up of two phases, for rural reform and development. The first phase involved liberalising productivity in rural China through the introduction of a family contract system that allowed farmers greater autonomy in production and management. He maintained that China had since moved into a second phase in which 'we make industry nurture agriculture and cities support the countryside'. This second phase has four objectives:

- promote rural reforms with rural tax and administrative fee reforms;
- improve productivity in the countryside by building water conservation projects and promoting wider applications of agriculture-related science and technology;
- develop education, science, technology, culture and other social undertakings in the countryside; and
- promote primary-level democracy by ways of self-governance among villagers, direct elections at the village level and greater transparency in government affairs at the country and township levels.⁶⁶

2.47 President Hu Jintao noted that 'when the farmers can lead a good life and assume a higher overall quality, the vast countryside will be stable and prosperous'.⁶⁷

63 R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

64 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004.

65 Wen Jiabao, 'Work Hand in Hand for Global Poverty Reduction', Speech, Shanghai Conference on Scaling Up Poverty Reduction, May 2004, p. 2.

66 'Premier Wen Jiabao's press conference', 14 March 2005.

67 'Building harmonious society crucial for China's progress: Hu', *People's Daily Online*, 27 June 2005.

Urban poverty

2.48 The problem of unemployment and poverty is not confined to the rural areas of China. According to a report on economic and social development, the year 2005 will see 11 million urban residents, including those entering the workplace for the first time, ex-servicemen and college graduates needing to find employment. It stated:

There are now 13 million unemployed and laid-off urban workers, and large numbers of surplus rural laborers need to find work in urban areas. Employment pressure is therefore still intense. Estimates based on the relationship between economic growth and job creation show that by adhering to a vigorous employment policy, the country should be able to create 9 million more jobs this year. Given that we will basically incorporate subsistence allowances for workers laid off from state-owned enterprises into the unemployment insurance system this year, the registered urban unemployment rate at the end of 2005 is expected to be somewhat higher than last year.⁶⁸

2.49 Dr Davis told the committee that there are 400 million people floating or on the move [reserve labour pool]. He stated further that China does:

...have a major challenge in handling that unrest, but managing unrest is not unknown in Chinese history. We do not endorse the way it was done. It was a very heavy-handed militaristic approach, but they do have to bring them along. The best way they can do that is to sustain those growth rates.

...

...There are a great many people who would say that, within the Chinese culture, stability, the social order and the pressure to make commerce and entrepreneurship come first and politics is indulgent.⁶⁹

2.50 China does not shy away from this problem of reducing poverty and publicly acknowledges that poverty alleviation is one of the 'largest challenges in the developing process of China'.⁷⁰ Chinese leaders state forthrightly that the employment situation is gloomy. The 2005 report on China's economic and social development

68 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

69 R. Davis, *Committee Hansard*, 29 June 2005, p. 30.

70 *Poverty Statistics in China*, Rural Survey Organization of National Bureau of Statistics, China, September 2004. See also, Dr Rosita Dellios, *Committee Hansard*, 1 August 2005, p. 63.

plan recorded that the income gap between some members of society is 'too wide, and some low-income people lead difficult lives'.⁷¹

2.51 The Chinese government has stated its commitment to help people raise their standard of living and has set itself a target of creating 9 million more jobs for urban residents and containing the registered urban unemployment rate to 4.6 percent.⁷²

2.52 The World Bank surmised that much of the rise in inequality 'may well have been the result of a desirable growth strategy that maximised overall gains for the average Chinese'. It argued that inequality has become a major policy concern with authorities facing the task of finding policies that will moderate inequalities but at the same time maintain high growth and alleviate long-term poverty. It noted, 'perhaps most important in achieving this is to ensure that those that have become rich first do not capture the political debate to prolong their privileges that are no longer needed to sustain growth'.⁷³

Committee view

2.53 The committee recognises that China has made significant gains in alleviating poverty but that much more needs to be achieved. It notes further that although its economy has been expanding at a remarkable rate in recent years, the reduction in the number of poor has not been commensurate and unemployment remains a serious problem. The gap in living standards between the rural and urban areas, the extent of poverty in the country coupled with a people increasingly exposed to new ideas and higher expectations creates a major problem for China's leaders in keeping China on a steady course of economic and social development.

China's energy and resources needs

2.54 A number of analysts contend that China's growing appetite for energy resources presents a serious challenge to its economic growth rate.⁷⁴ Chinese domestic sources cannot meet the demand and China relies heavily on overseas suppliers. This

71 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005. Premier Wen informed the National People's Congress in 2005 that the 'development gaps between urban and rural areas and between different regions and the income gap between some members of society are all too wide. Some low-income people lead difficult lives and there are more than a few factors threatening social stability'. *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

72 See also *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

73 World Bank Office, Beijing, *China Quarterly Update*, April 2005, p. 9.

74 Wayne W. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 26 May 2005.

reliance places China in a vulnerable position. Indeed, two researchers from the Hong Kong University of Science and Technology argued that China's access to foreign resources is 'necessary both for continued economic growth and, because growth is the cornerstone of China's social stability, for the Chinese Communist Party'.⁷⁵

2.55 Yet even with foreign supplies, China over recent years has experienced power shortages. ABARE noted that power shortages have become a major issue in many parts of China since 2003. It recorded that 24 of 31 provinces and regions suffered from power shortages in 2004, an increase from 19 in 2003.⁷⁶ The Energy Information Administration noted that in 2004 Beijing shut down approximately 6,400 industrial facilities for one week and then staggered their operations for the rest of the summer to avoid peaks in demand.⁷⁷ Power shortages have continued into 2005 and the demand for more energy sources is steadily increasing. Dr Davis highlighted the rate at which this demand is rising:

The old rule of thumb is that energy supply has to grow at about 2½ times the rate of your economic growth. It is simple arithmetic. Even if they got six per cent per year, their demand for energy is going to grow at 15 per cent. This is an economy that already accounts for about \$1 in every \$8 of total world production. According to this morning's newspapers, at the moment the Chinese economy is one-fifth of the size of Japan's economy. By 2050, it will be six times the size of Japan's economy. We cannot even contemplate that...It is the single largest source of growth in the world economy, outpacing the United States. Those threats are not just abstract.⁷⁸

2.56 China has acknowledged that economic expansion and growing prosperity has placed a significant strain on its energy supplies and infrastructure.⁷⁹ For example, Madam Fu stated that by 2010 China will have to import one third of its mineral needs and by 2020, half of China's consumption of oil and gas will depend on overseas providers.⁸⁰ As noted above, China has already experienced power shortages.

2.57 China's leaders also noted that stubbornly high international oil prices and the rising prices for the means of production could slow the rate of growth in the volume

75 David Zweig and Bi Jianhai, 'Feeding the Dragon', *Australian Financial Review*, 9 September 2005.

76 *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 277.

77 Energy Information Administration, *International Energy Outlook 2005*, Office of Integrated Analysis and Forecasting, U.S. Department of Energy, Washington, DC, July 2005, p. 67.

78 R. Davis, *Committee Hansard*, 29 June 2005, p. 22.

79 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

80 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

of trading activity for China.⁸¹ At a press conference in March 2005, Premier Wen stated that coal, electricity, oil and transportation were in short supply. He pointed out that in the first two months of 2005 power generation had increased by 12 per cent but that '25 provinces, autonomous regions and municipalities experienced blackouts'. He stated bluntly that the 'supply chain is overstretched'.⁸²

2.58 Securing its supply of energy resources by improving domestic productivity is a high priority for China. Coal in particular remains its major source of energy. As part of its economic and social development plan, the government stated in 2005 that it would 'organize and guide the efforts of enterprises to increase effective supply without compromising production safety'. The report went on to state:

Focusing on developing large coalmines, we will put more effort into expanding coal transport facilities such as railways and embarkation ports in the north, and we will continue to support renovation and upgrading of coalmines for production safety.⁸³

2.59 Determined to 'stay on the new road of industrialization',⁸⁴ the Chinese government also announced that it would:

- accelerate major projects for liquefying coal, exploiting petroleum and natural gas, generating power by natural gas, and utilizing renewable energy sources;
- rationally develop hydroelectric power;
- intensify the development of inter-regional power grids to continue to improve the demand side management of power;
- implement a principle of guaranteeing power supply to some sectors and restricting it for others to ensure the orderly supply and rational use of power;
- improve the policy of adjusting the charge for power in response to changes in demand and charging different prices for different users to promote power conservation; and
- rationally arrange transport availability, giving priority to transport of grain, coal, petroleum fertilizers and other key goods and materials.⁸⁵

81 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

82 'Premier Wen Jiabao's press conference', 14 March 2005.

83 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

84 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

85 *Report on the Implementation of the 2004 Plan for National Economic and Social Development and on the 2005 Draft Plan for National Economic and Social Development*, 16 March 2005.

Committee view

2.60 China faces a major challenge to relieve the supply shortages for its energy demands. There are significant opportunities for Australia as a major producer of minerals to assist China with its growing need for resources. This matter is considered in detail in chapter 7.

Environmental degradation

2.61 Environmental degradation associated with the increasing demand for resources and China's policy for developing its domestic sources also poses a threat to the economic prosperity and stability of the country. The recent OECD economic survey of China found that five of the ten most polluted cities in the world are in China.⁸⁶ The US Department of Energy noted that about 30 per cent of China's territory experiences acid rain precipitation.⁸⁷ According to Madame Fu, the negative effect caused by the excessive use of land, water and other resources 'is worrying'. She stated that 'Though tremendous efforts and money have been put into increasing forest and grassland, treating deserts as well as river and lake pollution, the problem is still serious and the pressure is mounting'.⁸⁸

2.62 China has placed a priority on strengthening environmental protection and ecological improvement as a task to be accomplished during 2005. The *Report on the Work of the Government* stated:

We must promptly solve environmental pollution problems that seriously affect the health of the people. Focusing on prevention and control of water pollution, we will intensify efforts to clean up industrial and urban pollution and rural nonpoint pollution and to protect potable water sources. We will implement a system for strictly controlling the total amount of pollutants discharged and increase monitoring and law enforcement relating to environmental protection. We will energetically promote clean production and develop environment-friendly industries.⁸⁹

2.63 In July 2005, Premier Wen urged China to become a 'resources-saving society':

...while promoting economic growth, we must strengthen environmental protection and improvement so that our people can drink clean water,

86 OECD, *Economic Survey of China 2005: Key challenges for the Chinese economy*, http://oecd.org/documentprint/0,2744,en_2649_34111_35343687_1_1_1,00h (accessed 19 September 2005).

87 Office of Fossil Energy, *An Energy Overview of the People's Republic of China*, p. 21, http://www.fe.doe.gov/international/EastAsia_andOceania.chinover.html (accessed 23 September 2005). See also chapter 7, paragraphs 7.27–7.28.

88 Ambassador Fu Ying, Address to the National Press Club, 28 July 2004.

89 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

breathe fresh air, have safe food, and work and live in a sound environment.⁹⁰

Committee view

2.64 Environmental degradation is a serious problem in China and one that is worsening as the country accelerates down the path of industrialisation. Australia needs to join the international community in helping China better manage its economic development in a way that will not only prevent further damage to its environment but help China repair damage already done. In the bilateral context, Australia can also make a contribution. It has the research and development capacity to assist China and should place a high priority in using this capacity to participate in joint ventures with China to combat its environmental problems. The contribution that Australia is making to assist China to better manage the environment is covered in greater depth in chapters 7 and 17.

External threats

2.65 China's emerging political and economic dominance in the region and its presence as a powerful force in world affairs poses a challenge for its nearest neighbours, its key trading partners and its major strategic allies. All confront the difficulty of managing a relationship with a country that is undergoing political change and rapid economic and social reform and whose influence is expanding. China's relations in particular with Taiwan, the US and Japan are fraught with difficulties. The recent flare-up of tension between Taiwan and China over independence and the demonstrations in China against Japan over the interpretation of history are most sensitive issues and indicate deep-seated potential for conflict in the region. The bilateral trade deficit of the US with China is also a factor that places strain on the relationship. The deficit rose from US\$30 billion in 1994 to \$US162 billion in 2004, the largest the US has with any single trading partner.⁹¹ Australia faces a serious dilemma should tensions mount between Australia's closest ally, the US, and one of its most important trading partners, China.

2.66 These matters encroach on the terms of reference dealing specifically with China's political and strategic influence and will be dealt with in full in the committee's second report which is to be tabled some time after the presentation of this first report.

90 'Premier Wen urges gov't organs to save energy', *People's Daily Online*, 4 July 2005.

91 Congressional Research Service, CRS Issue Brief for Congress, China-US Trade Issues, updated 4 August 2005, p. 2. It noted further that the US trade deficit with China in 2004 was 30.6% higher than it was in 2003. Further, that during the first five months of 2005, the US trade deficit with China was 34% higher than the same period in 2004 and averaged \$3.6 billion per week. See also *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 275.

China's growing importance and the need to understand the nature of change

2.67 Clearly, China is important to Australia which has a vital interest in the country maintaining its steady and sure economic growth path. As discussed above, there are potential social, political and environmental factors that could derail China's economic progress. Australia needs to monitor developments in China and have specialists available who are able to analyse events and accurately predict future trends. Dr Stephen Morgan looked at the importance of Australia having a pool of experts at the ready to advise decision makers in Australia on developments in China. He stated:

I guess my main concern is that we are struggling to maintain our existing capacity. This obviously presents difficulties if we have a major meltdown in China. For example, due to social or political disturbances creating a crisis in the legitimacy of the Chinese Communist Party, we may find that Australia would not have sufficient people able to provide advice to intelligence agencies, your committees and defence services, let alone provide advice to business and civilian interests wanting to work out how to deal with what is going on in China. It is important that we look at how to improve the number of Chinese-competent people coming through, but not only in language.

I would like to see more people primarily trained in disciplines such as law, economics, business, engineering and architecture who are competent to use Chinese and can conduct themselves effectively in Chinese when dealing with their colleagues in those areas. I do not think we have been able to properly develop that here. I made a couple of suggestions such as that we try to provide more support for in-country training. Across Australia we see innovations such as the modern language diploma at University of Melbourne, which encourages students to do a foreign language whilst also doing law or engineering or whatever. But I think we need those broader discipline areas to be married with competency in Asian languages and, in terms of the reference of this committee, in Chinese.⁹²

Committee view

2.68 Undoubtedly, China is of growing importance to Australia which is coming to rely increasingly on that country's continuing prosperity to support Australia's economy. The committee endorses the view that Australia should place a high priority on ensuring there is a highly skilled pool of China experts in Australia ready to advise government and business leaders on developments in that country. This message is repeated throughout the report and made most forcefully in chapter 15.⁹³

92 *Committee Hansard*, 27 June 2005, p. 3.

93 See also chapter 13, paragraph 13.31–13.32.

Conclusion

2.69 It is clear that Chinese leaders face difficult challenges in piloting their country through a period of rapid transformation. Guided by the desire for steady economic growth, political stability and social harmony, the Chinese government, to date, has taken a prudent approach to managing its economy. The committee shares the optimism of most commentators that although there are problems ahead for China, it will gain in influence and economic strength as it continues on the path of economic reform.

2.70 China's continuing economic growth and expanding trading activities offer new opportunities for its trading partners. It is a huge market for a variety of goods, services and investment. Its sheer size and the dynamics of its growing economy make it increasingly important to its trading partners. Against this background of a booming economy and rapidly expanding Chinese market, the following chapter looks at the nature of Australia's trading relationship with China and the effect that China's growing prosperity has on Australia as a trading partner.

Part II

Part I of the report recognised that China is now a force to be reckoned with in the global marketplace and is set to exert growing influence on world economic affairs.

Within this context of China as an economic powerhouse, Part II of the report focuses on Australia's trading links with China. It looks first at the overall trade relationship including incentives and impediments to trade before examining in greater detail the agriculture sector, the manufacturing sector, the minerals sector, and the services and investment sectors.

Chapter 3

Trading links between Australia and China

Background to Australia's trading relationship with China

3.1 Australia and China have long-established trading links that have grown closer and of greater significance to both countries over recent years. In the trading sense, the two economies are often referred to as 'natural partners'.¹ Indeed, one commentator described the relationship as 'a natural economic affinity'.² This chapter briefly examines the current state of Australia's trading relationship with China and the developing trends in trade between the two countries.

Diplomacy and trade

3.2 Chinese and Australian politicians speak of their desire to strengthen and deepen trade and economic relations between their two countries.³ Such words do not express empty sentiments. Concrete actions, including a series of reciprocal high-level visits, demonstrate a commitment by both sides to furthering the relationship.

3.3 In March 2002, the Chinese Foreign Minister visited Australia, the first visit by a Foreign Minister since 1992. In the following May, the Prime Minister, the Hon. John Howard, visited China. In August 2003, he made another visit to China to meet Chinese leaders including President Hu Jintao and Premier Wen Jiabao. President Hu paid a reciprocal visit to Australia in October 2003 during which he addressed a joint sitting of the Australian Parliament. Most recently, in April 2005, Mr Howard conducted a visit to China, his fifth to that country since becoming Prime Minister. This political and diplomatic engagement is developing alongside strengthening trading links between the two countries.

3.4 During the President's visit in 2003, Australia and China entered into an agreement, the Australia–China Trade and Economic Framework, which set in place the foundations for closer commercial ties between the two countries.⁴ This agreement, designed to liberalise trade and investment between the two countries, was a significant step forward in building closer economic and trade links. It included a commitment by both governments to 'undertake a detailed joint study into the

1 See for example, Ambassador Fu Ying, address to the National Press Club, 28 July 2004.

2 Graeme Thomson, Principal Graeme Thomson and Associates, 'Trade Policy Issues', Australia–China Free Trade Agreement Conference, Sydney, 12–13 August 2004, p. 3.

3 The instances are too numerous to list here but see for example, Dr Ashton Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 1.

4 Australian Bureau of Statistics, *Year Book Australia*, 2005, International Relations: Australia's bilateral relationships, Catalogue no. 1301.0–2005.

feasibility and benefits of a free trade agreement between Australia and China'. Since that agreement was reached, further positive measures have been taken toward a formal free trade arrangement.⁵ In March 2005, the Australian Department of Foreign Affairs and Trade (DFAT) and the Chinese Ministry of Commerce released a joint feasibility study into an Australia–China free trade agreement. The following month, Premier Wen and the Australian Prime Minister agreed to commence negotiations on an Australia-China Free Trade Agreement.⁶ While this top level dialogue has and is taking place, trade between the two countries forges ahead.

China's growing importance as a trading partner

3.5 China is currently one of Australia's major trading partners.⁷ During the decade leading to 2003, China moved from being the tenth to the third largest merchandise trading partner with Australia.⁸ During 2004–05, China became Australia's second largest merchandise export market and the second largest source of imports. Australia is China's eighth largest trading partner for goods.⁹

3.6 The following figures show the steady growth in Australian exports to China from 1991 to 2001. Over this period it quadrupled to become Australia's fifth largest export market rising from tenth in 1991–1992.

Table 3.1: Australia's export market to China 1991–2001

1991– 1992 \$m	1992– 1993 \$m	1993– 1994 \$m	1994– 1995 \$m	1995– 1996 \$m	1996– 1997 \$m	1997– 1998 \$m	1998– 1999 \$m	1999– 2000 \$m	2000– 2001 \$m
1,458	2,268	2,590	2,964	3,781	3,584	3,872	3,948	4,966	6,846

Taken from Australian Bureau of Statistics, International Merchandise Trade, Australia 2002, International Accounts and Trade, Feature Article—Australia's export markets, 1991–92 to 2000–01.

3.7 More recently, the trend in exports to China has continued on its upward trajectory and China in 2003–04 was Australia's third largest export market. In 2003

5 The Hon. Mark Vaile, MP, Deputy Prime Minister and Minister for Trade, Media Release no. MVT85/2003, 24 October 2003.

6 Prime Minister of Australia, John Howard, Media Releases, 'Announcement of Free Trade Agreement Negotiations between Australia and China', 18 April 2005.

7 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 19.

8 Australian Bureau of Statistics, *Year Book Australia*, 2003, International Relations: Australia's bilateral relationships, Catalogue no. 1301.0–2003; DFAT *Submission P19*, p. 6.

9 *Submission P19*, p. 6. See also Allan Gyngell, 'Australia's Emerging Global Role', *Current History*, vol 104, no.680, March 2005, p. 102.

Australia exported goods and services worth \$9b and \$1b respectively to China.¹⁰ Imports from China are also steadily increasing.

Table 3.2: Merchandise Exports and Imports by selected countries

Country	Exports			Imports			Balance of Trade	
	2001–02 \$m	2002–03 \$m	2003–04 \$m	2001–02 \$m	2002–03 \$m	2003–04 \$m	2002–03 \$m	2003–04 \$m
Japan	22,796	21,727	19,798	15,461	16,337	16,101	5,403	3,697
USA	12,008	10,365	9,453	21,488	22,494	19,945	-12,127	-10,492
China	7,816	8,803	9,212	11,275	13,789	15,339	-4,999	-5,427
Republic of Korea	9,818	9,115	8,473	4,722	4,753	4,878	4,363	3,595
New Zealand	7,669	8,127	8,080	4,740	5,019	5,056	3,101	3,024

Extracts from Merchandise Exports and Imports, By country and country group, Australian Bureau of Statistics, Year Book Australia, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004, p. 816 and Australian Bureau of Statistics, Year Book Australia, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2005, p. 834.

Complementarity in trade

3.8 The Chinese and Australian economies are complementary with expectations for further growth and development.¹¹ China is in the early growth stage of economic development where low cost manufacturing is a central driver of economic growth. As it moves away from its traditional rural base to becoming an industrialised country, China's demand for resource commodities and energy will increase significantly. With

10 Merchandise Exports and Imports, By country and country group, Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004, p. 65.

11 Many commentators remark on this feature of Australia's trading relationship with China. See for example Alan Oxley, Director ITS Global, Melbourne Australia, Chairman, Australian APEC Study Centre, 'Good FTAs should be like share prices—anticipate future developments: Trends in trade and investment between China and Australia', presentation to the China Australia FTA Conference, Sydney, August 2004, p. 7.

its abundant resource commodity and energy stores, Australia is well placed to gain from China's growing industrialisation. Australia is a major exporter of primary commodities to China; currently exporting iron ore, wool, aluminium, copper, and flat rolled iron.¹²

3.9 Many commentators referred to the complementarity between the two economies and the enormous scope for Australia to deepen its economic and commercial ties with China.¹³ Importantly, the complementarities extend beyond Australia's natural and rural resources. DFAT submitted:

The Australia–China commercial relationship reflects comparative economic strengths. Australia predominantly exports unprocessed rural and resource commodities and some high value manufactures and services to China. Australian businesses also invest in a variety of high value manufacturing and services industries in China. China in turn predominantly exports labour intensive or processing–derived manufactured goods to Australia and invests in a variety of Australian resource, processing, manufacturing and services ventures.¹⁴

3.10 The services sector in particular holds great promise for China and Australia. China's services sector is underdeveloped. On the other hand Australia is an advanced economy with the services sector having a predominant place in generating economic growth.¹⁵ As noted earlier, in 2003, Australia exported goods and services worth \$9b and \$1b respectively to China.¹⁶ In the opinion of Mr Alan Oxley, Director ITS Global:

In the longer term, the economic relationship will broaden and will retain special characteristics, including some that do not traditionally headline bilateral economic relationships—namely tourism, education and

12 See the findings outlined in 'China's Growth and Integration into the World Economy: Prospects and Challenges', Eswar Prasad (ed.), *IMF Occasional Paper* 232, p. 13.

13 See for example, Ken Henry, Secretary to the Treasury, 'Australia China Economic Directions—Long Term Trends in the Australian Economy', Australia China Free Trade Agreement Conference, 13–14 August 2004, p. 2.

14 *Submission P19*, p. 13.

15 See for example, Alan Oxley, Director ITS Global, Melbourne Australia, Chairman, Australian APEC Study Centre, 'Good FTAs should be like share prices—anticipate future developments: Trends in trade and investment between China and Australia', presentation to the China Australia FTA Conference, Sydney, August 2004, p. 2.

16 Merchandise Exports and Imports, By country and country group, Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004, p. 65

migration—that will generate a case for deeper economic integration through an FTA.¹⁷

3.11 The Chinese assessment of the trading relationship also foresees a much broader trading relationship of strong mutual benefit. The Chinese Ambassador to Australia, Madame Fu, stated:

Australia has rich reserves of energy and mineral resources while China has growing demand and the volume of resources products it imported from Australia in 2003 has reached 3 billion Australian dollars; Australia has a mature agriculture [sector], especially a strong dairy sector and China has an expanding market for dairy products as the living standard of the people is raised; Australia has many excellent scientists who make constant progress in their research and China has a huge manufacturing sector eager to adopt science and new technology. Australia's strong services sectors such as education, tourism, finance and legal consulting can easily find demand in China.¹⁸

3.12 Clearly the complementarity between the two economies offers enormous opportunities for growth and development. Trading relationships, however, particularly with a country that is developing rapidly, do not necessarily remain static. China's continuing economic development and integration in the world economy has the potential to reshape its trading patterns. The trading dynamics between Australia and China will change over time and the degree of complementarity is bound to shift.

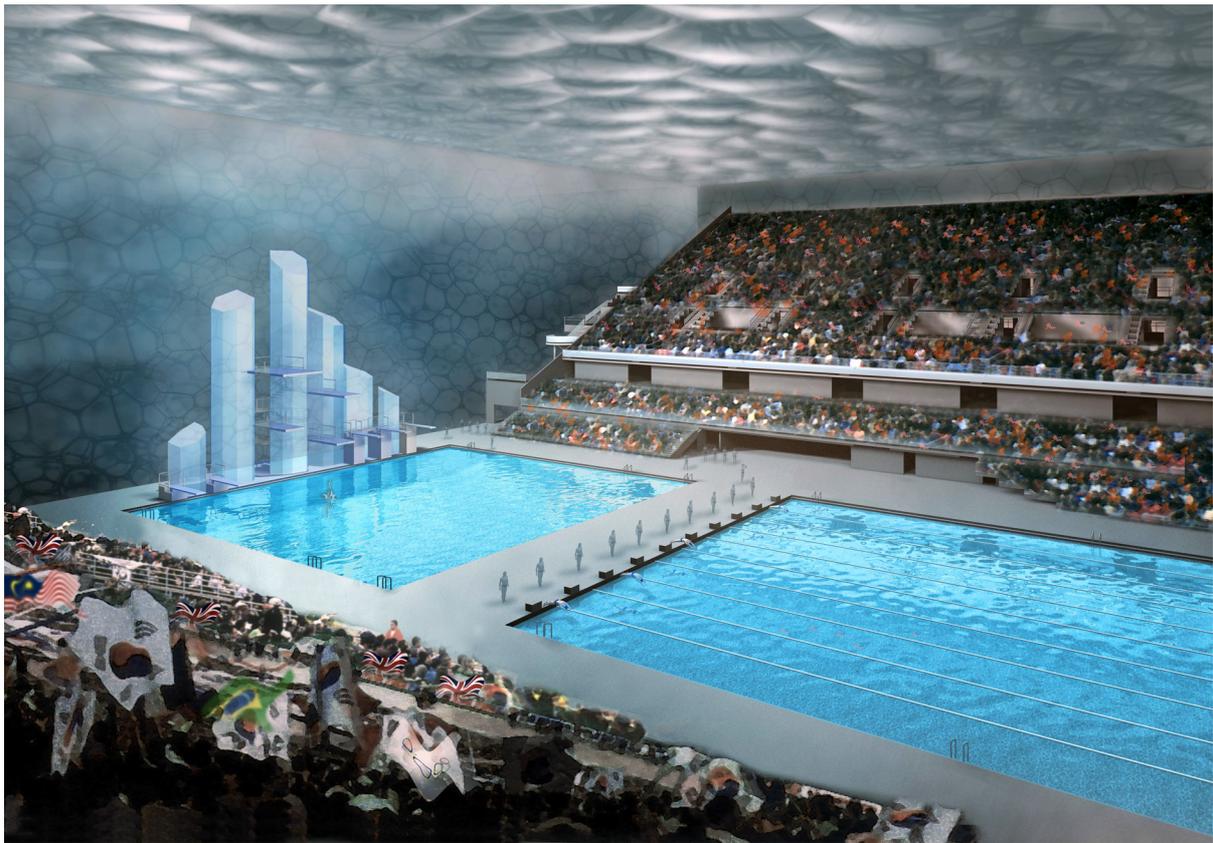
3.13 The current trend suggests that Australia is well placed to build on the solid trading base already established and to tap into the opportunities presented by the changes occurring in China. Indeed, the complementarity between the two economies is posed to broaden. Madam Fu cited the cooperation between the two nations in designing the Beijing Olympic Swimming Center to highlight not only their comparative economic strengths but the potential for further similar partnerships.

A joint team of Australian and Chinese engineers won the bidding with a masterpiece of blue structure called 'water cubic'. Its smart and sophisticated design is regarded as a wonder of physics. It looks like a huge cubic full of blue water, highly modern in shape.¹⁹

17 Alan Oxley, Director ITS Global, Melbourne Australia, Chairman, Australian APEC Study Centre, 'Good FTAs should be like share prices—anticipate future developments: Trends in trade and investment between China and Australia', presentation to the China Australia FTA Conference, Sydney, August 2004, p. 1.

18 Ambassador Fu Ying, address to the National Press Club, 28 July 2004.

19 Ambassador Fu Ying, address to the National Press Club, 28 July 2004.



The proposed Beijing Olympic Swimming Centre. Photograph is courtesy of Arup, architecture firm PTW, the CSCEC (China State Construction and Engineering Corporation).

3.14 The transformation of China's economy has also attracted a wider range of Australian companies keen to trade with China especially in the services sector. Mr Harrowell noted that China is 'no longer the exclusive province of the BHPs and the Telstras; medium-sized companies are able to seriously look at China and establish there'.²⁰

3.15 Hunt and Hunt Lawyers made a similar observation. It suggested that the profile of Australian businesses seeking to work in and with Chinese companies has changed dramatically over the last decade. It noted:

In the last ten years there has been the growth of small to medium Australian businesses seeking to either work with China or in many cases establish their own office in China.

This has been particularly so in the service industries with Australian architects and engineering firms establishing branches in China which are proving very successful with major projects relating to the Olympic Games and capturing work generally because of the demand in the Chinese market for these skills.

20 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 41.

Smaller Australian listed companies are also venturing into China with success for example gold mining companies including Sino Gold NL and recently Golden Tiger Mining NL.²¹

3.16 ACIL Tasman further underlined the growing diversity of firms entering the Chinese market. It referred to several Australian banks, law firms and insurance companies as well as companies involved in mineral exploration and education services now operating in China. It noted that many of these enterprises which have found success in niche markets are small to medium companies.²²

3.17 Proximity is another advantage that assists the trading relationship. Transport and travel distances are not as great and costs are lower to get products to market when compared to some European and American markets.²³ Australia also operates in the same time zone.²⁴

Trade deficit with China

3.18 Australia runs a trade deficit with China. In 2002–03, the deficit in merchandise trade increased by \$1,540 million to reach \$4,999 million. This was due to a \$2,517 million increase in imports but only a \$977 million increase in exports.²⁵ According to the ABS:

Imports of most commodity groups increased particularly office and automatic data processing machines (up \$374m) and telecommunication and sound recording and reproducing equipment (up \$326m). The largest increase in exports were metalliferous ores and metal scrap (up \$254m) and petroleum, petroleum products and related materials (up \$201m).²⁶

3.19 In 2005, the deficit with China rose further and stood at \$5,427 million.²⁷

21 *Submission P24*, p. 11.

22 ACIL Tasman, 'The proposed free trade agreement with China—A commentary and some preliminary analysis', a paper prepared for a Conference on Free Trade Agreements in the Asia Pacific Region at the University of Western Australia, p. 5.

23 *Submission P24*, p. 4.

24 *Submission P24*, p. 4.

25 Statistics taken from Merchandise Exports and Imports, By country and country group, Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004, p. 816 and Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2005, p. 834.

26 Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004.

27 Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade; International merchandise trade, Catalogue no. 1301.0–2004, p. 834.

3.20 According to the Minister for Trade, the Hon. Mark Vaile, MP, Australia's trade deficit with China is expected to improve but will rely on a boost from the export of resources to narrow the deficit. In this case from 2006 the first deliveries of the \$25 billion gas deal between the North West Shelf and Aus/ALNG in Guangdong Province will begin to flow.

3.21 Some have expressed concern at Australia's growing reliance on commodity exports to China to contain the deteriorating balance of trade figures.²⁸ The Australian Manufacturing Workers' Union saw not only the rate of increase but the composition of the deficit as a major problem. It noted that Australia's exports to China are overwhelmingly dominated by primary products while Australian imports from China are dominated by manufactured goods. It submitted:

China's hunger for resources may indeed be a boon for some parts of the Australian economy. However, the successful economies of the future will not be sustained on the exportation of resources. In the face of increasing competition from China, Australia can and must do more to encourage the growth of (strategic) high value added manufacturing.²⁹

3.22 It recommended that states and federal governments work toward improving Australia's trade performance which would involve a commitment to a co-ordinated strategy to ensure the future of the Australian manufacturing industry in a competitive world. In March 2005, Professor Ross Garnaut stated:

The high export prices that have been the dominant element in the recent lift in terms of trade are correctly attributed to the strength of the Chinese demand for energy and metals at a time of reasonably strong global economic growth. They are vulnerable to correction, either with any setback to Chinese economic growth (and we would be prudent to expect China, like all market economies, to have cyclical downturns from time to time), or in other major economies.³⁰

3.23 Clearly, consideration must be given to Australia's growing dependency on commodity exports to China. Chapter 6, which deals with Australia's manufacturing sector, examines this matter. A number of witnesses, however, reminded the committee that while important, China is part of a much broader and complex trading network for Australia. The Australian Chamber of Commerce and Industry (ACCI) noted:

There is little doubt that it [China] will grow in importance over the coming decades. The main challenge, I think, for the Australian government and

28 A number of witnesses also raised concerns about the export of raw materials without value adding to the product in Australia. See paragraphs 6.64–6.66 and 7.34.

29 *Submission P36*, p. 10.

30 Ross Garnaut, 'Breaking the Australian Great Complacency of the Early Twenty First Century', Paper presented at the conference, "Sustaining Prosperity, New Reform Opportunities for Australia", 2005 Economic and Social Outlook Conference, Melbourne Institute and the *Australian*, Melbourne, 31 March 2005, p. 9.

Australian business community is how we position ourselves to best identify and realise those opportunities whilst balancing a whole range of different pressures that come with that. China is important, but it is not the totality of the future. Australian business trades with the whole world. We have to compete with the whole world and that means in Australia and in China.³¹

Committee view

3.24 The committee notes the growing trade deficit with China and Australia's heavy reliance on its exports to China, in particular raw materials, to buttress Australia's balance of trade. This is a development that all state governments and particularly the federal government must take into account when formulating their trade and industry policy. Australia's growing dependency on China as a major trading partner also highlights an earlier observation by the committee that Australia needs to be fully aware of changing circumstances in China and their implications for Australia. It gives further substance to the committee's suggestion that Australia build up a reserve of China analysts ready to advise decision makers on developments in China and trends likely to influence the pattern of trade between the two countries.

Conclusion

3.25 This chapter highlighted the growing importance of China to Australia's economy. It found that:

- both countries desire to strengthen economic ties and have taken definite steps toward a free trade agreement;
- China and Australia's economies are complementary with potential for deepening and broadening the relationship;
- the transformation of China's economy presents opportunities for Australian businesses and is attracting a wider range of Australian companies;
- to take advantage of the opportunities on offer in China and to better anticipate developments in that country, the Australian government and businesses need to have access to China specialists.

3.26 The goodwill that exists between Australia and China and the mutually beneficial nature of their trading relationship does not necessarily mean that the trade relationship is problem free. The following chapter examines the overall business environment in China. It looks at the opportunities available to Australian companies and also some of the main obstacles that hinder trade between them.

31 R. Davis, *Committee Hansard*, 29 June 2005, p. 19.

Chapter 4

Barriers to trade

4.1 China has taken great strides to eliminate barriers to trade, particularly by reducing or removing impediments at the point of entry such as tariffs and quotas on imports. This chapter looks at the progress China has made to assist foreign companies gain access to its markets and considers whether it has been effective. It then examines the measures taken by China to help foreign enterprises conduct business once they have gained entry to the domestic market. It considers the business culture in China and the difficulties encountered by people conducting business there. Finally, the chapter looks at the restrictions that Australia applies to importers and the Chinese view on the imposition of such barriers.

4.2 This chapter is intended to provide a broad overview of the trading and business environment in China. Subsequent chapters discuss specific economic sectors in China of interest to Australia and the trading restrictions applying to particular products.

From planned economy to market economy

4.3 Traditionally, as a centrally planned and controlled economy, China had a high and extensive protection regime. Before the period of reform ushered in by Deng Xiaoping, China was inward looking and generally limited its imports to goods that could not be made or obtained in China.¹ One analyst described the import system:

...in the early years of the reform era China maintained an extraordinarily complex and highly restrictive system of controls including not only the usual policy instruments, such as tariffs, quotas, and licensing requirements, but also an array of other tools. These tools included limiting the number of companies authorized to carry out trade transactions and restricting the range of goods that each of these companies was allowed to trade, import substitution lists, a system of registration for selected imports, and commodity inspection requirements.²

4.4 Since the 1980s, China has gradually relaxed some of its import and export controls. As noted earlier, 1978 marked a significant change in its approach to protection and economic development which is reflected in tariff reforms and initiatives taken to dismantle non-tariff barriers.

1 Wayne M. Morrison, 'China's Economic Conditions', *CRS Issue Brief for Congress*, 21 September 2000, p. 2.

2 Nicholas R. Lardy, Senior Fellow, Institute for International Economics, Washington, D.C., 'Trade Liberalization and its Role in Chinese Economic Growth', prepared for an International Monetary Fund and National Council of Applied Economic Research Conference, New Delhi, 14–16 November 2003, p. 6.

4.5 By the time China entered the WTO in 2001, many of the obstacles to trade had been removed and its approach to foreign imports had changed dramatically. At this time, Vice Minister Long Yongtu described China's progress over the previous fifteen years toward a market economy and of its deepening participation in the process of economic globalisation. He stated:

China has substantially reduced its tariff levels for many times, eliminated over-whelming majority of its non-tariff measures, gradually opened its service sectors, abolished the mandatory plan for imports and exports, eliminated export subsidies, established its market-based pricing mechanism, unified the exchange system, realized the convertibility of RMB under current account in international transactions, unified taxation system and provided national treatment to imported product.³

4.6 Reflecting on the long negotiation period leading to China's accession to the WTO, Mr Long stated that it was an unprecedented challenge for China and the complexity and difficulty of the process was 'beyond the imagination of almost everybody'.⁴ He likened it to 'a "long March" full of arduous difficulties'.⁵

4.7 Its accession to the WTO on 11 December 2001 continued China's transition from a planned economy to a market economy. Since then, it has embarked on a program of sweeping reforms intended to allow the Chinese economy to become integrated fully with the rest of the world. It has adopted an export-oriented strategy to underpin its economic development and has made remarkable progress in dismantling barriers to trade. Mr Yu Yongding from the Chinese Academy of Social Sciences argued that China wanted to integrate its economy gradually with the global economy on 'the basis of comparative advantages'.⁶ He observed:

For many years in the past...China used variety of policies such as multi-tier exchange rates, subsidies, tariffs and various non tariff barriers (NTBs), to encourage exports, protect domestic markets, and maintain foreign exchanges balance. However, following the deepening of China's reform and trade liberalization, all policies that are inconsistent with the WTO rules have been abandoned or in the process of being abandoned. Some of

3 WTO News, Statement by H.E. Vice Minister LONG Yongtu, Head of the Chinese Delegation, at the eighteenth session of the Working Party on China, 'Meeting of the Working Party on Accession of China', 17 September 2001.

4 WTO News, Statement by H.E. Vice Minister LONG Yongtu, Head of the Chinese Delegation, at the eighteenth session of the Working Party on China, 'Meeting of the Working Party on Accession of China', 17 September 2001.

5 "'WTO Negotiation", Tantamount to the "long March": Long Yongtu', *People's Daily*, 30 November 2001.

6 Yu Yongding, Director and Senior Fellow, Institute of World Economics and Politics, Chinese Academy of Social Sciences, 'China's Trade Policy', 31 July 2004, p. 4.

the policies were already abandoned long before China's entry into the WTO.⁷

4.8 China's market is certainly more open to the rest of the world and China has freed up its economy considerably. A number of witnesses were of the view that it is now easier for Australian companies to do business in China.⁸ Even so, significant obstacles, even at the point of entry, inhibit trade. DFAT explained:

Despite China's ongoing efforts to meet its 2001 commitments, many tariff and non-tariff barriers remain and the Chinese business environment can still be challenging for Australian companies. Some significant issues relating to China's economic reform remain a 'work in progress'. For example, the rule of law as it relates to intellectual property rights and contracts is being strengthened but still has some way to go. Once universally understood, applied and enforced, this enhanced legal framework will underpin a more predictable business environment in China.⁹

4.9 The following section looks at the major barriers remaining in China that impede trade.

Tariffs and import quotas

4.10 Tariffs on imported goods are one of the most common and obvious forms of market restrictions. The Australian Industry Group noted that China still imposes significant tariffs on a number of items.¹⁰ On average, China applies considerably higher tariffs on the imports of agricultural products than applied to non-agriculture products and levies relatively high tariffs on textiles, clothing and footwear.¹¹

4.11 Despite China's dependence on overseas suppliers for minerals commodities, it imposes tariff barriers on a number of these products. According to the Minerals Council, the tariffs are not high enough to prevent trade but they are an unnecessary cost borne by exporters. It gave the example of the tariffs on nickel, coal and aluminium which place an additional cost of up to \$50 million annually on Australian minerals companies.¹² It recorded the following tariffs:

- manganese 5.5%
- zinc 3%

7 Yu Yongding, Director and Senior Fellow, Institute of World Economics and Politics, Chinese Academy of Social Sciences, 'China's Trade Policy', 31 July 2004, p. 4.

8 *Submission P24*, p. 12.

9 *Submission P19*, p. 12.

10 *Submission P63*, p. 30.

11 Annual Report by the Director-General, *Overview of Developments in the International Trading Environment*, February 2005, p. 11.

12 *Submission P55*, p. 3.

- coal 3 to 6%
- various copper products 3 to 6%
- aluminium alloys 7%
- lead 3%
- unwrought nickel 3 to 4%¹³

4.12 As noted previously, under the WTO, China agreed to increase market access by reducing tariff rates, removing quotas, dismantling non-tariff barriers and opening up the telecommunications and financial services sectors. It is committed to remove or reduce all tariffs on imported goods mostly by 2004. Tariffs on industrial goods will be reduced to an average of 8.9 per cent with a range from 0 to 47 per cent, with the highest rates applying to photographic film and automobiles and related products. Tariffs on agricultural goods will decrease to an average of 15 per cent with a range from 0 to 65 per cent, with the higher tariffs applying to cereals. It has agreed to limit its subsidies for agricultural production to 8.5 per cent of the value of farm output.¹⁴

4.13 Its average Most Favoured Nation (MFN) rate in 2002 was 12.3 per cent which was half the level in 1996.¹⁵ Even so, by the time its WTO commitments are fully implemented, China's average bound rate will be 9.9 per cent which, according to the report by the Director-General WTO, means that applied rates 'will need to be brought down to at most this level'.¹⁶

4.14 On 1 January 2004, China lowered its average tariff by 0.6 percentage points to 10.4 per cent.¹⁷ The IMF Staff Report for the 2004 Article IV Consultation noted that the implementation of WTO commitments was broadly on track, and, in some cases, ahead of schedule. It stated:

The unweighted average tariff was reduced to 10.4 percent in 2004 from 11.3 percent in 2003 and key commitments with respect to banking services and trade and distribution rights have also moved forward. The authorities are committed to implement agreed reforms and plan to further liberalize trading rights with effect from July 1, six months ahead of schedule...Staff encouraged the authorities to improve the administration of tariff-rate quotas for agriculture, and to address other issues related to WTO compliance. The authorities indicated their willingness to do so, and to

13 *Submission P55*, p. 12.

14 Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, March 2004, p. 8.

15 The WTO's 'Most Favoured Nation' (MFN) principle means that every time a country lowers a trade barrier, it must do so for all its trading partners. In other words, each WTO member treats all the other members equally as 'most-favoured' trading partners. World Trade Organization, 'Understanding the WTO', September 2003, p. 11.

16 Annual Report by the Director-General, *Overview of Developments in the International Trading Environment*, February 2005, p. 11.

17 Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, March 2004, p. 7.

discuss any issues raised by partner countries through the WTO's dispute resolution procedures, if necessary.¹⁸

4.15 The Chinese government has acknowledged that it still has some way to go in opening up its markets. Premier Wen in the 2005 Report on the Work of the Government stated:

Tariffs need to be reduced to the level we promised when China joined the WTO, most non-tariff measures need to be eliminated, and the service sector needs to be opened wider to foreign competition. We need to respond to these new situations to ensure success in opening up.¹⁹

4.16 The table on the following pages provides detailed figures on the structure of MFN tariffs in China including the final bound rate.

4.17 China also has many quota restrictions that constitute a significant trade barrier.²⁰ Hunt and Hunt Lawyers suggested quotas need to be reduced and phased out over a reasonable period.²¹ China is committed to eliminate import quotas by 2005.²²

4.18 There are also a range of technical barriers to trade that impede or prevent the importation of certain goods into China. RTIO informed the committee that iron ore is listed for compulsory examination upon import. It noted that this quarantine imposition limits the potential for pursuing 'Loading Analysis as Final' which it argued would be 'a mutually beneficial agreement between Chinese steel mills and Australian exporters'.²³ Quarantine barriers of most concern to Australia, however, are the restrictions applying to agricultural products and will be dealt with in detail in the following chapter.

18 Executive Summary, IMF, Staff report for the 2004 Article IV Consultation, prepared by the Staff Representatives for The Article IV Consultation with the People's Republic of China, 6 July 2004, p. 22.

19 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

20 *Submission P24*, appendix 2, p. 29.

21 *Submission P24*, appendix 2, p. 29.

22 Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, March 2004, p. 7.

23 *Submission P34*, p. 8.

Table: 4.1 Structure of MFN tariffs in selected developing countries
(Per cent)

	China			Brazil			India			South Africa		
	1996	2002	F.B. ^a	2000	2004	F.B. ^b	1997/98	2001/02	F.B. ^c	1997	2002	F.B. ^d
Bound tariff^e												
1. Bound tariff lines (% of all tariff lines) ^e	n.a.	100.0	100.0	100.0	100.0	100.0	67.0	73.3	73.3	96.3	96.2	96.3
2. Simple average bound rate	..	12.4	9.9	..	..	30.2	..	..	50.6	..	..	20.9
Agricultural products (HS01-24)	..	17.9	14.5	..	..	35.8	..	..	115.7	..	..	46.8
Industrial products (HS25-97)	..	11.4	9.1	..	..	29.5	..	..	37.7	..	..	18.1
WTO agricultural products	..	18.2	15.2	..	..	35.3	..	..	114.7	..	..	43.5
WTO non-agricultural products	..	11.5	9.0	..	..	29.6	..	..	36.2	..	..	18.1
Textiles and clothing	..	17.6	11.5	..	..	34.7	..	..	29.9	..	..	26.8
3. Tariff quotas (% of all tariff lines)	..	0.8	0.8	..	..	0.0	..	..	..	..	..	3.9
4. Duty free tariff lines (% of all tariff lines)	..	4.3	7.6	..	..	0.7	..	..	0.3	..	..	10.2
5. Non- <i>ad valorem</i> tariffs (% of all tariff lines)	..	0.0	0.0	..	..	0.0	..	..	6.4	..	..	0.0
6. Non- <i>ad valorem</i> tariffs with no AVEs (% of all tariff lines)	..	0.0	0.0	..	..	0.0	..	..	6.4	..	..	0.0
7. Nuisance bound rates (% of all tariff lines) ^f	..	1.9	2.4	..	..	0.0*	..	..	0.0	..	..	0.0
Applied tariff												
8. Simple average applied rate	23.6	12.3	n.a.	13.7	10.4	n.a.	35.3	32.3	n.a.	15.0	11.4	n.a.
Agricultural products (HS01-24)	35.4	18.0	n.a.	12.9	10.4	n.a.	33.8	41.7	n.a.	11.3	11.5	n.a.
Industrial products (HS25-97)	21.7	11.3	n.a.	13.8	10.4	n.a.	35.6	30.8	n.a.	15.4	11.4	n.a.
WTO agricultural n.a. products	33.8	18.2	n.a.	12.6	10.2	n.a.	35.2	40.7	n.a.	9.4	9.6	n.a.
WTO non-agricultural products	22.1	11.3	n.a.	13.8	10.5	n.a.	35.4	31.0	n.a.	15.7	11.6	n.a.

	China			Brazil			India			South Africa		
	1996	2002	F.B. ^a	2000	2004	F.B. ^b	1997/98	2001/02	F.B. ^c	1997	2002	F.B. ^d
Textiles and clothing	32.8	17.5	n.a.	20.3	17.2	n.a.	43.7	31.3	n.a.	35.1	24.4	n.a.
9. Domestic tariff "peaks" (% of all tariff lines) ^g	1.1	1.8	n.a.	0.0	0.6	n.a.	0.2	1.3	n.a.	4.0	3.9	n.a.
10. International tariff "peaks" (% of all tariff lines) ^h	55.2	17.2	n.a.	41.3	26.8	n.a.	90.5	96.8	n.a.	39.4	34.9	n.a.
11. Overall standard deviation of tariff rate	17.4	9.1	n.a.	6.7	7.0	n.a.	14.5	13.0	n.a.	17.8	12.6	n.a.
12. Coefficient of variation of tariff rates	0.7	0.7	n.a.	0.5	0.7	n.a.	0.4	0.4	n.a.	1.2	1.1	n.a.
13. Tariff quotas (% of all tariff lines)	..	0.8	n.a.	0.0	0.0	n.a.	..	..	n.a.	4.2	3.8	n.a.
14. Duty free tariff lines (% of all tariff lines)	1.9	4.8	n.a.	1.5	10.4	n.a.	1.4	1.1	n.a.	42.4	43.4	n.a.
15. Non- <i>ad valorem</i> tariffs (% of all tariff lines)	0.0	0.7	n.a.	0.0	0.0	n.a.	0.2	5.3	n.a.	25.6	25	n.a.
16. Non- <i>ad valorem</i> tariffs with no AVEs (% of all tariff lines)	0.0	0.7	n.a.	0.0	0.0	n.a.	0.2	5.3	n.a.	25.6	25.0	n.a.
17. Nuisance applied rates (% of all tariff lines) ^f	1.0	1.9	n.a.	0.8	15.1	n.a.	0.0	0.0	n.a.	0.2	0.0*	n.a.

.. Not available.

n.a. Not applicable.

* Negligible.

F.B. Final bound.

a Based on 2002 tariff schedule.

b Based on 2004 tariff schedule.

c Based on 2001/02 tariff schedule. Averages do not include lines where different parts of the HS six-digit line were bound at different rates.

d Based on 2001 tariff schedule.

e Calculations are only based on bound tariff lines. Including fully bound and partially bound rates.

f Nuisance rates are those greater than zero, but less than or equal to 2%.

g Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).

h International tariff peaks are defined as those exceeding 15%.

Note: Excluding in-quota rates. Calculations exclude specific rates and include the *ad valorem* part for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by Members.

4.19 The Australian government strongly advocates the lowering of trade barriers and the end to subsidies. During a recent address to the United Nations, the Prime Minister urged countries to support moves to eliminate all tariffs, subsidies and other barriers to trade.²⁴ Along similar lines, he told a gathering of the Asia Society that the world's richest countries as well as developing nations, such as China, India and Brazil, must show leadership in supporting the WTO objectives. In particular he stated that 'nations share a particular responsibility to rise to the occasion on cutting barriers to agricultural trade'.²⁵

Committee view

4.20 The committee recognises the advances that China has made in removing or reducing tariffs and other barriers at the point of entry. It accepts that these barriers could be lowered further.

Doing business in China

4.21 Gaining access to the Chinese market is but the first step for many Australian companies toward successfully conducting business or trading activities in China. Once they have achieved access, they often confront an array of difficulties. Ms Heather Ridout, Chief Executive, Australian Industry Group, pointed out that often lurking behind the transparent barriers 'are the more murky impediments that can cripple access to the China market'.²⁶ Obstacles range over many aspects of business activity and commercial law.

4.22 The following section separates the main areas of concern for Australian business people doing business in China into distinct topics for closer consideration. It looks firstly at the presence of the Chinese government in the domestic marketplace and the influence it exerts there. In particular, it considers the role of SOEs and corporate governance. It then examines the legal and regulatory framework, the enforcement of legislation, and the involvement of local government in the business affairs of foreign enterprises. It also identifies some of the aspects of the Australian market that the Chinese government regards as impediments to trade.

The influence exerted by the Chinese government in the marketplace

4.23 In China, the private sector continues to expand and displace the public sector as a proportion of industrial output. The emergence of this vibrant private sector that

24 Transcript of the Prime Minister the Hon John Howard, MP, Address to the United Nations, New York, 16 September 2005. See also transcript of the Prime Minister, the Hon John Howard, MP, Address to the Asia Society Lunch, The Asia Society, New York City, 12 September 2005.

25 Transcript of the Prime Minister, the Hon John Howard, MP, Address to the Asia Society Lunch, The Asia Society, New York City, 12 September 2005.

26 Heather Ridout, 'China—Terms of Engagement', the *Sydney Papers*, Summer 2005, p. 50.

is gradually overtaking the role of the government in the Chinese economy is reshaping the business landscape in China. Even so, government control remains firm and its influence still permeates the economy. Undoubtedly, the government remains the leading force in planning China's economy.

State-owned enterprises (SOEs)

4.24 In terms of private business establishment and operation, the Chinese bureaucracy continues to wield tremendous power in the commercial realm.²⁷ Its influence is particularly evident through the activity of state-owned enterprises (SOEs) in the economy. Indeed, much of China's economy is controlled by large SOEs that still have a stranglehold on key sectors in the market. Because SOEs occupy such a commanding position in China's economy, their business and corporate governance practices are important to foreign companies who must deal with these enterprises.²⁸

4.25 Although the SOE sector has undergone significant reform, many commentators maintain that substantial improvement in this sector is yet to be achieved.²⁹ Most concur that the lack of transparency coupled with a poor disclosure regime present major problems for business people dealing with SOEs.³⁰ Mr Graeme Thomson, Principal Graeme Thomson and Associates, noted that 'State trading enterprises are not fully corporatized and separate from the State.'³¹ Taking account of the significance of SOEs in China and the difficulties they pose for foreign enterprises, Ian McCubbin, Partner, Deacons, has advised Australian companies when contracting major projects with SOEs:

...to go beyond the commercial terms to satisfy themselves that the relevant SOE will be permitted to meet its contractual commitments, either at all, or more likely, within the time parameters set by the contracts. What do you do if an SOE fails to meet a contractual deadline? In all probability the SOE is not being capricious, just waiting for Central Government direction. You will respond as most foreign companies do when they are dealing with a major SOE. They do not issue proceedings, regardless of their legal rights.³²

4.26 Numerous witnesses to this inquiry reinforced this view that China needs to improve its corporate governance and to reform its state-owned enterprises. The

27 *Submission P19*, p. 13.

28 *Submission P19*, p. 13.

29 Claustre Bajona and Tianshu Chu, 'China's WTO Accession and its Effect on State-Owned Enterprises', Economic Series, *East-West Center Working Papers*, No. 70, April 2004, p. 2.

30 See for example, Ma Zhengwu, 'Improving Transparency and Standardizing Information: Disclosure is the Social Responsibility of State-owned Enterprises', *DCR/ERI-OECD-2005 Policy Dialogue on Corporate Governance in China*, 19 May 2005, p. 2.

31 Graeme Thomson, Principal Graeme Thomson and Associates, 'Trade Policy Issues', Australia-China Free Trade Agreement Conference, Sydney, 12-13 August 2004, p. 7.

32 Ian McCubbin, Partner, Deacons, 'The legal system and business environment', Australia-China Free Trade Agreement Conference, p. 6.

Australia China Business Council contended that SOEs with their hold over key areas of the economy and, at times, the lack of transparency in their business dealings, have 'the potential to stifle trade and lead to anti-competitive behaviour'.³³ Ms Vivienne Bath, a senior lecturer in law, noted the problems for foreign investors operating in an environment where the government has such a dominant presence in the market. She stated:

...as long as every foreign investor in China has to invest through a foreign investment enterprise, the Ministry of Commerce has a role in approving the investment, reviewing the documents and subsequently approving any change which is made to the documents. I cannot see why that it is necessary now that China has moved away so much from an economy in which state owned enterprises are dominant. Every year the sector of the economy that the state owned companies control gets smaller and the private sector gets bigger.³⁴

4.27 China acknowledges that to facilitate its growing economy it needs to continue its economic restructuring especially the reform of SOEs and corporate governance. Its major priorities for reform are:

- to restructure government bodies and to transform the functions of government;
- to promote State-owned enterprise reform, focusing on corporate governance and share-holding systems; and
- to promote financial reform, which is a critical and often problematic aspect of China's economy.³⁵

4.28 The Chinese government also announced that better management of state owned assets would be a top priority and established a new commission in April 2003 to manage state-owned assets.³⁶ It wants to improve its own performance to ensure that its administration acts in accordance with the law. Premier Wen announced:

We will conscientiously implement the basic policy of governing the country by law and the Program on Performing Official Duties in Accordance with the Law promulgated by the State Council, and speed up work to build a law-based government...we will strengthen the administrative accountability system and investigate and prosecute administrative improprieties in accordance with the law. All departments must strengthen their internal management, actively cooperate with and support auditing offices and supervision departments in the performance of

33 *Submission P40*, p. 17.

34 *Committee Hansard*, 1 August 2005, pp. 91–92. Ms Bath appeared in a private capacity. She is a senior lecturer in law at the Sydney University Faculty of Law and Director of the Centre for Asian and Pacific Law at Sydney University

35 'Premier Wen Jiabao's press conference', 14 March 2005.

36 OECD, *Building Partnerships for Progress*, 'Policy Dialogue with China'.

their duties in accordance with the law, and conscientiously correct any problems discovered in the process.³⁷

4.29 With the emphasis on improving information disclosure and enhancing transparency for SOEs, the Government is looking for a major shift in corporate culture. Mr Ma Zhengwu, told an OECD conference on corporate governance that:

A fundamental engineering for China to develop market-oriented economy is to establish the good-faith system. SOEs are influential not only to the industry to which they belong and regional economy but also to national economy and are the dominant force for China's economy, as a result, they shall assume the key responsibility in the construction of social good-faith system which is based on transparency and information disclosure and shall play the role of a model to promote the forming of the social good-faith system.³⁸

Corporate governance

4.30 China has stated clearly its intention to reform state-owned enterprises which it regards as a central plank in its economic restructuring. China is also moving to address the general corporate governance problems in the private sector. Ineffective shareholder protection, a poor disclosure regime and conflicts of interest feature as the main weaknesses of current corporate governance practices.³⁹ A recent study found that the corporate governance model adopted in China can be described as 'a control-based model, in which the controlling shareholders (in most cases, the state) employ all kinds of governance mechanism to tightly control the listed firms'. It stated that :

...concentrated ownership structure, management-friendly boards, inadequate financial disclosure, and inactive take-over markets have been the governance norm commonly practiced in China.⁴⁰

4.31 Chinese leaders have made a commitment to improve corporate governance and 'change the operational mechanisms of enterprises to meet the requirements for a modern enterprise system'.⁴¹ They recognise that good corporate governance is central

37 *Report on the Work over the Government*, 15 March 2005.

38 Ma Zhengwu, 'Improving Transparency and Standardizing Information: Disclosure is the Social Responsibility of State-Owned Enterprises', *DRC/ERI-OECD 2005 Policy Dialogue on Corporate Governance in China*, Beijing, 19 May 2005, p. 2. Mr Ma is Chairman and CEO of one of the seven pilot enterprises in which the SASAC is setting up boards.

39 A recent study concluded that 'the protection of shareholder rights is poor, insider trading is rampant, and the listed companies do not take shareholder value maximization as their primary goal, in practice', Qiao Liu, *Corporate Governance in China: Current Practices, Economic Effects, and Institutional Determinants*, Draft, 9 May 2005, pp. 11–12.

40 Qiao Liu, *Corporate Governance in China: Current Practices, Economic Effects, and Institutional Determinants*, Draft, 19 July 2005, p. 2.

41 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

to China's development. Despite this recognition, Chinese leaders have faced many difficulties in trying to establish a sound corporate governance regime. In December 2004, Mr Zhou Xiaochuan, Governor of the People's Bank of China, stated that at the very beginning, like primary school students, 'we even disagreed and argued about some of the very fundamental issues'.⁴² Now, the government wants the reforms to proceed 'unwaveringly'.⁴³

4.32 To this end, China has undertaken far reaching reforms to improve corporate governance. For example, it has issued a Code of Corporate Governance for Listed Companies in China based on the OECD Principles of Corporate Governance. In summarising the current situation, Hunt and Hunt Lawyers stated:

Whilst it would not be suggested that bad or improper business practices have been eliminated in China there has been dramatic improvements in terms of transparency, accountability and business ethics and before criticising China it is important to have a balance remembering that even in the most developed economies there are many examples of bad or improper business practices.⁴⁴

4.33 Its submission goes on to state:

The new generation of bureaucrats and business people are keen to capitalise on the economic opportunities in China and to enhance the growth of their own businesses and are keen to partner with foreign business people and contrary to the myths propagated by the media outside China have found most to be honourable and determined to ensure they meet obligations which they undertake.⁴⁵

4.34 Mr Eswar Prasad, Chief, China Division, Asia and Pacific Department, IMF, has written that it was essential for China not just to have a reform plan, but also 'a set of tools that are necessary to meet these reform challenges and to deal with the additional shocks that the economy could face as China's integration with the world economy continues and it becomes more exposed to external influences'.⁴⁶ He believed that a good legal framework, good property rights and sound financial supervision were essential for China's progress.⁴⁷ Mr Albert Keidel, Senior Associate, China Program, Carnegie Endowment for International Peace, also noted that there

42 Zhou Xiaochuan, Governor of the People's Bank of China, 'Improve corporate governance and develop capital market', Speech at the Euromoney 'China Forum: Capital Market and Corporate Governance', Beijing, 1 December 2004, p. 1.

43 *Report on the Work of the Government*, 15 March 2005.

44 *Submission P24*, p. 12.

45 *Submission P24*, p. 13.

46 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 5.

47 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 5.

remained in China a serious problem with the management and governance of enterprises not just SOEs. In his view they are opaque. He stated:

...whether state-owned, state-controlled, or private, it's hard to find out what their accounts are like. It's hard to find out what their business plan is.⁴⁸

4.35 Mr Keidel recognised the importance of building a financial system on solid legal and accounting foundations, noting that China is building those institutions but needs to progress a long way towards creating the skill, talent and regulatory structures.⁴⁹ Other commentators agree that China is still lacking 'world-class companies, a well developed banking system and fully functioning capital markets'.⁵⁰

4.36 Poor corporate governance is a sure breeding ground for corruption. A recent OECD study formed the view that despite significant efforts from the CPC and government leaders, corruption remained 'a serious problem for both citizens and businesses, particularly for foreign direct investment'. It acknowledged that this problem posed a significant challenge for China.⁵¹ Indeed, Professor Yan Sun recently asserted that since the beginning of economic reform in China there has been 'a steady rise in the number of Chinese cadre disciplined for abuses, especially at senior levels'. He wrote:

Among the highest officials disciplined for official corruption – those at the deputy governor or minister level and higher – the average take in the 1980s was about \$5,000. Since the 1990s, the average has approached 250,000, or 50 times as much. This surge of corruption has stemmed from a continuing expansion of incentives and opportunities created by economic liberalization.⁵²

4.37 The committee also cites, in particular, the conclusions drawn in a recent OECD Policy Brief on China's governance. It stated:

...corruption is one of the most important problems in China today...More attention should be paid to reviewing areas prone to corruption, eliminating

48 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 9.

49 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 12.

50 Dr Stephen Roach, Chief Economist and Managing Director, Morgan Stanley, Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 14.

51 OECD, *China in the Global Economy: Governance in China*, OECD Publishing, Paris, September 2005, p. 127.

52 Yan Sun, Professor of Political Science, City University of New York, Queens College and the Graduate Centre, 'The Corruption, Growth, and Reform: The Chinese Enigma', *Current History*, September 2005, p. 257.

opportunities for corruption and creating conditions conducive to ethical behaviour.⁵³

4.38 A recent conference of the Regional Asian Development Bank and the OECD urged businesses operating in the region 'to act with increasing integrity and put in place effective anti-corruption measures'. It recommended that...

...governments set up and strictly enforce accounting standards to improve transparency of company accounts; strengthen independent external auditing controls to help prevent and detect acts of corruption; and require auditors to report suspicions of bribery to competent authorities.⁵⁴

It also stressed the need to establish ethical and administrative codes of conduct for managing conflicts of interest.⁵⁵

4.39 Witnesses before the committee also highlighted the need for improved corporate governance in China. For example, while identifying the SOE sector as a major problem, Dr Morgan argued that reform needed to encompass the wider corporate world in China:

China has been making positive steps in the reform of corporate governance and the improvement of state owned enterprises, but there is still a long way to go. Whether state owned enterprises are part of the problem or part of the solution, in my view, really does not matter in a sense. What is important is the extent to which China is able to reform governance and bring into play effective market institutions that will ensure some oversight of not only state owned enterprises that are becoming increasingly corporatised but also the emergent private sector, which is quite vibrant but, being entrepreneurial, also has its fair share of cowboys.⁵⁶

4.40 RTIO was of the view that there could be greater transparency in the Chinese marketplace. It cited practices such the failure to produce annual reports, the lack of third party audits, reporting that is not up to international standards and stock market regulations not comparable with international norms as significant shortcomings in corporate governance.⁵⁷ The Australia China Business Council agreed that strong corporate governance and transparency needed to be introduced and enforced in China. This requirement would apply to publicly listed enterprises and also corporate and government-owned entities throughout the country.⁵⁸ It stressed the need for clear

53 OECD, 'China's Governance in Transition', *Policy Brief*, September 2005.

54 'ADB/OECD Anti-corruption Initiative for Asia and the Pacific', 5th regional anti-corruption conference, Beijing, 30 September 2005.

55 'ADB/OECD Anti-corruption Initiative for Asia and the Pacific', 5th regional anti-corruption conference, Beijing, 30 September 2005.

56 S. Morgan, *Committee Hansard*, 27 June 2005, p. 11.

57 *Submission P34*, p. 8.

58 *Submission P40*, p. 16.

accountability, strong corporate governance and unambiguous transparency with all stakeholders including shareholders, employees, customers and suppliers.⁵⁹

Corporate governance—Australia

4.41 The reputations of countries such as Australia and the United States have in recent years been tarnished by a spate of corporate failures. These very public instances of unacceptable or irresponsible corporate conduct by, in some cases, highly respected companies and corporate executives exposed weakness in corporate governance. Both countries responded by introducing laws that would better promote transparency and accountability. They focused in particular on improving disclosure and the avoidance of conflicts of interest. Australia in particular has introduced a substantial body of reforms to ensure that its corporate regulatory framework 'remains effective and helps define world's best practice'.⁶⁰ These reforms range across many aspects of corporate law and Australia's experience in grappling with the complexity of such laws could be of benefit to China. Australia's corporate law economic reform program is continuing to introduce measures to improve corporate governance in Australia.

Committee view

4.42 Corporate governance is now a matter of open public debate in China. The committee commends the initiatives taken by the Chinese government to improve its corporate governance regime. It accepts, however, that implementation will take time and China needs to press ahead with reform to ensure that transparency and accountability underpin corporate conduct in China. The committee accepts that the challenge is not only in formulating legislation but in changing the business culture. The committee believes that Australia, in light of its serious and determined efforts to improve its corporation laws, is well placed to provide a model for and practical assistance to China in its endeavours to develop a better corporate governance regime.

Legal and regulatory framework for foreign enterprises

4.43 As part of its drive for economic reform, the Chinese government, since the 1980s, has turned its attention to the country's legal framework. Indeed, the various agencies empowered to create rules have been busy in formulating laws which have resulted in substantial legislative activity and a proliferation of new laws and regulations. For example, Dr Sarah Biddulph recorded that to June 1999, the National People's Congress, the primary rule-maker, had passed 250 laws and 106 decisions; the state council had passed 830 administrative regulations; local congress had passed

59 *Submission P40*, p. 16.

60 See for example a report by the Parliamentary Joint Committee on Corporations and Financial Services, *CLERP (Audit Reform and Corporate Disclosure) Bill 2003, Part 1 and Part 2*, June 2004.

7,000 local regulations, and finally local government and the ministries and commissions under the state council had passed 30,000 administrative rules.⁶¹

4.44 Legal review and reform have continued. According to the 2003 Report on the Work of the Government, between 1998 and 2003, the State Council made 50 legislative proposals and promulgated 150 administrative statutes. It stated further that:

...the State Council made a sweeping review of the 756 administrative statutes promulgated by the end of 2000, resulting in 71 of them having been nullified and 80 others declared no longer in effect. The agencies under the State Council went over 2,300 foreign-related regulations and related policies, abolishing 830 of them and revising 325 others.⁶²

4.45 A number of commentators accept that China's reform program has greatly assisted and encouraged foreign companies to enter the Chinese market. For example, Hunt and Hunt Lawyers informed the committee that China is 'a much easier environment in which to work'. It used the example of the time taken for foreign businesses to establish a wholly-owned foreign enterprise (WOFE) as indicative of the improvement.

The WOFE concept was unknown in the 1980s, joint ventures were mandatory but now depending on the industry sector in which you seek to operate all requirements for the establishment of your own WOFE in China can be completed in six to eight weeks at a modest cost, including the incorporation of a company and obtaining all relevant government approvals.

In many large Chinese cities the government has recognised to encourage foreign investment there must be a dramatic reduction in the time required and the bureaucratic processes to obtain approvals. In part these processes become easier because authority to make decisions has devolved from Beijing.⁶³

4.46 It also noted that only the very largest investments in sensitive areas now require approval in Beijing and in most cases relevant approvals can be obtained in the city where the foreigner is intending to commence business.⁶⁴ The new laws include 'company law, insolvency laws and laws relating to dispute resolution together with the development of credible arbitration bodies.'⁶⁵

61 *Committee Hansard*, 1 August 2005, p. 94.

62 *Report on the Work of the Government* delivered by Premier Zhu Rongji at the First Session of the 10th National People's Congress, 5 March 2003.

63 *Submission P24*, p. 11.

64 *Submission P24*, p. 11.

65 *Submission P24*, p. 12.

4.47 While acknowledging the improvements made to assist foreign companies to conduct business in China, some witnesses considered that the reform program has created a fairly complex system of national legislation, administrative regulations and local laws in which governments at all levels have a strong presence. Ms Vivienne Bath, senior lecturer in law, commented on what she saw as 'excessive regulation in the form of a proliferation of government legislation at all levels in China in relation to foreign investment, general corporate activity and sector specific regulation'.⁶⁶ The Australia China Business Council, was also critical of the current regulatory framework in China, describing the administrative system in many sectors as 'multi-layered, overlapping and opaque'.⁶⁷ It noted that there are significant regulatory barriers on the 'operation of wholly owned foreign enterprises'.⁶⁸

4.48 In keeping with these findings, Mr Ian Satchwell, ACIL Tasman, identified the bureaucracy as a major impediment for Australian companies. He explained:

For a company to register in China it must specify the area of business in which it intends to operate, and then the company is only allowed to undertake business activities in the specified sectors or fields. If new market opportunities open up it is difficult for the company to move outside its specified scope of services, and that inhibits the easy development of foreign firms, in particular, in China.⁶⁹

4.49 Mr Duncan Calder, KPMG, joined the numerous witnesses who highlighted the problems created by the 'intricacy of different interpretations of procedures and regulations'. He stated:

I hear a lot of evidence of people thinking they have opened the door and understood the law who then find there is another layer of regulation that sits behind that. Things may be approved but they may never happen, because of frustration with delays. There are restrictive regulations in relation to business scope and the registering of capital requirements for foreign investment enterprises that can cause some difficulties there as well.⁷⁰

4.50 The problem goes beyond the complexity and the multi-layering of rules and regulations. Their tendency to discriminate against foreign companies places such businesses at a distinct disadvantage. Evidence presented to this committee documented a wide range of legal impediments confronting Australian companies

66 *Committee Hansard*, 1 August 2005, p. 86.

67 *Submission P40*, p. 15.

68 *Submission P 40*, pp. 17–18.

69 *Committee Hansard*, 1 August 2005, p. 3. Mr Satchwell is an executive member of the board of the ACBC Western Australia and also Executive Director of ACIL Tasman and head of ACIL Tasman's practices in Western Australia and China.

70 *Committee Hansard*, 1 August 2005, p. 3. Mr Calder is a Council Member, Australia China Business Council, Western Australian Branch; and National Chairman, China Business Practice, KPMG.

including the continuing legal and practical demarcation between foreign and Chinese companies operating in China. The Australia China Business Council cited restrictions such as the inability to obtain full import/export licences, strict controls on foreign exchange movements, limitations on inter-company loans and the retention of capital with Chinese domiciled enterprises and concerns with regard to the convertibility of renminbi.⁷¹ Legal firms have found their ability to service clients limited by laws that restrict their ability to hire Chinese lawyers in China and to form joint ventures or economic associations with Chinese law firms.⁷² The mutual recognition of professional qualifications gained outside China also creates impediments.⁷³

4.51 Ms Bath believed that foreign investment enterprises should really just be regarded as another form of private enterprise.⁷⁴ She argued that China should be working towards 'a simpler and less regulated investment regime and the gradual elimination of the foreign domestic distinction'.⁷⁵ Mr Calder would like to see Australian companies have equal treatment in China with Chinese companies.⁷⁶

Committee view

4.52 Foreign businesses operate not only in a regulatory environment where there is a strong government presence and a need for improved corporate governance but also under of system of rules and regulations that are confusing and complex. Even though government agencies at all levels have introduced a raft of legislation since the 1980s, foreign companies find the legal and regulatory environment complex, time-consuming, expensive, uncertain and discriminatory. The experiences of some foreign companies in China have left a lasting impression that conducting business in China can be a risky undertaking.

4.53 Without doubt, many legal obstacles remain in China that impede the attempts by Australian companies to become established and to expand in that country. Although over the last quarter century China has overhauled its legal system, some still regarded the system as inadequate for a country moving into the global market of the 21st century.

4.54 Clearly, any measures taken to streamline the rules and regulations governing foreign business operating in China would greatly assist Australian companies in that country and be an incentive for increased trading activities. The removal of practices

71 *Submission P 40*, pp. 17–18.

72 See for example, Ian Satchwell, *Committee Hansard*, 1 August 2005, p. 3 and Vivienne Bath, *Committee Hansard*, 1 August 2005, pp. 86–87.

73 See for example, Ian Satchwell, *Committee Hansard*, 1 August 2005, pp. 4–8 and Australia China Business Council, *Submission P40*, p. 30. See also chapter 8, paragraphs 8.51–8.54.

74 *Committee Hansard*, 1 August 2005, pp. 91–92.

75 *Committee Hansard*, 1 August 2005, p. 87.

76 *Committee Hansard*, 1 August 2005, p. 3.

that discriminate against foreign companies in China would also encourage Australian firms to conduct business there.

Specific problems in the current legal system

4.55 Inadequacies or failings in the legal system in China are not confined to narrow aspects of the law. Some commentators mentioned bankruptcy laws where, in their view, it is very hard to bring an enterprise to the table to make them pay their debts.⁷⁷ Australian business people also cited returning money to Australia as another significant difficulty. Hunt and Hunt Lawyers noted that one of the main concerns in conducting business in China is 'the ability to repatriate moneys earned' there.⁷⁸ Mr Thomson also noted that 'difficulties still exist in the remission of funds out of China despite the steps taken to achieve the full convertibility of the RMB'.⁷⁹ The committee has chosen two areas of the legal system in China to highlight the problems confronting Australian firms—contract law and intellectual property law.

Contract law

4.56 Mr Ian McCubbin, partner, Deacons, has referred to China's legal and regulatory system as 'relatively embryonic' and likely to restrict free market access.⁸⁰ He noted that contract law was one particular aspect of the legal framework that concerned Australian businesses. He stated:

One of the most commonly asked questions of companies hoping to do business in China is 'Is my contract in China worth the paper it is written on?' My answer to that question is 'it depends what you want the contract to do'. If you are expecting to be able to enforce the 'rules for the engagement of war' clauses in a Court of Law in China, then the answer is probably 'No'. If, on the other hand, you view Chinese contracts as a means of reinforcing your future negotiations, then the documents have a significant role to play. Either way, this is the reality of doing business in China.⁸¹

4.57 The Australia Business Council told the committee that China is gradually adopting a legal system that 'enshrines written contracts with the same sanctity as in Western systems'. It stressed, however, that improvements were still required.⁸² It noted in particular the absence of a tradition of an independent judicial process in

77 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 9.

78 *Submission P24*, appendix 2, p. 30.

79 Graeme Thomson, Principal Graeme Thomson and Associates, 'Trade Policy Issues', Australia–China Free Trade Agreement Conference, Sydney, 12–13 August 2004, p. 7.

80 Ian McCubbin, Partner, Deacons, 'The legal system and business environment', Australia–China Free Trade Agreement Conference, p. 6.

81 Ian McCubbin, Partner, Deacons, 'The legal system and business environment', Australia–China Free Trade Agreement Conference, p. 2.

82 *Submission P40*, p. 16.

China that would allow a party to enforce a written contract. It also observed that in China contracts are often seen as evidence of the parties' intentions at the time of signing and therefore subject to renegotiation.⁸³ Another witness, Dr Davis, also identified the legal framework as a significant problem for foreign countries conducting business in China and again used contracts as an example. He stated:

At the moment, many businesses, when they write contracts with the Chinese, are concerned that many of the Chinese regard them as little more than nice pieces of paper and abrogable at the discretion, usually, of a government official. We are aware of a growing tendency of Western businesses—Australian and others—to put clauses in their contracts which, in effect, say that if there is a dispute then the appropriate forum for this resolution will be the International Chamber of Commerce's International Court of Arbitration. So, quite simply, it stays outside China.

In China, there is also a growing recognition of reputation risk. That is, we cannot keep opting in and out of contracts that we do and do not like just because circumstances change. We cannot walk away from them; if we do, people will cease to contract with us.⁸⁴

4.58 DITR similarly cited the enforcement of contracts as another area of concern for Australian business, stating that 'all of these things are developing in the country'.⁸⁵

Committee view

4.59 Clearly, Australian companies need to be confident that any agreement or arrangement that they enter into with a Chinese party will be honoured and that effective and fair mechanisms are in place to safeguard the interests of all parties who enter into such arrangements.

Intellectual property (IP)

4.60 One of the most contentious areas of commercial law in China is that governing the protection of intellectual property. It was cited by a number of witnesses as a major area of weakness in the legal framework.

4.61 Upon its accession to the WTO, China agreed to overhaul its legal system to ensure the protection of intellectual property rights in line with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).⁸⁶ The requirements imposed on China since its accession to the WTO and its acceptance of the TRIPS Agreement have been the main catalysts for reform. Change, however, has

83 *Submission P40*, p. 16.

84 R. Davis, *Committee Hansard*, 29 June 2005, pp. 22–23.

85 *Committee Hansard*, 21 June 2005, p. 53.

86 See for example, United States Trade Representative, *2004 Report to Congress on China's WTO Compliance*, 11 December 2004, p. 5.

been slow and IP remains an area that generates criticism from foreign firms. The *2004 Report to Congress on China's WTO Compliance* found:

China has been much less successful in ensuring effective IPR protection, as IPR enforcement remains problematic. Indeed, counterfeiting and piracy in China are at epidemic levels and cause serious economic harm to U.S. businesses in virtually every sector of the economy.⁸⁷

4.62 The experience of some Australian businesses matches that of a number of American companies.⁸⁸ Mr Ian Heath, Director General of IP Australia, stated recently that 'counterfeiting is rife' across most industrial sectors in China citing, in particular, the pharmaceuticals, chemicals, information technology, consumer goods, electrical equipment and the auto sector. He explained that:

The extent of counterfeiting in China is due to the ingrained culture, the support given to infringers by local officials who genuinely want to support local industries, the lucrative gains to be made, the limited resources and training available to enforcement officials, and the lack of public education regarding the economic and social impact of counterfeiting and piracy.⁸⁹

4.63 DITR told the committee that while there is a law on IP there is also the prevailing practice.⁹⁰ The Australia China Business Council agreed with this view. It argued that the enforcement of intellectual property rights in China was 'a major issue of deep concern to all Australian business'.⁹¹ It found that even where foreign companies have been successful in prosecuting an intellectual property infringement claim in China, the remedies and orders of compensation are likely to be inadequate to cover for the loss suffered by the companies.⁹²

4.64 The Australian Industry Group (AiG) joined many witnesses who complained that China failed to protect intellectual property rights adequately. It told the committee:

TRIPS obliges China to adhere to internationally accepted standards of protection for copyrights and neighbouring rights, trademarks, geographical indications, industrial designs, patents, integrated-circuit layout designs and undisclosed information. The TRIPS Agreement also establishes standards for the enforcement of IP rights in administrative and civil actions, and in

87 United States Trade Representative, *2004 Report to Congress on China's WTO Compliance*, 11 December 2004, p. 5.

88 As well as examples given in this section see chapter 6, paragraphs 6.46 and 6.47.

89 Ian Heath, 'A perspective on Intellectual Property Protection in China', *Growth*, Melbourne, no. 55, May 2005, p. 74.

90 *Committee Hansard*, 21 June 2005, p. 52.

91 *Submission P40*, p. 16.

92 *Submission P40*, p. 17.

regard to copyright piracy and trademark counterfeiting, in criminal actions and action at the border.⁹³

4.65 It was also of the view that China is currently failing to enforce IP standards effectively. Some of their members asserted that 'it is common Chinese practice to simply copy products without fear of reprisal'. It cited the example of Xerox which took a Chinese company to court in China for breach of copyright and although successful were awarded damages of only US\$2000.⁹⁴

4.66 It maintained that enhanced intellectual property protection is essential. It argued that China needs 'to implement and enforce effective and commercially realistic penalties that have a clear deterrent effect'.⁹⁵ Dr Davis was more emphatic in pointing out the failure of IP laws in China to protect foreign businesses. He stated:

The classic has always been intellectual property rights. For years, many companies have been concerned about de-engineering or reverse engineering of the products that they allow to be licensed in China. You do not have to be a small firm; I think it was the Ford Motor Company that licensed the production of one of its new little cars and, lo and behold, in about three months, there was an almost identical little car being made by a Chinese company.⁹⁶

4.67 Drawing the committee's attention to measures taken by some foreign companies to help them manage this difficulty, he explained that one of their members had used the following approach:

What I give them is three generations behind what I am making in the West.' He then said, 'I am up to the sixth generation of this product and they have been given only generation 3. By the time they have worked out how generation 3 was made and then how to make generation 4, I am on to generation 7.' So he is almost three generations ahead. That means that China is at a disadvantage. The technology it is being given is older and not cutting edge. As that goes deeper and deeper within China, I think there will start to be a crackdown.

...If the Chinese want to move up the value-add chain, they will have to do better on intellectual property or the flying ducks approach to development, as it is called—which is that it moves from country to country—will mean they are bypassed on the elaborately transformed manufactures. From the bits and pieces we are picking up in the business community, for ETMs or elaborately transformed manufactures, companies are going to India before China.⁹⁷

93 *Submission P63*, p. 28.

94 *Submission P63*, p. 28.

95 *Submission P63*, p. 28.

96 R. Davis, *Committee Hansard*, 29 June 2005, pp. 22–23.

97 R. Davis, *Committee Hansard*, 29 June 2005, p. 23.

4.68 The Department of Communications, Information Technology and the Arts (DCITA) was also of the view that there is considerable scope for enhancing efforts to address intellectual property in China.⁹⁸ The department believed that Australia may be well placed to take a collaborative approach in assisting China with the process of improving their IP regime.⁹⁹ Indeed, in the recent round of FTA negotiations, Australia offered to 'provide detailed materials for consideration in the reform of China's intellectual property regime'.¹⁰⁰

Committee view

4.69 It is clear that Australian companies exporting goods and services to China need to be aware of the pitfalls with regard to the protection of IP in China and take the necessary precautionary measures to minimise risk. Australia should join with other like-minded countries to work through the various multilateral fora to encourage China to remedy the failings in its IP regime including enforcement throughout the country.

Enforcement

4.70 Foreign companies operating in China want to be certain that the laws, rules, regulations or decisions arising from legal proceedings will be enforced consistently, transparently, and without favour. Hunt and Hunt Lawyers were of the view that a foreign business in China finding itself in dispute is no longer faced with the option of having to walk away and write-off the investment. It explained:

Whilst there are still inefficiencies in the Chinese court system and the process can be slow and a little mysterious to foreigners (the Chinese find our processes equally mysterious) the Chinese legal system is rapidly improving and no more challenging than the systems, which currently exist in India or Indonesia.

The Chinese government in the early 1990s encouraged the re-establishment of a private legal profession, which had ceased to exist during the Cultural Revolution. There are now a large number of very bright well-trained Chinese lawyers, many of whom had experience working outside China in Australia, the United States, Britain or Europe.

Chinese arbitration bodies have been opened up to include foreigners. It is no longer necessary if you have a dispute in China to choose a Chinese arbitrator. Bodies such as China International Economic Trade Arbitration Commission ("CIETAC") include in the panel of arbitrators many

98 *Submission P62*, p. 3.

99 *Submission P62*, p. 3.

100 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 (accessed 28 September 2005).

foreigners. There are six Australians on the CIETAC panel of foreign arbitrators.

Foreign companies including Australian companies have won arbitrations in China and have successfully enforced arbitral awards. It is not suggested that the system is today perfect or without challenges created by culture and language but in the last 10 years there has been a dramatic change in the capacity of foreign parties to exercise their legal rights and enforce same in China.¹⁰¹

4.71 Some lawyers were not as positive as Hunt and Hunt Lawyers about the extent of improvement in the legal system. Ian McCubbin referred not only to a lack of understanding of the law by administrators, but the absence of strong and efficient enforcement mechanisms. When looking at competition law in China, he stated:

...what China really lacked was an ACCC, led by an Alan Fels or a Graeme Samuel, to provide the vision (and the stick) needed to inculcate the laws into daily commercial activity across the country. Not only was there no single, focused administrative authority charged with the responsibility, and equipped with the sanctions to make the law effective in daily business, the underlying policy issues were simply not understood by the relevant administrators. If the laws were not understood by the senior regulators in Beijing, how much less likely was it that an official in Wuhan or Xian, far less in Xinjiang Province, would be able to exercise consistent interpretations in the enforcement of those laws?¹⁰²

4.72 A number of witnesses supported this contention that there were significant problems with the application and enforcement of laws in China. Ms Vivienne Bath argued that although China is reforming its legal system, a problem remains with the independence and competence of the Chinese courts.¹⁰³ Based on anecdotal evidence, she stated:

There are still quite a lot of judges who are not legally trained. Also I think quite a few judges are placed in a very difficult position because of their relationship with local government and the influence which local government and party officials are able to place upon them...But certainly outside the major cities—places like Beijing, Shanghai and Guangzhou, which have a relatively high level of judiciary—it can be very difficult for foreign investment enterprises or companies to be confident that they will get a fair hearing if they have a dispute or that the judiciary will be truly independent in their cases.¹⁰⁴

101 *Submission P24*, p. 12.

102 Ian McCubbin, Partner, Deacons, 'The legal system and business environment', Australia–China Free Trade Agreement Conference, p. 3.

103 See V. Bath, *Committee Hansard*, 1 August 2005, p. 86.

104 *Committee Hansard*, 1 August 2005, p. 87.

4.73 According to Ms Bath, a lot of people appointed to judicial positions were party or military officials who may not have had legal training. She told the committee that the Chinese are now trying to appoint judges who are trained and have legal training and noted that there is a judicial college in Beijing where judges are trained before taking up positions.¹⁰⁵ Dr Biddulph also referred to the lack of independence in Chinese courts. She attributed this difficulty with independence in part to 'the exercise of party power which undermines or makes incursions into that legal system'. She stressed, however, that the courts lack of independence is not due entirely to the Communist Party but also stems from the structure and status of the courts. She explained:

The budget for the courts is mostly appropriated at the local level. That means that in certain areas the local government exercises quite strong influence over decision making in certain courts—not all, but in some. There is a problem, too, in that the judges do not have the same security of tenure that they have here nor do they have the same status that they have here. So there is a range of ways in which the independence of adjudication by courts is undermined.¹⁰⁶

4.74 Stephen Morgan also believed that there are serious issues with the training of the judiciary and the transparency of the courts.¹⁰⁷ Professor Jacobs shared this view. He also identified problems with the training, education and independence of the judiciary and saw a role for Australia in assisting China improve their legal system. He stated:

One of the problems that the Chinese have is establishing a legal system. They talk about trying to establish a rule of law but they are clearly having difficulties—and this is a very difficult issue... The same thing is happening in Indonesia. Judges do not change over night and legal education does not change over night. It is probably fair to say in a democratising situation that the legal system is always one of the areas which is behind other parts of government. China certainly have not democratised, but they are also having problems depoliticising the legal system. We could probably be helpful there, and we should offer to help. Since we are a medium-sized power, help from Australia would perhaps be less threatening than help from the United States. I think that is a place where we could have a good role to play.¹⁰⁸

105 *Committee Hansard*, 1 August 2005, p. 87.

106 *Committee Hansard*, 1 August 2005, pp. 100–101.

107 S. Morgan, *Committee Hansard*, 27 June 2005, p. 9.

108 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 50. Professor Jacobs is Professor of Asian Languages and Studies at Monash University and also Director of the Taiwan Research Unit. He appeared in a private capacity.

Committee view

4.75 The committee sees enormous potential for the Australian government to take an active and coordinating role in encouraging, sponsoring and in some cases funding a range of Australian organisations and institutions to assist China develop a judicial system that would be noted for the quality of its members and its independence. Bodies such as the ACCC, ASIC, APRA, various courts such as the High Court, relevant government departments, law associations, universities and even private law firms would be ideal participants in such a program.

Summary

4.76 In summary, the committee concluded that doing business in China is complicated by a cumbersome and inefficient bureaucracy and the influence exerted by state-owned enterprises.¹⁰⁹ It found a complex legal system exacerbated by added layers of rules and regulations. In some instances, the system operates in favour of domestic firms. It notes that enforcement is a significant problem with major deficiencies in the judicial system such as poorly trained judges and lack of independence.

4.77 The Chinese government accepts the importance of reforming its legal system. For foreign firms conducting business in China, reforms in the areas of government administration and corporate governance need to go beyond the measures currently implemented by the Chinese government. It is clear that Australian businesses look to strong and public support from the Australian government to ensure that the Chinese business environment does not put them at a disadvantage.¹¹⁰

Local government interference—the mightiest dragon cannot crush the local snake'

4.78 As discussed earlier, local or municipal authorities have also been active in promulgating rules and regulations since the 1980s. With this in mind, the committee notes a 16th century Chinese saying that 'the mightiest dragon cannot crush the local snake'.¹¹¹ The following section looks at the relationship between the central government and the provinces to determine whether there are problems that create difficulties for foreign business.

4.79 While acknowledging the changes that have been implemented since China's accession to the WTO, some commentators recognise that one of the major challenges, as noted above, is not only implementing law reform but ensuring that the laws, once introduced, are enforced. This raises the question of the provincial

109 Anne O. Krueger, First Deputy Managing Director, International Monetary Fund, Keynote address at the American Enterprise Institute Seminar, Washington, D.C., 10 January 2005, p. 7.

110 *Submission P19*, p. 13.

111 See 'A survey of business in China', the *Economist*, 20 March 2004.

governments and their place in assisting the central government with its reform programs. For example, two commentators noted that China had at the central government level made fundamental changes to its legal and regulatory frameworks to comply with WTO principles. Even so, they observed that:

...China's commitments imply a need to ensure adequate enforcement of new rules at all levels, especially the provincial and municipal levels, where administrative and judicial capacity constraints, as well as the potential role of vested interests, may hamper progress (e.g., in eliminating restrictive practices such as the pervasive inter-provincial taxes, fees and other non-tariff obstacles).¹¹²

4.80 In some instances, local governments may not only fail to enforce laws but may impose additional burdens on foreign businesses. One group of commentators with the IMF have suggested that 'in an effort to protect industries from competition, local governments in China are erecting barriers to entry of goods from other provinces'. They went on to say:

For instance, managers of China firms confirmed that they have indeed experienced some difficulties in accessing markets in other provinces. A manager of a medical manufacturing plant reported that the shipments to other provinces are occasionally stopped by local rail officials for two to four weeks for no apparent reason. The administrative units of the industry and commerce department were reportedly obstructing access to markets through audits or local registration requirements.¹¹³

4.81 They noted that it is not possible to measure such barriers directly and added, as it is illegal to impose trade restrictions, 'the measures adopted to protect local industries from competition are usually more subtle than a direct border tax'.¹¹⁴

4.82 Some Australian businesses also regarded the interference at the local level as an impediment to conducting business in China. They were particularly concerned that local authorities did not always enforce laws.¹¹⁵ Ms Valerie Kelly, Department of Agriculture, observed that while at the federal level of government there is 'a passion for the WTO', this does seem to have trickled down to the provincial level.¹¹⁶ The Australia China Business Council also identified the application of laws at the municipal level as a major problem. It stated:

112 Thomas Rumbaugh and Nicholas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, March 2004, p. 10.

113 Mary Amiti and Beata Smarzynska Javorcki, 'Trade Costs and Location of Foreign Firms in China', *IMF Working Paper*, WP/05/55, March 2005, p. 4. See also Steven Macmillan, *Committee Hansard*, 27 June 2005, p. 12.

114 Mary Amiti and Beata Smarzynska Javorcki, 'Trade Costs and Location of Foreign Firms in China', *IMF Working Paper*, WP/05/55, March 2005, p. 4. See also S. Macmillan, *Committee Hansard*, 27 June 2005, p. 12.

115 See also chapter 5, paragraphs 5.58–5.59

116 V. Kelly, *Committee Hansard*, 1 August 2005, p. 20.

Enforcement is needed particularly as you move from central administration down the line to provincial and local levels of where the decision makers are. As we say in our submission, the further away you move from the central government, the less likely the decision might be in your favour.¹¹⁷

4.83 Hunt and Hunt Lawyers also referred to problems associated with the additional levels of regulation or interference from provincial or local governments. Its submission stated:

There is significant anecdotal evidence of problems experienced by Australian traders who believe that they have secured national Government approvals for investment or trading but are then faced with significant (and regularly changing) regulations and restrictions imposed by lower levels of Government. The removal (or limitation) of these restrictions would afford significant opportunities for Australian traders.¹¹⁸

4.84 To the same effect, Steven Macmillan, Consultant, China Business Focus, told the committee:

It is a very common experience for businesses in China to find, in our experience, that regulations and the way they are enforced differ from the national to the provincial level. Some of the provincial governments have a range of regulations in place that can sometimes mirror or contradict those at the national level. A good example is the wool research and development arm—AWI—in our group. There is a testing procedure for wool that is imported into China and it has a small fee attached to it. That fee is set at the provincial government level and it differs from provincial government to provincial government. That is an example of something that should ideally be under the purview of the national government, being a foreign trade issue. But it is not, and it is unpredictable as a result of that.¹¹⁹

4.85 Mr Woodard noted that the difficulty of coordinating the provinces is an 'even greater challenge' for China and one they 'have not yet solved'. He stated:

...the aim is to know as much as is possible about what is going on and to attempt to ensure that what happens is orderly and serves the total interests of each country and of the relationship.¹²⁰

4.86 The Australia China Business Council reinforced the view that regional protectionism and barriers to inter-provincial trade disadvantaged Australian companies. It argued that these local obstacles create a sense that 'foreign companies are unable to compete on equal terms'. It argued that:

117 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 16.

118 *Submission P24*, p. 6.

119 S. Macmillan, *Committee Hansard*, 27 June 2005, p. 13.

120 C. Woodard, *Committee Hansard*, 27 June 2005, p. 26.

China needs a mechanism to apply consistency to enforcement, as the issue of inconsistency in the application of laws and regulations encourages local protectionism. It also extends to allegations of 'home-town' decisions in arbitration and intellectual property enforcement, together with inconsistent tax regimes.¹²¹

Committee view

4.87 The committee finds that the involvement of local authorities in trade and commercial affairs at the provincial level is a major impediment for Australian companies operating in China.

4.88 Clearly, China is a country that, despite reform, still has inadequate legal protections, intellectual property rights violations and government interference particularly at the local level. Australian business should understand the legal and regulatory framework operating in China to ensure that they are fully aware of the legal and business implications of any decision or agreement entered into and are in a position to adequately protect their interests. In particular, Australian business should not underestimate the influence of local bodies in China.

4.89 More effective, fairer and consistent enforcement of laws, rules and regulations at all levels of government would benefit and encourage Australian companies to establish their business in China.

Suitable mechanisms

4.90 The need for uniform application of legislation and consistency in law-making applies across China and has relevance for all who come under the respective laws. In this regard, a multilateral agreement rather than a bilateral arrangement, such as the proposed Australia China FTA, appears to be a more suitable mechanism to pursue the matter. Furthermore, reform is called for in areas such as corporations law, particularly IP law and the laws governing contracts. An overhaul of this type of legislation requires wide ranging legal reform and, again, a bilateral agreement does not seem to be an effective vehicle to effect such broad changes. Dr Ranald noted that:

...a lot of the processes which business identify as being tariff barriers are actually broad policies or laws in the Chinese context. It is difficult to see them being changed; you cannot change those in a bilateral context. It would take a general change of policy in the Chinese context, and I think that is true of labour and environmental standards too.¹²²

4.91 To address the difficulties discussed in this chapter effectively—especially the need for uniform and consistent application and enforcement of legislation at the provincial level—governments at all levels throughout China need to embrace legal change. Central and local authorities need to commit to reform and actively co-

121 *Submission P40*, pp. 17–18.

122 P. Ranald, *Committee Hansard*, 29 June 2005, p. 4.

operate to ensure that laws and government undertakings are applied consistently throughout the country and in the spirit of China's reform agenda. The nature and extent of reform required to bring China's legal system into step with international standards requires wide ranging change. It underlines the importance of Australia joining other WTO members to encourage China to undertake further reform and to impress on China the need to ensure that its legislative reforms are adopted and effectively enforced throughout the country.

4.92 Austrade has emphasised that Australian companies must be prepared for sudden changes in Chinese government policy, and that business conditions and policies in different regions of China are 'very diverse'.¹²³ Indeed, the committee heard on several occasions that the implementation of national policies is often interpreted and implemented differently across the country. This makes it very difficult for foreign investors with multiple investments in China to establish a national operating system.¹²⁴ There is also evidence that foreign companies receive less favourable treatment than local operations.

Recommendation 1

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

Recommendation 2

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

Recommendation 3 (see also recommendation 16)

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

- **encourage Australian companies to register such complaints;**

123 See 'China Profile: Assisting Australian exporters', *Austrade*, http://www.austrade.gov.au/australia/layout/0,,0_S2-1_CLNTXID0019-2_-3_PWB156799-4_doingbusiness-5_-6_-7_,00.html.

124 AustCham Beijing, *2004 Business Issues Paper*, p. 14.

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

4.96 The proposed Australia–China Free Trade Agreement and whether it is an appropriate or effective vehicle for resolving some of the difficulties cited in this chapter is discussed in chapter 12.

Chinese companies in Australia

4.97 The submissions to the committee that covered trade barriers were concerned with impediments existing in the Chinese market that made trading difficult for Australian businesses. Little mention was made about the barriers Australia has erected to protect its markets. It should be noted that Chinese companies are not well represented in Australia—they do not make the top twenty list.¹²⁵ The following section takes a look at the Australian market from the Chinese perspective.

Barriers to trade with Australia

4.98 Australia employs a number of protective measures that other countries regard as barriers to trade. The Chinese Ministry of Commerce has noted:

Though the overall tariff level in Australia is fairly low, high tariff rates are kept for certain products, typically exemplified by automotive vehicles, textiles, garments and footwear. The Australian government has passed relevant laws to implement a 5% to 7.5% reduction on import duties imposed on textiles as of January 1 2005. The existing level will be maintained till 2009. Import duties on buses and auto components and parts have been reduced to 10%, effective as of 1 January 2005. A further reduction to 5% will be made in 2010. Despite the reduction, tariff rates for automotive vehicles, textiles, garments and footwear remain high compared with those for other products. The tariff peak has adversely affected the Chinese exports, especially textiles.¹²⁶

According to the relevant provisions of GATT 1994 on national treatment, the importing country should not levy other taxes or fees on imported duty-paid items in such a discriminatory manner as to protect the domestic products. However, the Customs Tariff (Antidumping) Act provides that the extra consumer tax ‘wine tax’ is levied on imported wine in addition to

125 Information taken from table in *BRW*, 17–23 March 2005.

126 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report*, 2005, pp. 23–34.

the import duty. Such unjustified tax policy has increased the cost of wine importers, and therefore weakened the competitiveness of imported wine.¹²⁷

4.99 The Ministry also clearly identified what it held to be problems with gaining access to Australia's markets, particularly sanitary and phytosanitary (SPS) measures imposed on products imported into Australia, which remain an area of controversy. In its report on foreign market access, the Chinese Ministry of Commerce noted:

Such conservative and stringent sanitary and phytosanitary system adopted by Australia has brought great impediment to the access of foreign agricultural products to Australian market, and the mostly affected products of China include fruit, vegetable and certain cash crops.

As the basis for sanitary and phytosanitary measures, Import Risk Assessment (IRA) is a protracted process, and the technical standards involved are ambiguous. The AQIS, the agency conducting IRA, usually deals with one product from one country at one time with the result that many foreign products are unable to get the IRA and the import license in time. Other countries are calling for Australia to comply with the WTO rules of transparency by increasing transparency of the quarantine process. Philippine and EU has appealed successively to the WTO for a ruling on the reasonableness of the results of the IRA, which had served as the basis for rejecting their agricultural products.¹²⁸

4.100 It also identified a number of other impediments it believes creates difficulties for Chinese importers. They include:

- the system for administrating foodstuff which in China's view is 'very complicated and decentralized';
- the differences in food standards imposed by different states, which according to the report 'have brought about a lot of trouble for Chinese enterprises, and at the same time, make Chinese exporters more susceptible to Holding Orders';¹²⁹
- the approval and labelling system regarding bio-tech food which the report considered as harsh;
- the mandatory requirements on labels which have created 'an extra burden on manufacturers, packaging enterprises, importers, and retailers, in particular, the importers';

127 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report*, 2005, pp. 26–27.

128 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report*, 2005, pp. 29–30.

129 A holding order is an administrative mechanism ensuring future shipments of a failed food from a particular source are referred to the Imported Food Program and inspected at a higher rate than foods in the same category.

- the security certification or registration procedure on the import of medicine, which in China's view is not only complicated but also costly and has brought heavy burdens to relevant Chinese enterprises;
- the requirement to pass Australia's GMP accreditation which have increased the burden on Chinese manufacturers and impeded their exports to Australia;
- the comparatively lengthy period and costly expenses involved in the safety certification process for machinery and electronic products which, according to the report, 'have made it difficult for Chinese enterprises to introduce new products to the Australian market';
- various income subsidies granted by the Australian government to producers—the report cites high domestic production subsidy to dairy products, sugar and rice;
- the rules governing the employment of foreign labour as well as the qualifications of companies providing guarantee for foreign labour;
- difficulties in obtaining working visas; and
- the high rejection rate for the short-term business visa.¹³⁰

4.101 The findings outlined in the Ministry of Commerce's market access report are a reminder to Australians that trade is a two-way street. While Australia's interests are centred on the removal of impediments to gaining access to China's markets, it should also be cognisant that the Chinese perceive real obstacles to conducting business in Australia.

Conclusion

4.102 Clearly, the business environment in China presents challenges for Australian enterprises doing business there. This chapter has discussed in broad terms the various impediments to trade between Australia and China. Trade barriers, however, do not apply uniformly across sectors or indeed to specific products. The following chapters examine a number of specific sectors that are of major importance to Australia's trade with China and which highlight and expand on aspects of the trading partnership, including barriers to trade.

130 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report*, 2005, pp. 23–34.

Chapter 5

Trade in agriculture

5.1 This chapter examines recent developments in China's agricultural sector and Australia–China trade in agricultural products. Of particular interest is the shifting pattern of food consumption in China, the Chinese government's commitment to reduce farmers' taxes, and the growing export opportunities in China for Australian agricultural producers.

Recent developments in China's agricultural sector

5.2 The structure of China's agricultural industries is changing in response to changing consumer preferences. Increasingly, Chinese consumers are including vegetables, fruits, meats and dairy products in their diet. The consumption of traditional staples, such as grains and rice, is declining.¹

5.3 These changing consumption patterns, and the absolute increase in demand for agricultural products, reflect China's rapid economic growth and urbanisation. Urban incomes tend to be higher than those in rural areas and the proportion of urban to rural dwellers has increased sharply in recent years. In 2003, rural households' consumption of grain products was 222 kilograms, compared with 80 kilograms per urban household. Rural households' consumption of fruit, eggs and milk was significantly lower than that for urban households, albeit at lower absolute consumption levels than for the traditional staples.²

5.4 Between 1975 and 2002, higher disposable income in China contributed to a fivefold increase in the consumption of vegetables, fish and meat, measured in calories per person.³ The consumption of fruit and eggs increased eightfold. An international comparison shows that China's 2002 consumption of fish per person was higher than Australia's. The same year, China's per person consumption of vegetables was the highest of any nation in East, South or South East Asia, and more than two-and-a-half times the intake per Australian.⁴

5.5 Traditionally, agricultural self-sufficiency has been a key policy of the Chinese government. Its market reforms since the late 1970s, and improvements in technology, have enabled the sector to meet these growing and changing consumer

1 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. iii.

2 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 6.

3 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 5.

4 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 5.

demands. Indeed, for many products, China's share of global output in 2002 either exceeded, or was equal to, its share of global population. Table 5.1 shows that these products include pork (2.2), vegetables (2.0), eggs (2.0), tobacco (1.7), rice (1.6), rapeseed (1.3), corn (1.0) and cotton (1.0).⁵ The output to population ratio is low for products including fruit (0.7), beef (0.4), sugar cane (0.3) and milk (0.1).

5.6 Over the past decade, the changes in consumer preferences in China have contributed to a shift in Chinese production from land intensive products such as grains and cereals, towards labour intensive goods including meat, fruit, vegetables and dairy goods. As a result, the area of land harvested has fallen.

5.7 A good example is the case of wheat. Over the period 1997–98 to 2003–04, the area harvested in the production of wheat fell from 30.1 to 22 million hectares. Over the same period, China's production of wheat fell from 123.3 to 86.5 million tonnes, while domestic wheat consumption fell from 109.1 to 104.5 million tonnes. Since 2000–01, China's domestic consumption of wheat has exceeded domestic production. In 2000–01, China imported 0.2 million tonnes of wheat; in 2003–04, it imported seven million tonnes.

Table 5.1: China's food self-sufficiency

	Share of global output relative to share in global population (2002)
Pork	2.2
Vegetables and melons	2.0
Eggs	2.0
Tobacco	1.7
Rice	1.6
Rapeseed	1.3
Corn	1.0
Cotton	1.0
Wheat	0.9
Poultry	0.9
Fruit	0.7
Soybeans	0.4
Beef and veal	0.4
Sugar cane	0.3
Milk	0.1

5 See P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 3. A ratio of 1.0 means China's share of global output of that product is equal to its share in global population.

Recent developments in China's rural incomes and trade policy

5.8 The single-most important shift in China's agricultural policy was the introduction of the system of 'household responsibility' in the late 1970s. The system gave production incentives for farmers that have increased over time to allow farming production to respond quickly to changes in urban consumption patterns.⁶ However, real farming income has fallen as production costs increase and agricultural prices fall.⁷

5.9 The Chinese government has been increasingly concerned at the widening disparity between the incomes of rural peasants and a growing urban middle class.⁸ The plight of China's 900 million farmers—and the damage caused by the government's agricultural policies—was recently depicted in the Chinese bestseller 'A Survey of Chinese Peasants'.⁹

5.10 The book makes the point that the proliferation of taxes and local fees has greatly increased the tax burden on farmers. In the period 1994–97, the average agricultural income grew by 90 per cent; the rural tax burden increased by 800 per cent.¹⁰ The most recent estimate is that a farmer pays three times as much in tax as a city dweller, on a sixth of the income.¹¹

5.11 In March 2004, Premier Wen Jiabao announced that agricultural tax would be eliminated over five years, with permission for provincial authorities to accelerate the rate of reduction.¹² The decision is part of the government's broader policy of subsidising rather than taxing farmers, and ends the centuries' old practice of paying taxes based on family size and acreage area. Official statistics record that in 2004, these policies increased the net welfare of Chinese farmers by \$US5.4 billion.¹³

5.12 In June 2005, Premier Wen announced that farmers would be exempt from agricultural tax from 2006, three years ahead of schedule. The central government would increase transfer payments—by \$US1.7 billion—to offset the revenue decreases in local budgets.¹⁴ Still, the direct subsidies and tax reductions have been

6 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

7 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

8 See also Chapter 2, paragraphs 2.39–2.48.

9 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

10 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

11 R. Spencer, 'Expose of poverty in China shames regime', *News Telegraph*, 25 February 2004, <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2004/02/25/wchina25.xml&sSheet=/news/2004/02/25/ixworld.html> (accessed 6 September 2005).

12 R. Spencer, 'Expose of poverty in China shames regime', *News Telegraph*, 25 February 2004.

13 Xing Qinjiao, 'Agricultural tax to be scrapped from 2006', *China Daily*, 3 June 2005.

14 Xing Qinjiao, 'Agricultural tax to be scrapped from 2006', *China Daily*, 3 June 2005.

estimated to average only \$US5 per rural household member, and the assistance has not provided farmers with strong incentives to increase plantings.¹⁵

5.13 Moreover, although the decision to scrap agricultural taxes is significant, the task of alleviating rural poverty requires far bolder measures. Professor Jiang Wenran, a political scientist from Alberta University, has argued that these decisions usually fall short of expectations. He noted that Premier Wen's predecessor, Zhu Rongji, also prioritised reducing the rural tax burden and increasing rural income:

Yet the situation only worsened. China's government must acknowledge that deep income inequality and rural poverty are no longer exclusively economic problems, but threaten social peace and political stability. Comprehensive reform is the only way out.¹⁶

5.14 An important plank of this reform will be to overhaul the *hukou*—or household registration—system. This system was introduced by Chairman Mao in 1958 as a means for the new Communist government to keep track of its population. Its effect has been to restrict the movement of people from rural to urban areas, and to exacerbate the gap between these areas in income and social benefits. Despite the movement of 100 million farmers to urban areas over the past 25 years, the *hukou* system has offered either limited residency rights or deported these citizens back to their home provinces.¹⁷

5.15 A recent World Bank report estimated that reform of the *hukou* system could increase rural wages by 17 per cent and allow 28 million people to leave agriculture.¹⁸ Even the official China Daily has argued that the *hukou* system has 'hindered national development by barring the free flow of educated professionals'.¹⁹ There have been signs over the past five years that the ruling State Council may abolish the system. However, the concessions granted to date have been minor.

5.16 The other aspect of China's agricultural policy is trade policy. Coinciding with market reforms beginning in the late 1970s, China has gradually eased its agricultural tariff barriers and begun reforming its foreign exchange system. As chapter 4 discusses, the key milestone was China's accession to the World Trade Organization (WTO) in 2001. In return, China made a commitment to reduce its maximum tariff level for agricultural products from 22 per cent to 17 per cent by 2005. Peter Gallagher of Inquit Communications has observed:

15 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

16 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

17 M. Dwyer, 'A moving experience', *Australian Financial Review*, 10 August 2001.

18 C. Ryan, 'WTO quantifies China's economic role', *Australian Financial Review*, 23 February 2005, p. 12.

19 M. Dwyer, 'A moving experience', *Australian Financial Review*, 10 August 2001.

China's WTO schedule sets a benchmark for developing country agriculture and puts some earlier new-industrializers such as Japan to shame for maintaining during the past forty years a panoply of border barriers on agricultural products ranging up to hundreds of percent on an *ad valorem* basis.²⁰

5.17 The Chinese government has also frequently employed tariff quotas to influence market access for agricultural imports according to levels of domestic production. For agricultural commodities in which China is a net exporter, tariff quotas have generally been low.²¹ In general, China's tariff quotas for agricultural commodities have increased in the years since 2001 to allow for further increases in imports. In 2003, the only major agricultural import that exceeded the set quota was cotton.²²

5.18 Chapter 10 looks more closely at China's achievements in liberalising agricultural protection under the WTO. Some of the agricultural issues relating to non-tariff barriers are discussed later in this chapter.

Australia–China trade in agricultural products

5.19 In 2004, China's agricultural imports from Australia totalled \$US2.41 billion, consisting mainly of wool, wheat, barley, cotton, meat and dairy products.²³ The same year, Australia's agricultural imports from China totalled \$US233 million.²⁴ The principal Chinese imports included sugar confectionery, biscuits, pasta, frozen vegetables, sauces and peanuts. Since 1995, trade in agricultural products between Australia and China has increased at an annual average rate of 8.8 per cent.²⁵

5.20 Mr Gallagher noted that apart from wool and cotton, 'China is still a small market for Australian agricultural exporters'.²⁶ He calculated that only six per cent of total Australian agricultural exports are sourced to China. Indeed, Table 5.2 shows

20 P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 7.

21 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

22 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 21.

23 Department of Agriculture, Fisheries and Forestry, Opening Statement, *Committee Hansard*, 20 June 2005, p. 2.

24 Department of Agriculture, Fisheries and Forestry, Opening Statement, *Committee Hansard*, 20 June 2005, p. 2.

25 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 19.

26 P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 4. Mr Gallagher established Inquit Communications in 1996 as a consultancy providing advice to the WTO on international trade and public policy matters.

that only three agricultural commodities—wool, wheat and barley—are among the top ten Australian exports to China. The other seven are mineral exports.

5.21 However, in terms of the agricultural produce that China imports, Australia is a dominant supplier. Table 5.3 shows that Australia is China's largest supplier of barley, beef and wool, and the second largest supplier of rapeseed and sheep and goat meat.

Table 5.2: China's top 10 merchandise imports from Australia (\$US million)

	2001	2002	2003	2004
Iron Ore	945	995	1,632	3,346
Alumina	523	589	998	1,103
Wool	639	682	588	900
Crude petroleum	154	242	445	467
Coal	28	146	208	387
Wheat	8	10	1	364
Gases	74	87	127	273
Aluminium	96	135	196	261
Barley	211	229	133	239
Manganese Ores	46	56	104	227

Source: 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Canberra, and Ministry of Commerce, Beijing, March 2005, p. 14. Note: Ranking based on 2004 values.

Table 5.3: Australia's prominence as an agricultural importer to China

Australian exports to China	Ranking and percentage share among world suppliers (average, 2001–03)	Value (2004 in \$US, millions)
Cotton	4 th (6.3%)	178
Wool	1 st (62.9%)	900
Dairy	3 rd (16.6%)	118
Beef	1 st (85%)	n.a.
Sheep meat	2 nd (23.2%)	155
Barley	1 st (60.7%)	239
Wheat	3 rd (7.7%)	364
Rapeseed	2 nd (25.2%)	n.a.
Horticulture	15 th (0.2%)	n.a.

Source: Dairy Australia, *Australian Dairy Industry Submission to the Australia–China Free Trade Agreement Joint Feasibility Study*, Department of Foreign Affairs and Trade, Canberra, 2004; China FTA Study Taskforce and Department of International Trade and Economic Affairs, 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Canberra, and Ministry of Commerce, Beijing, 2005.

Note: The percentages for wheat, cotton and beef are based on the 2004 calendar year. The value for wool is an average of 2001–03 exports; the value for dairy exports is based on the 2002 calendar year.

5.22 Furthermore, the absolute figures obscure the significant recent increases in the volume of specific Australian primary exports to China, and several other strong prospects for primary commodity exports.

5.23 Table 5.4 is reproduced from a July 2005 Australian Bureau of Agriculture and Resource Economics (ABARE) report. It shows substantial increases in the dollar volume of Australian cotton, meat, dairy products and live animal exports to China. The falling volume of other exports, such as grain, oilseeds and sugar, has been influenced by climatic factors. The other notable feature is that the value of Australian food and live animal exports to China is nearly eight times the value of China's food and livestock exports to Australia.

Table 5.4: Australian agricultural exports to China

Exports to China	1999–2000 (\$m)	2000–01 (\$m)	2001–02 (\$m)	2002–03 (\$m)	2003–04 (\$m)
Wool	855	1 200	1 320	1 309	1 066
Hides and skins	82	182	156	131	176
Cotton	10	26	28	58	185
Grains	84	339	510	332	265
Oilseeds	406	108	137	21	2
Live animals	11	12	13	42	124
Processed meats	63	75	94	97	115
Dairy foods	31	64	96	81	74
Sugar	17	24	88	99	44
Total	1 559	2 030	2 432	2 170	2 051
Imports from China (food and live animals) (\$m)	125	152	212	242	264

Source: I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', Australian Bureau of Agricultural and Resource Economics, July 2005, p. 22.

Wool

5.24 The Department of Agriculture, Fisheries and Forestry (DAFF) noted in its submission to the committee that wool has traditionally been the major Australian agricultural export to China.²⁷ Some figures support the strength of Australian wool's export performance and prospects.

- China is Australia's largest wool market. In 2002–03, 40 per cent of Australia's wool clip was exported to China.²⁸ Between 2003 and 2004, the value of Australian wool exports to China increased by 33 per cent to \$A1,243 million.²⁹
- In 2004, wool was Australia's highest agricultural export earner in China.³⁰ It was second only to iron ore as Australia's main export earner in China (\$A2,446 million).³¹
- In 2003, the volume of China's wool imports from Australia was almost two-thirds of China's total wool imports (108 million of 173 million tonnes), and was nearly half China's average wool production for that year.³² The most recent estimate is that Australia supplies 70 per cent of China's wool imports.³³
- The Chinese Customs Bureau records that the import of Australian wool has fallen from 200,453 tonnes in 2001 to 151,390 tonnes in 2002 to 107,647 tonnes in 2003.³⁴
- The Woolmark Company has estimated that China's apparel wool demand at the manufacturing stage will grow from 256 million kilograms in 2004 to 367

27 Department of Agriculture, Fisheries and Forestry, *Submission P41*, p. 2.

28 B. Fargher, National Farmers' Federation, *Committee Hansard*, 22 June 2005, p. 14.

29 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

30 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

31 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

32 *Submission P41*, p.15. See also, Australian Wool Limited *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15 (Table 9).

33 Australian Wool Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf (accessed 6 October 2005).

34 Australian Wool Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf (accessed 6 October 2005).

million kilograms in 2010.³⁵ Australian Wool Innovation Limited anticipates that 'Australia could be expected to take a substantial share of this rising demand for wool'.³⁶

5.25 DAFF's submission identifies strong prospects for Australia's wool exporters in China given that:

Chinese domestic wool production is predominantly broad micron, with imports from Australia traditionally representing finer wool types destined for use in China's finer textiles and apparel.³⁷

5.26 Similarly, an October 2005 report prepared for Australian Wool Innovation Limited (AWI) noted that while China produced more than 120,000 tonnes of fine wool a year, only 19,000 tonnes of this would compete with the 153,000 tonnes imported from Australia.³⁸ AWI's submission to the committee noted that production of fine and superfine wool (of 19.5 micron and finer) accounted for 32 per cent of total Australian production in 2003–04. In 1992–93, this type of wool accounted for only nine per cent of total Australian production.³⁹ The 2005 AWI report argued that the overlap between the Australian and Chinese wool industries is 'minimal'.⁴⁰

5.27 Mr Craig Burns, DAFF's General Manager of Trade Policy, told the committee that while there are significant wool-growing regions in western China, China's wool is 'of different quality to ours'.⁴¹ Nonetheless, Mr Burns acknowledged a perception in China that their wool producers feel threatened by Australian wool

35 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 7, http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf (accessed 20 October 2005).

36 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 7, http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf (accessed 20 October 2005).

37 Australian Wool Limited, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 15.

38 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 8, http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf (accessed 20 October 2005). See also J. Breusch, 'Producers' spin for China', *Australian Financial Review*, 11 October 2005, p. 11.

39 Australian Wool Limited, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 11.

40 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 14, http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf (accessed 20 October 2005).

41 C. Burns, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

imports. Mr Paul Morris, DAFF's Executive Manager of Market Access, commented: 'Clearly they are trying to protect their small ethnic minorities in some of the outer regions, including Inner Mongolia and in the western provinces'.⁴²

5.28 The committee heard that most Australian wool is exported to China in raw form, where it is then processed. The processed Australian wool has tended to be 'a bit uncompetitive'.⁴³ The committee supports current initiatives by the Australian wool industry to establish research and development alliances with Chinese designers and retailers, and to promote Australian joint ventures in China.⁴⁴

Cotton

5.29 China produces five to six million tonnes of cotton annually, which is roughly 25 per cent of world production. Between 2001 and 2003, Australian production averaged 0.5 million tonnes, or 2.3 per cent of world production.

5.30 Whereas most of China's cotton production is consumed domestically, 90 per cent of Australian cotton production is exported.⁴⁵ Australia is the fourth largest supplier of cotton to China, although Chinese demand for cotton imports can vary markedly from year to year. China's cotton imports of 208,000 tonnes in 2002 increased to 1,984,000 tonnes in 2004.⁴⁶ Between 2003 and 2004, the value of Australian cotton exports to China increased by \$A142 million, or 210 per cent.⁴⁷

5.31 One of the key factors promoting Australian cotton exports to China will be further appreciations of the Chinese yuan.⁴⁸ In July 2005, Queensland Cotton Holdings Chief Executive, Mr Richard Haire, highlighted the importance of international trade issues such as the value of the Chinese currency to the domestic industry.⁴⁹ Moreover, the committee notes the opportunities for Australian cotton exporters given the size of China's textile industry and the fact that it has not moved to become self-sufficient in cotton.

42 P. Morris, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

43 P. Morris, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

44 Australian Wool Innovation Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, pp. 7 and 23, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf (accessed 28 September 2005).

45 *Submission P41*, p. 8.

46 *Submission P41*, p. 8.

47 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

48 In July 2005 the People's Bank of China pegged the yuan to a basket of foreign currencies and strengthened its value by 2.1 per cent—from 8.27 yuan to the US dollar to 8.11.

49 T. Lee, 'Chinese revaluation strengthens case for takeover: cotton boss', *Australian Financial Review*, 26 July 2005, p. 17.

Barley and wheat

5.32 Between 2001 and 2003, Australia's barley production was more than double China's. Over this period, China's production of barley (3 million tonnes) was outstripped by its consumption (4.9 million tonnes).⁵⁰ Barley imports from Australia accounted for an average 1.1 million tonnes of this 1.9 million tonne shortfall.

5.33 China's wheat production averaged 90 million tonnes between 2001 and 2003, compared with Australia's 19 million tonnes. Of this amount, Australia exported an average of 14 million tonnes of wheat annually, of which 43,964 tonnes (0.3 per cent) was exported to China. Australia is China's third largest importer of wheat behind the United States and Canada.⁵¹

5.34 The State of Western Australia is the principal exporter of both wheat and barley to China. In 2003–04, Western Australia contributed 99 per cent of Australia's wheat exports (\$A165 million) and all of Australia's barley exports (\$A25 million) to China.⁵² Remarkably, in 2000–01, the state's share of wheat exports to China was only 33 per cent or a little over \$A5 million.⁵³ The committee heard that climatic factors in Australia were the principal cause for the sharp increase in exports.⁵⁴

5.35 In October 2003, coinciding with the announcement of the Trade and Economic Framework (see Chapter 11), China and Australia signed a protocol on wheat and barley exports. Under the terms of the protocol, China's quarantine authority agreed to remove ring spot as a pest for Australian wheat and barley exports to China for processing.⁵⁵ The importance of quarantine and non-tariff or 'beyond the border' issues for Australian agricultural exporters to China are discussed later in this chapter.

Dairy foods

5.36 As mentioned earlier, the rising affluence and urbanisation of China's middle class is leading to greater consumption of dairy goods. Table 5.1 shows that China's self-sufficiency in milk, soy beans and sugar cane is low. Dairy Australia stated in its submission to DFAT's FTA Joint Feasibility Study that the Chinese market for

50 *Submission P41*, p. 8.

51 *Submission P41*, p. 8.

52 Department of Premier and Cabinet, Government of Western Australia, *Submission P45*, p. 29.

53 Department of Premier and Cabinet, Government of Western Australia, *Submission P45*, p. 31.

54 V. Kelly, Western Australian Department of Agriculture, *Committee Hansard*, 1 August 2005, p. 25.

55 See The Hon. W. Truss, 'Australia and China sign new protocol for wheat and barley exports', Media Release, 24 October 2003, <http://www.maff.gov.au/releases/03/03300wt.html> (accessed 1 October 2005).

imported dairy products will continue to grow between 5 to 15 per cent per year for the next 10 years.⁵⁶

5.37 In 2002, Australia supplied roughly one quarter of China's imports of dairy products. Table 5.4 shows that Australia's exports of dairy goods and sugar cane to China account for a relatively small proportion of total Australian agricultural exports to China. Still, in the decade between 1993 and 2002, the value of Australian dairy exports to China rose from \$A2 million to \$A118 million. Most of this increase can be attributed to the surge in exports of skim and whole milk powder and whey and whey powder to China.⁵⁷

5.38 Equally, the fall in the export value of dairy products to \$A70 million in 2003 reflects the declining export volumes of these key products.⁵⁸ The reason for the fall is a combination of the drought in Australia, low world commodity prices for dairy products and the high value of the Australian dollar.

5.39 Dairy Australia anticipates that China's consumption of cheese will increase from its current low base as incomes increase and the diet westernises. It noted that 'most older Chinese still find the taste and smell of cheese offensive', but that consumption will probably increase as it has done in other North Asian countries.⁵⁹ The committee believes that Australian dairy exporters must continue to conduct careful market research on China. It may be that in some cases, Australian produce must be adapted to fit Chinese tastes.

Pork

5.40 Table 5.1 shows that pork is the agricultural product in which China has greatest self-sufficiency. The proportion of China's pork production relative to global output is more than double the proportion of China's population to world population. Not surprisingly, therefore, China is the world's largest pig producer.⁶⁰ Between 2001 and 2003, China's average annual pork production was almost 43.4 million tonnes compared with Australia's production of 0.4 million tonnes.

56 Dairy Australia, Australian Dairy Industry *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_2ag14.pdf (accessed 31 August 2005).

57 Whey is a by-product of cheese production. Dairy Australia predicts that whey powder will be replaced gradually by more specialised milk powders as incomes rise.

58 Dairy Australia, Australian Dairy Industry *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', p. 11.

59 Dairy Australia, Australian Dairy Industry *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', p. 12.

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

5.41 The two-way trade in pork is insignificant. China has not exported pork to Australia and has a number of well-publicised endemic diseases. Australian pork exports to China are restricted by both the high volume and low cost of China's domestic production. Nonetheless, Australian Pork Limited is optimistic that the Australian pork industry can capture a greater share of the Chinese market provided the current average tariff rates of 20 per cent are eliminated. In particular, it anticipates that 'as the Chinese market develops and consumer incomes rise, there are likely to be significant opportunities for high quality products from 'clean green' countries such as Australia'.⁶¹

Processed food

5.42 In its June 2004 submission to DFAT's FTA Feasibility Study, the Australian Food and Grocery Council noted the success of some Australian food producers in exporting to the 'more affluent quality focused Chinese consumers'.⁶² Indeed, highly processed Australian food exports to China have increased from \$21 million in 1996–97 to over \$100 million in 2002–03. Total Australian processed food exports to China were valued at \$600 million in 1996–97, rising to around \$900 million in 2001–02, before the drought reduced this value to \$658 million in 2002–03⁶³. China's spending on processed and unprocessed food increased from roughly 2100 billion yuan in 1997 to roughly 3200 billion yuan in 2004.⁶⁴ The committee notes the opportunities that China offers Australia's processed food exporters.

Recommendation 4

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

The role of Australian government agencies in agricultural trade with China

5.44 DAFF's role is to improve market access for Australian exporters in China. The committee heard that DAFF 'pursues requests prioritised by portfolio industries to

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

62 Australian Food and Grocery Council, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3.

63 Australian Food and Grocery Council, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 4.

64 C. Ryan, 'Rise of the big spenders', *Australian Financial Review*, 25 October 2005, p. 60.

improve or maintain market access for their products into China and negotiates with Chinese authorities on bilateral quarantine issues'.⁶⁵ It performs this function through a variety of forums.

5.45 First, DAFF raises portfolio issues through the Joint Ministerial Economic Commission. This is the main bilateral ministerial forum, held every two years. In the intervening years, DAFF officials also meet with their Chinese counterparts. In addition, a Joint Agricultural Commission meeting is held every three years.⁶⁶

5.46 Second, DAFF has devoted its own resources to the China relationship. In 2003, for example, the department appointed an agriculture counsellor to the Australian Embassy in Beijing.⁶⁷ It has also appointed an SES Band 2 officer to represent Australian agricultural interests in the negotiation of an FTA.

5.47 Third, DAFF plays an important role in several ongoing forums with Chinese officials on agricultural issues. In April 2004, for example, the department oversaw meetings:

- in Beijing for the Joint Working Group on Wool;
- in Guangzhou for discussions on market access for Australian horticultural imports; and
- in Beijing for discussions on animal and plant health, following the October 2003 Memorandum of Understanding on Sanitary and Phytosanitary Cooperation.⁶⁸

5.48 Fourth, DAFF has responsibility for promoting Australian joint ventures in China through the Australia–China Agricultural Cooperation Agreement (ACACA). Since the ACACA was signed in 1984, there have been more than 170 Australian projects approved across a wide range of agricultural and natural resource industries.⁶⁹

5.49 Fifth, DAFF has signed several Memoranda of Understanding (MOU) with various Chinese ministries to improve collaboration on agricultural issues.⁷⁰ In

65 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

66 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

67 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

68 This MOU was signed with China's General Administration of Quality Supervision Inspection and Quarantine.

69 See Department of Agriculture, Fisheries and Forestry, 'Background on ACACA', <http://www.daff.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A04223> (accessed 2 September 2005).

70 A list of existing bilateral trade and economic agreements across all portfolios can be found at http://www.dfat.gov.au/geo/china/fta/feasibility_annexes.pdf (accessed 1 October 2005).

October 2003, for example, DAFF signed an MOU on water resource management with China's Ministry for Water Resources.⁷¹

5.50 DAFF's lead role in the bilateral dialogue on agricultural issues is supplemented by agencies such as the Australian Centre for International Agricultural Research (ACIAR). According to ACIAR, its strategy on China focuses on:

...sustainability aspects of agricultural production through policy and technical projects on better management of water, land and forest resources in less-developed regions in northwestern and southwestern China. In addressing sustainable production, the need to raise farmers' incomes through increased productivity and quality of crops, livestock and forestry products is also addressed in project design.⁷²

The impact of free trade on Australian agriculture

5.51 Australia has a comparative advantage in land based agriculture—grains and broadacre crops—and in high quality dairy products. Chapter 11 finds that a comprehensive FTA would enhance significantly Australia's market access for these exports. The 2005 AWI report (paragraph 5.26) estimates that free trade with China could increase the value of Australia's wool exports by \$794 million.⁷³ Free trade would also enable Australian exporters to capitalise on China's growing demand for wool and dairy products.

Quarantine and 'beyond the border' issues for Australian exporters

5.52 Another key issue for Australian agricultural exporters in accessing the Chinese market is quarantine. China, as a member of the WTO, has obligations to apply a science-based approach to import risk-analyses. The WTO's sanitary and phytosanitary (SPS) measures serve to guide, rather than restrict, national quarantine rules. The SPS measures are respected internationally as a science-based framework for the protection of consumer safety and the promotion of trade. The general grievance with China's quarantine standards is that they are often inconsistent with WTO standards and are not obviously science-based.

5.53 The export of Australian wool to China is a good example. A submission from R. J. Quirk Consulting to the Joint FTA Feasibility Study in June 2004 noted that China refuses to recognise the internationally accredited status of WTO test certificates. All Australian wool exports are subject instead to the Chinese system of

71 See The Hon. W. Truss, 'Australia and China to co-operate on water resource management', Media Release, 24 October 2003, <http://www.maff.gov.au/releases/03/03301wt.html> (accessed 2 September 2005).

72 Australian Centre for International Agricultural Research, 'China—Country Profile', p. 11 [http://www.aciar.gov.au/web.nsf/att/ACIA-672VCD/\\$file/ACIAR%20China%20profile%2022Oct04.pdf](http://www.aciar.gov.au/web.nsf/att/ACIA-672VCD/$file/ACIAR%20China%20profile%2022Oct04.pdf)

73 See J. Breusch, 'Producers' spin for China', *Australian Financial Review*, 11 October 2005, p. 11.

mandatory inspection and retesting. Mr Quirk argued that China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) officials:

...claim that their local testing procedures are as good, if not better, than those of IWTO [International Wool Textile Organisation] but continually ignore the fact that it is physically impossible for their technicians to obtain representative samples for testing from dumped wool bales. IWTO procedures make provision for any suspect test results to be queried but AQSIQ refuses to recognise IWTO certificates and China's membership of IWTO.⁷⁴

5.54 In other industries, China's quarantine system significantly inhibits trade. Mr David Minnis, deputy chairman of the Australian Horticultural Exporters Association, claimed that Australian citrus producers remain excluded from the Chinese market after seven years of negotiations.⁷⁵ A major reason is China's protocol that Australian citrus must be held at temperatures close to zero during shipment. The export of Australian apples to China has been particularly problematic. Tasmanian apple growers do not have access to the China market because of quarantine measures requiring exporters to show that certain insect pests do not exist.⁷⁶ Yet, the types of pests that are screened do not exist in Tasmania.

5.55 Mr Morris told the committee that the department has been working 'for some time now' to get the Chinese to advance their import risk assessment system for citrus products so that trade can occur.⁷⁷ The Murray Valley Citrus Marketing Board highlights the opportunities in China for high-quality Australian citrus products, but adds that 'a more efficient and effective quarantine access approval process would be a very desirable outcome in any FTA negotiations'.⁷⁸

5.56 Currently, discussions on quarantine issues are generally left to specialised bilateral negotiations, such as those resulting in the Australia–China MOU on Sanitary and Phytosanitary Cooperation in October 2003. There have also been opportunities for Australian officials to have side discussions with their Chinese counterparts at the SPS committee in Geneva. DAFF did acknowledge to the committee that:

...in order that some of the gains we might get out of the FTA do result in real trade, we as a department need to move in parallel with the FTA in negotiations, trying to advance as best we can the scientific issues to do

74 R. J. Quirk Consulting, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', 15 June 2004, p. 2.

75 P. Hunt, 'Anger over China's fruit import rules', *Weekly Times*, 10 August 2005, p. 10.

76 P. Hunt, 'Anger over China's fruit import rules', *Weekly Times*, 10 August 2005, p. 10.

77 P. Morris, *Committee Hansard*, 20 June 2005, p. 7.

78 J. Tesoriero, Murray Valley Citrus Marketing Board, *Submission to the Joint FTA Feasibility Study*, 30 June 2004.

with quarantine market access, as we have over the last few years. Certainly we will be endeavouring to do that over the next little while.⁷⁹

5.57 He added:

We do have very good relationships with the quarantine authorities in China. We have been working for a long time on technical cooperation with the Chinese, and that work has included having some of their officials sit within our department for about three months at the end of last year so that they could become accustomed to how we operate. We put our counsellor there in 2003, and that has also helped to develop relationships with the quarantine authorities there. I think in the long run those relationships we are building will have a beneficial effect in terms of getting access.⁸⁰

5.58 A closely related concern for Australia's agricultural exporters is the variation in quarantine costs from province to province. Mr Steven Macmillan, a consultant from China Business Focus, told the committee that:

there is a testing procedure for wool that is imported into China and it has a small fee attached to it. That fee is set at the provincial government level and it differs from provincial government to provincial government. That is an example of something that should ideally be under the purview of the national government, being a foreign trade issue. But it is not, and it is unpredictable as a result of that.⁸¹

5.59 This imposition of a local fee provides another example of the problems Australian businesses confront at the provincial level. Chapter 4 has acknowledged that local government interference is a major impediment for Australian businesses operating in China and recommended a system for reporting these impediments to Austrade (recommendation 3).⁸²

Committee view

5.60 Australian agriculture stands to benefit significantly from China's rapid industrialisation and diversification of consumer tastes. It is well placed to capitalise on strong Chinese demand for milk and butter, and to build on its well-established foothold in China for its wool and grain exports. As a key agricultural supplier to the Chinese market, Australia will benefit from freer agricultural trade with China (see chapter 11).

5.61 The committee acknowledges the legitimate concerns of the Australian horticultural industry competing with low-cost Chinese producers. It supports the Australian government's October 2005 decision to strengthen food labelling laws by

79 P. Morris, *Committee Hansard*, Canberra, 20 June 2005, p. 8.

80 P. Morris, *Committee Hansard*, Canberra, 20 June 2005, p. 9.

81 S. Macmillan, *Committee Hansard*, 27 June 2005, p. 13.

82 Chapter 4, paragraphs 4.78–4.89.

requiring both packaged and many unpackaged products to display a specific country-of-origin label (see chapter 12).⁸³ The committee also supports stronger efforts to ensure China's quarantine rules are based solely on scientific assessment of import risk. Australia's policy of a more liberal agricultural trading relationship with China must not be damaged by quarantine, anti-dumping or tariff measures used to protect its own local industries. Accordingly, state assistance for Australia's horticultural industry must focus on reducing local production costs, capitalising on seasonal export opportunities and selling the merits of the high-quality Australian industry.

Conclusion

5.62 China's agricultural sector will be the focus of continuing rapid social and economic change. Roughly 60 per cent of China's population is employed or directly reliant on agriculture. Their wages are, on average, 40 per cent less than their urban counterparts.⁸⁴ Many have left agriculture in the hope of factory employment in urban areas: the *hukou* system restricts many more from leaving. Whether the government's policy to abolish rural taxes has slowed the movement from rural to urban areas is unclear. In any event, China will retain a strong comparative advantage in labour-intensive agriculture for some time yet. The government's ambition to treble the size of the national economy between 2000 and 2020 will depend principally on urban expansion. The welfare of the majority of China's people will depend on rising rural incomes.

83 'Growers in food label win', *Hobart Mercury*, 29 October 2005, p. 10.

84 J. Durie, 'Chanticleer in China', *Australian Financial Review*, 24 September 2005, p. 64.

Chapter 6

Trade in manufactured goods

6.1 This chapter looks at Australia–China trade in manufactured goods. In contrast to the trade relationship in agricultural products, China's economic strength is in the production and export of a wide range of cheap, high-quality and increasingly high-tech manufactures. Forty per cent of China's GDP is from exports of manufactures. This chapter considers the concerns of Australian manufacturers competing with low cost, high volume Chinese imports. It also examines the strategic opportunities for Australian manufacturing companies both to export and to invest directly in China.

6.2 The chapter is divided into five parts:

- the first looks at recent developments in China's manufacturing sector, particularly the changing composition of its exports;
- the second part gives an overview of Australia–China trade in manufactured products;
- the third part provides survey-based evidence of Australian manufacturers' attitudes to China, and widely held perceptions of China's unfair competitive advantage in manufacturing;
- the fourth part presents survey-based evidence on how Australian manufacturers have responded to China's export manufacturing sector, and committee witnesses' views on the best strategy for Australian manufacturers to capitalise on China's supply chains and growing consumer demand; and
- the chapter concludes with the committee's options and recommendations for the Australian manufacturing sector to respond to China's challenge.

Recent developments in China's manufacturing sector

6.3 The story of China's rise as an industrial power makes prominent reference to its economy's manufacturing prowess. Cheap labour and imported manufacturing equipment have provided the basis for a phenomenal export performance.

6.4 Table 6.1 shows that in the 20 years from 1980 to 2000, exports from China increased in value from \$US18.1 billion to \$US249.2 billion.¹ In the 2004 calendar year, the value of China's exports was \$US593.4 billion.² The table shows that in the

1 J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 80.

2 'Brief on China's imports and exports', Ministry of Commerce of the People's Republic of China, <http://english.mofcom.gov.cn/aarticle/statistic/ie/200503/20050300025384.html> (accessed 7 September 2005).

decade since 1995, the value of China's exports has increased by more than 400 per cent.

Table 6.1: China's exports, 1980–2000

	1980	1990	1995	2000	2004*
Total exports (\$US 'billion)	18.1	62.1	148.8	249.2	593.4
Primary products (%)	53.4	25.6	14.4	10.2	6.5
Manufactured goods (%)	46.6	74.4	85.6	89.8	93.5
<i>TCF (%)</i>	22.9	24.9	28.6	24.9	14.6
<i>Machinery and electronics (%)</i>	n.a.	17.9	29.5	42.3	55.7

Source: J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 83. * 2004 figures are based on China Customs data, <http://english.china-customs.com/customs-statistic/> (accessed 7 September 2005).

6.5 The basis for this performance was a marked increase in the volume of manufactured exports. In 1980, manufactured exports accounted for 47 per cent of all China's exports: primary products accounted for 53 per cent. In 2000, manufactured exports had increased their share of total Chinese exports to 90 per cent while the share of agricultural exports had fallen to 10 per cent.³

6.6 Table 6.2 shows the composition of China's exports for selected months between January 2002 and October 2004. The total value of China's exports more than doubled between these months. The ratio of manufactures to primary product exports (as a percentage of total exports) for each of the four months was in excess of 9 to 1. The value of manufactured exports increased from around \$US20 billion for January 2002 to over \$US49 billion for October 2004. The value of primary products as a percentage of total exports fell slightly from 8.2 per cent for January 2002 to 6.5 per cent for October 2004.

3 J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 83.

Table 6.2: China's export performance for selected months (\$US '000)

Commodity	Jan 2002	Oct 2002	Oct 2003	Oct 2004
Total	21,703,291	29,946,376	40,925,906	52,523,879
Primary products	1,786,843 (8.2%)	2,480,600 (8.3%)	2,926,423 (7.2%)	3,437,572 (6.5%)
Manufactures	19,916,448 (91.8%)	27,465,776 (91.7%)	37,999,483 (92.8%)	49,086,306 (93.5%)
<i>Chemicals</i>	1,099,593	1,282,678	1,657,216	2,377,504
<i>Machinery and transport equipment</i>	7,904,931	11,889,336	18,192,336	23,750,262
<i>Manufactured goods classified as raw materials</i>	3,599,177	4,673,600	5,941,384	8,833,998

Source: General Administration of Customs, People's Republic of China. Figures in brackets denote proportion of primary products and manufactures which account for total exports. <http://www.iwep.org.cn> (accessed 7 September 2005).

The changing composition of China's manufactured exports

6.7 The surge in China's manufactured exports has been driven by a significant shift in the composition of these exports. Professor John Wong and Ms Sarah Chan, from the National University of Singapore, explained that:

[B]efore 1995, traditional labour-intensive manufactures like textiles, clothing and footwear (TCF) used to dominate China's export structure. More recently, China's manufactured exports experienced a radical change in composition, marked by the rise of non-traditional items like machinery, electronics and other high-technology products. Few economies have ever achieved such remarkable export diversification within such a short span of time...rapidly gaining comparative advantage in capital-intensive manufactures even before it begins to lose comparative advantage in labour-intensive activities.⁴

6.8 In 1995, China's TCF exports and machinery and electronics exports accounted for 28.6 per cent and 29.5 per cent of total exports respectively. In 2000, the share of TCF exports had fallen to 24.9 per cent while machinery and electronics exports had increased to 42.3 per cent of total Chinese exports. China's customs figures for the 2004 calendar year show that the proportion of TCF exports had fallen to 14.6 per cent of the value of total Chinese exports. The value of China's machinery and electronics exports had increased to 55.7 per cent of total exports (see Table 6.1).

6.9 Table 6.3 shows China's major export manufactures for 2004. The highest value exports were of data processing machines (\$US60 billion), textile garments

4 J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 81.

(\$US50.1 billion) and footwear (\$US15.2 billion). The highest year-on-year growth rates for 2004 exports were for steel products (168 per cent), motor vehicles (82 per cent), radios (65 per cent) and televisions (58 per cent).

Table 6.3: China's major manufactured exports (2002, 2003, 2004, 2005)

	Jan–Dec 2002 (\$US billion)	Jan–Dec 2003 (\$US billion)	Jan–Dec 2004 (\$US billion)	Jan–Jun 2005 (\$US billion)
Data processing machines	20.1	41	60	33.5
Textile garments	33.9	42.2	50.1	26
Footwear	11.1	13	15.2	8.8
Radios	5.3	7.4	14.2	8.2
Steel products	2.2	3.1	8.4	7.3
Toys	5.6	6	6.4	2.5
Televisions	2.4	3.5	5.5	3.3
Electric motors	2.2	2.4	2.9	1.6
Motor vehicles	.26	.43	.78	.74

Source: China Customs Information Network, <http://english.china-customs.com/customs-statistic/> (accessed 7 September 2005).

6.10 Table 6.1 shows that in 2004, China's TCF exports accounted for only 15 per cent of total Chinese exports. Their contribution to China's overall export performance has more than halved since 1995.⁵ Table 6.3 shows that the rate of recent increase in TCF exports is moderate compared with the export boom in data processing machines, steel products, televisions and motor vehicles. In the six months from January to June 2005, the value of China's steel product and motor vehicle exports was approaching the value of these exports for the entire 2004 calendar year.⁶ The January to June 2005 value of TCF exports was roughly half their total 2004 value.

6.11 Still, Table 6.3 does show that the value of China's TCF exports progressively increased over the period. The value of textile exports for recent calendar year is significantly higher than for most manufactures. The TCF sector remains crucial to China's export performance and is the exemplar of China's comparative advantage in low cost, low-tech production. To certain markets and for certain items, the volume of

5 The 1996 Senate Committee report into Australia–China relations noted that 'in recent years', TCFs had declined as a share of total Chinese imports to Australia from 60 per cent to 40 per cent. 'Australia China relations', *Senate Foreign Affairs, Defence and Trade References Committee*, June 1996, p. 129.

6 China Customs Information Network, 'China's 20 major export products and top 5 trade countries', <http://english.china-customs.com/customs-statistic/> (accessed 13 September 2005).

China's TCF exports has increased exponentially since the World Trade Organization's abolition of clothing import quotas on 1 January 2005.

The growth and impact of China's machinery and electronics exports

6.12 China's rising comparative advantage in the production and export of non-traditional manufactures, such as electronics, is attributable to increased foreign direct investment (FDI) in Dongguan and Shenzhen in Guangdong province and in Shanghai (see map on page xxxi).⁷ Total FDI in China has increased from \$US44.2 billion in 2001 to \$US54.9 billion in 2004.⁸ In 2003, the volume of FDI in China was comparable to inward investment in the US economy (\$US67 million).⁹ A 2005 OECD paper on recent trends and developments in FDI noted:

Inward FDI into the Chinese economy keeps hitting new records... There is little doubt that Hong Kong-based investors account for much of the direct investment into the mainland, but it would be too simplistic to ascribe the boom in Chinese FDI simply to 'round-tripping' of investment...¹⁰

6.13 Another explanation for China's growing high-tech manufacturing sector is the large-scale import of components from East Asian economies. From the 1980s to early 1990s, Japan exported electronic components to the Republic of South Korea and Hong Kong for assembly into finished products. Since the mid-1990s, Japan, the Republic of South Korea and Taiwan have produced components and shipped them to China for assembly.¹¹ Unlike China's TCF sector, its growing manufacturing prowess is built on labour-intensive specialisation in regional production chains.¹²

6.14 Undoubtedly, China's rise as a global manufacturing centre has impacted on regional East Asian economies. Writing in 2000, Professor Wong and Ms Chan argued that the development of a high-tech Chinese manufacturing sector has:

...apparently resulted in most ASEAN economies experiencing a severe hollowing-out of their industries. China's manufacturing prowess, manifested in its ability to produce an unprecedented range of products, has

7 J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 85.

8 OECD, *Recent trends and developments in foreign direct investment*, 1995, p. 10, <http://www.oecd.org/dataoecd/13/62/35032229.pdf> (accessed 13 September 2005).

9 OECD, *Recent trends and developments in foreign direct investment*, 1995, p. 3, <http://www.oecd.org/dataoecd/13/62/35032229.pdf> (accessed 13 September 2005).

10 OECD, *Recent trends and developments in foreign direct investment*, 1995, <http://www.oecd.org/dataoecd/13/62/35032229.pdf> (accessed 13 September 2005). 'Round-tripping' refers to capital flight out of a country, and then foreign direct investment back in.

11 Australian Chief Executive, 'China's industrial rise: East Asia's challenge', *CEDA*, November 2003, p. 36.

12 Department of Foreign Affairs and Trade, *China's Industrial Rise: East Asia's Challenge*, Economic Analytical Unit, Canberra, October 2003, p. x.

alarmed ASEAN countries whose markets are now swarming with China's high-quality but inexpensive goods...China's economic resurgence underscores the need for ASEAN to accelerate structural domestic reform and will compel ASEAN economies to base their future economic growth on their true comparative advantage.¹³

6.15 However, in 2003, a DFAT report titled *China's Industrial Rise: East Asia's Challenge* found that:

[O]nce trade flows associated with...integrated production chains are factored in to analyses of regional net trade flows, no overall trend emerges of Chinese exports encroaching on its neighbours' export markets.¹⁴

The report notes that many economies in the region are changing their production mix to compete less directly with China.

- Singapore has moved out of labour intensive sectors and is focussing on higher-technology exports, where it has a comparative advantage. Half of Singapore's net exports compete with China's.
- Japan has also been shifting its production from labour intensive industries—such as assembled computers—and into products such as video and digital cameras.¹⁵ The report estimates that only 18 per cent of Japan's net exports compete with China's—the lowest of the major East Asian economies.
- The Republic of South Korea competes with China in roughly half of its export sectors 'but continues to expand exports of these products regardless, at a similar rate as China'.¹⁶ South Korea does benefit from the export of high-technology components to China for assembly.
- Indonesia competes with China in almost half of its net export markets while almost two-thirds of Malaysia's net exports are in competition with China's. However, the report found that both countries had been able to increase their net exports in these sectors. Both countries' main trading partner is the United States.

6.16 The DFAT report highlights the complementarity of the China–Australia trading relationship. It therefore sees China's growing capacity for assembling high-

13 J. Wong and S. Chan, 'China's emergence as a global manufacturing centre: Implications for ASEAN', *Asia Pacific Business Review*, Vol. 9, No. 1, Autumn 2002, p. 91.

14 Department of Foreign Affairs and Trade, *China's Industrial Rise: East Asia's Challenge*, Economic Analytical Unit, Canberra, October 2003, p. x.

15 Department of Foreign Affairs and Trade, *China's Industrial Rise: East Asia's Challenge*, Economic Analytical Unit, Canberra, October 2003, p. xi.

16 Department of Foreign Affairs and Trade, *China's Industrial Rise: East Asia's Challenge*, Economic Analytical Unit, Canberra, October 2003, p. xi.

tech articles and processing raw materials as an advantage for Australian exporters.¹⁷ Chapter 2 of this report made the same observation.

6.17 However, the 'big picture' trade relationship overlooks the challenges facing import-competing Australian producers in certain industries. An April 2004 *ANZ Industry Brief* explains that:

...the range of Chinese merchandise available on the local market provides competition across a wide range of Australian manufacturing. Those industries will be most adversely affected through price competition. The only manufacturing sectors likely to be largely unaffected by the growth in imports from China are those with relatively low import penetration rates...Those industry sectors having the highest import penetration rates are most likely to be significantly adversely affected...¹⁸

6.18 The next section looks at the trends and composition of Australia–China trade in manufactured products, and identifies the Australian manufacturing industries facing fiercest competition from Chinese imports.

Australia–China trade in manufactures

The deficit with China in elaborately transformed manufactures (ETMs)

6.19 The most prominent feature of Australia–China trade in manufactures is Australia's large and growing deficit in elaborately transformed manufactures (ETMs). Put simply, Australia's imports of ETMs from China far exceed its exports of ETMs to China. In 2004, Australia imported \$A15.9 billion of ETMs from China and exported \$A1.0 billion of ETMs to China.¹⁹

6.20 The main reason for the growth in this deficit with China is the recent surge in Australia's imports of China's ETMs. In 2004, ETM imports from China increased 27.7 per cent on the previous calendar year: ETM imports from the US fell 0.5 per cent and increased from Japan by three per cent. In 2004, Australia's exports of ETMs to China increased four per cent on the previous calendar year: ETM exports to the US rose 2 per cent and fell to Japan by 11 per cent.²⁰

17 Department of Foreign Affairs and Trade, *China's Industrial Rise: East Asia's Challenge*, Economic Analytical Unit, Canberra, October 2003, p. xiv.

18 ANZ Industry Brief, 'Australia–China Trade: Realizing the potential', 23 April 2004, p. 4, http://www.anz.com/Business/info_centre/economic_commentary/Australia-China_Trade_Brief.pdf (accessed 21 September 2005).

19 Department of Foreign Affairs and Trade, 'Export of Primary and Manufactured Products, Australia 2004', Market Information and Analysis Section, June 2005, p. 9.

20 Department of Foreign Affairs and Trade, 'Export of Primary and Manufactured Products, Australia 2004', Market Information and Analysis Section, June 2005, p. 9.

6.21 It is Australia's poor overall ETM exporting performance that is of most concern to the manufacturing sector. In 2004, Australia's trade deficit in ETMs widened to a record \$86.3 billion, an increase of 9.5 per cent on the previous financial year. ETM imports increased in value from \$96.9 billion in 2003 to \$105.1 billion in 2004.²¹ ETM exports increased slightly in value from \$18.5 billion in 2003 to \$18.8 billion in 2004.²² The need and opportunities for Australia to increase its exports of these manufactures is considered later in the chapter.

Australia's imports from China

6.22 Table 6.4 shows that in the eleven years from 1994 to 2004, the value of Australia's imports of Chinese manufactured products increased from \$A3,191 million to \$A17,084 million. In 1994, imported manufactures from China accounted for 5.4 per cent of all Australian imported manufactures. China ranked fifth behind the US (23.2 per cent), Japan (20 per cent), Germany (6.7 per cent) and the United Kingdom (6.4 per cent). In 2004, imported manufactures from China accounted for 14.6 per cent of all imported manufactures, second only to the US (16.3 per cent).²³

Table 6.4: Australia's imports of manufactured products by principal markets

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<i>US</i>	13,699	15,345	16,738	16,856	19,255	19,210	29,749	19,749	21,617	19,157	19,093
<i>China</i>	3,191	3,665	3,891	4,515	5,545	6,319	8,615	9,828	12,046	13,387	17,084
<i>Japan</i>	11,804	11,629	9,916	11,171	12,988	13,296	14,817	14,639	15,201	15,805	16,326

Source: Department of Foreign Affairs and Trade, *Exports of Primary and Manufactured Products 2004*, June 2005, Table 29. http://www.dfat.gov.au/publications/stats-pubs/pmp_2004_analysis.pdf (accessed 21 September 2005).

6.23 Table 6.5 shows that in the China–Australia bilateral trade relationship, China's competitive advantage lies in manufacturing. Between 2001 and 2004, Australia's top 10 merchandise imports from China were all manufactures. Recall that Table 5.2 showed that China's top 10 merchandise imports from Australia between 2001 and 2004 were either minerals or agricultural products.

21 Department of Foreign Affairs and Trade, 'Export of Primary and Manufactured Products, Australia 2004', Market Information and Analysis Section, June 2005, p. 89.

22 Department of Foreign Affairs and Trade, 'Export of Primary and Manufactured Products, Australia 2004', Market Information and Analysis Section, June 2005, p. 17, http://www.dfat.gov.au/publications/stats-pubs/pmp_2004_analysis.pdf (accessed 21 September 2005).

23 Department of Foreign Affairs and Trade, 'Export of Primary and Manufactured Products, Australia 2004', Market Information and Analysis Section, June 2005, p. 100, http://www.dfat.gov.au/publications/stats-pubs/pmp_2004_analysis.pdf (accessed 21 September 2005).

Table 6.5: Australia's top 10 manufactured imports from China (\$US million)

	2001	2002	2003	2004
ADP machines	303	476	735	1,273
Videos, cameras	67	104	250	501
Women's suits	191	212	272	324
Office machines	100	169	229	298
Toys	177	205	246	297
TV/videos	47	74	122	280
Footwear	141	183	210	265
Travel goods	144	157	191	252
Furniture	69	102	156	245
T-shirts	119	123	163	219

Source: 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Canberra, and Ministry of Commerce, Beijing, March 2005, p. 14. Note: Ranking is based on 2004 outcomes.

6.24 The other feature of Table 6.5 is the extent of Australia's recent import increases of China's traditional and non-traditional manufactures. Between 2001 and 2004, Australian imports of China-made women's suits, T-shirts and footwear increased by 70 per cent, 84 per cent and 88 per cent and respectively. The growth in Australian imports from China's emerging machinery and electronics industries is even steeper. Imports of China-made video cameras increased by 748 per cent, televisions and videos by 596 per cent and ADP machines by 420 per cent. These figures support the earlier observation of the continuing export significance of China's TCF sector, in the context of a rapidly developing and export-oriented high-tech manufacturing sector.

Australia's exports to China

6.25 Table 6.6 shows Australian export values for selected ETMs. Among Australia's largest exports of ETMs are passenger cars, professional and scientific instruments, car parts, office machines and telecommunications equipment. In 2004, passenger cars accounted for 12.6 per cent of Australia's ETM exports, televisions and radios accounted for 7.8 per cent and TCF exports for only 1.2 per cent.

6.26 China is Australia's third-largest export market for ETMs with 4.6 per cent of total exports, behind New Zealand (21.9 per cent) and the US (14.5 per cent). In 1995,

China was Australia's 12th largest export market for ETMs with 2.8 of total ETM exports.²⁴

Table 6.6: Australia's ETM (elaborately transformed manufactures) exports

	2001 (\$Am)	2002 (\$Am)	2003 (\$Am)	2004 (\$Am)
Passenger cars*	2,966,506	2,810,296	2,600,935	2,366,147
Professional & scientific instruments	1,207,945	1,072,934	938,531	1,134,229
Car parts	971,123	1,018,384	920,798	725,655
Office machines	586,615	439,005	304,526	323,627
Telecommunications equipment	536,750	336,445	375,948	443,159
TV's, radios	174,952	129,081	150,118	145,113
Apparel and clothing	283,855	241,379	239,764	196,021
Footwear	39,093	34,052	24,910	23,338
Total exports of ETMs	20,832,193	19,543,677	18,462,049	18,747,027
Total exports of ETMs to China	778 (3%)	908 (3.5%)	1,049 (4.5%)	1,110 (4.6%)

* *unassembled, assembled new and assembled second-hand*

Australia's car and TCF industries

6.27 Over the past two decades, the challenge of restructuring and opening up Australia's manufacturing sector has tended to focus on two industries: cars and TCF. China's entry into the WTO, its rising competitiveness in high-tech production and continuing reductions in Australia's tariffs has intensified import-competition for these local industries. Still, Australia's car and TCF industries also stand to benefit from export opportunities in China.

6.28 Table 6.7 compares Australian exports of auto components to China with China's imports of these products to Australia. It shows a ten-fold (1,000 per cent) increase in Australian auto product exports to China between 2000 and 2003. China increased its exports of these products to Australia by 41 per cent during this period.

24 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Australia, Ministry of Commerce, Beijing, March 2005, p. 66, http://www.dfat.gov.au/publications/stats-pubs/pmp_2004_analysis.pdf (accessed 1 October 2005).

Table 6.7: Australia–China trade in auto products

	2000 (\$Am)	2001 (\$Am)	2002 (\$Am)	2003 (\$Am)
Australia's auto product exports to China	5,263	14,204	16,793	56,478
Australia's auto product imports from China	173,794	197,938	166,328	246,529

Sources: Federation of Automotive Products Manufacturers, *Submission to DFAT's 'Australia–China Free Trade Agreement Joint Feasibility Study' June 2004, p. 10.*

6.29 The main reason for the growing market for auto products in China is the sharp increase in domestic consumer demand for vehicles. China's car exports are low. In 1995, China sold 1.43 million cars: in 2002, it sold 3.26 million.²⁵ Imports of car products from countries like Australia have been crucial to the rapid recent growth in China's car production capacity. In 2005, China was ranked the world's fourth largest car producer, behind the US, Japan and Germany. In 2004, it produced 5.1 million cars compared with Germany's 5.5 million. In March 2005, Mr Zhu Yanfeng, the General Manager of China First Automobile Group, announced that 2005 production would increase to 6 million units, making China the world's third largest car manufacturer.²⁶ In September 2005, the *Economist* argued that 'within a few years China will replace Japan as the second-largest national [car] market after America'.²⁷ It is further projected that by 2020, China will overtake the US as the world's largest-selling car market.²⁸

6.30 The Department of Industry, Tourism and Resources (DITR) noted that 'China has designated the automotive sector as a pillar of the national economy'. It added:

Currently there is limited auto trade between the two countries [Australia and China]. China does not rank in the top 20 as either an import source or export destination for vehicles. This may change in the medium term, as an expected over-capacity in vehicle production may lead to Australia becoming an export destination for passenger vehicles.²⁹

6.31 Although Australia has benefited from China's demand for car components, it faces increasing competition from China's growing production capacity in these

25 Federation of Automotive Products Manufacturers, *Submission to the Department of Foreign Affairs and Trade 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 7, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma09.pdf.

26 China.org.cn, 'China to be the world's third largest car maker', 14 March 2005, <http://www.china.org.cn/english/BAT/122783.htm> (accessed 13 September 2005).

27 'Extinction of the predator', the *Economist*, 8 September 2005.

28 See H. McDonald, 'Giant awakes', *Sydney Morning Herald*, 8 July 2005.

29 Australian Department of Industry, Tourism and Resources, *Committee Hansard*, 21 June 2005, p. 33.

components. There is also greater competition from cheap car component imports. In the first nine months of 2005, the Australian automotive sector lost 3300 jobs and half a dozen major components-supply contracts.³⁰

6.32 The *Australian Financial Review* has argued that China's car components industry still has some way to go to meet foreign manufacturers' demands:

Half a dozen contracts lost is simply not evidence that we are seeing a major shift of the industry to low-cost countries such as China. Though China is a formidable competitor, its automotive components sector is generally not yet capable of producing at the levels of quality and price that the manufacturers demand.³¹

6.33 However, the federal government has identified China as a major challenge for the Australian car components industry. In September 2005, the Industry Minister, the Hon. Ian McFarlane, MP, argued that Australia's big four car producers—Ford, Holden, Mitsubishi and Toyota—had an obligation to use Australian-made components in return for the generous taxpayer subsidies they have received. He argued that the government believed the industry was 'pretty well set' with the release of the 10 year car plan in 2003:

But the new issue is China, and we can't afford to lose contracts in local cars to overseas components and that's what the emphasis is at the moment, the turn that around. It's quite a task.³²

6.34 Table 6.8 shows a comparison of Australia's TCF exports to China and TCF imports from China. Notably, Australian TCF exports to China have increased since 2002–03. In 2004–05, Australian TCF exports to China were valued at \$A40.8 million, an increase of 28.4 per cent on 2002–03. China's TCF imports to Australia grew by only 13.7 per cent over the same period.

Table 6.8: Australia–China trade in TCF products

	2002–03 (\$Am)	2003–04 (\$Am)	2004–05 (\$Am)
Australia's TCF exports to China	31,809	37,051	40,844
Australia's TCF imports from China	3,686,552	3,613,061	4,192,262

L. Caddy, Council of Textile and Fashion Industries of Australia Limited, 15 September 2005.

6.35 Still, in 2004–05, the value of Australia's TCF imports from China was nearly 103 times that of Australian TCF exports to China. Clearly, the Australian TCF sector

30 J. Gordon, 'Car industry hits 'low-water' mark', the *Age*, 22 September 2005, p. 1.

31 Editorial, 'Car industry is finely tuned', *Australian Financial Review*, 22 September 2005, p. 62.

32 J. Gordon, 'Car industry hits 'low-water' mark', the *Age*, 22 September 2005, p. 1.

faces immense competition from low-cost, high quality Chinese imports. Although successive federal governments have assisted the local industry to restructure, they have also reduced levels of tariff protection. DITR told the committee that since Australia abolished its TCF quotas in 1993:

there has been a relatively free trade environment between Australia and China for textiles and clothing. In recent years Chinese clothing and knits have accounted for around a third of all clothing and knits consumed in Australia, whilst imported Chinese textiles are around one-quarter of all textiles imported into Australia. The drop in Australia's textile and clothing tariffs in January this year [2005] is expected to facilitate further trade with China.³³

Table 6.9: Australian TCF tariffs, 2005–2015 (Current government policy)

	1 Jan 2005	1 Jan 2010	1 Jan 2015
Clothing and some finished textiles	17.5%	10%	5%
Woven fabrics, carpets and footwear	10%	5%	5%
Sleeping bags, table linen	7.5%	5%	5%
Textiles, yarns	5%	5%	5%

Council of Textile and Fashion Industries of Australia, Submission to the Department of Foreign Affairs and Trade 2004, p. 6, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf (accessed 12 October 2005).

6.36 Table 6.9 shows that current federal government policy will cut Australia's TCF tariffs to five per cent by 2015. However, the committee notes that non-tariff barriers in China pose a considerable problem for Australian TCF exporters. A survey by the Council of Textile and Fashion Industries of Australia (TFIA) identified several non-tariff barriers of concern to Australian TCF producers in dealing with China. These include:

- a lack of transparency in pricing;
- a lack of intellectual property protection;
- a myriad of officials, agencies and rules required to gain access to the Chinese market, and difficulty in obtaining the correct licence to sell;
- a high number of sellers in China requiring intense promotional activity;
- the requirement that foreign companies must open at least two commercial offices in Beijing and Shanghai;

³³ Australian Department of Industry, Tourism and Resources, *Committee Hansard*, 21 June 2005, p. 34.

- the disallowance of second-hand machinery used in China, thereby increasing costs for foreign companies; and
- frequent late payments from export debtors.³⁴

6.37 Chapter 12 notes the attitude of Australia's TCF sector to a free trade agreement (FTA) with China and the committee's view on the appropriate rate of tariff reduction within this agreement. The last part of this chapter looks at the form that federal government assistance for the TCF industry might take. The following section notes that Australian TCF companies' attitude to expanding trade ties with China is quite positive, despite the China's low-cost imports and non-tariff barriers.

Attitudes of Australian manufacturers to China

6.38 In August 2004, the Australian Industry Group (AiG) published a research report titled 'Australian Manufacturing and China'. The report was based on a survey of 848 Australian manufacturers, asking their opinion of the impact and opportunities that China presented to their industry. Table 6.10 shows some of the key findings.

Table 6.10: Australian manufacturers' attitudes to China

	China as a potential export market	China as a competitive threat in the domestic market	China as a source of low cost inputs	China as a destination for foreign investment
Industry average	19.7	54.8	43.9	15.7
Variation from industry average by sector				
Food and beverages	7.3	-30.5	-8.8	3.3
Textiles	22.2	29.5	15.5	10.1
Clothing and footwear	1.1	33.6	14.5	0.3
Wood, furniture	1.2	6.5	-3.0	-4.3
Paper	-9.5	-8.8	-13.9	-1.7
Chemicals	10.5	-15.2	-1.6	.02
Construction materials	-8.3	1.7	-9.1	-7.0
Basic metals	6.1	20.6	11.9	-2.3
Fabricated metals	-7.5	1.5	-1.1	3.0
Transport equipment	-9.6	0.2	6.8	-2.4

34 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'* 2004, pp. 6–7, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf (accessed 12 October 2005).

	China as a potential export market	China as a competitive threat in the domestic market	China as a source of low cost inputs	China as a destination for foreign investment
Industry average	19.7	54.8	43.9	15.7
Variation from industry average by sector				
Machinery	0.9	-1.7	2.1	1.3
Miscellaneous manuf.'s	2.1	2.8	-3.5	-2.9

Source: Australian Industry Group, *Australian Manufacturing and China—Opportunities and Challenges*, p. 22.

6.39 The AiG surmised that 'China's influence among the 12 key industry sectors is not even, largely reflecting varying trade exposures'.³⁵ The most obvious feature of the data is the far greater proportion of firms across all manufacturing industry sectors that view China as a threat, rather than an export or investment opportunity. An average of only 19.7 per cent of respondents viewed China as a potential export market, and only 15.7 per cent as a destination for foreign investment. In contrast, an average of 54.8 per cent of respondents believed China is a competitive threat in the domestic market, while 43.9 per cent viewed China as a source of low cost inputs.

6.40 Interestingly, Table 6.10 shows that firms in the textile industry were most positive about China as an export market (41.9 per cent), as a destination for foreign investment (25.8 per cent), and as a source of low cost inputs (59.4 per cent). Recent export data supports this optimism. From 2003–04 to 2004–05, Australian textile exports to China increased by 14.6 per cent.³⁶ Australian exports of woven textile fabrics increased 484 per cent over this period.³⁷

6.41 However, textile firms also recorded highest agreement that China poses a competitive threat in the domestic market (85 per cent). The contrast is the response of firms in the food and beverages sector (24 per cent). A January 2005 ANZ Industry Brief concluded from the survey that:

The most significant adverse impact of China trade for local manufacturers relates to the effect of China on competition in the domestic market. The main sectors affected are textiles (especially carpets and other finished products), clothing and footwear; basic metals (basic steel products) and

35 Australian Industry Group, 'Australian Manufacturing and China—Opportunities and Challenges', August 2004, p. 22.

36 Data supplied to the committee by Mr Lachlan Caddy, Economist, Council of Textile and Fashion Industries of Australia Limited, 12 September 2005.

37 Data supplied to the committee by Mr Lachlan Caddy, Economist, Council of Textile and Fashion Industries Australia Limited, 12 September 2005.

wood, wood products and furniture...Overwhelmingly, the impact on local selling prices was to depress prices.³⁸

Fair and unfair advantages

6.42 The committee received submissions and heard from a range of witnesses on the reasons for, and the appropriate Australian response to, China's competitive advantage in manufacturing. As this chapter has mentioned, the strength of China's manufacturing sector reflects the high level of foreign direct investment in China, the import of leading manufacturing technologies, China's ability to tap into regional production chains and the productivity of its labour force.

6.43 However, the committee also notes widespread concern that China's exceptional export manufacturing performance has been based on unfair advantages. These include: a low-wage and in some cases an exploitative labour market; the absence of enforceable intellectual property rights; and 'dumping' of below cost-price excess production on export markets. These issues are significant not only in the context of the challenges facing Australia's manufacturing sector, but to the broader economic and political relationship. For this reason they are flagged below and considered in greater depth in chapters 14 and 18.

6.44 Clearly, the huge supply of labour in China puts natural downward pressure on wage levels. Average per hourly wages across all sectors are estimated at \$US0.80.³⁹ In the textile industry, labour costs represent 5 to 10 per cent of total manufacturing costs in China, but between 30 and 55 per cent in the US.⁴⁰ However, there is also evidence that China's low wages and high levels of manufacturing productivity are based on systemic abuses of workers' rights. There is a ban on the formation of trade unions and strikes have led to imprisonment. Workers have few if any entitlements by way of overtime payments, superannuation payments or occupational health and safety provisions. Even wages are often unpaid. In the state-regulated construction sector, the value of unpaid wages has recently exceeded \$US40 billion annually.⁴¹

6.45 The committee acknowledges the concerns of many within the Australian manufacturing sector and the Australian union movement that poor labour standards

38 ANZ Industry Brief, 'China trade—Impact on Australian manufacturing', 10 January 2005, p. 3.

39 See the *Economist*, Country Briefings, www.economist.com/countries/ (accessed 19 September 2005).

40 TFIA, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_4ma18.pdf (accessed 19 September 2005).

41 'A firm battle to clean up wages in arrears is beginning to see results, Clearing up wages in arrears is not 'blowing up at storm'', *New China Net*, 21 January 2004, www.sina.com.au (accessed 11 October 2005).

underpin China's competitiveness. It is important that the international community continue to pressure China to conform to the standards of the International Labour Organization (see recommendation 20). These standards have sufficient breadth to enable China to pursue its own labour laws. The committee also believes that foreign-run enterprises operating in China have an important role to play in implementing corporate codes of conduct and pressuring others to adopt minimum labour standards (see recommendation 21).

6.46 Chapter 4 discussed the issue of intellectual property rights. It noted that counterfeiting in China remains extensive, despite China's obligations to implement the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Regulators' efforts to curb piracy and counterfeiting activity in China have proved grossly inadequate given the strength of consumer demand for status goods and a consumer culture more interested in good value than authenticity.

6.47 Perhaps the most significant trend in counterfeiting manufactured goods in China is in the automotive industry. For example, Honda has identified 11 Chinese car makers building copies of the Honda CR-V, some even selling purchase kits to install CR-V badges.⁴² Red Flag, which once supplied limousines for the elite of the Communist Party, has recently released a limousine with 'strong styling similarities' to the Rolls-Royce Phantom.⁴³ Great Wall Motors produces low-cost utility vehicles and sports utility vehicles (SUVs) which look 'remarkably like more expensive vehicles from Toyota and Nissan'.⁴⁴ There have also been claims that small imported vehicles submitted to the Chinese authorities for certification have come back showing signs of disassembly. Chapter 11 on the proposed Australia-China FTA reiterates the committee's concern that China improve its enforcement of intellectual property rights (see recommendation 13).

6.48 The issue of 'dumping' is discussed in Chapter 11 with reference to the proposed Australia-China FTA. The term—'dumping'—refers to the export sale of a product at a price below that offered for the sale of a like product in the exporting country.⁴⁵ The WTO's Anti-Dumping Agreement—based on Article 6 of the GATT—allows countries to take action against dumping where it is shown to have caused material injury to domestic producers.⁴⁶ In the decade from 1994–95 to 2003–04,

42 R. Wilson, 'China's cheap fakes driving West up the wall', the *Australian*, 15 June 2005, p. 17.

43 R. Wilson, 'China's cheap fakes driving West up the wall', the *Australian*, 15 June 2005, p. 17.

44 R. Wilson, 'China's cheap fakes driving West up the wall', the *Australian*, 15 June 2005, p. 17.

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

46 World Trade Organization, 'Understanding the WTO', September 2003, p. 44.

Australian industry has initiated 18 anti-dumping actions against imports from China.⁴⁷ The corresponding number for the period 1984–85 to 1993–94 was 26.

6.49 However, China's capacity to export at below cost remains of concern to Australian manufacturers. In May 2005, following months of negotiations with the AiG and Australian manufacturers, the federal government amended the Customs Manual to allow Australian officials to investigate the effect of foreign governments' influence on the price of any goods coming into Australia from China, to determine whether they have been dumped.⁴⁸ Chapter 11 explains the context for manufacturers' lobbying on this issue.

Responding to China's manufacturing sector

6.50 The August 2004 AiG survey reported that nearly 90 per cent of Australian firms affected by China in either customer or supplier markets 'have formally implemented some change to company strategy'.⁴⁹ The main responses to its survey of companies' strategic responses to China were:

- accelerate the pursuit of production efficiencies (38.9 per cent);
- import more from Chinese suppliers (31.5 per cent);
- accelerate the adoption of new technologies (30 per cent);
- move up the supply chain (23 per cent);
- decrease domestic productive capacity (20.5 per cent);
- increase domestic productive capacity (17.5 per cent);
- move down the supply chain (16.9 per cent); and
- relocate to China (4.2 per cent).⁵⁰

6.51 The AiG noted that 39.9 per cent of firms have moved either up or down their supply chain. This indicates that 'firms are seeking to lessen direct competition through greater differentiation of products and services'.⁵¹ Within the TCF sector, the two most common responses were 'import more from China' and 'decrease domestic capacity'. TCF firms were also most likely to opt for a strategy relocating productive capacity offshore. Most other industry sectors nominated 'accelerate pursuit of

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

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

49 Australian Industry Group, 'Australian manufacturing and China—Opportunities and challenges', August 2004, p. 19.

50 Australian Industry Group, 'Australian manufacturing and China—Opportunities and challenges', August 2004, pp. 19–20.

51 Australian Industry Group, 'Australian manufacturing and China—Opportunities and challenges', August 2004, p. 20.

production efficiencies' and 'accelerate adoption of new technologies' as their leading strategies.⁵²

6.52 There are notable examples of Australian manufacturers' success in China. Some multi-national companies have used Australian manufacturers as a base to serve China and the Asia–Pacific. McLanahan Corporation, the American equipment manufacturer, is using Australian manufacturers for its export of crushing and sizing machines to China. Apart from cheaper shipping costs, McLanahan cites the benefits of Australia's various fabrication facilities and its high quality manufacturing capacity.⁵³

6.53 In other cases, Australian companies have themselves established a manufacturing niche in China as part of a wider Asian presence. For example, BlueScope Steel, formerly BHP Steel, has established over the past decade a prominent foothold in China for coated and painted steel and prefabricated buildings.⁵⁴ Notably, the company opted to use a country manager for China rather than multiple managers for the various production lines.

6.54 In 2005, Smorgon Steel announced plans to spend up to \$60 million to buy a mid-range business in the scrap metal industry in China. This decision is part of a strategy to reduce the company's reliance on steelmaking and capitalise on the scrap generated by China's rapidly expanding manufacturing sector.⁵⁵

6.55 There have also been examples of small manufacturers supplying the China market through advanced and highly specialised technology. For example, the Sydney-based Bishop Technology Group exports rack and pinion power-steering machines to car steering plants in China. The Group has succeeded by ensuring its intellectual property '...offers them [buyers] something they can't get from anyone else...'.⁵⁶ The committee notes that in September 2005, the federal government announced a new \$108 million round of grants aimed at increasing expenditure on research and development among the main car makers in Australia.⁵⁷ Successful bidders are given 45 cents for every dollar spent on R&D.

52 Australian Industry Group, 'Australian manufacturing and China—Opportunities and challenges', August 2004, p. 21.

53 See Invest Australia, 'McLanahan sizes up the Asia–Pacific from Australia', http://www.investaustralia.gov.au/media/CS_MA_McLanahan.pdf (accessed 21 September 2005).

54 See D. James, 'Strategy in Steel', *Business Review Weekly*, 22–28 September 2005, p. 44.

55 I. Porter, 'Smorgon sets sights on Asia', the *Age*, 27 October 2005, p. 2.

56 P. Roberts, 'Bright idea puts local minnow in the driving seat', *Australian Financial Review*, 8 October 2005, p. 18.

57 J. Gordon, 'Car industry hits 'low-water' mark', the *Age*, 22 September 2005, p. 1.

6.56 Several expert witnesses commented to the committee about the need for Australian manufacturing industries to refine continually their 'China strategy'. There can be no doubt that the intensity of competition from China can only be expected to increase. On this matter a January 2005 ANZ Industry Brief concluded:

...the outlook for Australian manufacturing to this increased competition rests on the response of local manufacturers' to stem further erosion of market share and profitability. Manufacturers are expected to adopt a positive approach, rather than try to preclude this competition through calls for the erection of trade barriers. Nonetheless, some form of assistance is likely to be sought...⁵⁸

6.57 Dr Robert Davis, Director of the Trade and International Affairs Branch of ACCI, emphasised the need for a value-added approach. Dr Davis identified:

...a view amongst Australian manufacturers that they do have to move up the simply transformed manufactures route...the more innovative and astute of them moved up the chain so that Australian apparel manufacturing and textiles now is no longer just \$3 T-shirts at the market stuff; it is Australian designed Australian motifs and it is moving right up the value-add chain...I think Australian manufacturing is exiting the areas where China is the most competitive, and that is a logical move. The future will be that we will focus more on higher intellectual property component manufacturing, where there is still that reticence to divest to China...[T]here is a tendency to allow the generation 4 level technology into China while the Australian manufacturers are at generation 7. I think Australian manufacturing will go into niche products. We will never be making eight billion biros a year, but we will move into the higher value-add, more technologically advanced area.⁵⁹

6.58 This argument is common in the developed world. The capacity of rich economies to maintain their competitive advantage rests on a flexible, value-added economy, a highly educated labour force, and leading technology and infrastructure.⁶⁰

6.59 However, the committee heard from several witnesses that China's development challenges this assumption. For example, Mr William Apple, an Industry and Investment Policy Adviser with the Australian Council of Trade Unions (ACTU), emphasised that China's growing competitive advantage is not confined to the labour intensive TCF sector. He argued that China had very successfully brought its many overseas educated engineers back to work for multi-national companies. The combination of high levels of foreign investment in China, a large returning supply of

58 ANZ Industry Brief, 'China trade—Impact on Australian manufacturing', 10 January 2005, p. 5.

59 R. Davis, *Committee Hansard*, 29 June 2005, p. 27. His reference to generation level 4 and 7 is explained in the quotation contained in Chapter 4, paragraph 4.67.

60 See J. Bhagwati, *Free Trade Today*, Princeton University Press, 2002.

foreign-educated engineers, and the support of cheap semi-skilled labour was enabling China to move rapidly up the value-added chain.⁶¹

6.60 Mr Edward Murphy, an International Committee Member of the ACTU, elaborated on this point for the committee:

Every year there are 550,000 engineering graduates from the Chinese higher education system. Sony used to virtually dominate the mobile phone battery sector as a global supplier. There is a Chinese company, I think it is called BMD, which has taken around 40 per cent of the market share for that particular product. This is the way BMD did it: it acquired one of the industrial robots used in Japan to make the mobile phone batteries, took it to China, disassembled it, worked out how it worked and substituted human labour for the robots. BMD also had five times as many engineers in its factory as Sony had in its factory in Japan. So you have low-cost labour—in part due to economic circumstances and in part due to the absence of proper labour standards—combining with a significant supply of highly skilled, tertiary educated labour to produce a technologically sophisticated product. It is the combination that is important in the case of China. It is not simply low-cost, relatively unskilled labour in TCF type areas where China's competitive advantage is important. It is a lot broader.⁶²

6.61 Mr Doug Cameron, the National Secretary of the Australian Manufacturing Workers' Union (AMWU), told the committee that trade with China exposed the fundamental need for Australia to develop an industry policy for manufacturing. He argued:

We currently have a national trade deficit in manufacturing of \$83 billion. We have a deficit in elaborately transformed manufactures of \$75.4 billion. We have structural problems in the economy. As I understand it, if you look at some of the arguments put forward by the employers this morning, we are importing low-value-added goods from China. If you look at our submission, you will see that the major imports from China are high-value-added elaborately transformed manufactures—goods like sound and video recorders, telecommunications equipment, computers, televisions and computer parts; anything but low-value-added components. We need an industry policy in this country to be able to compete globally. The approach of the federal government at the moment to simply rely on the market to determine the future of our manufacturing industry is not an appropriate way to go.⁶³

6.62 The AMWU's submission to the committee argued that Australian policy makers have not yet realised that 'Chinese manufacturing represents a significant

61 W. Apple, *Committee Hansard*, 27 June 2005, p. 69.

62 E. Murphy, *Committee Hansard*, 27 June 2005, p. 71.

63 D. Cameron, Australian Manufacturing Workers' Union, *Committee Hansard*, 29 June 2005, p. 75.

threat to Australia's manufacturing industries at all levels'.⁶⁴ The submission noted that the maintenance of high value-added manufacturing industries is important for the maintenance of a high standard of living. The AMWU claimed that:

...in 2003 prices for every plasma television Australia imported, Australia had to export in the vicinity of 150 tonnes of iron ore. If Australia is to maintain and improve its standard of living, a trade and industry policy built on the 19th and early 20th century view of Australia as an agricultural and mineral supplier for the rest of the world is clearly neither economically nor environmentally viable.⁶⁵

6.63 Similarly, Mr Martin Feil, a past director of the Industries Assistance Commission, referred to a 'China paradox':

[T]he more we trade with China the more we will undermine the economic foundations of Australian society. We will basically export natural resources and raw materials to China and import manufactured goods from China. We add virtually no value to natural resources and raw material exports other than extraction and some logistics services. Imports of manufactured goods embody a great deal of value added in the manufacturing process.⁶⁶

6.64 Mr Feil argued that employment growth in Australia depends on value-adding exports and manufacturing products that substitute for imports. Trade with China limits these opportunities. He claimed that the 'winners' from trade with China will spend on Chinese imports, and further deplete Australia's manufacturing industry. Accordingly, Mr Feil wondered how those 'who lack the education, experience and aptitude to be gainfully engaged in the services industry' will find work.⁶⁷

6.65 More optimistically, others argued that Australian manufacturing can survive through securing strategic export niches in Asia. Mr Tim Harcourt, a senior economist with Austrade, told the committee that Australia has been 'quite successful in niche manufacturing'. He argued that '...the issue is really: have we got capacity and does it relate to things such as the scale of plant, appropriate infrastructure, labour issues and so on? Certainly the demand is there'.⁶⁸ Mr Apple of the ACTU told the committee that Australia needed a more aggressive approach to exporting ETMs to China's supply chains in East Asia. Although aggregate export figures suggest that China has been a lucrative market for Australia's ETM exporters (Table 6.6), Australia's share of China's ETM imports has fallen 'quite sharply'.⁶⁹ The reason, he argued, was that

64 A. Kentish, Australian Manufacturing Workers' Union, *Submission P36*, p. 9.

65 A. Kentish, Australian Manufacturing Workers' Union, *Submission P36*, p. 11.

66 M. Feil, 'Australian entrée on Chinese menu', *the Age*, 5 September 2005, p. 6.

67 M. Feil, 'Australian entrée on Chinese menu', *the Age*, 5 September 2005, p. 6.

68 T. Harcourt, Austrade, *Estimates Hansard*, 3 November 2005, p. 74.

69 W. Apple, *Committee Hansard*, 27 June 2005, p. 69.

Australia has failed to tap into the East Asian supply chain that services China's production. Australian exports of ETM's to East Asia have not increased since the mid-1990s.⁷⁰

6.66 Others preferred to emphasise the opportunities for Australian companies to invest directly in manufacturing in China. In this context, a 2004 Business Issues Paper from the Australian Chamber of Commerce (AustCham) Beijing argued the need for reform of non-tariff or 'beyond the border' measures facing Australia's export manufacturers.⁷¹ AustCham recommended that the Chinese government:

- remove VAT on imported goods;
- make operating hours at inbound ports more flexible to coincide with inbound shipments;
- eliminate import duties on all capital equipment used in production; and
- ban all provincial protectionism (see recommendation 5).⁷²

The committee view on prospects and options for Australian manufacturing

6.67 The committee believes that the Australian manufacturing sector can meet the challenge posed by growing and freer trade with China. It rejects the notion that continued trade with China will render Australia nothing more than 'a quarry, a farm and a nice place to visit'.⁷³ The sector currently employs nearly 1.1 million Australians and is the largest spender on research and development.⁷⁴ Although its contribution to total production has declined over the past two decades, the sector's share of exports has doubled.⁷⁵

6.68 The tariff reductions of the past twenty have exposed Australian manufacturing to international competition and demonstrated that, in most cases, these industries can respond and adapt. It is true that the volume, range and quality of China's export manufactures will force many Australian companies to restructure or phase-down production.⁷⁶ On cost alone, Australian manufacturers will struggle to compete with China. Their key opportunities are in using advanced technologies to encourage inward investment and to find a niche in overseas supply chains.

70 W. Apple, *Committee Hansard*, 27 June 2005, p. 69.

71 AustCham Beijing, *2004 Business Issues Paper*, August 2004, p. 8.

72 AustCham Beijing, *2004 Business Issues Paper*, August 2004, p. 8.

73 D. Cameron, *Committee Hansard*, 29 June 2005, p. 48.

74 *ABS Yearbook 2005*, Australian Bureau of Statistics, Canberra, ABS Catalogue 1301.0, p. 543.

75 K. Henry, 'Australia–China economic directions—Long term trends in the Australian economy', *Australia–China free trade agreement Conference*, Sydney, 12 August 2004, p. 3.

76 See K. Phillips, 'It's now or never for manufacturing', *the Age*, 27 May 2005, p. 10.

6.69 Leaving the merit of an FTA to one side, the committee believes that the schedule of progressive tariff reductions in manufacturing should continue. Direct subsidies are expensive and would not alter the long-term competitiveness of the Australian sector.⁷⁷ The strong international pressure that Australian manufacturers now face does not invalidate the Australian government's decision to open manufacturing to global competition. However, the committee does stress the importance of continuing government promotion and targeted assistance for the local manufacturing sector.

Policy recommendations

6.70 The committee did not explore fully the options that Australia should adopt to meet the challenge posed by the likely influx of cheaper manufactured goods into Australia from China. Many academics and organisations have varying viewpoints and suggestions on how the Australian government and the manufacturing sector should respond to these continuing pressures.

A national manufacturing policy: R&D and skills development

6.71 There is a strong body of opinion calling for the Australian government to have an overarching national policy on manufacturing to address China's challenge.⁷⁸ This was recommended by both the Australia–China Business Council (ACBC) and the AMWU in their submissions to the committee. The committee supports this proposal. It believes that two key pillars of a national manufacturing policy must be to fund and coordinate research and development in value-added technologies, and to support skills development in technical education.

6.72 Increasingly, Australian manufacturers will need to focus on innovation, rather than mass production. In 1996, the Howard Government cut the R&D tax concession from 150 to 125 per cent. The 1996 level of R&D expenditure was only exceeded in 2003–04, when Australian businesses spent \$A7.2 billion.⁷⁹ Still, Australia's R&D spending remains less than one per cent of GDP (0.89 per cent) and on this basis, ranks 15th among OECD nations.⁸⁰ The manufacturing sector accounted

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- 77 Allen Consulting, *Growing Global Niches: Positioning Victorian ETMs for future export growth*, February 2005, p. xiii, [http://www.business.vic.gov.au/CA256E36001D1550/WebObj/4F50B616C67064EFCA25705F0002BA7F/\\$File/ETM%20Final%20Report%2010%2002%2005.pdf](http://www.business.vic.gov.au/CA256E36001D1550/WebObj/4F50B616C67064EFCA25705F0002BA7F/$File/ETM%20Final%20Report%2010%2002%2005.pdf) (accessed 27 September 2005).
- 78 Australia–China Business Council, *Submission P40*, p. 15. See also T. Sutherland, 'Policy needed for China FTA', *Australian Financial Review*, 15 April 2005, p. 22.
- 79 P. Roberts, 'R&D spending bounces back', *Australian Financial Review*, 29 September 2005, p. 8.
- 80 'Research and Experimental Development, Businesses', *Australian Bureau of Statistics, Cat. No. 8104.0*, 2003–04, p. 6, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/\\$File/81040_2003-04.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/$File/81040_2003-04.pdf)

for 46 per cent of the 2003–04 spend. In the year from 2002–03 to 2003–04, R&D spending increased on motor vehicles and parts from \$631 million to \$721 million, and on TCF products from \$237 million to \$260 million.⁸¹ Some specific options that might be considered include increasing the R&D tax concession and reducing the upper limit—currently \$50 million—on company turnover in order to qualify for the *Commercial Ready Program*.⁸²

Recommendation 5

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

6.74 The committee is also concerned that Australia has the workforce to complement this focus on a high-tech, value-added manufacturing sector. It is important that the manufacturing and technical education sectors continue to collaborate to ensure the supply and flexibility of the skills base.

Recommendation 6

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

A coordinated export manufacturing focus

6.76 This chapter has argued it is important that Australian manufacturing companies are able to tap into supply chains in China and East Asia. Ultimately, the onus is on company directors to formulate the appropriate strategy. However, the federal and state governments also have an important role to facilitate these opportunities.

6.77 The committee acknowledges the high-quality of existing arrangements for assisting Australian businesses in China. Several witnesses praised Austrade, the consul generals and the Australian Chambers of Commerce in Beijing and Shanghai

81 'Research and Experimental Development, Businesses', *Australian Bureau of Statistics, Cat. No. 8104.0*, 2003–04, p. 10, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/\\$File/81040_2003-04.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/Lookup/76F4C63E4C74ABC0CA25708900805B84/$File/81040_2003-04.pdf)

82 Allen Consulting, *Growing Global Niches: Positioning Victorian ETMs for future export growth*, February 2005, p. xv, [http://www.business.vic.gov.au/CA256E36001D1550/WebObj/4F50B616C67064EFCA25705F0002BA7F/\\$File/ETM%20Final%20Report%2010%2002%2005.pdf](http://www.business.vic.gov.au/CA256E36001D1550/WebObj/4F50B616C67064EFCA25705F0002BA7F/$File/ETM%20Final%20Report%2010%2002%2005.pdf) (accessed 27 September 2005).

for their assistance in establishing Australian businesses in China. For example, Mr Duncan Calder of the Western Australian branch of the ACBC noted that these organisations are 'extraordinarily helpful in terms of acting as an interface between the local community and the Australians going up there [China]'.⁸³ Austrade has recently established several offices in large regional cities such as Ningbo, Xi'an, Chendu, Nanjing and Qingdao.⁸⁴ In 2005, the number of Australian companies it assisted in China was more than double the corresponding number for 2002.⁸⁵ It is important that these networks continue to develop to assist large and small to medium sized manufacturing enterprises establish an export market or investment base in China.

Recommendation 7

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

6.79 The committee does not believe that better labour standards and enforcement of intellectual property rights in China will enable Australian manufacturers to compete with China on cost. This chapter has made the point that China's vast supply of labour will continue to ensure that its wage levels remain low. Even if China's wages increased sufficiently to make some of its factories uncompetitive, capital will simply shift to other low-cost countries in the region.

6.80 However, the committee does believe it is important that Australia and the international community continue to exert pressure on China to improve its standards of labour and intellectual property rights (see recommendations 13 and 20).

Assisting the TCF industry—the importance of industry plans

6.81 The committee supports the Australian government's approach of phasing out tariffs for the TCF sector. The FTA currently being negotiated may accelerate the rate of tariff reduction, although there is strong resistance from within the TCF (see chapter 12). The committee notes that Australia's FTAs with the US and Thailand reduced the level of tariff protection for clothing by only five percentage points to 12.5 per cent.⁸⁶

83 *Committee Hansard*, 1 August 2005, p. 11.

84 Chanticleer, 'Big opportunities, but be patient', *Australian Financial Review*, 22 September 2005, p. 64.

85 Chanticleer, 'Big opportunities, but be patient', *Australian Financial Review*, 22 September 2005, p. 64.

86 I. Porter, 'Real deal is in the fine print', *the Age*, 19 October 2005, p. 8.

6.82 Regardless of the extent and rate of tariff reduction, it is essential that there are programs in place that promote TCF exports and assist local manufacturers to adapt to import competition. It was noted earlier that the most common strategy of Australian TCF firms has been to use low-cost inputs from China and to scale down production. This focus on cost containment may partially reflect the sector's strong support for China as an export market and as a destination for foreign investment (Table 6.10). From this perspective, the failure to phase out tariffs on China's TCF imports will keep Australian businesses' input costs unnecessarily high.

6.83 The TCF industry is a good example of how the Commonwealth government can target assistance packages. In November 2003, the government announced a \$747 million TCF Industry Assistance package to commence on 1 July 2005 until 30 June 2015. The funding details were announced in April 2005 as part of the Post-2005 Strategic Investment Program (SIP).⁸⁷ The SIP scheme is complemented by an increase in funding for various other TCF programs and schemes:

- \$50 million for the TCF Structural Adjustment Program: the program assists TCF firms, workers and communities to restructure or leave the sector⁸⁸;
- \$50 million for the TCF Product Diversification Scheme: the scheme enables participants to earn duty credits to assist Australian manufacturers to internationalise their sourcing⁸⁹;
- \$27 million to extend the Expanded Overseas Assembly Provisions (EOAP) Scheme: the scheme enables participants to assemble particular TCF goods overseas, reimporting them for local sale with duty payable only on overseas added value⁹⁰;

87 The Hon. Ian McFarlane, '\$575 million in investment in textile, clothing and footwear sectors', *Media Release*, 26 April 2005, <http://minister.industry.gov.au/index.cfm?event=object.showContent&objectID=7C39B8E0-65BF-4956-BB8B5456D678B6CB> (accessed 21 September 2005).

88 Department of Industry, Tourism and Resources, 'TCF Structural Adjustment Program', http://www.disr.gov.au/assets/documents/itrinternet/TCF_Structural_Adjustment_Program20050421093330.pdf (accessed 21 September 2005).

89 Department of Industry, Tourism and Resources, 'AusIndustry: Product Diversification Scheme', April 2005, http://www.disr.gov.au/assets/documents/itrinternet/Product_Diversification_Scheme20050421093536.pdf (accessed 21 September 2005).

90 Department of Industry, Tourism and Resources, 'Guidelines: Expanded Overseas Assembly Provisions Scheme', December 2003, <http://www.ausindustry.gov.au/library/EOAP%20GUIDELINES%20December%20200320031216104226.pdf> (accessed 21 September 2005).

- \$25 million for the TCF Small Business Program: the program provides grants for small TCF firms undertaking design or production of TCF products⁹¹; and
- \$20 million for TCF Supply Chain Program, which commences in 2010.⁹²

6.84 The object of these schemes is to 'foster the development of Australian TCF manufacturing activity so that it is viable and internationally competitive'.⁹³ In terms of meeting the challenges that China poses, the committee sees particular merit in schemes that connect the Australian manufacturing sector to opportunities abroad. The Overseas Assembly Provisions Scheme—the forerunner of the EOAP—commenced in 1993, the same year that Australia abolished quotas on TCF imports. Originally planned for three years, the 1995 budget extended the scheme until 2000. The expanded scheme commenced in 1999 and was extended in 2003 until June 2010. The committee supports this extension and would welcome an analysis of the extent to which Australian TCF firms use the scheme to source from China and other East Asian markets.

Conclusion

6.85 China's dynamic export-oriented manufacturing sector has provided the basis for its high growth rates of the past decade. The sector has earned China the reputation of being 'born global', in contrast to the mercantile model of other Asian economies.⁹⁴ It has transformed over the past decade to include the manufacture of high-tech electronics, often completing a regional production chain. China's ability to attract high levels of foreign direct investment and develop a highly skilled workforce has enabled this transition to occur at unprecedented speed. Combined with the low-cost, high-volume production of traditional labour-intensive manufactures such as textiles, China's manufacturing sector has been a significant source of competition, innovation and tension in the world economy.

6.86 Australian manufacturers are certainly not alone in facing the challenges that China poses. The package of assistance for the Australian manufacturing sector must

91 Department of Industry, Tourism and Resources, 'Exposure draft TCF Small Business Program—Overview', <http://www.disr.gov.au/assets/documents/itrinternet/DraftTCFSBPforpublications16120420041223161902.pdf> (accessed 21 September 2005).

92 Department of Industry, Tourism and Resources, 'Exposure draft TCF Small Business Program—Overview', <http://www.disr.gov.au/assets/documents/itrinternet/DraftTCFSBPforpublications16120420041223161902.pdf> (accessed 21 September 2005).

93 AusIndustry, 'Fact sheet: Textile, Clothing and Footwear (TCF) Post 2005 Assistance Package—Overview', April 2005, http://www.ausindustry.gov.au/library/Factsheet_TCFPost-2005PackageOverviewPublishv1.0april0520050504103256.pdf (accessed 20 September 2005).

94 D. James and A. Carroll, 'Along the silk road', *Business Review Weekly*, 22–28 September 2005, p. 38.

be continually refined in light of developments in China. First, a national policy on manufacturing is needed to promote research and development and address the shortages in basic engineering and technical skills. Second, Austrade and other supporting agencies must continue to monitor carefully the opportunities for manufacturing investment in China and East Asia. Austrade also has an important role promoting discussion among Australian manufacturers in China and urging Chinese authorities to improve regulatory consistency. Third, direct government assistance programs must continue to assist certain domestic industries to diversify, shift or phase out production.

Chapter 7

Trade in minerals and energy

7.1 The strength of the complementarity that exists between the economies of China and Australia is most evident in the minerals and energy sectors. Australia's natural endowment as a resource rich country fits well with China's growing appetite for such commodities. This chapter discusses China's growing demand for minerals and resources and the opportunities for Australia to take advantage of China's expanding market. It looks specifically at China's concern with the limited capacity of its domestic market to supply its energy needs, the policies it has adopted to secure its supply and their implications for Australia. The chapter also examines specific commodities, including liquefied natural gas (LNG) and iron ore to highlight their particular significance for Australia and the impediments to trade in these commodities.

China's demand for minerals and resources

7.2 According to the Minerals Council of Australia, China's consumption of minerals, as a percentage of the world's total, is doubling each decade. It is the largest consumer of copper, tin, zinc, steel, iron ore and coal; the second largest consumer of aluminium, petroleum and lead; the third largest consumer of nickel and the fourth largest consumer of gold. China also accounts for 50 per cent of the world's usage of cement.¹

7.3 Furthermore, China's demand for resources does not appear to be a short term phenomenon. For example, the demand for electricity in China is expected to more than triple by 2025 and the number of cars has been growing by 20 per cent a year and 'the potential growth is almost unlimited'.² The Minerals Council of Australia maintained that an underlying structural change in the global market is taking place. It stated in evidence:

Essentially, what we are seeing is a profound shift in the global market in terms of demand...That is largely a consequence of the impact of the emerging economies in North Asia, China in particular, which aims to quadruple its GDP by 2020, which equates to about a seven per cent per annum growth. We see China following the path of industrialisation and urbanisation that history records occurred in the 1890s in the United States of America and again in the 1950s and 1960s in the United States but also Japan and South Korea.³

1 *Committee Hansard*, 22 June 2005, p. 2.

2 Energy Information Administration, *International Energy Outlook 2005*, Office of Integrated Analysis and Forecasting, U.S. Department of Energy, Washington, DC, July 2005, pp. 18, 22.

3 *Committee Hansard*, 22 June 2005, p. 1.

China's domestic capacity

7.4 Much of China's demand for minerals has been generated by strong growth in the export of manufactured goods, coupled with the government's intense program of infrastructure development—railways, ports, power stations and highways. Indeed, China is at the 'minerals intensive stage of its development where infrastructure, urbanisation and manufacturing make a heavy demand on steel, aluminium and electricity...'⁴

7.5 China has stated emphatically that it 'will stay on the new road of industrialisation'.⁵ The government has indicated that it will strengthen basic industries like the energy industry and important raw materials industries, as well as infrastructure development in 'water conservancy, transport and communications'.⁶ Clearly, as noted by the Minerals Council, China's requirements for minerals and energy are now operating from a new higher plateau.

7.6 Although China has its own extensive reserves of minerals, demand exceeds its domestic supply capacity. Improving domestic capacity forms an important aspect of China's economic and social development plan. China is focusing on developing large coalmines and expanding coal transport facilities such as railways and embarkation ports and to renovate and upgrade coalmines for production safety.⁷ It intends 'to accelerate major projects for liquefying coal, exploiting petroleum and natural gas, generating power by natural gas, and utilising renewable energy sources and develop hydroelectric power'.⁸

7.7 Despite the measures taken to increase domestic supply, China acknowledges that it remains dependent on overseas supplies to satisfy its requirements for minerals and resources. At the beginning of 2005, China noted that supplies of energy, raw and processed materials and transportation had increased significantly over the past two years but that supply lagged far behind demand for coal, electricity, petroleum and

4 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

5 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

6 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

7 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

8 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

transportation.⁹ It announced that it would 'carefully organize the import of energy, raw and processed materials, key technologies and major equipment that are badly needed and in short supply in China'.¹⁰ Chapter 2 discussed China's energy needs and noted that the country experiences power shortages.

Australia as a producer of minerals and resources

7.8 Australia is one of the world's most significant suppliers of minerals. It is the third largest mineral sector by value of production of any country after the US and South Africa.¹¹

7.9 Currently, China is an important market for the Australian minerals sector. Minerals account for more than half of Australia's total goods exported to China and have grown by 470 per cent over the last decade.¹² China is now Australia's second largest customer for mineral and energy commodities after Japan.¹³ China's highest value imports from Australia are iron ores, aluminium, copper, wool, coal and flat rolled iron. Minerals exports to China are in the order of \$3.5 billion—or just less than 10 per cent of total Australian minerals exports.¹⁴

7.10 The main impetus behind the increasing importance of China as an export destination for Australia is its growing demand for resources. Australia is well placed to take advantage of this growing demand. According to the Minerals Council, Australia's mining sector has been 'gearing up for a number of years to meet the extra demand'.¹⁵ They noted that there are 43 minerals projects at an advanced stage—either committed or under construction—with total estimated investment of around \$13.6 billion.¹⁶

7.11 Mr Charlie Lenegan, Managing Director, Rio Tinto, Australia, warned of forecasting the shape of future trade with China, which in his view is inherently risky.

9 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

10 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005 and *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

11 Minerals Council of Australia, *Submission P55*, p 8; and *Committee Hansard*, 22 June 2005, p. 2.

12 *Submission P55*, p. 7.

13 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

14 *Submission P55*, p. 3.

15 *Submission P55*, p. 8.

16 *Submission P55*, p. 3.

He surmised that the 'country's human capital, its commitment to change and its ability to leapfrog technology guarantee surprises'.¹⁷ Even so, Mr Lenegan indicated that 'China's soaring demand for iron ore and other minerals is depicted as a bonanza for resource companies like Rio Tinto'.¹⁸ He explained further:

Ultimately, a nation of 1.3 billion whose economy is at the minerals intensive stage of development is going to see significant growth in consumption of minerals and energy. There will be imports of resources and other products/services where Australia enjoys a competitive advantage, and exports of goods in which China enjoys a competitive advantage.¹⁹

7.12 Indeed, most analysts predict that trade in resources and energy will continue to grow rapidly in response to demand pressures generated by China's industrialisation. DFAT stated:

These trades are underpinned by sizeable long term contracts, for example for iron ore and the sale of liquefied natural gas into the Guangdong market from 2005, and will remain the basis of Australia's export trade for many years to come.²⁰

China's concern with dependency on overseas supplies and energy efficiency

7.13 As noted above, China's domestic sources cannot satisfy its growing demand for minerals and energy and it must rely on overseas suppliers. Even with imported energy resources, China experiences power shortages that make it particularly conscious of the importance of conserving and using energy more efficiently. China is taking a number of steps to enhance its energy security including diversity of supply, use of alternative or substitute products and increased efficiency of use.

Security of supply an important consideration

7.14 It is natural for a country dependent on overseas sources for vital raw materials to adopt an opportunistic and pragmatic policy aimed at securing its supplies. China is no exception. It is following a multi-pronged approach to ensure that it has ready and reliable access to essential resources.

17 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

18 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

19 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004. See also *Submission P34*, p. 6.

20 *Submission P19*, p. 7.

7.15 China is looking to diversify its sources of minerals and energy to guarantee greater certainty in accessing supply. The Department of Industry, Tourism and Resources (DITR) did not envisage China's energy efficiency policy as a problem for Australian exporters of minerals. It told the committee:

We do know that China, like many other economies, would be trying to diversify its sources of energy supply from an energy security perspective. I think the demand that they will need to meet their growing energy needs will be such that that really would not be an impediment to Australia exporting to that country.²¹

7.16 China is also seeking alternative sources of energy with Australia again well placed to assist China. Australia and China have recently entered into an agreement that will see Australia supply China with liquefied natural gas. This is discussed in greater detail later in this chapter at paragraphs 7.35–7.45.

7.17 Nuclear power is another area with the potential for huge growth. Australia is the second largest producer of uranium after Canada and is a preferred supplier of uranium because of its low cost reserves and its political and economic stability.

7.18 Australia's uranium is sold strictly for electrical power generation and there are well-established safeguards in place to ensure that nuclear material remains exclusively for peaceful use.²² China has made it known that it is very keen to enter into negotiations with Australia on the supply of uranium.²³ Indeed, at the beginning of 2005, Canberra and Beijing began informal talks on uranium sales. In August later that year, the government announced that Australia would formally commence negotiations on a nuclear cooperation agreement with China. The Minister for Foreign Affairs stated that:

Australia has an estimated 40 per cent of the world's low-cost uranium resources. Opening up this export opportunity with China is consistent with the growing trade and economic relationship between our two countries, and Australia's position as a secure supplier of energy resources.²⁴

7.19 Australian Uranium exports are currently not allowed to China because Australia does not have a bilateral nuclear safeguards agreement with China. The Treasurer, the Hon Peter Costello, MP, made it clear that there would be no sales of uranium to China unless it agreed to Australia's nuclear safety controls.²⁵ A necessary

21 *Committee Hansard*, 21 June 2005, p. 39.

22 DFAT, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Estimates Hansard*, 17 February 2005, p. 93.

23 *Committee Hansard*, 22 June 2005, p. 9.

24 The Hon. Alexander Downer, MP, Minister for Foreign Affairs, 'Negotiation of Nuclear Cooperation Agreement with China', Media Release, FA100–9, August 2005.

25 The Hon. Peter Costello MP, Treasurer of the Commonwealth of Australia, Doorstop Interview, Beijing, China, 17 October 2005.

part of the negotiations now underway will involve both countries reaching such an agreement.

7.20 The committee notes that diversity of suppliers and the use of alternative commodities itself do not necessarily offer security of supply if the suppliers cannot be relied upon to deliver on time and without difficulties. Australia has a distinct advantage in this regard.

Australia's reputation as a supplier

7.21 A country seeking to secure access to essential resources values a supplier who can be relied on to deliver the goods as required, efficiently and cost effectively. Australia stands out in this regard. Its established reputation as a dependable and reliable supplier of goods is one of its strongest credentials as a trading partner (see paragraphs 7.16, 7.36, 7.42 and 8.32). Countries relying heavily on imports for their strategic commodities such as iron ore look for certainty of supply. DITR told the committee:

We take every opportunity we have during our bilateral dialogue and also when we have incoming and outgoing delegations to promote ourselves as a very reliable supplier of energy and resource commodities. Particularly, we look to our very good track record—say, with LNG, in our exports to Japan—in that we have never ever missed a shipment. They have all been on time. So we use the avenues we have available to us to continually promote our very good track record and our political stability in this country.²⁶

Committee view

7.22 Australia's reputation as a reliable and dependable supplier of commodities holds it in good stead in the international trading community. It provides a solid foundation to further expand Australia's trading links with China. Reputations, however, are easily tarnished and in such a highly competitive market Australian companies need to maintain and promote their good reputation.

Energy efficiency and conservation

7.23 While China has made remarkable advances in economic and social development, its leaders acknowledge that there has been a cost to the environment. Premier Wen was forthright on this matter:

The reckless expansion of cities, blind pursuit of large-emission automobiles capacious residential apartments and luxurious packages for some products, which are quite common in some cities, have intensified the

26 *Committee Hansard*, 21 June 2005, p. 41. See also, the Hon Peter Costello, MP, Treasurer of the Commonwealth of Australia, 'The Emerging Global and Regional Architecture—Moving Ahead', Address to the China–Australia Chamber of Commerce, Beijing, 17 October 2005.

conflict between the supply and demand of resources and environmental pollution.

Currently, China's consumption of energy resources, raw materials and water for per unit of GDP (gross domestic product) is far beyond the world's average level.²⁷

7.24 China will continue to promote economic growth but is serious about implementing measures to 'build a resources-saving society'. It has called for energy conservation in major energy-consuming industries and enterprises, the development of oil substitutes and other energy saving products, the promotion of the use of renewable energy such as water, wind, solar and biological energy and a raft of practices designed to reduce energy use.²⁸

7.25 Australia recognises the direction that China is taking to encourage energy efficiency. DITR told the committee that:

The Chinese government are taking very seriously energy efficiency and are looking to be a good citizen in trying to reduce emissions. They are doing a lot of work in the international arena in attempting to move towards renewable energy and, as I said, to undertake work to introduce energy efficiency procedures into their government operations as well as into the general consumption of energy in that country. So they are doing a lot of work in that area.²⁹

7.26 Although Australia supplies China with resources, it is also well placed to assist China in its endeavour to improve the efficient use of resources through the application of new techniques and the development of new products.

7.27 Coal is currently the most important source of China's energy. According to ABARE, in 2001 coal accounted for 69 per cent of total Chinese primary energy consumption compared with 80 per cent in 1990.³⁰ Currently, coal makes up 65 per cent of China's primary consumption. China is both the largest consumer and producer of coal in the world.³¹ Although coal's share of the overall Chinese energy consumption is expected to fall, coal consumption is on the rise and will remain a crucial source of China's energy.³² Coal, however, is a substantial green house gas emitter and China's heavy use of unwashed coal results in large emissions of sulphur

27 Premier Wen in 'Premier Wen urges gov't organs to save energy', *People's Daily Online*, 4 July 2005.

28 Premier Wen in 'Premier Wen urges gov't organs to save energy', *People's Daily Online*, 4 July 2005.

29 *Committee Hansard*, 21 June 2005, p. 42.

30 *Australian Commodities*, vol. 1, no. 2, June quarter 2004, p. 299.

31 *Country Analysis Briefs, China*, August 2005, <http://www.eia.doe.gov/emeu/cabs/china.html> (accessed 21 September 2005).

32 *Country Analysis Briefs, China*, August 2005, <http://www.eia.doe.gov/emeu/cabs/china.html> (accessed 21 September 2005).

dioxide and particulate matter. China is projected to experience the largest absolute growth in carbon dioxide emissions between 2005 and 2025.³³

7.28 Australia exported almost 6 million tonnes of coal to China in 2004 and, according to the Treasurer, could export as much as 56 million tonnes a year by 2010, 'if China's markets were fully open to foreign suppliers.'³⁴ Australia also relies heavily on coal as a major source of energy. Although there are less environmentally-damaging alternatives, the reality remains that coal-fired electricity will be the mainstay of China's and Australia's static power supply for many years to come.

7.29 As exporters and heavy consumers of coal, both countries have a genuine interest in developing technologies that will reduce the emission of green house gases and are working cooperatively to find solutions to this problem. DITR informed the committee that China is active in international arenas in developing practical solutions to address environmental problems such as greenhouse. They explained further:

It is a member of the Carbon Sequestration Leadership Forum, which is aimed at developing the technologies to capture and store carbon dioxide from coal powered stations. It has recently joined the methane to markets initiative, which is all about trying to capture and utilise methane emissions from coalmines and natural gas operations—once again, to reduce greenhouse emissions. China is working with Australia under a bilateral agreement, the climate action partnership, which is aimed at trying to facilitate the development of practical solutions to address greenhouse between our two countries...As well as that, China is working with Australia to implement clean coal technologies that we have developed such as ultra clean coal. There are some very serious negotiations at the moment to perhaps develop an ultra clean power station within China.³⁵

7.30 Most recently, in July 2005, six Asia-Pacific countries—the United States, Japan, China, India, South Korea and Australia—formed a partnership on clean development and climate. According to the Minister for Foreign Affairs and the Minister for Environment and Heritage, this group 'will sensibly put technology cooperation front and centre'.³⁶ The ministers anticipated that the inaugural meeting of the partnership to be held in November 2005 would begin 'a long-term, practical

33 *Country Analysis Briefs, China*, August 2005, <http://www.eia.doe.gov/emeu/cabs/china.html> (accessed 21 September 2005). It noted a 1998 WTO report that suggested that seven of the world's ten most polluted cities are in China. See also EIA, *Country Analysis Briefs, 'China: Environmental Issues'*, July 2003. See also chapter 2, paragraphs 2.61–2.63.

34 The Hon Peter Costello, MP, Treasurer of the Commonwealth of Australia, 'The Emerging Global and Regional Architecture—Moving Ahead', Address to the China–Australia Chamber of Commerce, Beijing, 17 October 2005.

35 *Committee Hansard*, 21 June 2005, p. 43.

36 Joint Ministerial Statement, Minister for Foreign affairs and Minister for Environment and Heritage, 'Asia–Pacific Partnership on Clean Development and Climate', 11 August 2005.

collaboration that will promote low-carbon technologies, reduce the greenhouse gas intensity of our economies, and put us on low-emissions growth trajectories'.³⁷

7.31 China also has a poor safety record in the mining industry. Again, Australia is well placed to assist China improve its mining procedures and techniques. The Queensland Government has entered into two agreements with China to address mine safety. It noted the following initiatives:

- In January 2005, the Safety in Mines Testing and Research Station (SIMITARS) within the Queensland Department of Natural Resources and Mines signed a Memorandum of Understanding with the State Administration of Work Safety (SAWS) to supply China with safety technology designed to prevent underground mine disasters. SIMTARS has also signed an agreement with the China Coal Research Institute with similar objectives.
- The Queensland Department of Natural Resources and Mines has also entered into a Cooperation Agreement on Mine Safety Education and Training Cooperation with Shandong Coal Mine Safety Education and Training Centre in China.
- On 8 July 2005, the Queensland Department of Natural Resources and Mines signed a Memorandum of Understanding with the Ministry of Land and Resources, People's Republic of China, for more collaborative arrangements between the two governments regarding mining technology, mining safety, land management and water issues.
- In August 2004, the Queensland Department of Natural Resources and Mines signed a five-year contract with China's Ministry of Land and Resources to assist Chinese bureaucrats with training in land administration and registration.³⁸

Recommendation 8

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

Committee view

7.33 The committee notes Australia's reputation as a reliable and secure source of raw materials and the importance of protecting and building on its image as a dependable and valued supplier. The committee also acknowledges that Australia offers China a number of alternative sources of power—nuclear and LNG—and is working with China to improve its efficiency in energy use.

37 Joint Ministerial Statement, Minister for Foreign affairs and Minister for Environment and Heritage, 'Asia-Pacific Partnership on Clean Development and Climate', 11 August 2005.

38 *Supplementary Submission PIA*, p. 3.

7.34 The committee believes that it is important at this stage of the report to again note the concern expressed by a number of witnesses, in chapters 3 and 6, about Australia's reliance on the export of raw materials to boost its balance of trade figures. For example, taking a longer term look at the pattern of Australia's exports, Mr Martin Feil, a former director of the Industries Assistance Commission, pointed to the fact that Australia adds 'virtually no value to natural resources and raw materials other than extraction and some logistical services'. The AMWU noted that for every plasma television Australia imported, it had to export 'in the vicinity of 150 tonnes of iron ore'.³⁹ The committee encourages Australian energy and resources companies to capitalise on the opportunities presented by a rapidly industrialising China but urges them and the Australian government to look on Australia as much more than a quarry.

7.35 The following section examines a number of key commodities traded with China and the advantages for Australia in forming strategic partnerships in the minerals and energy sector. In particular, this section examines the successes that Australia has achieved in gaining access to China's markets and some of the difficulties producers face in exporting their product to China.

Liquefied natural gas (LNG)

7.36 Although natural gas is presently a minor fuel in China there are clear indications that the consumption of natural gas in China will grow.⁴⁰ The Energy Information Administration's *International Energy Outlook for 2005* indicated that natural gas is expected to be a favoured choice for new electricity generation capacity built over the next two decades. Natural gas offers China a number of benefits. Its relative environmental advantages and efficiency make it an attractive alternative to coal fired generation. It also provides China, which is looking to diversify its energy supplies, with an alternative energy source.

7.37 In August 2002, an Australian consortium, Australia LNG, won a major contract to supply liquefied natural gas to China's Guangdong Province—the largest foreign contract ever awarded to an Australian Company. This was China's first LNG project.⁴¹ The Chairman of Woodside Petroleum Ltd, Mr Charles Goode, remarked at the time that:

The North West Shelf has an excellent record over more than a decade as an efficient and reliable supplier of LNG. The Australian tender, therefore, had the sound credentials of an efficient existing operation, good reserves and strong management.⁴²

39 See chapters 3 and 6, paragraphs 3.21, 3.23, 6.64 and 6.66.

40 Energy Information Administration, *International Energy Outlook 2005*, Office of Integrated Analysis and Forecasting, U.S. Department of Energy, Washington, DC, July 2005, p. 43.

41 Australia LNG Pty Ltd changed its name to North West Shelf Australia LNG Pty Ltd in March 2003.

42 Woodside Australian Energy, News Release, 'China LNG Success: Woodside Chairman offers congratulations', 8 August 2002.

7.38 He also recognised that there had been a 'well coordinated marketing program to China over a number of years which had the strong support of the Western Australian and Commonwealth governments'.⁴³ At the time of the announcement, Mr John Akehurst, Managing Director of Woodside Energy Ltd, stated:

This is a great outcome for Australia and for the North West Shelf. It is the result of a sustained effort by many people over a long period. Cooperation between industry and governments could not have been better and Australia LNG, which is our marketing arm in China, has done a great job.⁴⁴

7.39 Two months later, a 25-year LNG sale and purchase agreement between the North West Shelf LNG Sellers and the Guangdong LNG project proponents was signed. Under the agreement, from mid-2006 Australia is to supply 3.7 million tonnes of liquid natural gas each year for 25 years.⁴⁵ The agreement is worth up to \$25 billion and was the result of many years of 'hard, diligent and meticulous work'.⁴⁶

7.40 This announcement put in train a series of other arrangements. In May 2003, the North West Shelf Venture Participants and CNOOC Ltd⁴⁷ formalised agreements that provided for CNOOC subsidiary, CNOOC NWS Private Ltd, to acquire an interest in NWS Venture titles and to secure rights to use NWS Venture infrastructure to process gas.⁴⁸

7.41 In October 2003, North West Shelf Australia LNG signed a Memorandum of Understanding for the Management and Implementation of the Australia-China Natural Gas Technology Partnership Fund. This initiative is 'aimed at providing

43 Woodside Australian Energy, News Release, 'China LNG Success: Woodside Chairman offers congratulations', 8 August 2002.

44 'Australia Wins China LNG Bid', 8 August 2002, <http://www.supplybase.com.au/news/views.asp?id=35> (accessed 17 May 2005).

45 Australia LNG, Media Release, 'North West Shelf Venture to Assist in Developing China's Natural Gas and LNG Industry', 24 October 2003.

46 Stock Exchange Release, Woodside Australian Energy, 8 August 2002. Australian Bureau of Statistics, *Year Book Australia*, 2003, International Relations: Australia's bilateral relationships, Catalogue no. 1301.0-2003; Australian Bureau of Statistics, *Year Book Australia*, 2003, International Relations: Australia's bilateral relationships, Catalogue no. 1301.0-2004. See also Chairman's Address, 32nd Annual General Meeting, Woodside Petroleum Ltd., Sydney, 15 April 2003.

Mr Arthur Dixon, President of Australia LNG, noted that it had taken five years and 12 days since the first official mission from Australia visited China in search of an LNG deal. He stated that it had been 'a long haul'. Australia LNG, News Release, 'Australia Signs China LNG Agreements', 18 October 2002.

47 The China National Offshore Oil Corporation, one of the largest oil companies in the People's Republic of China. Through its subsidiaries, it explores, develops, produces and sells crude oil and natural gas.

48 'North West Shelf Venture-CNOOC Formalise Acquisition Agreements', 16 May 2003, <http://www.australialng.com.au/newsItem.aspx?id=8> (accessed 17 May 2005).

opportunities for training, research and technology transfer between the people of China and Australia in the natural gas and Liquefied Natural Gas (LNG) industry'.⁴⁹

7.42 In December 2004, the North West Shelf Australia LNG and the Guangdong LNG Company Ltd finalised the sale and purchase agreements for LNG supply to Guangdong.⁵⁰ Mr Wu Zhenfang, Chairman of Guangdong Dapeng LNG Company Ltd, recognised this step as a major milestone in the development of the Guangdong LNG Project, marking 'the start of a very long journey for China in developing a world class natural gas industry'.⁵¹

7.43 DFAT cited this agreement as an example of how 'close collaboration between Australia's Government and industry can advance the national interest'. It noted that other Australian companies are working hard to build on the North West Shelf Venture's success in the China market, including Gorgon Australian Gas, Woodside Petroleum and BHP Billiton'.⁵²

7.44 This arrangement showcases the opportunities that are available for Australia to deepen its economic links with China. Mr Peter Jennings, Acting Director, the Australian Strategic Policy Institute, noted that the LNG deal clearly demonstrated the potential to develop 'an economic relationship that, in scope, goes well beyond simple trade ties' and which in large part stems from their complementary economies:

Australia offers China a combination of essential resources and long-term political stability underpinning a guaranteed supply. China offers Australia almost limitless demand and the potential to broaden the relationship beyond providing raw materials to include a huge requirement for services.⁵³

7.45 Indeed, the success of this agreement has paved the way for further expansion. The Western Australian government with the government of its sister state, Zhejiang,

49 Australia LNG, Media Release, 'North West Shelf Venture to Assist in Developing China's Natural Gas and LNG Industry', 24 October 2003.

50 ASX Announcement, Woodside, 'CNOOC Equity Agreement', 20 December 2004.

51 Australia LNG, Media Release, 'Guangdong LNG Agreement', 13 December 2004. At this time, Woodside announced that: A new joint venture, called the China LNG joint venture had been established within the overall North West Shelf project to accommodate CNOOC and to supply LNG to the Guangdong LNG project in China. CNOOC will hold a 25 per cent share in the new joint venture, with each of the existing NWS Venture participants taking 12.5 per cent. CNOOC will be entitled to gas and associated liquids approximately equivalent to a 5.3 per cent interest in the gas in North West Shelf Venture titles. CNOOC will pay a tariff to the North West Shelf Venture participants to use infrastructure to produce and process gas and associated liquids from its acquired resources. ASX Announcement, Woodside, CNOOC Equity Agreement, 20 December 2004.

52 *Submission P19*, p. 14.

53 P. Jennings, *Submission P2*, pp. 3–4.

have set up a feasibility study on gas and LNG.⁵⁴ As an example of close cooperation, Mr Satchwell told the committee about the eight Chinese gas utility executives who were in Western Australia for six months undertaking training in modern business operation and in particular the operation of competitive gas markets.⁵⁵

Committee view

7.46 The committee acknowledges the achievements of all parties to the LNG agreement and the contribution it has made to developing closer ties with Chinese industry. It has enhanced Australia's image as an enthusiastic, innovative and reliable trading partner. It provides a model for other Australian enterprises to emulate and is a source of encouragement for them to enter joint ventures with Chinese enterprises.

Iron ore

7.47 Different commodities in the minerals and energy sector confront different trade barriers. In chapter 4, the committee discussed in broad terms some of the impediments to trade with China. It noted that tariffs on minerals, although not high, still resulted in unnecessary costs to the exporter. The export of iron ore to China however, is subject to another form of restriction—import licences.

7.48 China relies on overseas sources for its much needed supplies of iron ore. ABARE records that in 2004, China's imports of iron ore rose by 60 million tonnes to 208 million tonnes, representing 35 per cent of world seaborne iron ore.⁵⁶ In 2002–03 China imported 32 per cent of Australia's total iron ore export⁵⁷ and in 2003–04 this increased to 36 per cent.⁵⁸ According to Rio Tinto, the latest import data from China for the first six months of 2005 showed that Australia's iron ore exports to China increased by a substantial 60 per cent, or nearly 20 million tonnes. In comparison, supplies from Brazil increased by 21 per cent and from India by 42 per cent.⁵⁹

7.49 China is Australia's second largest importer of Australian iron ore after Japan and on recent trends, its demand is set to rise. According to Rio Tinto, China is now its largest iron ore importer. Charlie Lenegan, Managing Director, Rio Tinto, Australia, has stated that:

China needs iron ore to supply the growing demand from its steel mills. With nine mines and three ports in the Pilbara, RTIO is well placed to

54 I. Satchwell, *Committee Hansard*, 1 August 2005, p. 5.

55 *Committee Hansard*, 1 August 2005, p. 5.

56 *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 328.

57 Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade: International merchandise trade, Catalogue no. 1301.0–2004, p. 811.

58 Australian Bureau of Statistics, *Year Book Australia*, International accounts and trade: International merchandise trade, Catalogue no. 1301.0–2005, p. 829.

59 W. Hart, *Committee Hansard*, 1 August 2005, p. 50.

satisfy that demand. The company plans to ship over 170 million tonnes per annum in 2006, up from the 2003 figure of 118 tonnes, also recognise the stimulus that Chinese growth has given to the rest of Asia.⁶⁰

Licence requirement—example of trade barriers

7.50 From 1 May 2005, China limited the number of companies licensed to purchase iron ore from the spot market from 523 to 118 (48 traders and 70 steel makers).⁶¹ This decision seemed to contradict the message China is sending to the international business community that it is opening up its economy. DITR explained:

The Chinese describe the licensing system as an automatic registration system. They do not use the word 'licensing'. I understand that certain companies have queried whether or not the regime that was introduced is compliant with China's World Trade Organisation obligations.⁶²

7.51 Taking account of China's viewpoint, DITR told the committee:

If we step back a little and try to think what is happening, I would suggest that last year there were over 500 purchasers of iron ore in China, from Australian and other iron ore suppliers. The Chinese regarded this as very disorderly marketing—in other words, lack of central control, perhaps, of the prices—and thought that if they could limit the number of purchasers there might be more orderly purchasing arrangements.⁶³

7.52 The department was of the view that limiting the number of purchasers would not affect the quantity of Australia's exports to China and the price negotiated between the commercial parties would be determined by supply and demand.⁶⁴ Consistent with this view, ABARE also suggested that the motive behind this move was to improve logistical efficiencies. It also surmised that it may have been an attempt 'to limit China's exposure to volatility in the spot market'.⁶⁵

7.53 The Minerals Council provided a similar interpretation of the reasons China imposed a licensing requirement, though they believed that the SOEs were exerting influence. It stated:

The state owned enterprises are politically pretty powerful. They have coalesced themselves into a group whereby they are essentially seeking to control what they call 'undisciplined' growth, the argument being that they will take some heat out of the market. The top 75 or so steel mills, for

60 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

61 *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 329.

62 *Committee Hansard*, 21 June 2005, p. 44.

63 *Committee Hansard*, 21 June 2005, p. 44.

64 *Committee Hansard*, 21 June 2005, p. 44.

65 *Australian Commodities: forecasts and issues*, vol. 12, no. 2, June quarter 2005, p. 329.

example, doing the business see the next 1,000 mills as being responsible for the undisciplined growth so import licences are issued to the top 75 or so mills to take some of that 'undisciplined' growth out of the market place.⁶⁶

7.54 This move by the Chinese government is a reminder that China is sensitive to the problems of the supply and demand of such important commodities. They rely heavily on regulation to ensure that the government retains what it believes to be appropriate control over the supply and distribution of minerals and resources. Although the initial effect was negligible, the Minerals Council was concerned by:

...the fact that the move is indicative of a broader sentiment within China that market prices can be influenced by official and/or unofficial intervention.⁶⁷

Committee view

7.55 The committee notes the Mineral Council's concerns.

Other important export commodities

7.56 A number of other commodities are important to Australia's export trade to China. For example, in 2003–04 China took 14 per cent of Australia's crude petroleum products. Alumina exports to China are also set to rise. According to Rio Tinto, despite China's stricter domestic investment guidelines, its alumina demands are also expected to continue to grow. They stated:

The Comalco Alumina Refinery (CAR), now nearing completion in Gladstone, will add value to the Weipa resource. CAR, the first greenfields alumina refinery to be built anywhere in the world in the last twenty years is, in part, a response to China's growing demand for alumina imports. So, too, is the expansion and upgrading of the Weipa operation that has been carried out to guarantee CAR's raw material needs.⁶⁸

Australian investment in the minerals and resources sectors in China

7.57 China has adopted a two-way investment promotion plan where the outbound investment strategy is 'integrated with the continuous effort to promote foreign capital inflow to boost China's overall involvement in global economic cooperation'.⁶⁹

7.58 In chapter 9, the report examines the broad investment environment that exists between Australia and China. The minerals and energy sector, however, presents a

66 *Committee Hansard*, 22 June 2005, p. 5.

67 *Submission P55*, p. 13.

68 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth—Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

69 *Asia Times*, 13 September 2001.

unique set of circumstances for investors. The nature and extent of that investment is examined in the following section.

7.59 Australian companies, with their experience in research and development, exploration and mining, are ideally suited to assist China to promote the efficient use of energy and the development of their mineral resources. China recognises the advantages to be gained from close collaboration between the two countries in the area of research and development in the minerals and energy sector. For example, Mr Wu Bangguo, Chairman of the Standing Committee of the National People's Congress, suggested that to raise mutually beneficial cooperation between the two countries to a new level, they should:

- deepen cooperation in energy and mineral resources and realise mutual benefit; and
- expand mutual investment and strengthen cooperation between the business of the two countries.⁷⁰

7.60 According to Rio Tinto, however, little foreign direct investment (FDI) has gone into the minerals and energy sector in China, citing reasons related to 'the adequacy of legal systems, views on property rights and prospectivity'. Mr Lenegan explained further:

China is well explored, but new global ore models open up prospects of major discoveries in a large range of geological settings. While gradually improving, the exploration regime suffers from the fragmentation of data and a complex regulatory system. At this stage, there does not appear to be much support for foreign investment in this sector.⁷¹

7.61 The Minerals Council of Australia endorsed this view. While commenting on the opportunities available for foreign investors in China's minerals sector, it noted that 'the reality is that there are restrictions to minerals investment in China at nearly every point in the process'.⁷² In its experience, there are obstacles from determining the prospectivity of particular regions, securing approvals for exploration, exploring for mineral reserves, securing a mining right, undertaking mining operations to the marketing of those products.⁷³ In general it found the approval processes uncertain and open-ended, with limited scope for a wholly owned foreign entity to trade. It cited the following specific impediments to Australian investment in the minerals and energy sector in China:

70 Embassy of the People's Republic of China, 'Wu Bangguo Attends the Opening Ceremony of China-Australia Economic and Trade Forum and Delivers a Keynote Speech', 23 May 2005, <http://www.chinaembassy>1t/eng/xwdt/t197115.htm> (accessed 21 July 2005).

71 Address by Charlie Lenegan, Managing Director, Rio Tinto, Australia, 'China's Growth— Implications for Australia's Mining Industry', ABARE conference, Canberra, 22 June 2004.

72 *Submission P55*, overview.

73 *Submission P55*.

- the restricted availability of geological data—a credible pre-competitive geological database is an essential feature of any regime seeking to promote inward foreign investment in the minerals sector;
- the difficulty in securing an exploration permit which may involve two or three levels of government;
- the licensing regime—licenses can only be granted to qualified 'geological exploration units registered in China and to date no foreign mining company operating in China has been granted such a qualification—foreign explorers must enter joint venture arrangements with qualified provincial groups';
- the requirement for joint venture and to provide capital for that joint venture but with no exit clause to have the capital returned if the venture fails;
- the current project approval process for Sino–Foreign Joint Ventures, which is regarded by foreign minerals companies as slow and uncertain;
- no guarantee that a company that secures a foreign explorer right and locates a commercial resource will have the right to mine that resource;
- a policy approach that means that minerals commodities are not treated equally—authorities encourage exploration in certain base grade metals like copper, lead and zinc but are reluctant to support foreign exploration for more precious metals such as silver and gold;
- tax treatment that lacks certainty and is complex;
- limited trading rights for foreign companies for example if the venture is a wholly–owned foreign enterprise it cannot obtain a full import/export licence; and
- lack of transparency and certainty of legal processes for foreign investors operating in China.⁷⁴

7.62 The Minerals Council was of the opinion that many of these impediments are in contradiction of the WTO agreements and China's succession protocols. In summary, it argued that there is 'an overall need for greater transparency and legal certainty with legal processes for foreign investors operating in China...'⁷⁵

Committee view

7.63 Although China promises more and better investment opportunities for Australian companies, particularly in the minerals and energy sector, substantial hurdles remain that discourage Australian investors. Many of these obstacles restrict the flow in trade and investment that would be of great benefit to both countries. This area should be singled out as a priority for reform.

74 *Submission P55*, pp. 16–17; and *Committee Hansard*, 22 June 2005, p. 4.

75 *Committee Hansard*, 22 June 2005, p. 4.

China's investment in the minerals and resources sectors in Australia

7.64 In turning to outbound investment, China has adopted a 'go global' strategy designed to encourage Chinese firms to invest overseas.⁷⁶ This outward focused investment strategy is designed to integrate with China's effort to promote foreign capital inflow 'to boost China's overall integration in the global economic cooperation'.⁷⁷

7.65 As noted earlier, China is concerned about securing reliable access to essential minerals and resources. 52 per cent of their outward foreign direct investment is in minerals and energy.⁷⁸ Dr Davis, ACCI, maintained that China's approach is to buy the resources abroad. He stated:

They are not content to contract for the supply of oil and gas; they are going to buy oil and gas facilities. As one of my members said, Mr Costello will be worrying about another Woodside within the next two to three years, fairly certainly. In the popular press they are talking about CNOOC buying Unocal. That is just the first of many.⁷⁹

7.66 China's concern for securing market access is reflected in the direction of their investment in Australia. Invest Australia understood that China's investment strategy in Australia was tied to its desire to secure their supply chain with a particular focus on the resources industries.⁸⁰ According to the Minerals Council, Chinese companies have 'equity investments in the Pilbara and in aluminium smelting in Victoria, and most of that is driven by security of market access and commercial decisions'.⁸¹ DITR agreed with this view. It explained further:

I think China is looking to increase its foreign direct investment in other nations that have supply capacity. That would include Australia and Brazil—they would be the main nations that they would be looking to invest in regarding iron ore. They would also be interested in expanding their relationship with India for iron ore supply.⁸²

7.67 DITR told the committee:

They have made direct investments in a couple of mines within Australia, most recently a mine in the Hunter Valley, which had been closed by the

76 See From China about China, "'Go Global' Investment Strategy Needed for Chinese Enterprises', from People's Daily, 12 September 2001, <http://www.lianghui.org.cn/english/GS-e/19033.htm> (accessed 21 July 2005).

77 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

78 *Committee Hansard*, 22 June 2005, p. 3.

79 R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

80 *Committee Hansard*, 21 June 2005, p. 39.

81 *Committee Hansard*, 22 June 2005, p. 9.

82 *Committee Hansard*, 21 June 2005, p. 39.

previous owners because they had technical problems that they could not address. The Chinese are coming in with a new long wall mining technology which they want to demonstrate within our mining environment. As such, they have invested within that mine...The Southland mine. They had a fire there last year and the company that owned it just did not have the financial capacity to maintain the operation. That is an example where China is developing mining equipment and technology based on their huge industry, which they are looking to tailor to meet the needs of other countries as well. Increasingly, China is absorbing a lot of investment by the major mining equipment supply manufacturers around the world. In terms of changing trade relationships, I anticipate that instead of getting that equipment from Germany, the US or Japan, we will be getting that sort of equipment from China.⁸³

7.68 The Chinese investor in Australia is not only interested in accessing supplies of raw materials to export to China, but 'extends down the value added chain into the processing of materials'.⁸⁴ DITR provided the following example:

The investment by the China International Trust and Investment Corporation, CITIC, into Victoria's Portland aluminium smelter was a very early example of their desire to acquire not just raw materials—that is, bauxite—but a finished product, aluminium, which is several stages up the chain. The Chinese Shagang Corporation is a five per cent shareholder in the Rio Tinto led, HI-Smelt iron ore making project in Western Australia, where again the Chinese interest is not in acquiring the iron ore but in doing something to the iron ore and acquiring some materials further up the value added chain. Rio Tinto is trying to encourage the Chinese to look more actively at the HI-Smelt process, either in Australia or in China.⁸⁵

7.69 From the Chinese perspective, Australia encourages investment but the dominant criterion when considering whether to allow some forms of investment is 'Australia's national interest'. The Chinese consider that this criterion allows excessive discretionary power, and 'certain examination and approval procedures are short of transparency, which have impeded the access of foreign capital into Australia'.⁸⁶

Conclusion

7.70 China's growing demand for minerals and energy has created enormous opportunities for Australian companies to both export their commodities to China and to assist China with some of the problems they are grappling with such as environmental degradation. The committee believes that Australia and China, who are major greenhouse emitters and rely heavily on fossil fuels for their energy, have much

83 *Committee Hansard*, 21 June 2005, p. 40.

84 *Committee Hansard*, 21 June 2005, p. 51.

85 *Committee Hansard*, 21 June 2005, p. 51.

86 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report 2005*, p. 33.

to achieve in the area of research and development toward the use of cleaner fuels and renewable sources of energy.

Chapter 8

Trade in services

8.1 The services industry has emerged as a vital sector of most countries' economy. Its efficiency underpins overall economic performance.¹ An OECD paper has noted:

Not only do economies derive the bulk of their employment and income from services, but many services—financial, telecommunications and transport—are vital intermediate inputs for the production of other goods and services.²

8.2 This chapter examines the trade in services between China and Australia. It discusses the use of the term services and the statistics available on the trade in this sector. The chapter then looks at the services industry in China, the opportunities for Australian companies to trade in services and the impediments they face. Finally, it considers two major areas of trade in services with China important to Australia—education and tourism.

The term 'service'

8.3 The meaning of the term services is very broad. Under the multilateral system, the General Agreement on Services (GATS) and commitments made under the WTO govern trade in services. The GATS, however, does not define the word 'services', rather it uses the term 'trade in services'. The GATS definition of trade in services covers not only the cross-border supply of services but also transactions involving the cross-border movement of capital and labour.³

8.4 The difficulty with formulating a precise definition of services is that the term generally refers to intangible products. It covers a broad sector that encompasses a number of industry categories. The activities anticipated by GATS under the term services range from 'architecture to voice-mail telecommunications to space

1 Julia Nielson and Daria Taglioni, OECD, 'Services Trade Liberalisation: Identifying Opportunities & Gains', *OECD Trade Policy Working Paper* no. 1, 2004, p. 81. See also Professor Christopher Findlay, Asia Pacific School of Economics and Government, the Australian National University, 'Trade in Services', *Melbourne Asia Policy Papers*, no. 6, March 2005. He stated that the service sector is 'huge' and noted that in OECD economies it accounts for about 70 per cent of GDP.

2 Julia Nielson and Daria Taglioni, OECD, 'Services Trade Liberalisation: Identifying Opportunities & Gains', *OECD Trade Policy Working Paper* no. 1, 2004, p. 81.

3 See WTO website for information on GATS. See for example http://www.wto.org/english/tratop_e/serve_e/serv_cbt_course_e/cls3p1_e.htm (accessed 22 July 2005).

transport.⁴ Health, education, tourism and banking are also examples that fall within the understanding of a 'service'.

Statistics on investment and services

8.5 The vagueness in definition means that accurate or precise statistics are not available on trade in services. Although acknowledging that trade in services is 'difficult to quantify', DFAT was of the view that:

Official statistics tend to underestimate services trade but indicate that Australia–China services trade has grown rapidly over the past decade. In 2003, bilateral services trade was valued at almost \$1.9 billion. China is one of Australia's fastest growing services export markets—annual growth has averaged around 14 per cent in five years to 2003—and China now ranks as Australia's seventh largest export market for services.⁵

8.6 Mr Ian Satchwell, ACIL Tasman, was also of the view that Australia's trade in services is not fully appreciated. He stated:

The services sector nationally, and its role in trade with China, is probably undervalued, because it is not a discrete industry sector like mining or gas; it is made up of firms in disparate industries. Data on services trade, therefore, probably does not tend to represent the full value and services are not as tangible as LNG, iron ore or widgets.⁶

8.7 Dr Stephen Morgan noted the difficulties in obtaining accurate and comprehensive statistics on investment and services. He stated that in trying to collate the data on investment and services you will have:

...a small army of people working for a couple of weeks and be not much better off than if you just had the handout, the flyer, the basic one-liner statement associated with trade, investment and so on.⁷

8.8 He further observed that Australian data on Australian investment in China 'is always significantly different from Chinese data'. He explained:

The criticisms and issues I am raising here are not necessarily directed at ABS for any failing on their part. They could improve the accessibility of the data. They could collaborate more effectively with industry and academics to perhaps better understand the nature of Australian investment in China and the nature of our trade in services. For example, two weeks ago a parliamentary officer from the Victorian state government called me because he was struggling with the services data. He was trying to work on the nature of Victoria's services trade with China. I made a number of

4 WTO, 'Services trade', http://www.wto.org/english/tratop_e/serve_e/serv_e.htm (accessed 22 July 2005).

5 *Submission P19*, p. 8.

6 *Committee Hansard*, 1 August 2005, p. 2.

7 *Committee Hansard*, 27 June 2005, p. 1.

suggestions as to how he could use the national data that we have with what we know about the nature of services generated across Australia by state to come up with some approximate back of the cigarette packet type estimates.⁸

Committee view

8.9 The committee believes that the Australian government in consultation with relevant agencies such as the ABS, should review the statistics made available on Australia's trade in services with a view to identify ways to improve the current system of gathering statistics so that they would provide an accurate and comprehensive representation of that trade.

8.10 Despite the difficulty in obtaining accurate statistics on trade in services, the DFAT joint feasibility study on the Australia–China free trade agreement stated that the annual growth has averaged 26 per cent to 2004 and that China now ranks as Australia's seventh largest export market for services.⁹ The following section considers the service sector in China and the scope for Australian companies to improve their trade with China in this sector.

The service sector in China

8.11 In Andrew Stoler's assessment, Chinese authorities were 'becoming preoccupied by the fact that while the country has succeeded brilliantly at becoming the world's "factory", its service sector has lagged behind miserably'.¹⁰ At a conference on Australian trade, he explained:

Today in Australia, the services sector accounts for about 80% of national GDP. The world average is slightly over 60 per cent and services often represent 70% or more of GDP even in developing countries. In China, services account for only about 38% of GDP—and that share is falling. And where home-grown Chinese companies are services providers, they are often dismal performers.¹¹

8 *Committee Hansard*, 27 June 2005, p. 2.

9 See also I. Satchwell, *Committee Hansard*, 1 August 2005, p. 2.

10 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3. Mr Stoler is Executive Director, Institute for International Business, Economics and Law, the University of Adelaide.

11 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3. Professor Findlay, noted that in OECD economies the service sector accounts for about 70 per cent of GDP, 55 per cent in the middle-income countries and 42 per cent for low-income countries. In Australia services account for 'over 80 per cent of output and employment'. 'Trade in Services', *Melbourne Asia Policy Papers*, no. 6, March 2005.

8.12 China has recognised the benefits likely to accrue from liberalising its service sector and is now committed to opening up this sector to foreign interests. In China changes to the regulatory system governing trade in services mark a significant shift in approach and policy, representing a milestone in reform.¹² For example, under the WTO, China agreed to permit:

- foreign service suppliers to establish joint venture enterprises in the telecommunications services—within three years of accession foreign investment shall be no more than 49 per cent and within five years there would be no geographic restrictions;
- upon accession, foreign financial institutions to provide banking services in China without client restrictions for foreign currency business, within two years to provide local currency business to Chinese enterprises and within five years to provide banking services to all Chinese clients;
- foreign non-life insurers to establish as a branch or as a joint venture with 51 per cent foreign ownership and within two years of accession to establish as a wholly-owned subsidiary;
- upon accession, foreign life insurers 50 per cent ownership in a joint venture with the partner of their choice;
- upon accession, large scale commercial risks, reinsurance and international marine, aviation and transport insurance and reinsurance to form joint ventures with foreign equity of no more than 50 per cent and within five years allow wholly foreign-owned subsidiaries.¹³

8.13 Besides improving market access, China has made commitments to increase the transparency of its trade and investment regimes.

8.14 The reforms have produced positive results. Investment in China's service sector continued to increase in 2004, with the number of research and development centres and regional headquarters established by multinational companies increasing significantly.¹⁴ Furthermore, China has agreed to open sectors of its service economy previously closed off to foreign companies and has indicated that they intend to improve their business environment by removing obstacles that weaken foreign

12 See for example, Thomas Rumbaugh and Nicolas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, International Monetary Fund, March 2002, p. 9. They stated: Plans include the opening of key service sectors where foreign participation was previously nonexistent or marginal, notably telecommunications, financial services and insurance. In those sectors, full access will eventually be guaranteed to foreign providers through transparent and automatic licensing procedures. China will also remove restrictions on trading and domestic distribution for most products.

13 WTO News, 'WTO successfully concludes negotiations on China's entry', 17 September 2001.

14 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005. OECD, 'Opening up Trade in Services', Policy Brief, 2003.

investor confidence. At the beginning of 2005, it indicated that it would gradually open banking, insurance, securities, commerce, telecommunications, tourism and other service industries to foreign competition.¹⁵ These reforms should provide developed countries such as Australia with significant trade and investment opportunities.

Opportunities for Australian companies to trade in services with China

8.15 Australian services businesses have much to offer China. Alan Oxley has suggested that the services sector is the one 'most likely to generate a new, special characteristic in the economic relationship.'¹⁶ DFAT agreed with the view that Australian companies are being presented with opportunities to enter or expand their activities in the services sector as China implements market reforms.

8.16 It noted that the trade in services is expanding rapidly and will be an increasingly important element of the commercial relationship. It also observed that growth in services extends beyond tourism and education. They now include, for example, financial services; professional services like legal, engineering, and data base services; architecture, medical and health services; communications services; air and maritime transport services; services linked to developing partnerships in energy and mining; and freight and logistics services as well as agricultural consulting, technologies and machinery. Trade also has been increasing in environment, recreational and sports-related services, and scientific and technical consulting services.¹⁷ In the department's view:

These developments demonstrate both countries' strengths outside traditional areas of trade and investment and highlight a broad new area of opportunity for the bilateral commercial relationship.¹⁸

8.17 This report has discussed the complementarity in trade between Australia and China. The same feature applies to Australia's trade in services with China. Another advantage stems from the complementary interaction between Australia's trade in goods and its trade in services. For example, ACIL Tasman is exporting its home grown services to China, some of which directly complement its trade in goods. It explained:

15 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

16 Alan Oxley, Director ITS Global, Melbourne, Australia, and Chairman, Australian APEC Study Centre, 'Good FTAs should be like share prices—anticipate future developments: Trends in trade and investment between China and Australia', presentation to the Australia–China FTA Conference, Sydney, August 2004, p. 5.

17 *Submission P19*, pp. 9 and 13.

18 *Submission P19*, p. 14.

We work in wool technologies promoting the sale of Australian and Western Australian wool, which is somewhat differentiated, into China. We conduct LNG and gas market studies in China and in Australia. We undertake gas market training for Chinese gas executives, and we conduct market entry studies for Australian companies.¹⁹

8.18 According to ACIL Tasman:

Australia is leveraging its growing trade in goods into complementary growth in the services sector and, at the same time, we like to think that the services sector is enhancing market prospects for our trade in goods. That is a key point that we would like to make. We think, therefore, that a really good understanding of the Australian services sector should be a priority for government.²⁰

8.19 While recognising that China has come a long way in opening its economy, two analysts have sounded a note of caution. They stated that China must step up its institution building and rebuilding—'including dismantling remaining central planning institutions, formulating policies consistent with WTO agreements, amending laws inconsistent with WTO rules, and imposing uniform rules throughout the country'.²¹ Mr Graeme Thomson has argued that much regulation and preferment of local service providers is diminishing under WTO accession but:

...China will retain significant restrictions on pricing, ownership, business scope or region and further liberalization would boost efficiency and more meaningful and better paid employment for Chinese workers. Australia too could benefit from a freer flow of services from Chinese service providers.²²

8.20 The Australia China Business Council also believed that if China were to relax many of the constraints that currently hamper trade in services, Australian enterprises, which are internationally competitive and have recognised expertise, would have the opportunity to compete on fair and equal grounds with Chinese firms.²³

Committee view

8.21 The committee accepts that reform in China in the services sector may not be progressing as quickly as the international community would wish. Even so, the committee notes that China has taken considerable steps to open up this sector to

19 I. Satchwell, *Committee Hansard*, 1 August 2005, p. 2.

20 *Committee Hansard*, 1 August 2005, p. 2.

21 Ramesh Adhikari and Yongzheng Yang, 'What will WTO Membership Mean for China and its Trading Partners?', *Finance & Development*, vol. 39, no. 3, September 2002.

22 Graeme Thomson, Principal Graeme Thomson and Associates, 'Trade Policy Issues', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 4.

23 *Submission P 40*, p. 4.

foreign competition. The following section looks at aspects of the financial services sector in China that are of particular interest to Australia.

Financial services sector

8.22 Chapter 4 highlighted the urgent need for the Chinese to develop sound institutions with good corporate governance practices in order to generate public confidence in their economic system.²⁴ This observation is particularly relevant to institution building in the financial services sector. For example, banking is one of the main areas in need of reform in China. Mr Eswar Prasad, analyst with the IMF, stated that China's state-owned banking system 'has been plagued by a legacy of policy lending to state enterprises that has resulted in the accumulation of a large stock of nonperforming loans (NPLs)'.²⁵ He explained that, 'This was lending not done on a commercial basis, but it was directed in a sense by the central planning authority, the government'.²⁶ Mr Stoler has stated that 'Chinese state banks are struggling to transform their operations before the sector is liberalised in 2006 as a result of WTO commitments', concluding that they 'are right to be worried'.²⁷

8.23 In evidence to the committee, Dr Davis, ACCI, noted that the Chinese, as required under the WTO rules, are progressively opening the banking sector up. He explained:

I understand the requirements of their accession to the WTO, they are required to allow Australian banks entry. I do not have the details at my fingertips. I believe that they are moving their banks towards Basel rules or capital adequacy...In terms of the sustainability of their fiscal system, they have issues in their tax system that they have to get right. They have large legacies from the state owned enterprise days. They have bad debts. On the positive side, at least they have substantial foreign reserves that they can draw upon if they need to.²⁸

24 See chapter 4, paragraphs 4.30–4.41.

25 Eswar Prasad, Division Chief, Asia and Pacific Department, IMF, 'Growth and Stability in China: Prospects and Challenges', *Harvard China Review*, Annual Conference, Cambridge, 17 April 2004. Two IMF analysts have also argued that 'the urgency of financial sector reforms has increased as domestic banks will need to be prepared to face intense competition when, with WTO accession commitments, the financial sector is opened up to foreign banks in 2006. 'China's Growth and Integration into the World Economy: Prospects and Challenges', Eswar Prasad (ed.), *IMF Occasional Paper* 232, p. 4.

26 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 2.

27 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3.

28 R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

Stock market

8.24 The stock market in China is another area calling out for reform. It developed in tandem with the socialist market economy.²⁹ Premier Wen acknowledged that China is 'not knowledgeable or experienced enough' to establish an all-round securities market, admitting that the 'infrastructure of such a market is weak and the market mechanism is imperfect'.³⁰ He announced that China would continue to develop the capital market and increase direct financing by:

- improving the quality of the listed companies;
- establishing an open, fair and transparent securities market;
- tightening oversight and fight flaws and crime;
- enhance infrastructure for the securities market, concentrating on putting an appropriate system in place; and
- protecting the interests of investors, especially non-governmental investors.³¹

8.25 As noted in chapter 2, corporate law reform and the establishment of sound and responsible financial institutions are areas in which Australia can make a positive contribution to China's endeavours to develop and improve its financial services sector.³² Having worked carefully and concertedly on corporate law reform over the last few years, Australia is in an ideal position to offer assistance to China. Regulators such the Australian Competition and Consumer Commission, the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority have a wealth of experience in the area of corporate reform.

8.26 Australian firms are also well placed to take advantage of the opportunities presented as China implements its reform program. Mr Calder, KPMG, told the committee that the company provides expertise on the delivery of financial advisory services, as part of teams in China, on matters such as the privatisation, or corporatisation, of state owned enterprises, investigations of fraud and other forensic issues and computer security.³³

8.27 The Australia China Business Council noted that over recent years several Australian banks and insurance companies, including ANZ Banking Group, Commonwealth Bank, Macquarie Bank and IAG insurance group, have been granted licences to establish and develop their businesses in China.³⁴ It was of the view that further liberalisation of the current restrictions applying to financial services in China

29 'Premier Wen Jiabao's press conference', 14 March 2005.

30 'Premier Wen Jiabao's press conference', 14 March 2005.

31 'Premier Wen Jiabao's press conference', 14 March 2005.

32 See chapter 4, paragraphs 4.30–4.42.

33 *Committee Hansard*, 1 August 2005, p. 2.

34 *Submission P40*, p. 24.

would allow Australian banks and other financial institutions to provide a greater range of products and services to their customers in China.³⁵

Committee view

8.28 On a number of occasions in this report, the committee has noted Australia's comprehensive reform program in corporate law and the expertise of many Australian business in the financial sector. This wealth of experience places Australian companies at a distinct advantage not only in advancing their own business interests in China but in helping the country through the difficult phase of transforming their financial institutions.

Education

8.29 Australia already has an established presence in education and tourism that dominates Australia's export trade in services. The following section looks at the opportunities for further expansion in these two areas.

8.30 China openly admits the shortcomings in its education system. At the beginning of 2005 it acknowledged that it 'must adopt a scientific outlook on development and implement the strategy of reinvigorating our country through science, education and trained personnel'. It pledged to make education a 'strategic priority'.³⁶

8.31 The Department of Education, Science and Training (DEST) noted that China had recently stated its aim of becoming 'a major exporter of international education and an international hub, which may see it become a competitor to Australia as well as a partner in the education area'.³⁷ Even so, according to the department, the Chinese government recognises that its present education system cannot support the demand for education:

More than 100 000 Chinese students left the country in 2002 to study overseas. The demand for overseas education is primarily limited by foreign governments' visa policies and is closely related to the ability of Chinese students to pay for their education. With continuing strong economic growth and improvement in per capita income, the proportion of families willing to invest in an overseas education will continue to increase strongly.³⁸

35 *Submission P40*, p. 4.

36 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

37 *Submission P30*, p. 1.

38 *Submission P30*, p. 2.

Chinese students in Australia

8.32 Education is Australia's leading services export to China, and according to the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) contributes 46,000 jobs for Australians.³⁹ DFAT cited the following statistics to highlight the growing importance of China to Australia's education sector:

The number of Chinese student enrolments was 58 574 in 2003. This figure rose to 68 857 in 2004. In 2004, Chinese students comprised approximately 20 per cent of the total number of enrolments of international students in Australia. In addition, around 30 000 Chinese students studied and/or received training at Chinese institutions in China linked to Australia, particularly through course content and teaching staff. This growth in education services seems set to continue in response to rising Chinese incomes, the high priority being given to education and increased spending generally on high quality services. The number of Australian students studying in China has also risen over the past decade. Around 1 000 Australian students were studying in China in 2003.⁴⁰

8.33 DEST informed the committee that in 2004, Chinese nationals made up the highest number of international students enrolled in Australia. In 2004, Chinese students represented 21.3 per cent of the total number of internal students studying in Australian institutions (322,776). DEST provided the following statistics:

Chinese students studying in Australia 2004

Higher education sector	30,041	43.6%*
ELICOS	15,006	21.8%
Schools	12,557	18.2%
Vocational education and training	9,779	14.2%

**this sector enjoyed the highest growth: an increase of 25% from 2003⁴¹*

8.34 The department expected the strong growth to continue through 2005 but almost all from the vocational and higher education sectors.⁴²

Education services in Australia

8.35 Many submissions recognised the potential for Australia to build on its already well-established education links with China.⁴³

39 *Submission P51*, p. 7.

40 *Submission P19*, p. 9. DIMIA stated that at 30 September 2004, there were some 42,209 Chinese students and their dependents in Australia.

41 *Submission P30*, p. 3.

42 *Submission P30*, p. 3. See also DIMIA, *Submission P51*.

43 F. Lee, *Submission P17*, p. 110.

8.36 The Wollongong City Council highlighted the considerable economic benefits that flow to both the University of Wollongong and the city from its long-standing connections with China. The University has approximately 1,700 Chinese students enrolled, making it the largest body of foreign students at the university. They pay university fees of approximately \$15,000 per annum and spend about the same amount on living expenses. This expenditure contributes at least \$51 million to the region annually. There are also about 300 Chinese students studying English language courses at Wollongong University College in preparation for university studies. They too make a significant contribution to the local economy.⁴⁴

8.37 The most popular courses for Chinese students at the university—engineering, informatics, commerce and science—are the very areas that hold great promise for expanding and deepening Australia's trade relationship with China. This important connection with Chinese students, however, goes beyond purely economic considerations. It also contributes to establishing and maintaining social, cultural and research links. Education is critical in building long standing rapport that supports business and commercial links in the long run.⁴⁵ This is discussed later in chapter 15.

8.38 Clearly, Australia has established its name in China as a preferred country for the education of its students. The education market, however, is highly competitive and Australia must match or better other countries in the quality of the education services it offers if it wants to maintain or expand market share.

8.39 There are a number of factors that influence a student's decision to travel overseas to continue his or her education—the safety and welfare of the student, the ease of access to the host country and the quality of the services. These factors are discussed below.

Securing the reputation of Australia as a safe place

8.40 In considering an educational institution for their child, parents want reassurance that their child will be in a safe environment with appropriate pastoral care.⁴⁶ In this regard, DIMIA works with DEST to identify student welfare concerns. Mr Rizvi, DIMIA, noted:

We have had reported to us from a range of sources within Australia and also following a delegation from the PRC Ministry of Education some concern particularly about the welfare of the younger students from China. Many of these people are probably outside their country for the first time, they are still fairly young, many of them have a substantial amount of money to spend for the first time and they are away from their parents for the first time. They are in a pretty vulnerable position, and there has to be a level of consciousness about that vulnerability and about how we make sure

44 *Submission P10*, p. 4.

45 See for example, V. Kelly, *Committee Hansard*, 1 August 2005, p. 21.

46 See comments by D. Calder, *Committee Hansard*, 1 August 2005, p. 7.

we are doing what is reasonable to protect their vulnerability and indeed, from there, to protect the long-term viability of Australia's overseas student market. If Australia was to be viewed as a country where those younger students were going to be at some risk then our competitive advantage is diluted.⁴⁷

8.41 DIMIA informed the committee that Student Welfare Reference Groups, which include relevant government agencies, providers and students, community and industry representatives, have met since early 2004. They share and discuss concerns, liaise with police and welfare agencies and identify 'best practice' to be disseminated throughout the industry.⁴⁸ Matters may include accommodation or issues of actual physical risk. For example, relatively young, inexperienced people, perhaps with a lot of money for the first time, may be susceptible to standover tactics. DIMIA also cited students getting themselves into difficulties with gambling as another concern.⁴⁹

Committee view

8.42 The committee did not examine in detail this matter of Australia as a safe place for students. Even so, it recognises that governments at all levels and educational institutions must not only take seriously their responsibility for the safety and welfare of foreign students but actively promote the work done to enhance the welfare of students. The committee believes that this should be a priority.

Arrangements for student entry to Australia

8.43 The current student visa program was introduced in 2001. According to DIMIA, it initiated reforms in 2002 to enhance the flexibility of the student visa requirements. They were intended to bring 'greater consistency in the financial requirements across student visa subclass and added flexibility to the English language requirements and financial evidentiary requirements for higher risk applicants'.⁵⁰ The department has also introduced measures to facilitate the lodgement and processing of student visa applications from China, including a formal internet lodgement trial.⁵¹

8.44 Even so, some witnesses were critical of the student visa arrangements. The Wollongong City Council was of the view that Australia's potential to attract greater numbers of Chinese students was undermined by government policies. It stated that DIMIA imposes strict controls on Chinese students entering Australia. DIMIA classifies China as a Category 4 country in its risk assessment of foreign nationals most likely to breach conditions of their student visa. In the Council's view, this high

47 *Committee Hansard*, 21 June 2005, p. 18.

48 *Submission P51*, p. 10.

49 *Committee Hansard*, 21 June 2005, p. 19.

50 *Submission P51*, p. 8.

51 *Submission P51*, p. 8.

rating effectively restricts the number of Chinese students undertaking undergraduate courses in Australia. It explained:

The most obvious impact is the requirement for students from Category 4 countries to produce evidence that they have the finances to cover their living expenses and tuition fees for the duration of their course. This is a considerable amount of money for three, four or more years of undergraduate study. The inability to demonstrate this level of financial resources forces many Chinese students to undertake undergraduate courses elsewhere, before coming to Australia for the shorter post-graduate courses.

In 2001 the Australian Government also introduced a requirement that Chinese students must pass the International English Language Testing System exam *before* they can study at an Australian university. While this policy seems logical in theory, it is in practice extremely restrictive and detrimental to Australian education providers and the Chinese students themselves. This policy has had a major impact on the Wollongong University College, by considerably reducing the length of time a Chinese student spends doing an English language course. It has also had an adverse impact on the Chinese students, because most of them are now not being trained in Australian-accented English. This affects their listening skills in lectures and tutorials and makes their study unnecessarily harder.

In addition, it is extremely difficult for people living in large parts of northern and western China to apply for student visas. This restriction is aimed at the poorer provinces of China whose residents are deemed more likely to overstay their visas and remain in Australia illegally. As a result, residents of these provinces are denied the opportunity to study in Australia.⁵²

8.45 The Western Australian government also cited problems with visas as a major restriction on trade. It noted that a student coming from China to attend an institution in the TAFE or the private sector experiences more difficulty in obtaining a visa than one going to university. Mr Gunningham provided the example of the TAFE sector in Western Australia, where there are about 450 students in colleges under partner agreements across China. The Western Australian Government would like to bring more of these people to Perth but pointed to the visa problem.⁵³ Mr Gunningham believed that if this problem were fixed there would be a marked improvement.⁵⁴

8.46 The Northern Territory government supported the view that the current visa entry requirements for students from China impede the growth in student numbers. It believed that action to improve the arrangements would help overseas students seeking to undertake studies in the Northern Territory.⁵⁵

52 *Submission P10*, p. 5.

53 *Committee Hansard*, 1 August 2005, p. 17.

54 *Committee Hansard*, 1 August 2005, p. 27.

55 *Submission P33*, p. 2.

Committee view

8.47 In light of the criticism raised by a number of educational institutions about visa restrictions, the committee suggests that the Australian government, in consultation with Australia's educational institutions, review visa requirements with a view to improving the system.

Joint ventures

8.48 The Australian government has introduced a number of incentive schemes designed to attract overseas students. For example, on 1 July 2003, it launched the Professional Development Visa (PDV) scheme. According to DIMIA, overseas Chinese organisations form the majority of those participating in this scheme. It is designed to allow Australian businesses to provide 'tailored training programs to groups of professionals, managers and government officials from overseas'.⁵⁶ They include courses leading to Masters of International Management, Masters in Public Administration, English Language, Hospital Management, Senior Training in Finance and Professional Teaching in Higher Education.

8.49 The scheme supports and encourages the development of partnerships between Australian organisations (mainly universities) and Chinese government agencies. According to DIMIA, at 28 February 2005, there were 28 PVD sponsorships involving partnerships with Chinese organisations with over 200 Chinese nationals obtaining PVDs.⁵⁷

8.50 The committee supports schemes that encourage Australian organisations to work in conjunction with Chinese organisations to attract Chinese students to Australian educational institutions.

Recognition of qualifications

8.51 An important aspect not yet touched on in this discussion on education is the importance of mutual recognition of qualifications.⁵⁸ The Charles Sturt University (CSU) has succeeded in having four of its degree offerings formally recognised by the Chinese Government. The university is pleased with this result as only 17 Australian degrees in a total of 80 overseas degree programs have been formally recognised by the Chinese Government.⁵⁹ It would like to see 'the Australian Government provide assistance, both financial and diplomatic, to facilitate Australian university recognition by the Chinese Government'.⁶⁰

56 *Submission P51*, p. 9.

57 *Submission P51*, p. 9.

58 See for example, I. Satchwell, *Committee Hansard*, 1 August 2005, p. 8.

59 *Submission P29*, p. 1.

60 *Submission P29*, p. 2.

8.52 The Western Australian Government argued that the failure to have mutually recognised qualifications is a serious obstacle to providing education services. It gave the example:

If you are, say, marketing a TAFE qualification in Beijing, in Shanghai or in any other part of China and a student asks, 'What will this qualification mean to me when I get back to China?' the answer is, 'Very little, because there is no recognition.' So help is needed on the visa side and help is needed with the mutual recognition of qualifications.⁶¹

Committee view

8.53 Word of mouth is an important means of promoting a service, particularly education. Students returning to China happy with the quality of the education they received in Australia will in many ways become ambassadors for Australia's education services. It is particularly important for their qualifications to be recognised in China. The committee would like to see the Australian Government take a leading role in working with Australian and Chinese educational institutions, professional bodies and responsible government agencies to achieve mutual recognition of qualifications across all professions.

Recommendation 9

8.54 The committee recommends that the Australian government:

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

Providing education services in China

8.55 China's enthusiasm for improving its education system offers opportunities for Australian service providers. DEST noted that the Chinese government has developed policies and laws encouraging the delivery of foreign education with a Chinese institution. It explained that the appeal of an international qualification, coupled with limited access to domestic higher education opportunities in China, had led to an expansion of joint programs. It maintained that Australia is 'at the forefront of foreign program delivery in China'.⁶² It observed that:

61 *Committee Hansard*, 1 August 2005, p. 17.

62 *Submission P30*.

...there has been a proliferation of what are known as education joint ventures or joint programs in China. The Implementation Measures for the Regulations on Chinese–Foreign Cooperation in Running Schools (hereafter Measures) which took effect from 1 July 2004 provide administrative rules for setting up and running Chinese–Foreign cooperatively–run schools and education programs.

Most importantly, the new Measures along with 2003's Regulations raise the legal and administrative expectations for the delivery of foreign education with Chinese partners and increase the importance of the partnership arrangement. Australia is one of the most active foreign countries involved in these joint venture arrangements in China.⁶³

8.56 It stated that an estimated 30,000 Chinese students are now studying at Sino–Australian joint ventures in China, which cover all levels of education from English language through to school, vocational education, undergraduate and postgraduate programs.⁶⁴

8.57 For example, in 1997, the Illawarra Institute began to explore seriously the opportunities for expanding their vocational education and training courses into China. Since then it has developed a series of programs and consultancy services in China and has around 20 staff working there.⁶⁵

8.58 Mr Barry Peddle, Director, Illawarra Institute and Chair of TAFE Directors Australia, noted that Chinese public and private investment in schools, vocational and higher education infrastructure in China is 'phenomenal, reflecting a determination by the Chinese authorities to sharply improve education and skills training standards across the country'.⁶⁶ He commented further that:

...at the moment China still needs to improve its teacher education and ongoing professional development and is looking to develop educational managers and administrators—providing Australia with a major opportunity to assist in training Chinese people to meet this demand.⁶⁷

8.59 In his view:

...the Australian government should place a higher priority on education in its aid programs to countries across Asia, including China, to capitalise on this country's strong reputation for quality education teaching and administration as well as our highly regarded national curriculum framework and teacher competency standards.

63 *Submission P30*, pp. 2–3.

64 *Submission P30*, pp. 7–8.

65 *Submission P10*, p. 6.

66 *Submission P10*, p. 6.

67 *Submission P10*, p. 6.

...Australia has an advantage over many other countries because the Chinese recognise the quality of our system which is really international best practice.⁶⁸

Committee view

8.60 The committee recognises that the provision of educational services operates in a highly competitive international market. To remain competitive, Australia must ensure that it maintains and promotes its reputation as a safe place for young students, that conditions for entry and stay in Australia do not discourage overseas students and finally, that the reputation of Australia's educational institutions and the quality of their education remains high. The committee believes the Australian Government should increase its efforts towards the mutual recognition of qualifications. It also recognises that Australia has much to offer the Chinese in their endeavours to improve their education system and that joint ventures are an ideal vehicle for doing so.

Tourism

8.61 Chinese citizens have hitherto tended to travel within their own country, but as China increasingly opens to the outside world they are venturing overseas for work, study and leisure.

8.62 The number of Chinese tourists visiting Australia is the fastest growing market in the services sector for Australia. DFAT described the growth of two-way tourism as spectacular:

In 2003, 176 100 Chinese travelled to Australia compared with 42 600 in 1995. Chinese visitors now make up nearly four per cent of overseas visitors to Australia, and the Australian Bureau of Tourism forecasts that Chinese visitor numbers could rise to around one million by 2012 driven by growing disposable incomes, the priority given to international travel by prosperous Chinese, and government-to-government arrangements to facilitate group international travel such as the extension of 'approved destination status' to more areas within China.⁶⁹

The following table shows the substantial growth in the number of Chinese nationals visiting Australia over the past ten years.

8.63 It should be noted, however, that the number of Chinese travelling abroad has also risen dramatically. In 2004, a total of 28.85 million Chinese visitors went abroad, accounting for an increase of 42.7 per cent.⁷⁰

68 *Submission P10*, p. 6.

69 *Submission P19*, p. 9.

70 National Bureau of Statistics of China, *Statistical communiqué of national and social development*.

Table 8.1: Chinese arrivals in Australia 1997–98 to 2003–04

Year	Number of Chinese arrivals
1997–98	60,354
1998–99	61,361
1999–2000	82,100
2000–01	117,216
2001–02	146,438
2002–03	158,754
2003–04	171,568

DIMIA, Submission P51, p. 11

8.64 Chinese tourists also rate very highly on the average expenditure rating, as shown in the following table.⁷¹

Table 8.2: Average expenditure for all visitors by selected countries of residence

Year ended 30 December 2003 to 2004

	Package tour and prepaid international airfares		Expenditure in Australia		Total	
	Year ended 30 December		Year ended 30 December		Year ended 30 December	
	\$	\$	\$	\$	\$	\$
	2003	2004	2003	2004	2003	2004
Hong Kong	1,177	1,292	2,982	3,245	4,159	4,537
Indonesia	830	1,049	3,844	3,903	4,674	4,952
Thailand	1,121	1,125	3,492	3,817	4,613	4,942
Korea	1,689	1,553	2,790	2,881	4,479	4,434
China	1,689	2,124	4,075	3,522	5,764	5,646
Malaysia	901	944	2,825	3,413	3,726	4,356
Germany	2,992	3,093	3,420	3,351	6,412	6,443
USA	3,045	3,092	2,586	2,507	5,631	5,599
Canada	2,509	2,434	2,911	3,085	5,420	5,519
United Kingdom	2,820	2,566	3,034	2,875	5,853	5,441

A sample taken from Table 8, Average expenditure for all visitors by country of residence, Tourism Australia, Inbound tourism trends, year ended 30 December 2004, p.31. (Published March 2005.)

71 Table 8, Average expenditure for all visitors by country of residence, Tourism Australia, *Inbound tourism trends*, year ended 30 December 2004, p. 31, published March 2005.

8.65 Overall in 2004, spending from Chinese visitors reached \$1.4 billion, an increase of 39 per cent on the previous year.⁷² This accounted for 7 per cent of all international expenditure.⁷³

Approved Destination Status (ADS)

8.66 In part, the expansion in the numbers of Chinese tourists to Australia was due to Australia's status as an 'approved destination' for Chinese tourists. The Approved Destination Scheme (ADS) was an initiative of the Chinese Government. In 1999, Australia was one of the first western countries (along with New Zealand) to be granted ADS status. Since then, Australia has hosted over 160,000 Chinese tourists undertaking leisure travel in groups. The scheme allows Chinese citizens access through streamlined group travel, 'arranged and coordinated through gazetted travel agents', to Australia.⁷⁴

8.67 According to DIMIA, the ADS scheme has been successful in increasing the number of Chinese tourists to Australia while achieving high levels of integrity and compliance with visa conditions.⁷⁵ The increase is impressive.

Table 8.3: Approved Destination Status Scheme arrivals

Year	Number of arrivals
Approved Destination Status Scheme—China	
1999–2000	6,960
2000–01	24,555
2001–02	31,306
2002–03	28,044
2003–04	31,633
1 July to 31 July 2004	19,221

DIMIA, Submission P51, p. 13.

8.68 The ADS scheme has recently been strengthened with a range of reforms to ensure Chinese tourists will continue to receive a quality Australian tourism experience. DIMIA stated that the changes are to ensure that tourists receive 'a good

⁷² Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 11.

⁷³ Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 11.

⁷⁴ *Submission P51*, p. 12. See also *Submission P54*, p. 13.

⁷⁵ *Submission P51*, p. 12.

tourism product while in Australia'.⁷⁶ It noted that there had been allegations of some tourism proprietors behaving unscrupulously by restricting tourists' visits to selected stores only, as well as concerns about commissions that have been taken. DITR is working closely with state governments to address these matters.⁷⁷

8.69 The *ADS Code of Business Standards and Ethics* is an important component of the scheme. The committee believes that compliance with the code must be monitored and enforced.⁷⁸

8.70 Despite its success in attracting Chinese tourists to its region, the Wollongong Council was critical of the government's Approved Destination Status program. In its view, the program limits the opportunities for residents of some of China's less advanced provinces to obtain tourist visas because they are considered to be more likely to breach their visa conditions.

8.71 DIMIA noted these concerns but explained to the committee that as the scheme moves away from Beijing and Shanghai the difficulties with managing the travel agents increase and the level of control diminishes. It underlined the need to proceed cautiously—'to balance issues of facilitation versus integrity'.⁷⁹

8.72 Even so, since its introduction in 1999 the scheme has expanded from the three regions of Beijing, Shanghai and Guangdong to include an additional six provinces. According to DIMIA, the department is gradually working through the process of training additional ADS agents; when they have reached a level of competency the department will look at expanding the scheme to other regions of China. They indicated that:

Eventually we hope to cover all regions of China by progressing the scheme in that gradual way. The key is to make sure that the agents are sufficiently well trained so that the people coming here have an enjoyable visit and the vast bulk of them return before their visas expire.⁸⁰

8.73 While, in principle, Tourism Wollongong (TW) supported this policy of gradually expanding the scheme, it was concerned that other international markets such as Britain and Western Europe would take advantage by offering more attractive visa conditions.⁸¹

76 *Committee Hansard*, 21 June 2005, p. 13.

77 *Committee Hansard*, 21 June 2005, p. 13.

78 *Committee Hansard*, 21 June 2005, p. 13.

79 *Committee Hansard*, 21 June 2005, p. 17.

80 *Committee Hansard*, 21 June 2005, p. 12.

81 *Submission P10*, p. 9.

8.74 The Wollongong City Council also mentioned the limited availability of aircraft seats on the Australia–China route. It wanted the Australian government to play a more active role in increasing air traffic between the two countries.⁸²

8.75 It should be noted that organisations in the Wollongong region have made a concerted effort to promote the region as a tourist destination. TW actively targeted the Chinese market as the main source of international visitors to the city and surrounding region because it identified China as the international market with the highest potential for growth. It appreciated that attracting even a small percentage of total Chinese visitors to Australia would provide strong tourism growth for Wollongong and the region. It has:

...participated in trade missions to Hong Kong in 2002, 2003 and 2004 and to mainland China in 2003, 2004 and as recently as February 2005...TW has also hosted visits by Chinese travel writers and television presenters who have generated strong publicity and awareness of Wollongong in specific Chinese markets, notably Guangzhou and Shenzhen in Guangdong Province.⁸³

8.76 These efforts have been rewarded with 8,000 tourists participating in day trips from Sydney to Wollongong and the Illawarra as part of their Australian holiday package. TW realises the advantages to be gained by teaming with Wollongong University College and other education providers to conduct tours.⁸⁴

Committee view

8.77 The committee is impressed with the enthusiasm and dedication of the Wollongong Council and other associations in the region such as Tourism Wollongong in promoting business activity in their district. They provide an ideal model for other local councils and associations and deserve recognition for their work. They have raised concerns about impediments that discourage visitors to Australia. The committee believes that both DIMIA and Tourism Australia should give close attention to their concerns.

An attractive destination

8.78 According to Tourism Australia, Australia has strong appeal for group holiday tourists. The main attractions focus on 'Australia's physical and natural environment, the variety of scenery, the beaches and coastal areas and the clean air'.⁸⁵ The most popular activities were shopping for pleasure, visiting the beach, going to markets,

82 *Submission P10*, p. 9.

83 *Submission P10*, p. 8.

84 *Submission P10*, p. 8.

85 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 3.

visiting national and state parks and botanical or other public gardens.⁸⁶ Tourism Australia found that Chinese visitors:

... expect to participate in a variety of activities that are genuinely different from what they can do at home and to experience local Australian culture. They seek a personal experience of Australia, and the freedom that allows them to get to know a country and culture that is very different for their own.⁸⁷

8.79 DIMIA noted that the results of recent research by the Australian Tourist Commission indicated that 73 per cent of ADS travellers would recommend Australia as a holiday destination to family and friends and 54 per cent would like to return for another holiday within five years. It suggested that on both counts Australia performs better than its major Western competitors—United States, Canada and Europe.⁸⁸ A 2003 survey, also noted that Chinese tourists on group tours stated that they were likely to return to Australia or to recommend Australia to their friends. Despite this apparent endorsement, they nonetheless rated their satisfaction with their Australian visit lower than that for similar tours to other western destinations.⁸⁹ The Chinese Ambassador Fu Ying told a conference in July 2005 that tourist agencies were not offering relevant services and that there had been increasing complaints.⁹⁰

8.80 This comment takes on greater significance in light of a study conducted by Ms Grace Wen Pan who found that one of the key issues in the Chinese inbound travel business to Australia is quality of service.⁹¹

Committee view

8.81 The Australian tourist market is poised to benefit from the increasing number of Chinese now travelling abroad. Australia has the opportunity to build on its reputation as a desirable place to visit and to capitalise on the potential for growth in

86 Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 10.

87 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 3.

88 *Submission P51*, p. 12.

89 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 1.

90 This statement was reported in the *Australian*, 8 July 2005. See also Industry Search, 8 July 2005.

91 Grace Wen Pan, 'Business Partnership Relationships in the Chinese Inbound Tourism Market to Australia', PhD thesis, School of Tourism & Hotel Management and School of Marketing and Management, Faculty of Commerce and Management, Griffith University, 2005, p. 276. An article in Open China also underlined the importance for high quality services for Chinese visitors. It noted that although Chinese tourists like to visit a foreign country, they do not necessarily want to live and eat like a westerner. For example it stated: 'Catering for meals should be Chinese with lots of fresh vegetables and seafood. The Chinese deem 'eating to be the first happiness'. It is very important that this be taken seriously and every effort to ensure that good Chinese style catering is provided at all times'.
http://www.openchina.com.au/Chinese_Tourism_Growth.htm (accessed 8 July 2005).

this market. The industry, however, should not simply look to this expanding market to bolster their productivity. The findings of the 2003 survey and the observations of Ambassador Fu suggest that Australian providers should lift their standards.

8.82 The committee believes that Australia cannot rely solely on its natural attributes to attract Chinese tourists. There is no place for complacency or lack of imagination in the tourist industry. It must ensure that service delivery standards are high and meet the expectations of Chinese visitors. The committee suggests that the Australian tourist industry, including the federal, state and local governments and their respective agencies, work together to identify the areas that Chinese tourists consider could be better. Armed with this information, the committee believes that the Australian tourism industry should then direct its energies to assisting or encouraging service providers to make changes. This would apply not only to private enterprise concentrating on accommodation and tour guide services, shopping and recreational activities but to governments who may have a role in improving the processes involved in visa applications, customs clearance and entry requirements. Governments also have an important part in ensuring that infrastructure with regard to travel facilities is of a high standard.

Recommendation 10

8.83 The committee recommends that:

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

Australians visiting China

8.84 DFAT noted that there has also been strong growth of around 12 per cent in the number of Australians tourists visiting China. It stated:

According to the China National Tourism Administration, around 50 000 Australian tourists visited China in 1990, 130 000 in 1995, 234 000 in 2000, and nearly 300 000 in 2002. Again, this steeply rising trend seems set to continue in line with increasing global interest in China as a tourist destination and expected flow-on effects from the Beijing Olympics in 2008.⁹²

Conclusion

8.85 Without doubt trade in services with China holds great promise for Australian businesses. At the moment Australia enjoys a number of advantages that derive mainly from the perception of Australia as a safe place of great natural beauty and whose delivery of services is high. China's demand for services in both education and tourism is growing at a remarkable rate. Australia should not be complacent and rely on this growth together with its established reputation as a good place to study or visit to maintain or increase its market share. Competition is too fierce. Both sectors must be alert to the importance of promoting their services to the Chinese market. Greater efforts must be made to facilitate the entry of Chinese students, tourists and business people to Australia, and to ensure that the quality of service provided is high.

92 *Submission P19*, p. 9.

Chapter 9

Investment

9.1 Until recently, China has not been an attractive prospect for foreign investors. IMF analysts noted that:

Capital inflows, in particular, were minimal in the 1970s and 1980s, impeded by capital controls and the reluctance of international investors to undertake investment in a socialist economy with weak institutions and limited exposure to international trade.¹

9.2 The investment environment in China, however, has gradually improved as reforms designed to entice foreign investors to its shores have taken effect. Although China now promises more and better investment opportunities for foreign companies, especially through an improved investment environment, substantial obstacles exist that discourage foreign investors. This chapter considers the investment environment in China. It looks at China's policy toward foreign investment, the nature and extent of Australia's foreign investment in China, the barriers to investment in China, China's 'go global' strategy and its approach to investment in Australia.

Foreign investment in China

9.3 Although the Chinese government places a range of limitations on foreign investment,² it is making a concerted effort to attract and make better use of foreign investment. On joining the WTO, China undertook to take significant measures to reform regulations with regard to direct foreign investment. In 2004, China approved the establishment of 43,664 foreign direct-invested enterprises, an increase of 6.3 per cent over the previous year. Contracted foreign capital through foreign direct investment stood at US\$153.5 billion, representing a 33.4 increase.³

9.4 China has also promulgated laws governing foreign direct investment (FDI) that offer generous tax treatment for foreign firms.⁴

1 Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Papers* WP/05/79, IMF, April 2005, p. 1.

2 See for example, the Australian Industry Group, *Submission P63*, p. 7.

3 National Bureau of Statistics, *Statistical communiqué of national and social development in 2004*.

4 According to Eswar Prasad and Shang-Jin Wei: 'In the first two years that a foreign-invested firm makes a profit, it is exempt from corporate income tax. In subsequent years, foreign companies are subject to an average corporate income of 15 percent, less than half the normal rate of 33 per cent paid by Chinese companies'. Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Papers* WP/05/79, IMF, April 2005, p. 20.

9.5 Mr Harrowell, Hunt and Hunt Lawyers, noted that China has progressed through a number of stages since the introduction of the open-door policy. He stated:

First and foremost, whilst the door was open to foreigners, when they went through the door there was very little commercial infrastructure, there were very few corporate laws and a very unfamiliar, alien environment, if you like, for foreign investors. China was perceived as a very high risk market for investors.⁵

9.6 Hunt and Hunt Lawyers told the committee about some of the more substantial steps taken by the Chinese Government to reform their regulatory system, maintaining that they 'represent significant relaxations on previous restrictions on foreign investment and trading in China'.⁶ They submitted that:

Regulations such as the 'Tentative Procedures' (of March 2003), the 'Administration of the Establishment of Foreign Investment Export Procurement Centres Procedures' (November 2003), the 'Procedures for Foreign Invested Commercial Enterprises' (April 2004) and new 'Franchising Regulations' (January 2005)⁷ demonstrate provisions, which allow increased direct foreign investment.⁷

Australia investing in China

9.7 Australian investors are likely to benefit from China's endeavours to attract foreign investment. They, however, have traditionally baulked at investing in Asia. The Governor of the Reserve Bank has remarked on the contrast between the closeness of Australia's trading relationship with Asia and the lack of closeness in Australia's financial integration into Asia. He noted that Australian enterprises have 'always been more comfortable running businesses in the United States, Europe (especially the United Kingdom) and New Zealand'.⁸

9.8 This observation has direct relevance for Australia's investment in China. Although Australia has strong and growing trade links with China, which is now one of Australia's major trading partners, the level of investment does not reflect this degree of engagement. It should be noted, though, that Australian investment in China has been rising since the 1980s. DFAT explained:

The upward trend in investment clearly supports increased trade flows with investment on the ground, but more generally is a response to China's improving business environment and the impact of numerous relatively small investments by small and medium sized Australian companies,

5 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 40.

6 *Submission P24*, p. 15.

7 *Submission P24*, pp. 14–15. It also stated, 'Further, the 'Foreign Trade Law' (April 2004) sets a framework for the types of 'western' style regulations required by WTO, such as new competition laws'.

8 I. J. Macfarlane, Governor, Reserve Bank of Australia, 'Asia's Role in Australia's Economic Future', Tenth Annual Sir Edward 'Weary' Dunlop Asia link Lecture, Sydney, 16 October 2003.

chiefly in China's manufacturing sector. Large Australian companies have been making substantial investments in China for many years; the rising investment trend among smaller companies is a much more recent development.⁹

9.9 It was of the view that 'the upward trend in bilateral investment is likely to continue and investment flows are expected to start to become a better indicator of the scale of the bilateral economic engagement'.¹⁰

9.10 The Australian Industry Group observed, however, that while Australian investment in China totalled \$1.2 billion at June 2003, it had plateaued in recent years. Given the size and rapid growth in Australia–China trade, the investment figures are 'modest'. In 2003–04, Australia exported over \$9 billion worth of goods to China and over the same period imported over \$15 billion. Statistics provided in evidence clearly show the difference between the strong trading links in goods and the weaker ties in investment. While China is Australia's second largest export market and the second largest source of imports, it is the 18th largest investment destination for Australia and the 14th largest investor in Australia.¹¹ There is no doubt that investment has not expanded at the same rate as the trade relationship.

9.11 The Minerals Council of Australia attributes the relatively modest two-way direct investment to the barriers and practical obstacles to foreign direct investment.¹² Indeed, DITR advised the committee that some Australian businesses are wary about investing in China.¹³

9.12 The following section looks at the impediments that operate to discourage FDI in China.

Barriers to investing in China

9.13 As noted earlier, China has over the last two decades gradually improved its investment environment. Even so, China recently acknowledged that it needed to continue to utilise foreign capital energetically and rationally. In March 2005, it gave a commitment to:

...encourage foreign investors to invest in new and high technology industries, advanced manufacturing industries, modern services, modern agriculture and environment–friendly industries and to participate in the reorganization and technological upgrading of state-owned enterprises. We will encourage and attract multinational corporations to set up R&D and

9 *Submission P19*, p. 10.

10 *Submission P19*, p. 10.

11 Minerals Council of Australia, *Committee Hansard*, 22 June 2005, p. 3. See also Australia China Business Council, *Submission P40*, p. 11.

12 Minerals Council of Australia, *Committee Hansard*, 22 June 2005, p. 3.

13 *Committee Hansard*, 21 June 2005, p. 53.

purchasing centers, regional headquarters and advanced manufacturing bases in China.¹⁴

9.14 A number of impediments to trade identified in chapter 4, apply directly to the flow of Australian investment into China. They include the complex legal system, the level of government involvement in foreign investment, and the lack of consistency in applying and enforcing the law. The following section looks at these disincentives to foreign investors and other factors, particularly restrictions on travel that discourage Australians from investing in China.

Legal framework

9.15 Two IMF analysts concluded that 'in terms of the overall legal regime, it is not obvious that China makes for a particularly attractive FDI destination'. They pointed to explicit restrictions written into laws and regulations as well as other restrictions that are an important part of the overall investment climate in the minds of investors. They referred to corruption and bureaucratic red tape which raise business costs and are part of the implicit disincentives for investment.¹⁵ They concluded:

...while the Chinese laws and regulations offer many legal incentives to attract FDI, they should be placed in context along with many implicit disincentives as well as explicit legal restrictions in order to form a more complete assessment of the overall investment climate.¹⁶

9.16 In chapter 4, the committee described a multi-layered legal structure comprising a complex system of laws, rules and regulations in which governments at all levels had a presence. It identified shortcomings across a broad and diverse range of law, including bankruptcy or insolvency law, contract law and IP law. In some cases the regulatory regime and legal system discriminated against foreign firms especially in the enforcement of law.

9.17 The minerals and resources sector in particular highlighted the impediments to investment in China. In chapter 7, the committee found the disincentives to invest in the minerals sector particularly strong. It noted that, at almost every turn, Australian companies confronted obstacles to investment from restrictions on approvals for exploration and mining rights, limited trading rights and, as noted above, a lack of certainty with legal processes. Rio Tinto indicated that little FDI had gone into the minerals and energy sector, citing reasons related to 'the adequacy of legal systems, views on property rights and prospectivity'.

14 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

15 Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Papers* WP/05/79, IMF, April 2005, p. 21.

16 Eswar Prasad and Shang-Jin Wei, 'The Chinese Approach to Capital Inflows: Patterns and Possible Explanations', *IMF Working Papers* WP/05/79, IMF, April 2005, p. 22.

Multiple layers of regulation

9.18 The committee also found the interference by government at the municipal or provincial level a major hindrance to the operations of foreign companies in China. This applied equally to investment. Two IMF commentators concluded that market access and supplier access are 'the most important factors affecting FDI flows'. They wrote:

If China's central government is serious about redressing regional inequality, it must address the issue of local protection and high internal trade costs. Dismantling interprovincial barriers, and improving transport infrastructure will increase market and supplier access for both Chinese and foreign producers, attracting entry of new firms.¹⁷

9.19 Hunt and Hunt Lawyers cited the multiple layers of investment regulations by different levels of the Chinese Government as a major obstacle for Australian entities wishing to invest in China.¹⁸ It would 'encourage the reform of the different types of regulation affecting the establishment of operating companies to enable more direct investment' stressing that the regulations should be transparent and not subject to unilateral change.¹⁹

Mandatory use of local labour service companies and dispute resolution

9.20 Hunt and Hunt Lawyers also regarded the requirement for companies to use local labour service companies as a significant restriction on direct investment. As a cost to business, they suggested that the current restrictions should be revised so that direct employment would be 'liberalised to parties beyond those currently able to do so'.²⁰ They suggested that there should be an 'Investor/State dispute resolution provision to protect individual investors'.²¹

Committee view

9.21 In chapter 4, the committee concluded that there were grounds for Australian businesses in China to consider China a 'risky place to do business'.²² It found aspects of the legal and regulatory environment complex, time-consuming, expensive, uncertain and at times discriminatory. Corruption figured as a major concern for foreign companies in China. This environment also discourages Australian investors. In addition to these general hindrances, chapter 7 chronicled the long list of

17 Mary Amity and Beata Smarzynska Javorcki, 'Trade Costs and Location of Foreign Firms in China', *IMF Working Paper*, WP/05/55, International Monetary Fund, March 2005, p. 15.

18 *Submission P24*, Appendix 2, p. 32.

19 *Submission P24*, Appendix 2, p. 32.

20 *Submission P24*, Appendix 2, p. 32.

21 *Submission P24*, Appendix 2, p. 33.

22 See chapter 4, paragraph 4.52.

impediments for foreign businesses wishing to invest in the minerals sector in China. Indeed, the Minerals Council claimed that 'there are restrictions to minerals investment in China at nearly every point in the process'.²³ The committee reiterates its earlier findings that the Australian government must continue to work in both the bilateral, regional and multilateral context to encourage China to remove its barriers to trade and investment.

9.22 The committee has urged the government to increase its efforts in bilateral, regional and multilateral fora to encourage China to remove its barriers to trade and investment, especially 'beyond the border barriers'. It has also made recommendations to assist Australian companies establish and conduct business in China. These recommendations are relevant to investment in China. See recommendations 1, 2, 3, 7, 13, 14 and 16.

Restrictions on travel to conduct business in China

9.23 Australian business people also encounter difficulties in gaining entry to China. Hunt and Hunt Lawyers submitted that there needs to be some relaxation to the current visa restrictions to accommodate increased business investment and international provision of services. They stated:

There should be better accommodation in the provision of the visas. Applicants for business visas should not be obliged to wait in person for many hours in lines at [a] Chinese Consulate for their visas.²⁴

9.24 DIMIA also noted that Australian business people going to China face a number of hurdles.²⁵

9.25 Presently, the main scheme operating to facilitate the travel of business people is the APEC business travel card. It is a short-term business visa that allows for business activities such as feasibility studies, signing contracts and business meetings to be conducted. Both China and Australia belong to this reciprocal scheme which allows people to obtain a three year entry right to the respective countries for stays of up to 90 days.²⁶

9.26 Australia is a lead country in promoting the scheme and devising better ways to facilitate business travel in the region. DIMA works closely with Austrade and DFAT to ensure that the APEC business travel card is widely promoted.²⁷ It noted:

...we are in a fairly unique position because within the auspices of APEC there is a group called the business mobility group. Its charter...is

23 See chapter 7, paragraph 7.61.

24 *Submission P24*, Appendix 2, p. 33.

25 *Committee Hansard*, 21 June 2005, p. 14.

26 *Committee Hansard*, 21 June 2005, p. 15.

27 *Committee Hansard*, 21 June 2005, p. 16.

essentially to find ways in which we can promote the movement of business people across the region.²⁸

9.27 According to DIMIA, the business mobility group is chaired by Australia and is seeking not only to expand the number of countries participating in the scheme, but to achieve greater reciprocity in entry requirements for business people of APEC economies.²⁹

Committee view

9.28 The committee recognises the work being done through APEC to facilitate business travel throughout the region, especially by Australia as one of the lead countries in the business mobility group.

Opportunities for investment in China

9.29 The committee notes that, despite the impediments to trade and investment in China, many Australian companies are venturing into China. In noting the demands to be created by the 2008 Olympic Games, the Illawarra Regional Development Board (IRDB) can see opportunities for Wollongong-based companies to use their expertise in areas such as software development and heavy engineering with Chinese companies. The Board has taken the initiative and provides a model for other regions or business groups in developing business and investment connections with China. The Wollongong City Council submission explained that:

The IRDB has taken a pro-active role in fostering business and investment links with China and Chinese companies. Late in 2004 IRDB General Manager Peter Pedersen joined a delegation which included Wollongong City Council Economic Development Manager Bob Doyle and Illawarra Business Chamber President Terry Wetherall who presented a united front to press the region's interest in doing business with China.³⁰

9.30 They would also like to see Austrade officers take a more active role in linking Australian companies directly with potential Chinese partners. IRDB General Manager Peter Pedersen believes 'the Chinese market is so broad that it would be helpful to have assistance finding the "right" partners'.³¹

28 *Committee Hansard*, 21 June 2005, p. 15.

29 *Committee Hansard*, 21 June 2005, p. 16. For example, there is an APEC business travel handbook available on the internet to help people understand the different processes involved. The group is also looking to establish greater alignment between the entry conditions and to adopt common terminology, again to assist a better understanding of the scheme and processes involved. At the moment about 3,000 Australians have the card.

30 Wollongong City Council, *Submission P10*, p. 13.

31 Wollongong City Council, *Submission P10*, p. 13.

Committee view

9.31 Clearly, Australian businesses considering investing in China would benefit from further reforms in China that would make the investment environment more conducive to foreign investors. The Australian government could also take measures to assist Australian investors in China by increasing its efforts to make travel to China easier and to ensure that all Australian businesses are aware of and can take advantage of the associations that the various government agencies have established in China.

China's 'go global' strategy

9.32 China has adopted a 'go-global' strategy. It wishes to encourage Chinese enterprises to invest and do business in other countries and intends to accelerate the implementation of its 'go global' strategy.³² The 2005 report on China's economic and social development plan stated:

We will strengthen planning and industrial policy guidance for China's investment abroad, improve supporting fiscal, tax, financial, insurance and foreign exchange policies, and encourage qualified enterprises to invest abroad.³³

Chinese investment in Australia

9.33 Chinese investment in Australia has increased markedly in recent years, though from a low base. DFAT stated:

Chinese enterprises have invested in about 225 Australian projects up to the end of December 2003, with a cumulative contractual investment value of about \$2.2 billion and an actual value of \$59 million. Most of this investment is in resources, energy and processing commodities, but manufacturing and real estate also attract significant investment.³⁴

9.34 The interest from China has been across the board. DITR stated that, investment comes from state owned enterprises in areas like iron and steel, coal, engineering, construction, and railways as well as private companies in China, either alone or in various partnerships.³⁵

9.35 According to Invest Australia, the total stock of Chinese investment into Australia to the end of 2003 was \$2.86 billion. The investment was mainly in the mining, mineral processing, manufacturing, leather processing, wool processing,

32 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

33 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

34 *Submission P19*, p. 10.

35 *Committee Hansard*, 21 June 2005, p. 48.

property and agricultural sectors.³⁶ Both state-owned enterprises and Chinese private companies, either alone or in partnerships, were investing in Australia. They included:

...the Channar iron ore mine in the Pilbara region of Western Australia and the Portland Aluminium smelter in Victoria. Investments are also diversifying into other sectors such as manufacturing, real estate, mineral exploration and wool processing.³⁷

9.36 The Australia Business Council, also noted that investment is mostly in the resource development, minerals processing, real estate and agriculture sectors. It anticipated that the Chinese 'will increasingly seek to invest downstream in resources ventures in particular in order to have an investment involvement in the different stages of the production chain'.³⁸ With regard to the minerals sector, the Chinese investor in Australia is interested not only in accessing supplies of raw materials to export to China, but 'extends down the value added chain into the processing of materials'.³⁹

9.37 Although interest is broad, Chinese investment in Australia was described as lumpy due mainly to its newness. Invest Australia explained:

...there is not much history of China as a whole investing anywhere, let alone in Australia. In fact, Chinese investments into Australia were the first major Chinese investments abroad in the world. The Chinese investment into the Portland aluminium smelter was the first major Chinese investment offshore anywhere.⁴⁰

9.38 Invest Australia is active in promoting Chinese investment:

We have people in China—we have officers in Beijing and in Shanghai—and we are working directly with companies in China to explain to them the benefits of investing in Australia and to help them to convert that interest in investing into reality here. We then help them to make visits to Australia. We make introductions to companies here. We make introductions to state governments here. We help to facilitate that investment flow wherever we can. Because the history of significant Chinese interest in investing abroad is reasonably short, they are taking some time to understand the investment environment in Australia and the opportunities available here, but we are starting to see a ramp up in our activity...⁴¹

9.39 At this stage, the committee notes China's interest in importing Australian uranium. The question arises whether Chinese companies would seek to invest in this

36 B. Jones, Invest Australia, *Committee Hansard*, 21 June 2005, p. 47.

37 *Submission P63*, p. 7.

38 *Submission P40*, p. 12.

39 B. Jones, *Committee Hansard*, 21 June 2005, p. 50.

40 *Committee Hansard*, 21 June 2005, p. 49.

41 *Committee Hansard*, 21 June 2005, p. 50.

industry and the impediments, if any, to do so. In answer to this likelihood, the Australian Treasurer, the Hon Mr Peter Costello, pointed out that Australia has a foreign investment approval process which requires that anyone seeking to buy an Australian company to operate in Australia must be 'screened and approved'. He stated further:

In addition to that, where it is a sovereign government, it's scrutinised even more carefully. So it's quite a difference between whether it's a private company or a sovereign government. Private companies are handled under FIRB and the existing law. Sovereign governments raise whole new policy questions which would have to be determined if it were a State-owned company that sought to engage in the activity.⁴²

9.40 It should be noted that China has cited the FIRB as a barrier to investment in Australia. It noted that the dominant criterion of foreign investment is 'Australian National Interests'. A Chinese report on Foreign Market access stated:

But it's considered that the 'Australian National Interests' criterion is enabling excessive discretionary power, and certain examination and approval procedures are short of transparency, which have impeded the access of foreign capital into Australia.⁴³

9.41 Mr Costello was of the view that there were no reasons for anyone to buy a uranium mine in Australia because 'they can buy uranium from an Australian company—BHP—subject, of course, to entering into nuclear safeguards which ensure that it's used for peaceful purposes.'⁴⁴

9.42 The Illawarra Regional Development Board is keen for Chinese companies already operating in Australia, and those considering doing so, to invest in the Illawarra region. The Illawarra Business Chamber (IBC) was also actively engaged in promoting local business. In November 2004, IBC President Terry Wetherall visited China with a Wollongong business, civic and tourism delegation to the Fijian International Friendship Cities Conference to publicise the diversity of opportunities for Chinese investment and trade in the Illawarra region.

9.43 As noted earlier, the Wollongong Council and associated boards and organisations provide an example of a region with the initiative, drive and enterprise to capitalise on the opportunities that China has to offer. They show clearly that there are gains to be made from China's prosperity, but that much planning and hard work are required for success.

42 The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, Doorstop interview, Beijing, 17 October 2005.

43 Ministry of Commerce, People's Republic of China, *Foreign Market Access Report*, 2005, p. 33.

44 The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, Doorstop interview, Beijing, 17 October 2005.

Restrictions on travel to conduct business in Australia

9.44 The committee discussed the ADS in the previous chapter and the APEC Business Card earlier in this chapter. Australia also operates the Sponsored Business Visitor Program. Under this scheme State, Territory and Commonwealth Government agencies, as well as specified business organisations, provide formal sponsorship for individuals and business delegations for short-term business visits to Australia.⁴⁵

9.45 According to DIMIA, China is Australia's largest source of business visitors. It stated that between 1 July and 31 December 2004, business visitor visas were granted to Chinese nationals 132 per cent more than the next highest source country (the US). It stated that 62,160 Business Visas were granted to Chinese nationals in 2003–04 which represented a 26 per cent increase over the previous year.⁴⁶ They told the committee that:

... if a free trade agreement is negotiated with China, the pressure on us to provide a visa service that is both fast and efficacious will increase. We are continuing to look at ways in which we can change our visa processing model with respect to business visitors from China, to make that process faster. Part of that is to look at possible electronic options in that area.⁴⁷

9.46 The Illawarra Regional Development Board expressed concern at the government's ADS regulations which in its view dampens the opportunities for Australian companies to do business with the Chinese provinces whose residents find it difficult to obtain visas to Australia.⁴⁸

9.47 DIMIA has indicated that Australia could do more to facilitate the travel of Chinese business people to Australia. The committee believes that the Australian government should not wait until a free trade agreement is reached to provide easier access to Australia for Chinese business people. It acknowledges the work that Australia has done in encouraging APEC members to support the APEC business card but believes that greater effort must be given to facilitating travel between China and Australia.

Recommendation 11

9.48 The committee recommends that the Australian government:

- **review the visa requirements for Chinese people seeking to conduct business in Australia with the intention of improving their access to Australia; and**

45 *Submission P51*, p. 13.

46 *Submission P51*, p. 13.

47 *Committee Hansard*, 21 June 2005, p. 13.

48 Wollongong City Council, *Submission P10*, p. 13.

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

Conclusion

9.49 Australia and China are at a juncture in their trade relations that is leading them toward a much stronger and expanded relationship. Indeed, both countries are actively pursuing negotiations toward a bilateral Free Trade Agreement (FTA). This move signifies a desire to build not only a closer economic relationship but also a closer political one.

9.50 The following chapter examines this development toward a Sino–Australia bilateral trade arrangement, its implications for Australia's other trading partners in the region, and its commitment to multilateral free trade. It sets the scene for further discussion on the proposed FTA and its implications for Australia and Australia's trading partners in the region.

Part III

Building trading links through formal and informal trade arrangements

Trade agreements are a formal, structured and public way of improving trading relationships. This part of the report looks firstly at the proposal for a free trade agreement between Australia and China. It then examines other factors, including cultural differences, that influence the trading relationship. Finally it considers matters that have the potential to strain the relationship such as disagreements over human rights issues and labour standards.

Chapter 10

Bilateral or multilateral agreements?

10.1 This chapter is a prelude to the discussion in Chapter 11 on the modelling and merit of a free trade agreement (FTA) between Australia and China. It looks at the economic and political arguments for and against signing an FTA, as opposed to negotiating an agreement within the World Trade Organization's (WTO) multilateral framework.

What is a free trade agreement?

10.2 An FTA is generally an agreement between two countries designed to eliminate all restrictions on bilateral trade in goods and services. It commits both governments to policies of non-intervention in trade between the two nations.

10.3 FTAs were originally allowed under the 1947 General Agreement on Tariffs and Trade (GATT) as a mechanism to facilitate greater economic cooperation between the recovering Western European economies. They have been an increasingly popular form of economic and diplomatic engagement. Since the WTO was established in 1995, there have been roughly 300 FTAs proposed. The Australian government has been an enthusiastic advocate of FTAs, recently establishing a website to 'help Australian businesses understand and take advantage of our FTAs'.¹

10.4 By their nature, FTAs are preferential in that they exclude all nations bar the signatories. They conflict with the WTO's 'Most Favoured Nation' (MFN) principle. The MFN principle means that every time a country lowers a trade barrier, it must do so for all its trading partners. In other words, each WTO member treats all the other members equally as 'most-favoured' trading partners.²

10.5 However, while FTAs are inconsistent with the MFN principle and are negotiated outside the multilateral framework, they are allowed under Article XXIV of the 1947 Agreement.³ This article states that the purpose of an agreement such as an FTA 'should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories'.⁴

1 Commonwealth of Australia, *Free Trade Agreements*, <http://www.fta.gov.au> (accessed 1 October 2005).

2 World Trade Organization, 'Understanding the WTO', September 2003, p. 11.

3 Since 1948, the General Agreement on Tariffs and Trade has provided the rules for the international trading system. The Agreement led to an unofficial organisation known as the GATT. It was renamed the WTO in 1995.

4 Article XXIV, General Agreement on Tariffs and Trade, 1947, http://www.wto.org/english/docs_e/legal_e/gatt47_e.pdf (accessed 6 September 2005).

10.6 This means that the WTO accepts the creation of a free-trade area (such as an FTA) provided it is not more restrictive on the signatories than under previous arrangements. In addition, a free-trade area must not lead to higher restrictions on trade with third parties.⁵

10.7 FTAs are generally consistent with the WTO's 'national treatment' principle. This principle states that all foreign goods must be treated equally once they have entered the domestic market.⁶ The same applies to foreign services and foreign trademarks, copyrights and patents. As discussed below, a significant example of this principle is the enforcement of intellectual property rights.

The benefits of FTAs

10.8 FTAs provide direct economic benefits for signatory nations. Particularly for small, developed nations like Australia, FTAs offer potentially unlimited access to major world markets and cheaper imports for domestic consumers and producers. They are recognised as an increasingly important part of bilateral relations, not only in terms of mutual economic benefit, but also by providing a long-term basis for peaceful diplomatic relations.

10.9 FTAs continue with the process of trade liberalisation in the absence of multilateral agreements. They have become the preferred means for liberalising trade in the fast-growing services sectors, given that WTO negotiations on services can only proceed at the speed of the slowest participant.⁷ The Australian Minister for Trade, the Hon. Mark Vaile, has argued that Australia is 'not prepared to move at the pace of the slowest common denominator. We can't afford to...and there are many other countries that take a similar attitude'.⁸ The WTO itself has acknowledged that without the constraint of the MFN principle, some regional free trade arrangements have paved the way for subsequent multilateral agreements.⁹

10.10 Dr Ashton Calvert, the then Secretary of the Department of Foreign Affairs and Trade, told an audience in August 2004 that Australia continues to push for an outcome in the WTO to address core problems relating to agricultural subsidies and market access.

But we also know that in its current state the multilateral system is not able to satisfy—within a reasonable time-frame—all our ambitions or needs as a liberal and efficient trading nation.

5 World Trade Organization, 'Understanding the WTO', September 2003, p. 11.

6 World Trade Organization, 'Understanding the WTO', September 2003, p. 11.

7 D. Robertson, 'Another Global Trade Crisis', *Policy*, Vol. 20, No. 1, 2004, p. 14.

8 C. Wallace, 'Global pacts preferred in bigger picture, Vaile insists', the *Australian*, 23 October 2003, p. 4.

9 World Trade Organization, 'Understanding the WTO', September 2003, p. 64.

Throughout the Asia–Pacific and beyond, countries, such as Australia—with a forward-looking agenda and who want to push ahead in building deeper economic and commercial relationships and mature policy linkages—are pursuing FTAs.¹⁰

10.11 Dr Calvert explained that Australia was seeking to maximise gains to the country by pursuing 'complementary opportunities at all levels—multilaterally through the WTO, bilaterally through free trade agreements, and at the regional level in APEC'.¹¹ In his view, Australia does not choose free trade agreements with an economic partner or a region at the expense of the multilateral trading system. He insisted that 'FTAs serve as a complementary vehicle for pursuing trade liberalisation within the WTO's global trade rules'.¹²

10.12 Furthermore, he noted that numerous countries were keen to have a free trade agreement with China and that, to make competitive gains, Australia needed to be aware of what these countries were doing in the Chinese market. He stated:

Australia competes directly with some of the countries involved in FTA discussions with China in areas such as dairy, forestry, citrus, table grapes, wine, copper, coal, gold and motor vehicles and parts.¹³

10.13 Dr Calvert surmised that an FTA with China would improve Australia's standing as 'a serious player in the international trade arena' and would place Australia in a favourable position for its economic future:

There is no question that concluding a high-quality FTA between Australia and China would be an important part of Australia's international trade profile.¹⁴

10.14 In addition to the impetus they can provide for trade liberalisation, FTAs also tend to be more ambitious than the WTO's multilateral agreements. They frequently cover issues of investment protection, government procurement and competition policy. The recent Australia–United States FTA was negotiated on the understanding that no major sector should be excluded from tariff elimination.¹⁵ Similarly, it was

10 A. Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 4.

11 A. Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 4.

12 A. Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 4.

13 A. Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 5.

14 A. Calvert, Secretary, Department of Foreign Affairs and Trade, Opening Speech, 'Strategic setting: Common future', Australia–China FTA Conference, Sydney, 12–13 August 2004, p. 5.

15 Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, *Final Report*, p. 2,
http://www.aph.gov.au/Senate/committee/freetrade_ctte/report/final/ch01.pdf

agreed that the negotiations on the Australia–China FTA will cover all sectors and will address the issue of investment flows.¹⁶ Multilateral negotiations, on the other hand, are often restricted to a particular produce or sector. Even regional trade agreements tend to have significant exemptions. For example, China's negotiations with the Association of South East Asian Nations (ASEAN) exempted 480 goods.¹⁷

10.15 Mr Andrew Stoler, the Executive Director of the Institute for International Business, Economics and Law at the University of Adelaide, has argued that trade in services is one area where the WTO negotiations have faltered. He stated:

Notwithstanding the fact that the services negotiations started at the beginning of 2000—nearly two years before the Doha Declaration was agreed—there are still only 48 initial offers on the table and their quality is poor. Some have even said that the average level of commitment reflected in the Doha offers implies a regression from the current level of commitments. As services are now by far the most significant part of the modern global economy, a lack of progress in the GATS negotiations not only bodes ill for the overall WTO negotiations but it also casts a shadow on the prospect that services liberalisation can make a significant contribution to global economic development in the years to come.¹⁸

10.16 In accepting the WTO system's limited scope and glacial pace, among other complications, Mr Stoler concluded:

In the meantime, the system itself will be responsible for dynamics that make the negotiation of additional Free Trade Agreements attractive complements to the WTO and we shouldn't worry about that.¹⁹

The pitfalls of FTAs

10.17 These arguments, and the growing use of the provisions in Article XXIV of the GATT, have been criticised on both economic and strategic grounds. Most obviously, the lesser volume of trade in a bilateral agreement than in a multilateral agreement makes the economic gains from FTAs commensurately smaller. Trade Minister Vaile has recognised that FTAs are a second-best option: 'There is no

16 C. Ryan and T. Sutherland, 'China backs 'no limits' trade deal', *Australian Financial Review*, 11 March 2005, p. 1.

17 C. Ryan and T. Sutherland, 'China backs 'no limits' trade deal', *Australian Financial Review*, 11 March 2005, p. 1. ASEAN has ten members: Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Burma, Cambodia, Laos and Vietnam.

18 A. Stoler, 'WTO Negotiations under the Doha Development Agenda and Perspectives on Current WTO Developments', Shanghai, December 2004, p. 3.

19 A. Stoler, 'WTO Negotiations under the Doha Development Agenda and Perspectives on Current WTO Developments', Shanghai, December 2004, p. 4.

question...that if we could tomorrow get a much better result out of the multilateral system, it would certainly be the best outcome'.²⁰

10.18 The more pointed argument against FTAs is their discriminatory impact. Many economists emphasise that while FTAs may increase market access for signatories, they limit the access of third parties. A 2003 Productivity Commission study found that 12 of 18 FTAs surveyed 'diverted more trade from non-members than they have created among members'.²¹

10.19 There is also an 'internal' discriminatory aspect to FTAs. The agreements are often negotiated and structured through the influence of powerful vested interests, which may lead to resentment among industries with less political clout.

10.20 Another common criticism of FTAs is their complexity. A particular difficulty has been negotiating the 'rules of origin'. These rules ensure that only the products made and value-added in the signatory nations are accorded preferential treatment. The WTO makes these rules a responsibility of the individual member nation. This means there is enormous variation among FTAs in the pattern of these rules, which often makes the negotiation process particularly difficult.²² Australia is currently renegotiating the rules of origin under the Closer Economic Relations (CER) agreement with New Zealand to conform to the rules of origin established under the US FTA.²³

10.21 FTAs also complicate the broader international trading environment. Dr David Robertson, a former Commissioner of the Australian Productivity Commission, refers to the 'hubs' and 'spokes' of current trading arrangements. The 'hubs' are the powerful trading nations, such as the United States and Japan, which negotiate FTAs with small and medium sized countries (the 'spokes'). The powerful trading nations have the negotiating power to set the scope, rules and tariff reduction schedules of the agreement. Less powerful nations are left to accept the terms. Moreover, the powerful few are in the position to negotiate a more favourable FTA with another 'spoke'.²⁴

10.22 This imbalance was apparent in the negotiation of the recent Australia–US FTA (AUSFTA). The Americans modelled the AUSFTA on the less liberalising North American Free Trade Agreement, signed in 1993. Key Australian exports, such as sugar, failed to gain unlimited access to the American market. The US was also

20 C. Wallace, 'Mandarins still segregated over bi versus multilateral deals', the *Australian*, 6 November 2003.

21 C. Wallace, 'Mandarins still segregated over bi versus multilateral deals', the *Australian*, 6 November 2003.

22 P. Lloyd and D. MacLaren, 'Gains and Losses from Regional Trading Agreements: A Survey', *The Economic Record*, vol. 80, no. 251, December 2004, p. 464.

23 'FTAs should all sing to the same song', *Australian Financial Review*, 22 April 2005, p. 82.

24 D. Robertson, 'Another Global Trade Crisis', *Policy*, vol. 20, no. 1, 2004, p. 13.

reluctant to negotiate on 'beyond the border' issues, including standards for industrial goods, food and the environment.²⁵ The contrast is with Australia's wide-ranging FTA with a similarly sized nation in Singapore.

10.23 Given all these shortcomings, and in the absence of multilateral progress, many economists claim that the best FTA is one which abolishes Australia's protection unilaterally. Professor Ross Garnaut, for example, has argued that Australia's experience of the past two decades shows that 'by far the main benefits of reducing trade barriers are received by the liberalising country'.²⁶ This prospect is unlikely, however, given the influence of sectional interests.²⁷ Moreover, market access has been keenly contested in international trade, and there are no guarantees that Australia's trading partners would reciprocate.

10.24 Even strident critics of FTAs accept the need for pragmatism over principle. Professor Garnaut has himself conceded that the best response of third nations that are excluded from FTAs may be to sign FTAs themselves:

...even if China and Australia recognise that the proliferation of FTAs is unfortunate for the multilateral system and their own trade interests, there may still be an argument for their seeking a bilateral agreement. Contemporary policy has to take into account the contemporary reality...

Within the contemporary reality, Australia, most importantly in the USFTA, now systematically discriminates against supplies from China, its most rapidly growing trading partner, and in January 2005 its largest merchandise trading partner and second largest export market...The imminent completion of the China-ASEAN FTA is set soon to expand discrimination against Australia across the whole range of agricultural and manufactured products.

It can be expected that the persistence of this discrimination on both sides of the relationship would gradually corrode the current excellent trade relations between China and Australia.

A standard FTA between Australia and China, if it were comprehensive in coverage and liberalised market access as much or as little as the two countries' other bilateral agreements, would end the discrimination that each country has introduced against the other in recent FTAs, and with it the costs of trade diversion away from Sino–Australian trade.²⁸

25 D. Uren, 'Trade agreements slammed for their lack of clear goals', the *Australian*, 10 September 2004, p. 23.

26 R. Garnaut, 'Bridging a fractured trade system', the *Australian*, 17 November 2003, p. 9.

27 Editorial, 'A multilateral trade pact is the jackpot', *Australian Financial Review*, 19 November 2004, p. 82.

28 R. Garnaut, 'Australia, US and China: Open Regionalism in an Era of Bilateral FTAs', Paper presented at a public lecture, Asialink, Melbourne, 22 March 2005, pp. 11–12, http://rspas.anu.edu.au/economics/publish/papers/garnaut/2005_Australia_US_and_China.pdf (accessed 1 November 2005).

Strategic concerns

10.25 There have also been strategic concerns about the discriminatory nature of FTAs. Signing a trade agreement with one nation may be seen as a sign of neglect by other nations.²⁹ In a submission to the Senate Select Committee on the Free Trade Agreement between Australia and the United States, Professor Peter Lloyd argued that negotiations on the agreement 'should be accompanied by diplomatic initiatives'.³⁰ Professor Lloyd claimed that the Australian government had a responsibility to:

...assure our Asian trading partners that this proposed agreement does not represent a downgrading of our relations with these economies and, furthermore, that we stand ready to negotiate parallel trading RTAs [regional trade agreements] with these countries.³¹

10.26 Professor Lloyd argued that 'particular diplomatic effort' must be accorded to nations such as Malaysia and Indonesia with whom Australia's relations have been strained. However, he does acknowledge that 'several of our [Australia's] Asian trading partners are pursuing a similar strategy of multiple RTAs [which] indicates that these countries should not logically object to us on grounds of trade discrimination'.³²

Australia and the China–ASEAN FTA

10.27 A case in point is the recent signing of the China–ASEAN FTA in traded goods. The agreement is part of a plan to work towards an ASEAN–China Free Trade Area within ten years.³³ The Secretary–General of ASEAN, His Excellency Ong Keng Yong, has argued that:

The establishment of ACFTA by 2010 looks set to enhance economic cooperation and integration between ASEAN and China. The market and purchasing power are very much enlarged by the FTA. Preliminary

29 See P. Kelly, 'Change in US sharpens our dilemma', the *Australian*, 20 December 2000.

30 P. Lloyd, *Submission to Senate Select Committee on GATS and the Australia–US Free Trade Agreement*, April 2003, http://www.aph.gov.au/Senate/committee/fadt_ctte/completed_inquiries/2002-04/gats/submissions/sub73.doc (accessed 8 November 2005)

31 P. Lloyd, 'Australia's Economic Diplomacy in Asia', *Melbourne Asia Policy Papers*, number 3, July 2003, p. 8, <http://www.asialink.unimelb.edu.au/cpp/policypapers/0801FINALLOYDMAPP.pdf> (accessed 5 November 2005).

32 P. Lloyd, 'Australia's Economic Diplomacy in Asia', *Melbourne Asia Policy Papers*, number 3, July 2003, p. 8, <http://www.asialink.unimelb.edu.au/cpp/policypapers/0801FINALLOYDMAPP.pdf> (accessed 5 November 2005).

33 ASEAN, *Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations and the People's Republic of China*, 4 November 2002.

estimates suggest that the ASEAN-China FTA would raise ASEAN's exports to China by 48% and China's export to ASEAN, by 51%. At the same time, the combined GDP of ASEAN would expand by at least US\$1 billion while that of China, by some US\$2.3 billion (note: assuming a 6 per cent annual growth rate in ASEAN and 7 per cent in China).³⁴

10.28 DFAT has argued that 'as a general principle, Australia welcomes initiatives that improve regional economic growth and liberalise trade'.³⁵ Similarly, Mr Steven MacMillan, a consultant for ITS Global which runs China Business Focus, told the committee that a China–ASEAN FTA would not limit Australia's capacity to negotiate or require Australia to negotiate an FTA with China more quickly. He also disputed that the benefits of lowering barriers to Australian goods into China's markets would be lost as a result of China's FTA with ASEAN.

The issue of trade diversion is probably more of a concern in areas where the barriers are very high—Australia's certainly are not and China's are decreasingly so—but that does not negate the benefits available from further liberalisation. In other words, the group's view would be that these things should go on and that Australia should continue to seek those liberalisations that are available in the FTA context.³⁶

10.29 A more closely integrated economic community in East and South East Asia means that Australia, whose economic and commercial interests are centred in this region, will have to manage these developments carefully. In their submission to the committee, Mr Reg Little and Mr James Flowers observed:

Given current trends, it is becoming imperative to base an important portion of Australia's strategic planning on the contingency that China in particular, and East Asia in general, will re-emerge at the centre of global trading, first rivalling and later overshadowing Anglo–American power. In such circumstances it is apparent that Australian policy cannot afford to be ill-informed about powerful, deep-rooted cultural qualities, largely suppressed and disguised over much of the past century, that direct behaviour among its most powerful neighbours.

This imperative will increase in importance if there is further movement towards an Asian trade and financial grouping to match European and American regional groupings. Australia will need not only to be closely in tune with developments in China but also with other key members of any such grouping so as to ensure that it can lobby effectively to optimize its negotiating positions.³⁷

34 H. E. Ong Keng Yong, Secretary–General of ASEAN, 'Prospering ASEAN–China relations', Keynote address at the Chinese Business Leaders Summit, Global Entrepolis, Singapore, 11 October 2004, <http://www.aseansec.org/16461.htm> (accessed 8 November 2005).

35 *Submission P19*, p. 18.

36 S. MacMillan, *Committee Hansard*, 27 June 2005, p. 19.

37 *Submission P26*, p. 5.

10.30 In addressing the China–ASEAN FTA, they were of the view that the arrangement is 'likely to be little more than a stepping stone to closer China-led regional cooperation, designed to protect against a repeat of the 1997 Asian financial crisis and against regional groupings in Europe and the Americas'. They stated:

It is hard to see how Australia can protect and advance its interests except by displaying a preparedness to respond constructively to developments of this nature. It is likely to best optimize its negotiating position if it is playing a pro-active, strategic role that is built on an astute understanding of regional interactions and regional sensitivities about the influence of non-regional and alien cultural norms.³⁸

Committee view

10.31 The committee believes there is an important economic and strategic role for FTAs. Although multilateral liberalisation is the preferred option, FTAs are a means to end the discriminatory practices that both nations may suffer as a result of the agreements that they both sign with third countries.³⁹ Australia, through the US FTA, systematically discriminates against supplies from China: China, through the ASEAN FTA, expands discriminatory trade practices against Australia. Given the number of FTAs that China has already signed, there is a significant opportunity cost to Australia from not signing an agreement with China.

10.32 The committee notes, therefore, that the *prima facie* case for an Australia–China FTA is to remove the existing costs of trade diversion. Moreover, given the size and centrality of China's economy in the region and its compatibility with Australia's economy, an Australia–China FTA will also be trade creating. The following chapter looks closely at these benefits.

The progress of multilateral negotiations

10.33 The committee also emphasises that an Australia–China FTA must be pursued concurrently with opportunities for multilateral trade liberalisation through the WTO. The Sixth WTO Ministerial Conference is scheduled to take place in Hong Kong from 13 to 18 December 2005.⁴⁰ It will be the third Ministerial Conference under the current 'Doha Round' of multilateral trade negotiations.

38 *Submission P26*, p. 9. This viewpoint reinforces the committee's suggestion that Australia must have available a body of knowledge and understanding to make accurate assessments about developments in the region, and formulate responses that will not disadvantage Australia. See chapter 2, paragraph 2.68 and chapter 13, paragraphs 13.33–13.46.

39 R. Garnaut, 'Australia, US and China: Open Regionalism in an Era of Bilateral FTAs', Paper presented at a public lecture, Asialink, Melbourne, 22 March 2005.

40 World Trade Organization, 'The Sixth WTO Ministerial Conference', http://www.wto.org/english/thewto_e/minist_e/min05_e/min05_e.htm (accessed 8 November 2005).

10.34 The focus of the Doha Round is to assist developing countries by cutting agricultural protection. The Australian government has strongly supported this agenda.⁴¹ However, the most recent Ministerial Conference in Cancun, Mexico, in September 2003 failed to achieve consensus on cutting protection for farm products. Some developed nations—notably the European Union (EU)—insisted that progress on reducing agricultural tariffs and subsidies should be conditional on addressing the 'Singapore issues': investment, competition, transparency in government procurement and trade facilitation. Certain developing nations opposed the inclusion of the Singapore issues, believing they were irrelevant to their interests.⁴² This impasse contributed to the failure of the Cancun negotiations.

10.35 At the time of writing, the Director-General of the WTO, Mr Pascal Lamy, warned that without a better proposal from the EU on market access for agriculture, it may be necessary to postpone the Hong Kong Ministerial Conference.⁴³ Trade Minister Vaile argued:

The US has put forward a plan to cut agricultural subsidies by 60 per cent. It goes well beyond any previous US offer. In contrast, the EU has put forward a disappointing offer. It has offered to cut tariffs by 20 to 50 per cent, which is just not enough...I don't believe the [WTO] meeting should be postponed, even if the EU does not put forward a better proposal.⁴⁴

10.36 It is estimated that Australia could benefit by as much as \$7 billion a year from the successful completion of the Doha Round.⁴⁵

Recommendation 12

10.37 The committee recommends that the Australian government continue its support for the Doha Round of multilateral trade negotiations, most immediately through the Sixth WTO Ministerial Conference in Hong Kong.

41 M. Vaile, 'Europe's hurting the poor', the *Australian*, 25 November 2005, p. 12.

42 J. Robertson, 'Cancun to Hong Kong: Prospects for the WTO', *Research Note*, Parliamentary Library, 10 October 2005, p. 1.

43 T. Sutherland, 'Trade talks hang on EU offer', *Australian Financial Review*, 28 October 2005, p. 14.

44 M. Vaile, 'Europe's hurting the poor', the *Australian*, 25 November 2005, p. 12.

45 DFAT, *Global Trade Reform 2000: Maintaining Momentum*, 1999 cited in J. Robertson, 'Cancun to Hong Kong: Prospects for the WTO', *Research Note*, Parliamentary Library, 10 October 2005, p. 1.

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'.¹ 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).²

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

	Australia FTAs	China FTAs
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 (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...³

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.⁴

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.⁵ 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.

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'.⁶ 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.⁷ 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.⁸

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.⁹ 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.

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 (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 (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'.¹⁰
- 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.¹¹
- 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.¹²

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.¹³ 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.¹⁴

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

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 (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.¹⁵ 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'.¹⁶

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'.¹⁷ 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'.¹⁸

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'.¹⁹ 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'.²⁰

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'.²¹

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'.²² 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.²³

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.²⁴ 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.

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'.²⁵

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

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 (accessed 1 October 2005).

real GDP and \$US64 billion to China's real GDP between 2006 and 2015.²⁶ 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.²⁷

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.²⁸

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.²⁹ 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.

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 (%)
Agriculture	1.2	1.4	1.8
Wheat	0.4	0.4	n.s.
Wool	7.1	9.2	n.s.
Mining	0.2	0.0	0.6
Minerals	0.7	0.5	1.7
Manufacturing	0.2	0.0	8.1
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...'³⁰

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

	Output (%)	Employment (%)	Imports from Aust (%)
Agriculture	-0.1	-0.1	16.3
Wheat	-0.1	-0.1	20.5
Wool	-4.8	-6.9	19.2
Mining	0.0	-0.9	6.6
Minerals	-0.2	-0.5	6.4
Manufacturing	0.1	0.0	20.3
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.³¹

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;³²
- the positive impact of an FTA on output and employment in both countries is significant, with structural adjustment expected to be minimal (see above),³³
- 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.³⁴

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

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

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).³⁶

11.45 In August 2005, the second round of negotiations was held in Beijing.³⁷ 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-

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 (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.³⁸

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.³⁹

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.⁴⁰

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.⁴¹

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:

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 (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 (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 (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.**

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.¹ 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).² 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.³

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.⁴ 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.

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 (accessed 14 August 2005).

Table 12.1: Australian exporters' attitudes to the FTAs

	China	US	ASEAN	Malaysia	Thailand	UAE
Very positive	15	15	12	10	11	9
Somewhat positive	26	22	22	23	20	20
No impact	51	56	61	61	63	68
Somewhat negative	6	6	4	4	5	3
Very negative	2	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.⁵ 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'.⁶ 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'.⁷ 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.⁸

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.⁹ 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.' ¹⁰ '...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.' ¹¹
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.' ¹²
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.' ¹³

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.'¹⁴
- 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.¹⁵

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.¹⁶

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.¹⁷ 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'.¹⁸ 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.¹⁹

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.²⁰ The Council insisted that these tariffs 'serve no apparent industry policy purpose and appear to have been retained solely as revenue raising measures'.²¹ 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.²² One analyst has claimed that Australia could become a net importer of vegetables within three to five years.²³

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.²⁴ 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.²⁵ 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.²⁶

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 2006.²⁷ The Australian government has also initiated a \$4 million HomeGrown program to encourage Australian consumers to buy Australian food.²⁸

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

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'.³² 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.³³

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

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'.³⁴

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'.³⁵ 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.³⁶

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.³⁷

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'.³⁸ A slightly higher proportion of exporting firms

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.

(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.³⁹

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.⁴⁰

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.⁴¹

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;

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 (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;⁴² and
- the immediate establishment of a 'China Help Desk' to allow industry to address any issues relating to Australian companies' involvement with China.⁴³

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.⁴⁴

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'.⁴⁵ 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'.⁴⁶

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.⁴⁷ It identified a number of concerns about access to the Chinese market, including restrictions on foreign enterprises operating in China, higher supply costs

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 (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 (accessed 8 September 2005).

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

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'.⁴⁹ 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.⁵⁰ 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.⁵¹

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'.⁵² The abolition of the already 'low rate' of tariff, by contrast, 'is unlikely to have any significant impact on potential exports of automotive components

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 (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 (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 (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'.⁵³ 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'.⁵⁴ 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.⁵⁵

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'.⁵⁶ 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

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 (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 (accessed 1 October 2005).

manufacturers 'may be able to increase their export effort substantially'.⁵⁷ 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.⁵⁸

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.⁵⁹ 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.⁶⁰

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

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 (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 (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 (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 (accessed 1 October 2005).

economies'.⁶¹ 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.⁶² 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.⁶³ 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.⁶⁴ 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.⁶⁵ 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)

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 (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 (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 (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 (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.⁶⁶

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.⁶⁷

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.⁶⁸

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

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

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.⁶⁹ 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.⁷⁰ 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.⁷¹ Australia should be fully aware of the sensitive nature of the agricultural issue and give special consideration and thought to the liberalisation of agriculture.⁷²

12.46 Vice-Minister Ma expressed strong concern at the effect of trade liberalisation on social cohesion.⁷³ 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.⁷⁴

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.⁷⁵ 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

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. 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'.⁷⁶

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.⁷⁷ 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.⁷⁸

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.⁷⁹ 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.⁸⁰

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

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. 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.⁸¹

12.51 The report reserved strong criticism for the medicine imports accreditation process.⁸² 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'.⁸³ 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.⁸⁴ 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.⁸⁵

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'.⁸⁶ Significantly, the report also noted that Australia has the fifth most anti-dumping complaints against China—41 up until 2004.⁸⁷

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.⁸⁸

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.⁸⁹

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.⁹⁰

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.⁹¹

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

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.⁹² 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'.⁹³ 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.

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.⁹⁴

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.⁹⁵

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'.⁹⁶ 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

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.

Chapter 13

Building a better trading relationship and strengthening ties

We may have made it to the 'front porch to yarn', 'to the sitting room for serious talking', and to the 'parlour for poker and gin rummy' but as a country we are yet to go the extra step and actually 'play mah-jong'.¹

13.1 Trade agreements are a formal, structured and public way of improving trading relationships. But such arrangements are forged and operate in an environment that may or may not encourage trade. Trade is not solely about economics and there are many factors, including cultural differences and ethical standards, that influence a trading relationship. This chapter examines some of the less transparent but important factors that shape a trading relationship. It looks firstly at Australia's reputation as a trading partner and then specifically at the business culture and practices in China.

Australia's reputation as a trading partner

13.2 The Australia China Business Council was of the view that Australians have a very good reputation in China—it is 'good to do business with Australians'. Ms Kate Barnett, from the Council, stated:

...we are well regarded and we do not have baggage that some other developed nations have when dealing with Chinese businesses and the Chinese government...It is certainly very well regarded as a destination to travel to...and for sending kids to for study. That is certainly a very good sign of the future for those links.²

13.3 Some also argued that Australia's independent identity is a valuable asset.³ Hunt and Hunt Lawyers emphasised that one of Australia's strengths in its trading relations with China stemmed from its image as 'a friend with its own identity not a messenger conveying the views of others'. It noted further that Australians 'are prepared to engage, listen and understand without being judgmental'.⁴ Australia has also established a name as a reliable and dependable trading partner with the mining sector in particular setting a high standard in this regard (see paragraph 7.21).

1 Dr Noordin Sopiee, CEO, Malaysian Institute for Strategic and International Studies, in Future Summit 2004 Creating a Better World, *Report of the First Annual Future Summit*, Sydney, 6–8 May, 2004, p. 97. He stated that Australia still remains on the outside, and that, while for some time Australia has been welcome to East Asia, there 'are still limits to the relationship'. He made the statement as quoted to indicate that Australia had made progress but there is further to go.

2 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 13.

3 *Submission P24*, pp. 15, 16.

4 *Submission P24*, p. 18.

13.4 Australia's good standing provides a solid platform from which Australian firms can gain entry to Chinese markets. A trading partnership, however, can be easily damaged especially if the partners misread or misinterpret the conduct or motives of their associates. Such misunderstandings are more likely to occur where the partners come from very different traditions. Mr Reginald Little, a former DFAT officer, made this point. He warned, that Australian business people are in 'grave danger' if they do not know in detail the social, cultural and economic background of the Chinese people they are dealing with.⁵ The following section considers the extent to which Australian business people understand China's culture and whether this assists or hinders them to conduct successful business relationships with their Chinese counterparts.

Business practices in China

13.5 As a starting point, many witnesses made the point that Australian business people should have a sound understanding of Chinese culture and values. It would appear that Australians do not necessarily fully understand the Chinese way of doing business, and the Chinese do not fully appreciate the Western way of doing business. Mr Duncan Calder, KPMG, told the committee:

I think China is littered with the carcasses of foreign companies that have paid no attention to the issues of cultural sensitivity, and have tried to sell the Chinese what they think the Chinese need instead of listening to the Chinese and selling them what they want.⁶

13.6 Ms Vivienne Bath noted that Western businesses are generally focused on making money but in some instances the Chinese enterprise may have a different agenda. This is particularly so when dealing with state-owned enterprises that 'may want to do a deal to save jobs, or get a large investment to pump up their statistics'.⁷

13.7 Clearly, Australian companies need to be able to read accurately the messages and signals being conveyed to them in their dealings with Chinese businesses. They also need to know how to respond appropriately and to their advantage.

13.8 In Chapter 4, the committee examined the legal and regulatory framework within which people conduct business in China. It found that since the 1980s China has introduced a raft of legislation to make the business environment for foreign companies more attractive. It noted, however, that in some instances practice was inconsistent with the new laws: that the legacy of the old way of doing things in China often prevails over legislated reform.

5 *Committee Hansard*, 1 August 2005, p. 44.

6 *Committee Hansard*, 1 August 2005, p. 13.

7 Vivienne Bath, 'Lawyer maps China's business landscape', *Lawyers Weekly*, 12 November 2004.

13.9 The following section looks at some of the special aspects of the business world in China and their role in establishing and maintaining successful business links.

Relationships (guanxi) and building a business in China

13.10 A number of analysts worldwide have commented on the important function that cultural differences have in influencing trading relationships with China.⁸ The Chinese, like business people elsewhere, have their unique way of conducting business. Many China experts refer to a business culture in China that is 'based on strong family networks or cultural ties secured in guanxi [interpersonal] connections that are underpinned by strong Confucian ethics'.⁹

13.11 Mr John Thornton, Director of Global Leadership at Qinghua University in Beijing, noted that relationship building in China is 'absolutely central to success.' In his experience:

...99 percent of westerners don't spend the time necessary to build these relationships. Senior people in corporations often tend to go to China once or twice a year, but that's just not enough. You've got to get inside, which means you've got to spend enough time there, building genuine, honest, candid relationships with those with whom you'll have to work, as well as with those who will work for you. Too many western companies are skipping that step, or they're doing it very badly.¹⁰

13.12 Mr Jonathan Woetzel, Director in McKinsey's Shanghai Office, supported this view by underlining the need to build relationships with the people who count and have influence.¹¹ The International Finance Corporation drew similar conclusions about the importance of appreciating China's business culture which is 'largely relationship driven and built on a desire to avoid conflict'. In its view, 'trying to

8 See for example John L. Graham and N. Mark Lam, 'The Chinese Negotiation', *Harvard Business Review*, October 2003, p. 82. They attributed breakdowns in relationships between American and Chinese business people to 'A failure on the American side to understand the much broader context of Chinese culture and values, a problem that too often leaves Western negotiators both flummoxed and flailing'.

9 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

10 McKinsey & Company Leadership Dinner, 'Panel Examines China's Economy', p. 5.

11 McKinsey & Company Leadership Dinner, 'Panel Examines China's Economy', p.8. Ms Grace Wen Pan, who studied business relationships in the Chinese inbound tourism market to Australia, found that guanxi has a significant but not decisive role in the process of developing relationships between Chinese travel agents and Australian inbound tour operators. She noted, however, that guanxi relationships can 'provide added value to the partnership relationships of Australian operators'. Grace Wen Pan, 'Business Partnership Relations in Chinese Inbound Tourism Market to Australia', PhD Thesis, School of Tourism & Hotel Management and School of Marketing and Management, Faculty of Commerce and Management, Griffith University, 2004, p. ii.

impose formal structures on an organization that has traditionally done business in a certain way can lead to insurmountable culture clash'.¹²

13.13 A number of witnesses appearing before the committee expanded on this notion of relationship building. Hunt and Hunt Lawyers was of the view that currently the public and private sectors in Australia 'have a much greater understanding of what is really meant by the Chinese word 'Guanxi' which is at the heart of the Asian way of doing business'. It noted:

Relationships and networks are of much greater significance in China and indeed Asia generally than black letter law or legal agreements.

Australians have done well in coming to grips with this concept, indeed we would venture to suggest that Australia has done better than many other western countries and this explains the successes achieved and is the key to realising future opportunities.¹³

13.14 Even so, numerous witnesses pointed to the dangers that can arise from cultural misunderstandings that may damage a business, in particular the failure to appreciate the significance given to relationships.

13.15 Mr Calder agreed fully with the viewpoint that relationships are of fundamental importance not only in China but in any market. He drew attention, however, to the particular circumstances in China where the significance of relationships can override legal agreements. He stated:

You need to have relationships. Relationships can be more important because of the different importance of legal agreements. I often hear the phrase: 'A contract is merely the start of the negotiations.' When you have that sort of arrangement in place, I think it is important that you do not take the approach sometimes taken by Western companies: 'I have a contract and therefore, if it is in your interest or not, I am going to hold you to it.' I think there is more of an expectation of working to mutual advantage in Chinese culture. That requires a strong relationship focus throughout the term of that relationship, and not just falling back on documentation.¹⁴

13.16 This observation is pertinent in light of problems arising, as identified in chapter 4, where Australian business people differ in their understanding of a contract from that of their Chinese business affiliates. Evidence suggests that a Western reliance on a black letter law interpretation of a contract may well clash with a broader Chinese construction placed on the arrangement, particularly the nature of the relationship. The Australian party is likely to be concerned with the detail of the goods and services to be transacted, payment, shipment, documentary requirements and

12 International Finance Corporation, (the private arm of the World Bank Group), *Step by Step: Corporate Governance Models in China: the experience of the International Finance Corporation*, 2005, p. 9.

13 *Submission P24*, p. 4.

14 *Committee Hansard*, 1 August 2005, p. 12.

procedures in the case of any claim or dispute. On the other hand, the Chinese party may be more focused on personal relations and prefer to use the contract as a guide that allows flexibility for negotiation and for any potential claim.¹⁵ Indeed, the Australia China Business Council submitted that 'generally, though not always, contractual disputes are issues of culture rather than bona fides'. It stated:

The historical absence of an independent judicial process in China allowing parties to enforce written contracts means that Chinese companies place far more reliance on building relationships than they do on the written word. Contracts are often seen as evidence of the parties' intentions at the time, a milestone in an evolving relationship, and therefore subject to renegotiation at any time.¹⁶

13.17 Mr Barry White, International Fibre Centre Ltd, made a similar observation. He told an audience:

It is also worth mentioning that we continue to see cases where Australians have visited China and returned with a Letter of Intent or Memorandum of Understanding which are often misinterpreted as some form of contractual obligation. In reality such documents mean little more than 'let's speak some more about this matter!'¹⁷

13.18 Clearly, Australian businesses must be aware of the importance of relationships in China and how they influence the understanding and application of law.

13.19 More generally, a survey carried out using a sample of 22 Australian expatriates drawn from a multi-industry background and working in China suggested that while interpersonal relationships are important, the matter of face [mianzi] was a cultural aspect that stood out as distinct from other cultures. Their message was that face was a serious cultural issue. They found:

In respect to the issue of face, the expatriates interviewed replied that this was one area in which they generally believed that this particular cultural characteristic was markedly different from anything practiced elsewhere in the world. They cited the need to give face, to save face, and above all to avoid causing loss of face. They highlighted the fact that in causing loss of face to another then they automatically lost face themselves, and thus they

15 See for example, Barry White, International Fibre Centre Ltd, 'Doing Business in China and potential barriers to growth', February 2005.

16 *Submission P40*, p. 16.

17 Barry White, International Fibre Centre Ltd, 'Doing Business in China and potential barriers to growth', February 2005.

viewed the saving and maintaining of face of others as essential to their own ongoing success in China.¹⁸

13.20 Trust [xinyong] and reciprocity or favours [renqing] were also important considerations. The researchers stated that China has its own culturally-specific version of business relationships and suggested that:

...the way in which guanxi is interpreted may need to be modified to take account of the manner in which guanxi plays out differently in large organisations rather than smaller organisations. While the influential larger organisation can steadfastly assert its right to engage in no favours beyond the simple entertaining required in relationship building and maintaining, the smaller company may find itself in a position that requires much more in exchange for maintaining its position.¹⁹

13.21 They were of the view that organisations could work towards a more successful experience for their expatriates in China and reduce the amount of time spent on developing relationships and understanding the associated concepts of face, trust and reciprocity. Their research suggested that:

...expatriates employed in large companies already have guanxi by virtue of the international importance of their organisations. Thus, it is the smaller companies who do not have such assumed influence who really need to be devoting more energies to preparing their expatriates for working in China and the pitfalls they may encounter in trying to find the balance between acquiescing to China's business practices while maintaining company policy.²⁰

13.22 They concluded:

...the importance of being culturally astute needs to be heeded by the smaller organisations and private businesses. Those individuals who do invest time in learning Mandarin and becoming aware of the Chinese

18 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003. See also John L. Graham and N. Mark Lam, 'The Chinese Negotiation', *Harvard Business Review*, October 2003, p. 90.

Duncan Calder told the committee that the whole issue of preserving face, having respect, dealing with people at the right levels of organisations, and not belittling people when you do not realise that they do not have the power to make decisions are important factors. *Committee Hansard*, 1 August 2005, p. 13.

19 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

20 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

cultural-specific and country-specific practices will definitely see dividends in their business activities.²¹

13.23 This view is supported by Mr Macmillan who told the committee:

Australian industry has come a very long way in the sophistication of its understanding of the Chinese market. There was a time when that knowledge was concentrated very much in a small number of people. I think that is no longer the case. Obviously, it is important to continue to develop those resources as the relationship continues to grow, but the businesses we deal with have a quite sophisticated picture of what is going on in China as it extends to their core business interests. That is how we would see it, I suppose. But they are big companies, as you can see, and they are very well resourced.²²

13.24 Professor Goodman, however, warned of going into China with a 'mythologised, rarefied notion of a China which is cutesy and you do not understand that it is a business world first'. He was of the view that the notion of 'guanxi' had been mythologised. He stated:

But business relations in China are pretty much the same as they are—standard—throughout the world. Those special relationships become important because it is not a legal environment like everybody else in the world has. Once that comes in—and it is coming in rapidly now—guanxi becomes much less important. It has always been like that in every society you can think of; there is nothing mythical about it. But, if you read the books about it, you would think it was an inherent part of Chineseness.²³

13.25 Even so, he told the committee that given the competitive nature of doing business in China, Australians are not going to be competitive with other countries 'unless our businesspeople and our industrialists have that extra cultural knowledge which allows them to come to grips with China'.²⁴

Assisting Australian companies to understand the Chinese business world

13.26 Undoubtedly, Australian companies, especially the smaller to medium sized enterprises and those new to the Chinese market, must give close consideration to, and make the effort to understand, the Chinese business culture. A number of agencies or organisations give particular attention to cultivating in Australian business people an awareness of the peculiarities of the business world in China. The Australia China

21 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

22 S. Macmillan, *Committee Hansard*, 27 June 2005, p. 20.

23 D. Goodman, *Committee Hansard*, 29 June 2005, p. 59.

24 *Committee Hansard*, 29 June 2005, p. 53.

Business Council noted that there is 'a huge wave of SMEs' going into China. It provides information:

...so that people are not just intoxicated by the huge market that is China but going in with adequate preparation and planning. We aim to inform companies developing a China market entry strategy on how to manage the pitfalls and navigate the risks so as to be successful. A number of our members have been in China for over a decade, and they share their experiences with the newbies going into China.²⁵

13.27 It detailed a number of initiatives to facilitate the education of the wider business community particularly with regard to two aspects:

One, China has its problems with business integrity and corruption. We are very transparent about that. So they go into that marketplace aware that they need to do their own due diligence. It is really about managing their own risks with regards to their relationships with suppliers and other key stakeholders in that market. Two, under the application of Australian law as it applies to what companies are doing overseas, they could land themselves in hot water again if they are not doing the right thing. We see that Australian companies are keen to be informed. We are sure that they are demonstrating very high ethical standards.²⁶

13.28 Dr Davis also informed the committee about the programs the ACCI has in place to help better educate Australian companies on how to conduct business in China:

We do what you would call business culture training on a commercial basis. We put on, say, half-day events out in our state chambers...where we say to business people, 'This is the culture of doing business in these countries.' The training covers such things as when and how you bow; the pecking order; which hand you use; and—especially for ladies travelling abroad—when you do and do not extend your hand and how long your sleeves should be et cetera. These sessions are for the whole world, not just China, and they are very popular.²⁷

13.29 Dr Morgan went further. He underlined the importance of having a deep understanding of China: of studying not only the language but the culture so that Australians in their dealings with the Chinese are able to communicate much more effectively. He suggested that education should start at university level:

I think the solution is that we need to provide better support for in-country training during the course of a degree. If there were some provision for special scholarships or partial support—whether it is competitive or not—that would certainly be an area to which the government could contribute in terms of raising capacity. Certainly the universities provide study-abroad

25 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 13.

26 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 16.

27 R. Davis, *Committee Hansard*, 29 June 2005, p. 25.

scholarships, but nowhere near enough for the number of students who want to study abroad across the world—not just in China, Indonesia or India.²⁸

13.30 The concept of intellectual property provides an example of why Australians need to have a deeper appreciation of China's history and culture in order to avoid pitfalls. As chapter 4 explained, China has promulgated IP laws to be compliant with international standards. Even so, these laws sit uneasily with traditional and deeply entrenched concepts that undermine the application and enforcement of such laws. Mr Ian Heath, Director General of IP Australia, stressed the point that the IP regime in China is relatively immature in contrast to most Western countries whose IP laws have evolved over centuries. In his view, it would be 'harsh and unrealistic' to expect China to have in place an intellectual property regime that is equal to those in developed countries such as Australia.²⁹ He explained:

The traditional Chinese concept of intellectual creation and protection differs significantly from what modern intellectual property protection provides. Knowledge, according to Confucian thoughts, cannot be owned or controlled. It cannot be used as a tool for profits.³⁰

13.31 The two examples cited in this section—contract law and IP law—highlight how important it is for Australian business people to be aware of the culture and tradition of China and how Chinese values, customs and beliefs influence the interpretation and application of the law in China.

Recommendation 15

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

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

28 S. Morgan, *Committee Hansard*, 27 June 2005, p. 8.

29 Ian Heath, 'A perspective on Intellectual Property Protection in China', *Growth*, Melbourne, no. 55, May 2005, p. 71.

30 Ian Heath, 'A perspective on Intellectual Property Protection in China', *Growth*, Melbourne, no. 55, May 2005, p. 70.

economics, commerce, actuarial studies, architecture or engineering (also see recommendation 21)

Understanding the market in China

13.33 China is a dynamic and rapidly expanding market. As discussed in chapter 2, it faces a number of challenges in maintaining its steady course. These include the difficulties in managing effectively a growing economy, the potential for social and political unrest as the country opens up to new ideas and expectations, the disparity between rural and urban areas and between the rich and poor, China's growing appetite for energy and environmental degradation. Any foreign business contemplating or already trading with China and hopeful of success in their venture must be fully attuned to developments in China and the broader region.

13.34 Mr Little and Mr Flowers were of the view that Australian business had been constructive and proactive in many areas in China and had approached the market with few prejudices or inhibitions. Even so, they found that Australian business often had 'unrealistic expectations and limited strategic vision'. They stated:

Australia's success in developing policies which ensure its security, prosperity and viability seems likely to be largely determined by its capacity to recognize, understand and adjust to the strength of China's traditional culture, which remains today unfamiliar, distrusted and threatening to a large number of Australians.³¹

13.35 Evidence suggests that even those with a sound understanding of the Chinese business world should be cognisant of the changes taking place in a rapidly transforming economy. In their discussions on the importance of understanding China's culture, Mr Little and Mr Flowers touched on other key aspects of China's business world that Australian business should know about. They were convinced that Australia needs to appreciate the growing dominance of East Asia and to understand the cultural underpinnings of this new force. Otherwise, they argued, few Australians would be:

- equipped to evaluate accurately developments and strategies in East Asia;
- equipped to win respect for their behaviour; and
- equipped to negotiate in ways likely to deliver long term benefits in the region.

13.36 In their view, most Australians, and even corporate interests, due to ignorance would insist on policies and priorities that would be self-defeating.³² They argued that, apart from the institutional constraints, other impediments to trade would arise from:

31 *Submission P26*, pp. 5–6.

32 *Submission P26*, p. 6.

- inadequate information flows;
- language obstacles;
- cultural misunderstandings;
- contrasting value systems;
- basic incomprehension in products such as food and medicine; and
- generally inadequate reliable media interaction.³³

13.37 This section looks at the information available to Australian businesses on the Chinese marketplace.

13.38 Professor Goodman underlined the need to understand the complexity and diversity of the Chinese market. He argued that if Australia is going to develop a cultural edge to go alongside its business and entrepreneurial activities, Australia must have:

...research being produced in this country which not only understands that China is not a single culture but delves into it and tells us things we need to know—that you need to know as government officials and that businesspeople need to know—about the different Chinas.³⁴

13.39 Dr Stephen Morgan agreed. He added that Australia needs to 'know more about what Australian companies do in China'.³⁵ He noted that it is important for managing change and managing the development of public policy to facilitate Australian firms' engagement.³⁶

13.40 Mr Charles Woodard saw a key role for government in disseminating information on China. He stressed the importance of having a well directed and coordinated approach to China:

Because this is a new era, I hope that orderly and daily exchange of information between people, largely initiated by DFAT, on both the economic side and the political side, would be taking place. I would like to feel that every government department in Canberra that has an interest in China—and a few do not—receives a daily feed of information that they should know of or at least have at the back of their minds. I do not know about state governments, except that I was at a meeting recently where the Victorian representative announced that the Victorian government had a whole-of-government approach to China. I hope that all states have something similar. I hope, therefore, that the processes of consultation between federal and state governments in regard to China would be greatly facilitated by them all having not only the same technique but the same

33 *Submission P26*, p. 7.

34 *Committee Hansard*, 29 June 2005, p. 53.

35 S. Morgan, *Committee Hansard*, 27 June 2005, p. 6.

36 S. Morgan, *Committee Hansard*, 27 June 2005, p. 6.

philosophy, because it is the will as much as the means which makes it work.

In 1986, I left government service and made an overt across-the-board submission to cabinet on our relations with China. It was my hope at that time that that would be an annual operation. I think China is of enough importance to us for the government to receive an annual submission on it so that it can see the state of the relationship across the board and be able to foresee problems. If a problem is coming up in one area, such as human rights, what do you do about it? Do you strengthen another link in the chain at that time to offset the problem you see coming up? I think that is an obvious and a wise approach for Australia to have.

The Chinese always say that they prefer the broadest possible relationship. Of course, in this regard they think of not only governmental relations but also people-to-people relations and so on. They foresee that there will be problems and they want to be able to take up the slack when those problems arise. So the challenge for us, as we felt it first for Japan and then for China, is to meet the capacity of other major governments to have a whole-of-government approach and to seek the best possible professional conduct in our own relations with those countries.³⁷

13.41 Mr Little and Mr Flowers took a similar approach. They suggested that most Australian business could be assisted greatly by more proactive government programs designed to assist small and medium scale operations by facilitating:

- strategic partnerships among Australian entities;
- strategic partnerships with Chinese entities;
- regular published information offering strategic insight, cultural know-how and mentoring guidance;
- language skills support, possibly with Australians encouraged to make an effort in Chinese language comparable to the Chinese effort in English over the past 25 years; a transformation of business culture inspired by Chinese models.³⁸

Committee view

13.42 It is clear that Australian business people and Australian decision makers must have more than a superficial understanding of how the Chinese conduct business. They must be sensitive to cultural differences and be able to convey their ideas and opinions without misunderstanding or misinterpretation. Furthermore, Australian businesses must be well equipped to read and predict trends in China.

13.43 The committee recognises that government agencies and private organisations have taken on board the importance of having well-informed Australian business

37 C. Woodard, *Committee Hansard*, 27 June 2005, p. 25.

38 *Submission P26*, p. 8.

people operating in China. It believes that the government in particular should devote more resources to ensuring that Australia has a pool of Australians, proficient in the Chinese language and with a sound appreciation of the Chinese culture ready to advise business and governments on business practices in China. This viewpoint is reinforced in chapter 15. Furthermore, Australia should have skilled analysts monitoring developments in China, predicting trends in the market and forewarning of problems. Such a body of experts would be an invaluable asset for Australian businesses and Australian leaders. It sees a necessary role for the Australian government to provide the business community and state and local governments with accurate and up-to-date information on developments in the Chinese market and likely trends.

13.44 The committee also believes that the federal government should have an active role in assisting Australian businesses to form strategic partnerships with Chinese counterparts. Finally, the committee notes the advice tendered by Mr Woodward especially on the need for state and the federal governments to have a well directed and coordinated approach to China and for them to share the same philosophy. The committee believes that the Australian government has the responsibility to ensure that there is a whole-of-government approach to China and that the states and the federal governments together with their respective agencies are working co-operatively as partners in pursuing their particular interests in China.

13.45 These findings align with the committee's view with regard to the government's role in assisting the manufacturing sector. They further reinforce the importance of ensuring that there is a whole-of-government approach to China where the Australian government assumes a central role in promoting Australian business in China, in disseminating market intelligence and facilitating joint ventures.

Recommendation 16 (see also recommendation 3)

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

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

Recommendation 17

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

13.48 This chapter underlined the importance of giving close attention to the various factors that support a trading relationship, in particular, the need to understand cultural differences and to take account of them when conducting business in China. An awareness of cultural differences and respect for these differences does not mean that a business or trading relationship will not experience discord arising out of these very differences. Indeed, there is the likelihood that such differences will create friction in the relationship especially within the broader political framework. The following chapter examines the potential for disagreements to develop between China and Australia at the political level that, although not directly concerned with trade, impinge on the trading relationship.

Chapter 14

Human rights

14.1 In large measure, the growth in trading activity between Australia and China stems from the highly complementary nature of this relationship. In a speech delivered in 2004, the Chinese Ambassador to Australia described the Australian and Chinese economies as similar to 'gears meshing into each other'.¹

14.2 A number of witnesses have remarked on the growing reliance Australia places on China as a major export market to maintain its prosperity. Some have noted that 'China matters more to Australia in terms of trade than the other way around'.² It is important then for Australia to ensure that nothing interferes with the smooth meshing of these gears. Some witnesses fear, however, that intent on maintaining good trading links with China, Australia may compromise on matters of principle so as not to upset the relationship.

14.3 Some of these sensitive matters, as mentioned in chapter 2, involve Taiwan and the one China policy, the potential for US–China conflict, and the tension between China and Japan. These political aspects of the Australia–China relationship will be examined in detail in the committee's second report to be tabled separately.

14.4 This chapter explores points of likely friction between China and Australia where broader national interests may impinge on purely economic considerations. As noted above, it does not explore the broader geo-political aspects that involve a third country such as Taiwan, Japan or the US. This chapter focuses, in particular, on the political and humanitarian issues likely to bring Australia and China into disagreement and which may adversely influence the trading environment.

Points of agreement

14.5 Recently, in an address to the Asia Society, the Prime Minister stated that 'Australia's relationship with China further illustrates what can be achieved when countries focus on the substance of common interests'. He told the audience that Australia seeks to build on shared goals and not 'become obsessed by those things that make us different'.³ This statement raises the issue about Australia's approach to matters on which the countries disagree.

1 C. Mackerras, *Submission P54*, p. 9.

2 See for example C. Mackerras, *Submission P54*, p. 9.

3 Transcript of the Prime Minister, the Hon John Howard MP, Address to the Asia Society Lunch, the Asia Society, New York City, 12 September 2005.

14.6 Professor Stuart Harris referred to economic coercion, which could include the withdrawal of economic relationships, as an important potential weapon itself and 'a factor in Chinese thinking'.⁴ Professor Fitzgerald made a similar observation:

Generally speaking it is reasonable to say that in the contemporary world order countries get their way by pushing people around. It is not unusual for—how shall I put it?—cultural representatives of one country to intimate to business leaders of another that they would lose a contract unless something was done about some other totally unrelated issue; like you might go to wage war in order to win a trade concession. This linkage of trade with other issues is now quite widespread. China does not hesitate to use that kind of intimidation with anyone in relation to business. There is nothing that is unique to Australia about that. It is unfortunate, but it strikes me as fairly commonplace.⁵

14.7 Peter Jennings, Director, the Australian Strategic Policy Institute, suggested that Australia and China have 'sought to secure their economic relationship by tacitly agreeing not to stress the issues that either party finds difficult to handle'.⁶ Professor Jacobs was of the view that Australia chooses to play down or ignore troubling aspects of China's development because of China's influence. He produced a long list of matters that he regarded as noteworthy including the environmental and ecological damage occurring in China, the wastage of water, the plight of poor peasants, the riots over the selling of agricultural land for industrialisation purposes, and projects geared to rich government and party cadres. He asked:

How many foreign entrepreneurs really make money in China? Some do, but many more lose their shirts. How long does one stay in China on the promise of earning money in the future? Why, in view of these economic difficulties, do we feel a need to appease China? Why do we feel a need to kowtow to China's leadership even before they say anything? Is it because in the past the Chinese have thrown a few hissy fits?⁷

14.8 In order to understand better and evaluate Australia's approach to matters on which Australia and China are likely to clash, the committee looks at the protection of human rights.

Human rights in China

14.9 Chinese leaders are aware that they have come under harsh criticism from some sectors of the international community for failing to adequately protect human rights in their country. In 2004, it inserted in its constitution the principle that 'the state respects and safeguards human rights'. More recently, it has also produced a white

4 S. Harris, 'Does China matter? The global economic issues', Department of International Relations, ANU, Canberra, September 2003, p. 3.

5 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 82.

6 *Submission P2*, p. 4.

7 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 36.

paper on human rights that was promoted as a document providing 'a plethora of facts and figures detailing the past year's efforts and achievements in safeguarding the basic human rights of the Chinese people and providing legal guarantees of these rights'.⁸

14.10 Without doubt, China has made progress toward reform in some areas of human rights. The committee outlined in chapter 2 the steps taken by the Chinese to alleviate poverty in their country. Organisations such as Amnesty International, however, argue that serious and widespread human rights violations are still perpetrated across the country.⁹ In its 2005 report, it concluded:

Tens of thousands of people continued to be detained or imprisoned in violation of their fundamental human rights and were at high risk of torture or ill-treatment. Thousands of people were sentenced to death or executed, many after unfair trials. Public protests increased against forcible evictions and land requisition without adequate compensation. China continued to use the global 'war on terrorism' to justify its crackdown on the Uighur community in Xinjiang. Freedom of expression and religion continued to be severely restricted in Tibet and other Tibetan areas of China¹⁰

14.11 Concerns were raised with the committee that the Australian government places too much weight on the trading relationship and economic aspects of Australia's relationship with China and ignores human rights abuses occurring in China. Mr Woodard suspected that Australia had watered down its stand on the protection of human rights in China because of other considerations. In referring to Australia's decision to withdraw from condemning China in the United Nations Commission on Human Rights, he told the committee:

I do not know whether a whole of government approach was taken in which the economic implications of this and the implications in regard to security cooperation across the board—that is, not only defence but Attorney-General's—with China were all examined. Sending the right signal is really important, I think, and I am not sure that the decision that we took on human rights in 1997 did send the right signals to China. I believe that before that they took us very seriously on this human rights matter. This was an issue on which we had healthy differences. Those healthy

8 The full text of the white paper, 'China's Progress in Human Rights in 2004', is reproduced in *China through a lens*.

9 Amnesty International Report 2005, <http://web.amnesty.org/report2005/chn-summary-eng> (accessed 9 August 2005).

10 Amnesty International Report 2005, <http://web.amnesty.org/report2005/chn-summary-eng> (accessed 9 August 2005). It should be noted that this same report criticised Australia stating that the rights of indigenous Australians remained a concern and that measures to combat 'terrorism' led to legislative amendments with implications for civil rights. It also noted that 'limited options for permanent residency were introduced, although thousands of refugees remained in limbo' and 'refugee families were kept separate by the government's policy of mandatory and indefinite detention'.

differences should always exist. We may have obscured our image somewhat.¹¹

14.12 In a similar vein, Dr Morgan was of the view that the Australian people and the Australian government have certain principles related to democracy and economic institutions. He stated that Australia should not let short-term developments get in the way of Australia preserving and maintaining those.¹² He explained further:

...we should make it clear to them [Chinese] that we respect people's rights and that we would like to see China moving towards a more democratic type of environment. Not that I think we can actually make them do it, but we should emphasise that that is important. We do not just want to sell iron ore or educate their kids; we would also like to see improvements in welfare and political freedom.¹³

14.13 Dr Ranald was equally concerned that Australia may give 'a high priority to economic relationships and not enough attention to issues such as human rights, labour rights and environmental concerns'.¹⁴ Professor Jacobs cited the case of Mr Chen Yonglin, a former diplomat who sought political asylum in Australia, as an example of where he believed Australia acted out of concern for maintaining a good relationship rather than respect for individual rights. He stated:

Why was his request for asylum duckshoved back and forth between the Department of Foreign Affairs and Trade and the Department of Immigration and Multicultural and Indigenous Affairs? Why did each department insist that the other department had responsibility? Why could the problem not be solved quickly? Why was Mr Chen left hanging for at least three weeks before the Prime Minister intervened and stated that Mr Chen would not be sent back to China? What did this series of events do for our relationship with China, the United States and the rest of the world?

I believe the answers to these three sets of questions relate to China's growing economic strength and a perception that we in Australia can gain wealth, provided that we have good links with China's rulers. I believe, however, that such perceptions are flawed.¹⁵

14.14 Dr Anne Kent placed a similar interpretation of the events following Mr Chen's request for political asylum. She said that the government's response to his

11 C. Woodard, *Committee Hansard*, 27 June 2005, p. 32.

12 S. Morgan, *Committee Hansard*, 27 June 2005, pp. 6–7.

13 S. Morgan, *Committee Hansard*, 27 June 2005, pp. 8–9.

14 P. Ranald, *Committee Hansard*, 29 June 2005, p. 6.

15 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 36.

request must be considered in the wider contest of a dependent foreign policy and a deterioration of Australia's policy on domestic and international human rights.¹⁶

14.15 Clearly, in the minds of some witnesses, the Australian government has stepped back from criticising certain actions by China because it does not want to offend the country. To their way of thinking, the desire to maintain strong economic ties, sometimes at the cost of defending international human rights principles, appears to be at the forefront of the government's considerations when dealing with China. The following section explores this perception by looking at the issue of Falun Gong.

Falun Gong

14.16 The concern that Australia may underplay its advocacy for the protection of human rights in China in favour of economic considerations was expressed vigorously by witnesses during the committee's inquiry into the Mr Chen case.¹⁷ During that inquiry, the committee heard allegations that the Chinese government had violated the basic human rights of Falun Gong practitioners. The alleged abuses for practicing their belief included harassment, torture and assignment to 're-education through labour' or being forcibly institutionalised in psychiatric hospitals.¹⁸

14.17 According to the Falun Dafa information centre, 'Falun Gong (or Falun Dafa) is an ancient form of qigong, the practice of refining the body and mind through special exercises and meditation'. Since becoming public in 1992, Falun Gong has attracted tens of millions of devotees in over 60 countries.¹⁹

14.18 The Chinese government, however, does not see the Falun Gong in the same light as its practitioners and has made clear that it regards the organisation as an 'evil cult'.²⁰ During a visit to Australia in March 2002, the Chinese Foreign Minister, Mr Tang Jiaxuan indicated that the government believed that there had been a tendency within the Falun Gong that merited 'attention and alert'. He was of the view that Falun Gong was 'turning increasingly violent' and urged Australia to contain its activities.²¹ During a press conference, he stated:

16 A. Kent, *Submission P77*, p. 4. Dr Kent is an international relations scholar specialising on China. She is an ARC Australian Research Fellow at the Centre for International and Public Law, Faculty of Law, Australian National University.

17 Senate Foreign Affairs, Defence and Trade References Committee, *Mr Chen Yonglin's request for political asylum*, September 2005.

18 See Senate Foreign Affairs, Defence and Trade References Committee, *Mr Chen Yonglin's request for political asylum*, September 2005, Appendix 5. D. Goodman, *Submission P53*, p. 1.

19 Australia Falun Dafa Information Centre, <http://www.falunau.org/aboutdafa.htm> (accessed 14 July 2005).

20 See for example, Transcript, 'AM', 28 June 2005.

21 Department of Foreign Affairs and Trade, press conference transcripts, 'Chinese Minister for Foreign Affairs, Tang Jiaxuan, meeting the Australian Minister for Foreign Affairs, Alexander Downer', 19 March 2002. See also C. Mackerras, *Submission P54*, p. 17.

As the Foreign Minister of China, I would like to appeal to the relevant countries to heighten their vigilance against the evil cult of Falun Gong and refrain from conniving at or supporting the activities of Falun Gong or allow Falun Gong to use their territories in engaging in activities against China, so as to preserve their social security and their stability and to preserve their friendly and cooperative relations that they have had with China, and to prevent the on-going friendly and co-operatives with China from being damaged in any way.²²

14.19 The Australian government has issued statements on a number of occasions raising concerns about China's ban of Falun Gong and its treatment of Falun Gong practitioners, which Australia regards as breaches of fundamental standards of human rights.²³

14.20 A number of witnesses to this committee are of the view, however, that Australia has failed to take a stronger stand because of political and economic considerations. Their criticism relates particularly to allegations of spying on Falun Gong practitioners in Australia.

14.21 In response to a question about the supposed surveillance of Falun Gong practitioners in Australia by Chinese operatives, Professor Fitzgerald noted that it was commonplace for Australian citizens of Chinese descent under surveillance having to change their email addresses and their phone numbers. This action applied, in particular, to those who have relations and friends back in China.²⁴ He stated:

In conversation with fellow Australians who happen to be of Chinese background, I have come to sense that they do not feel adequately protected by or recognised as equal citizens under Australian law when it comes to protection from surveillance by a foreign power, even though they are full and equal Australian citizens.

...There is no doubt that this [surveillance] is taking place on a very wide scale. In my view, the Chinese government needs to understand that in the long term this could have a very detrimental impact on people-to-people relations between our two countries, because Australians do not like foreigners spying on their private lives—and Chinese-Australians like it no more than other Australians do.²⁵

14.22 He stated further:

It is largely Chinese-Australians who are under surveillance...Why do I say 'largely Chinese-Australians'? It is not exclusively. When it comes to the

22 Department of Foreign Affairs and Trade, press conference transcripts, 'Chinese Minister for Foreign Affairs, Tang Jiaxuan, meeting the Australian Minister for Foreign Affairs, Alexander Downer', 19 March 2002.

23 See for example answer to question on notice no. 202, 14 May 2002.

24 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 82.

25 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 80.

Falun Gong it is clear that any member is subject to surveillance, but it is particularly Chinese–Australian members of Falun Gong who are reported on, because they are the ones who can be threatened by reference to family or other connections in China. Australians of European descent are not in a position to be threatened. I do not know enough about it, but my suspicion is that it is not as widespread.²⁶

14.23 He suggested that this was not necessarily a matter for DFAT or DIMIA but more likely for the Attorney General’s Department or for those who speak on behalf of Australian law, justice, rights and citizenship. He told the committee that in his view a message needs to be driven home to China’s representatives in Australia that surveillance of Australian citizens will not be tolerated.²⁷ He noted:

It is an opportunity to make a number of very public gestures which would send a message home that, leaving aside trade, leaving aside diplomacy and all the constraints and protocols that apply in those areas, when it comes to Australian sovereignty and citizenship and what happens here, there is no mucking around—it has to stop.²⁸

14.24 Mr John Liang, a member of the Federation for a Democratic China (FDC), said that the government must take action to investigate the spy and informer network claims.²⁹ Mr Chin Jin from the FDC told the committee 'it is my point of view that governments should take action to stop the wrong doing of the Chinese communist government's infiltration and manipulation of the ethnic Chinese community'.³⁰ The Falun Dafa Association in Australia has also called upon the Australian Government to examine fully allegations of Chinese spies operating in Australia.

Committee view

14.25 The committee accepts that Australia and China differ significantly with regard to their policies toward the treatment of those perceived to be political dissidents. Australia fully advocates freedom of speech, of association and of religion. China takes a far less tolerant approach. When it comes to Chinese actions against people resident in Australia, such as the surveillance of Falun Gong practitioners, the committee believes that the government is duty bound to take an unequivocal stand in defence of individual rights. The committee was not inquiring into Falun Gong and did not thoroughly investigate the allegations about spying. Even so, the claims were raised and are now on the public record.

14.26 The committee believes that the airing of these matters requires the government to offer assurances that any such allegations are or will be investigated

26 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 82.

27 *Committee Hansard*, 27 June 2005, p. 80.

28 *Committee Hansard*, 27 June 2005, p. 83.

29 *Committee Hansard*, 25 July 2005, pp. 3–5

30 *Committee Hansard*, 25 July 2005, p. 2.

and the findings of those investigations made public. The committee also believes that in light of these allegations, it would be timely for the government to make a public statement to the effect that all people residing in Australia are entitled to enjoy their fundamental freedoms without interference from any individual, organisation or government.

Recommendation 18

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

14.28 In regard to human rights violations in China, the committee believes that the government has an important role in encouraging China to abide by international principles. The committee accepts that the matter of human rights in China is a most sensitive one. It is important for Australia to manage any disagreement with China in a way that allows it the opportunity to raise objections or concerns about human rights abuses but at the same time ensures that the substance of the relationship remains sound. This means that a balance has to be reached in the relationship whereby Australia does not feel as though it must compromise its values in order to gain economic favour.

Australia's human rights dialogue with China

14.29 The government's approach to managing the human rights relationship between Australia and China has been to engage China on these issues in a cooperative manner that eschews a confrontational approach. They have agreed to deal with their differences through dialogue and consultation. The following section considers the human rights dialogue process set up between Australia and China.

14.30 Australia recognises that it has a very different political system from China, with a different set of social and cultural values. In evidence to the committee, DFAT said:

In developing a political relationship with China, we are often made acutely aware of these differences. But China is important to Australia, and we seek to develop the relationship through constructive dialogue and engagement. We do not ignore our differences, but we deal with them in a constructive way.³¹

14.31 Professor Colin Mackerras accepted that there are generally different cultural approaches between China and western countries to the concept of individual 'rights':

Chinese favour the communitarian approach to human rights, emphasizing the history and experience and community welfare of specific peoples,

31 DFAT, *Committee Hansard*, 16 June 2005, p. 3.

while Australians tend far more strongly to support the individualistic approach, which stresses the universality of individual human rights.³²

14.32 He observed that:

Australian governments have generally much preferred the path of dialogue to the economic sanctions frequently imposed by such countries as the United States. Under the Howard government, there has been a rather passive human rights dialogue between the two countries, but one that has resulted in Australian assistance to China in matters affecting human rights, such as the law system.³³

14.33 In his opinion, the reasons for Australia adopting a passive approach are:

- closer economic and political relations between the two countries;
- the view that improvements in China's living standards will be accompanied by improvements in its human rights; and
- increasing international criticism of Australia on human rights grounds.³⁴

14.34 As noted above, the Australian government places emphasis on achieving realistic outcomes by adopting an approach to human rights in China that is 'constructive and based on dialogue rather than public confrontation'.³⁵ Consistent with this approach, China and Australia initiated a high level dialogue on human rights in August 1997. During that dialogue, they agreed to undertake a program of technical cooperation aimed at strengthening the administration, promotion and protection of human rights in China. Since then, annual rounds of human rights dialogue, which provide an opportunity for both countries to converse on human rights issues of mutual concern, have been held. The key issues raised by Australia over recent years include civil and political rights, the legal system, women's and children's rights, rights of HIV/AIDS sufferers, ethnic minorities and the treatment of groups such as Falun Gong.³⁶

14.35 Issued in October 2004, a Joint Press Statement for the 8th China–Australia Human Rights Dialogue defended the effectiveness of the dialogue in promoting and protecting human rights. It stated:

Both sides held that Sino-Australian relationship is maintaining sound momentum of development with ever expanding exchanges and cooperation in various areas. Further development of friendly cooperation

32 C. Mackerras, *Submission P54*, p. 17.

33 C. Mackerras, *Submission P54*, p. 17.

34 C. Mackerras, *Submission P54*, p. 18.

35 DFAT, *Committee Hansard*, 16 June 2005, p. 4.

36 The Hon Alexander Downer, MP, Minister for Foreign Affairs, Australia, Media Release, FA146, 21 October 2004.

served the interests of both peoples and the peace and prosperity of the Asia–Pacific region. The commitment of both sides to dialogue gave expression to the strong bilateral ties existed between China and Australia.

Both sides reiterated their recognition of and respect for the universal nature of human rights, holding all human rights are inseparable, interdependent and interlinked.

Both sides held that since social system, cultural tradition and development level varies among members of the international community, the existence of different opinions on human rights was only normal. Human rights dialogue on the basis of equality and mutual respect facilitated more mutual exchange, better mutual understanding and common progress.

Both sides held that, all countries, developing or developed, shared the responsibility of further promoting and protecting human rights, but the difficulties they might come up against were different.³⁷

14.36 Following the most recent meeting in June 2005, Mr Geoff Raby, Deputy Secretary, DFAT, indicated that the dialogue was not the forum for addressing the claims of Chinese spying and harassment of citizens by Chinese authorities in Australia.³⁸ Although the allegations had been aired in the media and attracted much publicity, he offered no further explanation.

14.37 As noted earlier, the Australian government believes that this human rights dialogue 'is the best way to engage' the Chinese on the issue of the protection of human rights—that it is a 'more constructive and practical way to achieve results'.³⁹ DFAT accepted that while progress is slow, this approach is preferable to the alternative, which is no progress and public condemnation of China.⁴⁰ It argued that improvements were evident:

We believe our dialogue does sensitise the Chinese and they have become more aware that their international image is at stake. We believe they are responding better; when we raise cases, they are responding more frequently than they did in the past.⁴¹

It added:

We realistically do not expect them to suddenly leap up and say, 'That's a terrific idea; we'll implement that right away.' But we do notice that from dialogue to dialogue they will come back and talk about improvements in their systems. We are helping them, especially through the technical cooperation program, to get a practical understanding of how the general

37 Joint Press Statement for the 8th China-Australia Human Rights Dialogue, 22 October 2004.

38 Transcript, 'AM', 28 June 2005.

39 See for example, Transcript, 'Lateline', 28 June 2005 and Transcript of the Prime Minister, the Hon. John Howard MP, Press Conference, SOFITEL Hotel, Boao Forum, 22 April 2005.

40 DFAT, *Committee Hansard*, 16 June 2005, p. 4.

41 DFAT, *Committee Hansard*, 16 June 2005, p. 24.

criticisms about human rights in China could be addressed in a very practical way within China.⁴²

Criticism of the effectiveness of the human rights dialogue between Australia and China

14.38 The committee received a number of submissions suggesting that the human rights dialogue was inadequate and advocating that Australia adopt a more forceful approach to confronting China on its apparent human rights failures. Some witnesses to the Mr Chen inquiry, in particular, were highly critical of the government's response to the matter of the protection of human rights in China. Mr Chin Jin, from the Federation for a Democratic China, told the committee that 'China's human rights abuses receive no harsh criticism'. In his view, the Australia–China human rights dialogue is actually ineffective and fruitless in persuading the Chinese government to follow well accepted international standards. According to the former Chinese diplomat, Mr Chen Yonglin, the ongoing Australia–China human rights dialogue is a show:

Looking back at the past decade of multi-round non-confrontational and constructive dialogues, has there been any progress? In my opinion, no. From my point of view, it is time for the Australian government to review the multiround Australia–China human rights dialogue.⁴³

14.39 Some submitters to this inquiry were equally critical of the dialogue on human rights between the two countries. Dr Ranald believed that the China–Australia human rights dialogues have not been 'very effective' and that both countries 'find it convenient' to keep trade discussions and the human rights dialogue apart.⁴⁴ In her view, those issues should be given 'a high priority and that they should be criticised where they need to be criticised'.⁴⁵

14.40 Professor Jacobs also questioned the effectiveness of Australia's current approach:

Do we really believe that such kowtowing will bring more economic benefits in the future? What is the evidence that such kowtowing does work? I strongly believe that one of our strengths is our democratic system. It is something about which we are, and should be, very proud. The feedback loops of periodic elections and a free media enable us to give our leaders feedback and to change our leaders if we are dissatisfied. Part of this strength is human rights. Why are we afraid to make it clear that we very strongly support human rights and democracy?⁴⁶

42 DFAT, *Committee Hansard*, 16 June 2005, p. 9.

43 *Committee Hansard*, 25 July 2005, p. 2.

44 P. Ranald, *Committee Hansard*, 29 June 2005, p. 9.

45 P. Ranald, *Committee Hansard*, 29 June 2005, p. 6.

46 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 36.

14.41 Dr Goodman was of the view that the dialogue attracts little attention either here or in China. He noted that, although he was looking for reference to the dialogue, he could not find it in any official media. In his view the results from dialogue are incremental:

...we should do them, because, although you are not going to achieve anything then and there, they are part of a slow process which convinces people that there may be other ideas to learn from. So you have to do it. But there is no point in doing it unless you are actually impacting on somebody other than the people who attend the meeting, and I do not know that we are.⁴⁷

14.42 Dr Goodman's observation about the lack of publicity given to the dialogue was telling. The human rights dialogue held in June 2005 was conducted behind closed doors and produced only a short bland statement about the meeting. As explained by Ms Morton, DFAT:

We do not publish the outcomes or the exchanges at these meetings. These are government-to-government exchanges and, while we do have a press conference at the end of them and the leaders of the delegations answer questions, we consider that keeping this dialogue on a government to government basis and not publishing the full details allows us to be more frank and to have a freer exchange than if we were doing it in a very public environment.⁴⁸

14.43 On the other hand, the Human Rights Council of Australia argued that 'there needs to be an open exchange on matters of substance as the basis for future dialogue, both with the Chinese government and with representatives of Chinese civil society.'⁴⁹

14.44 The committee draws attention to the findings of the Joint Standing Committee on Foreign Affairs, Defence and Trade in its report following an inquiry into Australia's Human Rights Dialogues. That committee noted that there is no formal reporting requirement for the dialogues and recommended that the Minister for Foreign Affairs table an annual statement on the dialogues in Parliament.⁵⁰ It also recommended that DFAT, Ausaid and HREOC make more effective use of their websites to convey up-to-date information on the dialogues.⁵¹

47 *Committee Hansard*, 29 June 2005, p. 62.

48 *Committee Hansard*, 16 June 2005, p. 9.

49 *Submission P79*, p. 3.

50 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Human Rights Dialogue Process*, September 2005, p. 38.

51 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Human Rights Dialogue Process*, September 2005, p. 41.

Committee view

14.45 The committee found it difficult to assess the effectiveness of the human rights dialogue with China because of the lack of information available on the outcomes achieved as a result of the dialogue. The committee believes that the dialogue provides an opportunity for Australia and China to demonstrate to the peoples of both countries and more broadly to the international community that they are strong advocates of the protection of human rights. Such demonstration cannot take place behind closed doors and be further masked by bland statements about progress. It endorses the recommendations made by the Joint Standing Committee on Foreign Affairs and Trade as outlined above but believes that additional measures should be taken to improve transparency in the dialogue process.

14.46 The committee would like to see an informative agenda issued before the dialogue takes place. It would also like to see a joint statement released by both parties immediately following the talks that provides a detailed assessment of the progress made since the last meeting, a discussion of the topics considered during the dialogue, and the agreements reached for future action. The committee believes that such a measure, while still taking account of the need for both parties to be able to talk frankly about sensitive issues, would add greatly to the value of the talks.

Recommendation 19

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

- **release an informative agenda on the human rights dialogue before the dialogue commences;**
- **make public a joint statement immediately following the talks that provides a detailed assessment of the progress made since the last meeting, a discussion of the topics considered during the dialogue, and the agreements reached for future action; and**
- **consult with non-government organisations (NGOs) working in the area of human rights before each dialogue, or at the very least find a more effective way to engage them in the process.**

A stronger approach

14.48 As noted earlier, many witnesses believed that Australia could do more to encourage China to improve its human rights record. In particular, some emphasised that a timid approach could do more damage than good to Australia's relationship with China. Most urged the government to participate in strong and vigorous debate.⁵² Dr Morgan was of the view that Australia needs to strengthen its relationship with China and will not do so by appearing weak. He stated that China and the Chinese respect

52 S. Morgan, *Committee Hansard*, 27 June 2005, pp. 6–7.

strength and opinion.⁵³ He highlighted the contribution that Australia could make to influencing China:

I get the impression that China does take some note of what we think and what we say. As a country that does not represent a strategic threat to China but which could be a collaborative partner, as well as being a gateway or a vehicle for access to the USA and so on, we are in a unique position to make sure that the values that we think are important are effectively conveyed.⁵⁴

14.49 Professor Jacobs also stated that Australia should not be afraid to raise issues of human rights. He was conscious that by publicly defending the rights of others, the Australian government may well give heart to those in China advocating greater protection of such rights in their country. He stated:

I would hate to see us be in a situation where we are looked at as a sort of Chinese tributary.⁵⁵

14.50 He elaborated on his argument:

I think we need to stand up and speak about things. I made the point before, and I think it is a critical one...that there are people in China who want us to say those sorts of things, and they are exactly the sorts of people we should be happy to help. Ultimately, we have to be aware that the system in China could change, and it is very important for us not to become too tied in to being identified with the current regime. As I said, being tied in to Suharto did not help our relations with Indonesia in the slightest. It is important to have links with a variety of peoples.⁵⁶

14.51 Mr Chin Jin also stated:

I want to emphasise here that adherence to the value of democracy and the moral principle of a fully fledged democratic country will not necessarily damage economic and trade ties with China. I implore the Australian government to push forward Australia's value of democracy and freedom to help and induce China to get on the road towards democracy and consider it as important as economic benefits in dealing with communist China. This should not contradict the long-term national interests of Australia but make a good contribution to the security and stability of the Asia-Pacific region and the whole world.⁵⁷

53 See for example, S. Morgan, *Committee Hansard*, 27 June 2005, pp. 6–7.

54 *Committee Hansard*, 27 June 2005, p. 8.

55 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 46.

56 J. Jacobs, *Committee Hansard*, 27 June 2005, p. 49.

57 *Committee Hansard*, 25 July 2005, p. 3.

14.52 Mr Harrowell shared the view that Australia should not make excuses for China and should challenge China on the issues that need reform. He noted, however, that:

...one thing I do believe is that we do not give them enough credit for what they have achieved. Chinese young people are actually very proud of what they have achieved. Sometimes we focus very strongly on the negative stories in this country. We are good mates with them, to use the Australian expression, and that gives us a chance to engage on the harder issues.⁵⁸

14.53 This observation supports the committee's findings that Australia and China are not taking advantage of the human rights dialogue to promote the protection of human rights. There are people not only in Australia but in China who want confirmation that both countries are committed to advancing the rights of individuals. Both countries should welcome the opportunity to present an accurate assessment of the work they are doing to improve their human rights record. They should not shy away from showing the world their shortcomings and achievements in protecting human rights.

Australia—setting an example

14.54 The Human Rights Council of Australia praised Australia's history as a champion for the protection of human rights. It stated that throughout the 1980s and the first half of the 1990s Australia stood out as one of the most influential nations, taking a major role in areas such as 'standard setting, domestic remedies, strengthening international mechanisms, using bilateral influence and providing refuge for those fleeing human rights violations'. It submitted:

That role was built on a strong, consistent and uncompromised Government commitment to human rights in Australia and internationally. That commitment crossed party lines.⁵⁹

14.55 The Council pointed to Australia's advocacy of the abolition of the death penalty as an example of Australia's commitment to upholding human rights. It claimed, however, that over recent years, Australia has compromised this commitment citing the following actions:

- the passing of legislation, in the context of the 'war against terror', which ignores basic human rights;
- the ill-treatment of asylum-seekers in detention centres;
- indications by some Australian political leaders that they do not consider it appropriate to seek to prevent executions of people in other countries (unless they are Australian citizens);

58 J. Harrowell, *Committee Hansard*, 29 June 2005, p. 41.

59 *Submission P79*, p. 2.

- the government's endorsement of the long-term detention without trial of Australian citizens by the US Government.

14.56 The Council argued that in light of these actions, the Australian government has made it more difficult for Australia to be a credible voice raising concerns about human rights violations in China. It stated:

The universality and inalienability of international human rights standards have been significantly damaged by Australia in recent years and this impairs its ability to use its influence to change the unacceptably high level of human rights violations in China.⁶⁰

Committee view

14.57 The committee notes the number of witnesses who underlined the importance of Australia speaking out against human rights violations. They spoke of the need for Australia to send the 'right signal' to China and the international community. The committee endorses their view and believes that the Australian government must take a public stand on the protection of human rights. It also accepts that strong words are not enough and if Australia is to influence the behaviour of other countries in respect of human rights, it must ensure that it is providing an example that other countries should follow. Australians must be aware of how other countries perceive its record on the protection of human rights and work to ensure that the country is a positive force in leading others to adhere to the principles underpinning internationally recognised human rights.

14.58 In the following section, the committee considers another matter likely to give rise to disagreement between Australia and China—labour standards.

Labour standards in China

14.59 Respect for religious freedom and associated human rights is not the only area where Australia is concerned with developments in China. The issue of labour standards is another matter on which Australia and China may find that trade considerations clash with differing expectations of what is accepted practice.

14.60 China is a member of the International Labour Organization (ILO). Even so, organisations such as Amnesty International have criticised China for not adhering to international labour standards. The discrimination against women in the workplace and the frequency of serious accidents, which points to occupational health and safety failings, were of particular concern. It also criticised China for curtailing the right to freedom of expression and association including the right to form independent trade

60 *Submission P79*, p. 2.

unions and to hold peaceful protests.⁶¹ This restriction means that the majority of workers in China are not represented by an independent trade union and are unable to bargain collectively for better terms and conditions of employment.⁶²

14.61 Views put to the committee by a number of witnesses supported the contention that China falls short in meeting the standards set by the ILO. Dr Randal, AFTINET, told the committee that her organisation was very concerned about 'the lack of labour rights in China, including China's failure to implement its own labour laws and its failure to abide by certain basic labour standards as defined by the UN and the International Labour Organisation'. The AFTINET submission made several criticisms of China's current human rights record. It noted that:

- China has ratified only three of the eight *ILO Conventions on Fundamental Principles and Rights at Work*.
- workers in China's 'export processing zones' (centred in Guangdong Province) are forced to work excessive hours to meet transnational corporations' sub-contract orders. Real wages in these zones have fallen over the past 12 years, despite the enormous wealth created from manufacturing exports.⁶³
- there have been 'numerous reports of labour rights abuses...in export-oriented industries'.⁶⁴ It cites the example of an October 2003 strike of more than 5,000 women from Nanchong city textile mill in Sichuan province: 'more than 1,000 police were called in and many arrests followed'.⁶⁵
- Chinese workers are not free to form or join the trade union of their choice. They can only join through the All-China Federation of Trade Unions, which is closely associated with the Communist Party. Attempts to start independent workers' organisations are repressed.⁶⁶
- there is a 'systemic preference for single women' in factory production, reflecting lower rates of pay for these workers than for married women.⁶⁷

61 See for example, International Labour Organization, *The ILO in China*, <http://www.ilo.org/public/english/region/asro/beijing/inchina.htm> (accessed 26 August 2005); Amnesty International, *Fundamental Rights at Work, Amnesty's International Concerns to the International Labour Conference (4–20 June 2002)*. Amnesty International Report, 2005.

62 See also Serena Lillywhite, Manager, Ethical Business, Brotherhood of St Laurence, Australia, 'Pursuing corporate responsibility in China—experiences of a small enterprise in the optical industry', OECD Roundtable on Corporate Responsibility, OECD Headquarters, Paris, 19 June 2002.

63 Australian Fair Trade and Investment Network, *Submission P16*, pp. 6–7.

64 Australian Fair Trade and Investment Network, *Submission P16*, p. 6.

65 Australian Fair Trade and Investment Network, *Submission P16*, pp. 7–8.

66 Australian Fair Trade and Investment Network, *Submission P16*, p. 7.

67 Australian Fair Trade and Investment Network, *Submission P16*, p. 8.

- China has a poor record in workplace safety with roughly one million industrial accidents a year since 2001. In 2004, 6,000 miners died in industrial accidents.⁶⁸

14.62 Dr Ranald cited the work of Anita Chan that shows that real wages have actually been falling in the 'export processing zones' because a 'bidding down process' goes on to secure contracts.⁶⁹ She elaborated that because there is a lack of effective rights to organise and bargain collectively:

There is discrimination and victimisation of migrant workers, who are in an even more vulnerable position than other workers in China—especially young women—and there are very bad health and safety conditions. There is also a lack of effective environmental protection and a failure to implement environmental laws.⁷⁰

14.63 Dr Ranald believed that:

...trade agreements should be consistent with human rights, labour rights and environmental protections and should take account of the particular needs of developing countries. We also want to have a more open, democratic and transparent process before decisions are made to undertake trade negotiations and before the decision making about actual trade agreements.⁷¹

14.64 The Australian trade union movement also identified problems with labour standards in China. The Australian Council of Trade Unions (ACTU) accepted that a developing country may 'enjoy an advantage in labour costs because of the operation of market forces, a lower overall share of wages as a proportion of GDP, fewer on-costs, higher unemployment, and labour oversupply due to population shifts from rural to urban areas'.⁷² It argued, however, that in the case of China:

...there is an additional cost advantage that is not legitimate, namely the reduction in wages and conditions as a result of the denial of the right to organise and bargain collectively in independent trade unions, and the right to legally strike to achieve higher wages and conditions.⁷³

14.65 Ms Tate, ACTU, told the committee:

From a labour rights perspective, there are a number of issues around the very basis of workers being able to be represented genuinely in a workplace

68 See also 'China's deathtrap mines claim 30 more lives', *Australian Financial Review*, 10 June 2005, p. 10. This article notes that unofficial sources suggest that as many as 20,000 miners may have died in industrial accidents in 2004.

69 *Committee Hansard*, 29 June 2005, p. 2.

70 P. Ranald, *Committee Hansard*, 29 June 2005, p. 3.

71 P. Ranald, *Committee Hansard*, 29 June 2005, p. 1.

72 S. Burrow, Australian Council of Trade Unions, *Submission P42*, p. 6.

73 S. Burrow, Australian Council of Trade Unions, *Submission P42*, p. 6.

or through their own independent organisation, to be able to actually develop an organisation that can also represent their interests. You are probably aware that there are a number of independent human rights and labour rights groups in China, but they do not have official endorsement—they would be considered ‘underground’ in that sense. Obviously, many of the very basic, core labour standards that the ILO is built on are not possible in China. We would like to see progress on those issues. For example, very basic issues of safety and fundamental concerns around HIV-AIDS education within workplaces, and other issues of people being able to express basic civil and political rights in China, are things that we consider pretty fundamental to the capacity for workers to be represented effectively.⁷⁴

14.66 She indicated that there were probably weekly protests in China currently about unpaid salaries and unpaid pensions. She argued that in this area the Chinese trade union movement has not been able to effectively intervene or represent people. She noted three areas where there is a lot of social tension—unpaid salaries, unpaid pensions and labour disputes.⁷⁵

14.67 The Australian Manufacturing Workers Union (AMWU) was also highly critical of the failure of the Chinese government to observe and implement workers' rights. It identified 'very poor' occupational health and safety standards and a ban on the formation of independent trade unions. Mr Doug Cameron, National Secretary, AMWU, elaborated:

There is no genuine collective bargaining in China. Its special economic zones are amongst the worst in the world, where predominantly women's labour is massively exploited and prison labour is used to assist their competitiveness in the manufacture of goods. We are currently trying to assess how much of the prison goods are coming into Australia from China at the moment. There is no national minimum wage; the wages are set at the local level. Our information from the ICFTU coming out of both China and Hong Kong is that the minimum wages are regularly not paid. Over a two-year period from 2003 to 2004, there were 32,000 workplace deaths in China. Workers are used as a disposable commodity and as part of their competitive advantage.⁷⁶

14.68 In evidence given to the committee, Mr Cameron mentioned the case of the Ferro Alloy Factory at Liaoyang, which sacked 10,000 workers without paying entitlements. Two workers, Mr Yao Fuxin and Mr Xiao Yunliang, who opposed the sackings were given seven and four years' jail respectively and are now 'seriously ill in Chinese prisons'.⁷⁷ Mr Cameron told the committee that the AMWU has taken up this

74 *Committee Hansard*, 27 June 2005, pp. 74–5.

75 *Committee Hansard*, 27 June 2005, p. 77.

76 *Committee Hansard*, 29 June 2005, p. 76.

77 D. Cameron, *Committee Hansard*, 27 June 2005, p. 76.

issue with the International Metalworkers Federation, but 'not at this stage...with the federal government'. He claimed that Australia must engage China but:

we should never engage on the basis of trying to pretend that this country is some new, vibrant powerhouse of economic growth without understanding what is driving that economic growth. That is the issue that is missing in the debate in this country.⁷⁸

14.69 The AMWU's submission to the committee recommended that the Australian government call for the release of workers in prison in China 'for seeking to exercise their internationally recognised core labour rights'.⁷⁹

14.70 In noting that China has ratified only three of the eight ILO conventions containing core labour standards, the union recommended that 'Australia work through the International Labour Organization and other international bodies to improve the observance of core labour standards of Chinese workers'.⁸⁰

14.71 The trade union movement would like to see the proposed FTA include provisions governing labour standards. Mr Edward Murphy, International Committee Member, ACTU, told the committee that DFAT have indicated that current government policy does not favour having labour standards in the agreement. He stated:

...to be fair to DFAT, on occasions when we have engaged with them about labour standards there has been a suggestion that the government's view is that it is more appropriately dealt with in the ILO—that is true. That does mean that it is important for us a trade union movement, particularly in the absence of government support, to focus on non-government organisation networks to put certain views to trade unions in China and also to have considerable contact with groups in Hong Kong which are focusing on labour standards and civil rights in China. That is an obligation that we do accept.⁸¹

14.72 Indeed, DFAT made clear that the government's position was that the issue of labour standards was not to be addressed in free trade agreements. It told the committee that Australia has an established bilateral human rights dialogue with China where the issue of labour standards is discussed.⁸² According to Ms Morton, at the Human Rights Dialogue in 2004:

we encouraged China to guarantee the right to safe and healthy working conditions and fair remuneration for workers; to enforce safety standards to prevent industrial accidents such as in coalmines; to allow the formation of

78 D. Cameron, *Committee Hansard*, 27 June 2005, p. 78.

79 *Submission P36*, pp. 4 and 25.

80 *Submission P36*, pp. 4 and 25.

81 *Committee Hansard*, 27 June 2005, p. 72.

82 *Committee Hansard*, 16 June 2005, p. 5.

genuinely independent trade unions to help guarantee workers' rights—as an institutional guarantor of human rights; and to allow workers the right to peacefully advocate change and improvements and to protest against unfair working conditions.⁸³

14.73 It also noted that China is a participant in the ILO process so that the Australian government can pursue the issue of labour standards in that context.⁸⁴

Committee view

14.74 The committee believes that a trade agreement would not be the most effective way to ensure that all enterprises in China abide by international labour standards. The issue extends beyond Australian businesses in China and requires multinational cooperation. This does not mean that in consultations with China on the FTA that Australia ignore the matter. The consultation process should indeed provide the opportunity for Australia to express its concerns and urge China to adopt international standards. The committee believes that concerted pressure applied through multilateral fora would be a more productive way of convincing China of the need to improve its record on labour standards. The committee suggests that Australia continue to work through international organisations to persuade China to adopt all of the ILO conventions and to ensure that they are observed.

Labour standards and Australian companies operating in China

14.75 The government should not be the only responsible body advocating adherence to international labour standards in China. Australian companies operating in the Chinese market also have obligations to ensure that their practices accord with agreed international standards.

14.76 A number of witnesses considered that foreign companies operating in China had a responsibility to ensure that they abide by basic labour standards and human rights and environmental protections. They noted, however, the temptation for companies to concentrate on profits at the cost of maintaining recognised labour and environmental standards. Dr Ranald expressed strongly her opinion that at the moment companies are not observing international standards in China. She was of the view that, although some companies have considered these issues, the subcontracting system militates against the observance of such standards because 'it is basically a lowest bid system'.⁸⁵ To her way of thinking, China is 'becoming the focus of a race to the bottom on labour standards':

You have situations where there is no attention paid to health and safety issues like the handling of chemicals and other dangerous substances. Some responsibility for this has to be taken by the transnational corporations that

83 *Committee Hansard*, 16 June 2005, p. 6.

84 *Committee Hansard*, 16 June 2005, p. 6.

85 P. Ranald, *Committee Hansard*, 29 June 2005, pp. 9–10.

conduct this reverse bidding system. They take the lowest bid and then they do not worry about how the factory fulfils that contract.⁸⁶

14.77 She went on to say:

There is a subcontracting system which encourages noncompliance with labour standards so that market forces operate to drive down the price they get for the contracts, and that pressure is put back on the workers to fulfil the contract. The other issue is that many of these workers are migrant workers: they come from other parts of China into these special economic zones, so they are particularly vulnerable to exploitation. They do not have families and communities to support them. Often the factory also supplies their accommodation and meals, so they are completely dependant on that employment in that particular area.⁸⁷

14.78 In turning to the responsibilities of Australian companies operating in China, Ms Tate stated:

That is something that obviously the Australian government and the Australian trade unions need to be aware of and alert to. We do not have a list of specific companies that we have concerns about at this point in time—that is not something that we have had our attention brought to. But in relation to the way in which standards can be promoted through investment by multinational enterprises, and indeed Australian enterprises, we see that there could be opportunities there. We would encourage Australian companies to look at being able to improve conditions for workers in China and respect basic fundamentals in the workplace. That is very important.⁸⁸

14.79 Mr Robert Davis told the committee that the Australian Chamber of Commerce and Industry did not support the view of linking labour standards issues with trade which in its opinion did not work. Even so, he believed that Australian businesses have a role in promoting best practice. He stated that the rule of thumb they use is to 'do abroad what you do at home'. He told the committee:

Business can best help by doing two things: practising abroad what we do at home and just saying no to the worst examples and pointing them out to the Australian government. If you see a bad practice, report it. Do not condone it. Do not participate in it. We cannot say everyone will do that, but the great majority of our members do practise abroad what they practise at home.⁸⁹

He explained further:

86 P. Ranald, *Committee Hansard*, 29 June 2005, pp. 3 and 7.

87 P. Ranald, *Committee Hansard*, 29 June 2005, p. 8.

88 *Committee Hansard*, 27 June 2005, p. 75.

89 *Committee Hansard*, 29 June 2005, p. 27.

How do we go about lifting the human rights standards? As one of my members said—and he was in Taiwan: ‘I just practise the Australian way in Taiwan and, over time, just by that practice, everyone else has been lifted up. I was paying a better than average salary to those who spoke English. There was an incentive for the Taiwanese to learn English and I attracted the best employees, so the local firms had to compete.’ That sort of leadership by practice really worked well. He paid the best wages and he got the best employees and so on.⁹⁰

14.80 The Australia China Business Council stated that it does its best to make Australian businesses in China aware of appropriate labour standards. It gave the example:

Earlier this month our Brisbane chapter and Queensland branch held a seminar entitled ‘Managing risk in China’. They did it in conjunction with Transparency International, a non-profit organisation that looks at business integrity and corruption in other countries. We have this type of collaboration with Transparency International to provide a forum for discussion of business and ethical issues in China.⁹¹

14.81 Dr Ranald wanted stronger measures taken to guarantee that the rights of Chinese workers would be protected. She stated that in the past AFTINET have:

supported the notion of an enforceable code of conduct bill for Australian companies that invest overseas. In other words, if they do not abide by certain minimum standards including labour, health and safety and environmental standards, it should be possible for legal action to be taken against them.⁹²

14.82 Mr Cameron, however, was sceptical about the effectiveness of a code of conduct in enforcing labour standards. He regarded a code as ‘the second-best option after having proper implementation of core labour standards and ILO conventions’.⁹³

Corporate Code of Conduct

14.83 The OECD has formulated guidelines for multinational enterprises that seek ‘to encourage and reinforce the private initiatives for corporate responsibility’.⁹⁴ They provide voluntary principles and standards. The guidelines take the form of recommendations addressed by governments to multinational enterprises and include, *inter alia*, the following principles:

90 *Committee Hansard*, 29 June 2005, pp. 26–27.

91 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 14.

92 P. Ranald, *Committee Hansard*, 29 June 2005, p. 10.

93 *Committee Hansard*, 29 June 2005, p. 79.

94 Donald Johnston, OECD Secretary-General, ‘Promoting Corporate Responsibility: the OECD Guidelines for Multinational Enterprises’, p. 6.

- respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments; and
- refrain from discriminatory or disciplinary action against employees who make *bona fide* reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the guidelines or the enterprise's policies.⁹⁵

14.84 The governments from the 30 OECD members and 9 non-members have adhered to the guidelines. But as can be seen from the principles cited above they are very general in nature and rely heavily for their effectiveness on the laws of the host countries. As noted in chapter 2, the Chinese legal system and culture do not provide a strong basis for compliance with the laws. The legal system is not only complex, multilayered and complicated by interference at the provincial level but Chinese culture in some cases influences the application and enforcement of laws.

14.85 The Brotherhood of Saint Laurence, an Australian community organisation that owns a company which imports optical frames from China has explored ways to give effect to the ILO core labour standards and the OECD Guidelines. It formed the view that the implementation of the OECD Guidelines in non-adhering countries such as China is problematic—'that there are real limitations to the extent to which a small Australian importing company can achieve real change in its supply factories in China'. It cited the Chinese legal system and culture as major impediments and concluded:

Much of the work of attaining, for example, the ILO core labour standards must fall to governments, though there is a role for experienced enterprises and NGOs in advocating the appropriate action.⁹⁶

14.86 Dr Anita Chan, a research fellow in the Contemporary China Centre at the Australian National University, was also of the view that there is room for the international trade union movement to work with China to bring about improvement in the working conditions of Chinese workers. In her view, Australian trade unions, as part of the international movement, have opportunities to become engaged with China.⁹⁷

14.87 Ms Tate noted that the ACTU had been actively promoting the implementation of a corporate code of conduct over a number of years and mentioned that it was to participate in a meeting to be held in China last December which was cancelled. She explained:

95 The OECD Declaration and Decisions on International Investment and Multinational Enterprises: Basic Texts.

96 Serena Lillywhite, Manager, Ethical Business, Brotherhood of St Laurence, Australia, 'Pursuing corporate responsibility in China—experiences of a small enterprise in the optical industry', OECD Roundtable on Corporate Responsibility, OECD Headquarters, Paris, 19 June 2002.

97 Dr Anita Chan, 'Chinese Labour Standards, China's trade union federation, and the question of engagement', Conference Paper, ACTU House, Melbourne, 14–15 February 2005.

It was organised through the OECD and was about the operation of the OECD guidelines on multinational enterprises. Sadly, we feel that that is a lost opportunity both for the Chinese government and for companies operating in China. It was something that both the investment community as well as the international trade union movement was actively a part of. Those kinds of corporate social responsibility discussions are something that we consider very important for progress in China and we believe they cannot be separated from the impact of discussions around trade and investment. We see that core labour standards are key to progress.⁹⁸

14.88 The committee believes that Australian NGOs, in particular trade unions, have a vital role in promoting improved working conditions for Chinese workers. The activities of Australian trade unions in China are discussed in greater detail in chapter 18.

Committee view

14.89 The Australian government, Australian companies and NGOs have a place in encouraging Chinese firms to comply with international labour standards. Their strong advocacy of international labour standards in multilateral fora is important. The Australian government should also take every opportunity, including the negotiations for a FTA, to raise Australia's concerns about violations of human rights and labour standards in China.

14.90 Australian companies and NGOs likewise should be active in promoting human rights and labour standards in China. Through their associations with Chinese organisations and enterprises, they also can influence the Chinese government to adopt and enforce international human rights and labour standards.

Recommendation 20

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

Recommendation 21

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

98 *Committee Hansard*, 27 June 2005, p. 75.

Part IV

Developing broader political, cultural and social links

To this point the report has focused on trade and commercial ties. Numerous witnesses urged the committee, however, to look at China in a much broader light. Mr Richard Tan, President of the Chung Wah Association, told the committee:

With respect to culture and other ties, in talking about the Chinese market we should take note that recent exchanges between Australia and China have been predominantly trade and business related. Few are to do with culture and sports and other things. Even education is now seen purely as an export earner, which is rather alarming. This seems to be an inevitable development but I think it is a situation that we should seek to remedy. Friendship in business is built on mutual profit taking. That friendship is as lasting as the profit margin. Real and genuine friendship can be developed through promoting mutual understanding and appreciation of each other's culture and traditions. Thus, while emphasising economic gains, we should not lose sight of the long-term benefits of exchanges in other areas. I would also like to appeal to the Commonwealth to allocate appropriate funding to promote closer links in the other areas of the arts, sport, and tourism.

(R. Tan, *Committee Hansard*, 1 August 2005, p. 35.)

Part IV of this report goes beyond the economic relationship. It considers China's growing importance to Australia in the political, cultural and social spheres. It explores the links being forged through strategic approaches to education, cultural exchange, engagement with the Chinese-Australian community, political interaction, and science and technology.

Chapter 15

Promoting 'China literacy'?

An old missionary, the Reverend WH Smith, once wrote a book saying that nobody can really be an expert on China. I have always added to that: and that is the way the Chinese prefer to keep it.¹

15.1 'China literacy' refers to a population's level of awareness of the Chinese nation—its people, culture, language, and history. China literacy can be achieved through a number of primary mechanisms: school and university-based education, public diplomacy, and cultural and sporting activities aimed at elevating broader public awareness. Evidence to this inquiry suggests that Australia's capacity to expand and capitalise on pre-existing links will depend heavily on the peoples' ability and willingness to understand and engage with China. The promotion of China literacy through education was a recurrent theme throughout the course of this inquiry and will be discussed in this chapter. Public diplomacy, culture and sport will be discussed in chapter 16.

Do Australians need to be 'China literate'?

15.2 Several organisations and witnesses to this committee underscored the need to develop China literacy as part of an overall strategy to strengthen bilateral ties. Increasing China literacy was often linked to a more general need to increase the population's knowledge of—and engagement with—Asian languages and cultures within the region and Australia. Asialink's submission to this inquiry stated that the study of Asian languages and cultures in schools is unquestionably in the national interest:

Knowledge and understanding of our nearest neighbours, our major trading partners and the growing number of Asian Australians, are essential to Australia's security, prosperity, regional relationships and the maintenance and growth of an enriched and tolerant multicultural Australia.²

15.3 The Asian Studies Association of Australia (ASAA) advanced a number of reasons for Australia to pay particular attention to Asia literacy. It stated that interaction with Asia is an inevitable and natural part of the life experience of growing numbers of Australians, and that one in every 20 Australians comes from an Asian country. More than half of Australia's trade is with countries of Asia, and Australia's security increasingly depends on relations with the people of Asia. Australia's traditional 'Eurocentric' viewpoint also creates a need to communicate Asia's

1 G. Woodard, *Committee Hansard*, 27 June 2005, p. 26.

2 Asialink, *Submission P18*, p. 7.

difference and varied history, tradition and politics. These reasons combine to justify an increased emphasis on promoting Asian studies in Australia.³

15.4 The Asia Education Foundation (AEF) has links across all education sectors in Australia and China. Ms Maureen Welch, representing AEF, stated that it is in Australia's national interest to develop a coordinated, well-funded approach to the provision of Asian studies tuition:

When we are looking at engaging young Australians with Asia, it is in our national interest, in particular to engage them with China. This will ensure that we have a work force which can work effectively within and across cultures both within Australia and through the region. We can develop a sophisticated understanding of our neighbours and therefore have active citizens who can work within a rapidly changing world. There is the need for a national commitment to this issue and we are beginning that process.⁴

15.5 Dr Stephen Morgan identified the need for Australia to invest more in raising Australia's capacity to teach future generations of specialists, politicians and business leaders in Asian languages—particularly Chinese. He claimed that developing expertise in Asian languages would enable future leaders to use languages other than English in pursuing legal, economic, business, and diplomatic affairs.⁵ As noted earlier, Dr Morgan considered that this need was pressing from a number of perspectives, not least of which to protect Australia's security interests:

...my main concern is that we are struggling to maintain our existing capacity. This obviously presents difficulties if we have a major meltdown in China. For example, due to social or political disturbances creating a crisis in the legitimacy of the Chinese Communist Party, we may find that Australia would not have sufficient people able to provide advice to intelligence agencies, your committees and defence services, let alone provide advice to business and civilian interests wanting to work out how to deal with what is going on in China. It is important that we look at how to improve the number of Chinese-competent people coming through, but not only in language.⁶

15.6 Professor David Goodman reiterated these concerns about Australia's capacity to teach Chinese. He told the committee of his 'concerns that, given the inevitability of increased relations with China, we do not have the educational and intellectual infrastructure for dealing with China'.⁷ Professor John Fitzgerald also commented that

3 Asian Studies Association of Australia, *Submission P65*, p. 4.

4 M. Welch, *Committee Hansard*, 27 June 2005, p. 54.

5 S. Morgan, *Committee Hansard*, 27 June 2005, p. 1.

6 S. Morgan, *Committee Hansard*, 27 June 2005, p. 3.

7 D. Goodman, *Committee Hansard*, 29 June 2005, p. 53.

Australia needs to better understand the role and contribution of Asian and Chinese Australians and just not around a multicultural festival.⁸

15.7 Mr Reginald Little emphasised that China literacy needs to extend beyond language to knowledge of Chinese culture and philosophy. He considered that Australians doing business with the Chinese need a full appreciation of the cultural context within which they are operating—not just language skills.⁹ Chapter 13 clearly demonstrated this need.

15.8 He argued that Australia needs to gain a greater understanding of the Confucian-Taoist underpinnings of Chinese society, economy, science, and government in order to fully appreciate the implications of our growing relationship, and achieve meaningful and productive engagement. Mr Little's submission drew attention to the different philosophical frameworks of understanding that impact on the way both nations view the policies and approaches of the other, juxtaposing the influence of Greek philosophical traditions on Western society with the Confucian-Taoist concepts underpinning Chinese society:

The Greeks always sought clarity and deductive rigour whereas Chinese sought correspondences, resonances and interrelationships...Because of our tendency to reductionist, mechanist thinking, particularly in the area of economics, we leave ourselves very vulnerable to not understanding the full implications of acts we take within an economic context...¹⁰

15.9 The committee accepts the evidence asserting the need for greater China literacy. The committee acknowledges that, given China's growing importance to our economy, society, polity and security, investing in programs designed to increase Australia's China literacy—in both the educational and broader societal context—is in the national interest.

Australia's capacity to deliver 'China literacy'

15.10 Despite the apparent need for greater China literacy, the committee has received evidence that suggests Australia's current level is inadequate. Whilst there are undoubtedly highly skilled individuals in all fields, the level of awareness of and engagement with Asia and China in the general population is unfortunately low. Moreover, evidence showed that Australia's capacity to improve China literacy through education programs at the primary, secondary and tertiary levels is declining.

15.11 The ASAA commented that Australia's capacity to teach and learn about China in its universities is weaker than it was 10 years ago.¹¹ The ASAA has been collecting annual data on enrolments in Asian languages since 2001. Professor Robin

8 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 88.

9 R. Little, *Committee Hansard*, 1 August 2005, p. 44.

10 R. Little, *Committee Hansard*, 1 August 2005, p. 45.

11 Asian Studies Association of Australia, *Submission P65*, p. 1.

Jeffrey, on behalf of the ASAA, also noted that, despite a growth in the numbers of students undertaking Chinese language studies at the tertiary level, the majority of students in these programs are from Asia. These students are usually from character-based backgrounds (Chinese and Japanese), return to their homes after their studies, and do not add to Australia's foundation of knowledge or language ability.¹²

15.12 In the 2002 report *Maximising Australia's Asia Knowledge*, the ASAA identified a number of challenges to the expansion of Australia's Asia literacy. They included low rates of undergraduate study in Asia-related subjects and a 'drying up' of Australia's pool of specialist scholarly knowledge of Asia as academics age and social-science budgets within universities do not allow for their replacement. It also cited 'headhunting' of many outstanding Australian scholars by overseas institutions and political and economic upheaval in the region that has dampened popular interest.¹³

15.13 Dr Gary Sigley, Director of the Confucius Institute, outlined the difficulties experienced in convincing school principals to introduce Chinese language studies into their curricula. He attributed this reluctance to a 'not necessarily well-founded' perception that Chinese is alien to English and difficult to learn. He stated:

Just to be able to speak basic conversational Chinese is not that difficult. Also, there is a system of Romanisation—the Romanisation system—with which you can teach students Chinese very simply within a short time.¹⁴

15.14 Dr Sigley emphasised the importance of communicating in Chinese:

If you are able to speak a bit of Chinese, whether you are in business or at whatever level of activity...the Chinese people really open up. They really appreciate the effort that has been made. One thing that you notice when you go to China is the amount of energy, time and commitment that people put into learning English...They appreciate very greatly any—even minimal—effort that a non-Chinese speaker makes to learn a bit of Chinese. That you have gone out of your way to make a bit of an effort they see as respectful of Chinese culture and people.¹⁵

15.15 Dr Robert Davis, ACCI, also commented on the complacent attitude taken by Australians toward acquiring greater language skills and Asia literacy:

The incentive for us to learn a foreign language is diminishing—'Oh, they will speak English.'...I am thinking of a member who is active in Thailand, who said, 'That's all right for the short term—until you realise that, when you have a little whisper aside, they can understand you; but, when they whisper in their home tongue, you cannot understand them.' You realise

12 R. Jeffrey, *Submission P65*, p. 1.

13 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 13.

14 G. Sigley, *Committee Hansard*, 1 August 2005, p. 69.

15 G. Sigley, *Committee Hansard*, 1 August 2005, p. 69.

that you are at a disadvantage after a reasonably short period of time. We have to overcome the view, 'Oh well, they'—whoever 'they' may be—'will speak English.'¹⁶

15.16 Mr Richard Tan, President of the Chung Wah Association, echoed Dr Davis' sentiments:

When countries in South East Asia started to develop, learning English became a national priority because of the legacy of British colonialism. As a consequence, English speakers, including we Australians, have no problems travelling to and doing business in these countries without the need to speak their language. There is an assumption that Chinese in China will also learn English so that they can trade with us. But that is not the case...We have to take note of that fact, if we want to be agile and mobile in the dynamic Chinese market, apart from just selling iron ore, wool and natural gas, we need to have sufficient numbers of Australians who can speak their language.¹⁷

15.17 Professor Dennis Altman also warned against relying on the people of Asia to learn English:

The particular position of Australia in the world means it is vital we have a critical mass of scholars who are aware of Asian history, cultures and politics. It is too easy to assume that globalisation and the increasing use of English makes such knowledge less important, even as our relations with the countries of Asia become more significant (and perhaps more complex) due to the rapidity of social and economic transformations. As any real understandings of a society requires one to have an intimate knowledge of its history, culture and language, the case for expanding Asian studies...can only increase. The growing use of English as a sort of lingua franca does not mean less need to learn Asian languages; indeed, it may increase this need, or else force Australians to deal with the region through intermediaries whose interests will not coincide with ours.¹⁸

15.18 The committee shares the concerns of many commentators and submitters to this inquiry that Australians do not appreciate the importance of being 'China literate' and that Australia may not have adequate capacity within schools and universities to achieve an acceptable level of China literacy. Before reaching any conclusions, however, the committee considers the government's approach to the teaching of China language and culture in Australia.

16 R. Davis, *Committee Hansard*, 29 June 2005, p. 26.

17 R. Tan, *Committee Hansard*, 1 August 2005, p. 35.

18 D. Altman, quoted in Asian Studies Association of Australia, *Submission P65*, Attachment, p. 8.

Policy responses

15.19 The committee notes that DEST's submission does not mention the study of Chinese-related subjects in Australia. In evidence before the committee, Ms Buffinton stated that the study of Chinese languages and culture was of 'strong interest' to the department. Even so, DEST could only point to its support for a Chinese government initiative as evidence of the federal government's support for China literacy.¹⁹

15.20 The committee also notes that federal government support has been withdrawn from the major national initiative aimed at promoting greater Asia literacy amongst Australian school children. The AEF actively promotes and supports the study of Asia in Australian schools. It informed the committee that until 2002, \$A30 million was available under the National Asian Languages and Studies in Australian Schools strategy (NALSAS). The NALSAS was established through the Council of Australian Governments (COAG) and had been in effect for 10 years. It had provided a valuable source of funding to support initiatives aimed at promoting the teaching of Asian languages and studies—particularly Chinese. Ms Welch stated that there had been a number of negative results from the withdrawal of funding including:

- no proposed initiatives to develop curriculum for schools about China, particularly materials to engage young students (CD-ROMs, multimedia materials, etc); and
- a reduction in the professional learning opportunities available for teachers.

15.21 She stated:

My point is that we have developed a number of very useful curriculum materials for schools and resources that have been very well received by educators but, going forward, there are no funds for these types of initiatives and there are no ways in which we can introduce young Australians to China in particular.²⁰

15.22 The removal of NALSAS funding has adversely affected the ability of the AEF to deliver its programs:

When the NALSAS program was in place, we were able to draw on a lot of the funding streams that came out of NALSAS. In order to get professional development programs going, in-country experience programs going and resources produced, we could draw down on the NALSAS funding. That no longer exists, and the result is that fewer teachers are being trained, fewer teachers are going to Asia to learn about the region and fewer resources are being produced.²¹

19 F. Buffinton, *Committee Hansard*, 14 June 2005, p. 45.

20 M. Welch, *Committee Hansard*, 27 June 2005, p. 54.

21 J. McGregor, *Committee Hansard*, 27 June 2005, p. 62.

15.23 The Australia–China Council (ACC) also commented on the abolition of the NALSAS. Ms Dinah Dysart, on the behalf of the ACC, stated that it has had a big impact on the provision of language services. She gave the committee a direct example of the detrimental effect that the cancellation has had, and the subsequent need to divert already scarce funds away from other aspects of the ACC's work:

I think [the cancellation of the NALSAS] has had a big impact. In the last round of young people going to China in their gap...we ended up funding a young man who was doing extremely well in Chinese at his school, but the school stopped teaching it. In his tests he still did well, but not as well, obviously, as the others, because he had been struggling to maintain it, so we funded him anyway...we made a point of funding this young man because he just did not have the chance to keep up his Chinese.²²

15.24 Had NALSAS funding not been withdrawn, that student—and no doubt many others—would have had the resources available whereby he could have maintained Chinese language proficiency, without drawing on the scarce funds available to the ACC.

15.25 The committee considers that the cancellation of federally-funded programs aimed at the promotion of China literacy—such as the NALSAS—is unfortunate and demonstrates a failure to take a long-term strategic view of Australia's educational requirements. It would appear that, at a time when Australia should be enhancing its capacity in China literacy, the government is withdrawing support. In light of the growing body of evidence indicating China's importance to Australia, the committee would like to see increased government funding and promotion of China literacy.

Organisations promoting China literacy

15.26 In the absence of coordinated government support through a scheme such as the NALSAS, there are nonetheless several other organisations actively seeking to promote China literacy through school-based education activity. Several of these organisations provided the committee with an overview of their activities, and outlined recent advances in the promotion of China literacy.

15.27 The AEF was established by DEST in 1993 to promote and support the study of Asia across all curriculum areas in primary and secondary schools. Its budget is very small—only \$1.3 million per annum—and alternative sources of funding previously available under the NALSAS have ceased. It is worthy to note that the AEF's budget has been set at the same level for over 13 years now. The AEF works with government and non-government education providers and promotes the study of Asia through curriculum and materials development, teacher professional development, and schools development.²³

22 D. Dysart, *Committee Hansard*, 29 June 2005, p. 38.

23 Asia Education Foundation, *Submission P21*, p. 2.

15.28 Ms Welch, representing the AEF, told the committee that the inclusion of content on Asia is a complex task, as 'change in education is fairly glacial...we are only making a small dent in learning and teaching about Chinese languages in Australian schools.'²⁴ She stated that the need for Asia education is becoming pressing. At a recent national forum in Canberra, 140 key educators representing parents, principals, professional associations, teachers and all education systems singled China out as requiring particular focus:

Not only because of its growing economic and political influence across the world but also because of the contributions of Chinese culture, arts, science et cetera to our society and to our world generally. The national forum believed it was very important for Australia's future to equip young Australians with skills to interact within our region in a local and in a global context. There was a call for a greater sophistication of that knowledge and understanding and therefore a greater investment in education.²⁵

15.29 AEF indicated that it is currently lobbying the State, Territory and Federal governments to obtain a national statement affirming the various governments' commitment to actively promote the study of Chinese culture, history and languages. Ms Welch informed the committee that the governments have collaboratively agreed to national statements in the past, but these statements have not required any action. Ms Welch stated that whilst there is definitely 'in principle' support from the various governments the AEF has lobbied, this has not translated into a cohesive national strategy, or increased funding.²⁶ Moreover:

In the development of that statement there is no implementation plan and, at the moment, no funding to support any actions that could and should emerge as a result of developing a national statement.²⁷

15.30 The AEF is now seeking a statement that would require DEST to take carriage of an implementation strategy to increase teaching and learning about China.²⁸ The committee supports this initiative.

15.31 The ASAA is a professional organisation for research and teaching about Asia in Australia.²⁹ Its submission to the inquiry lists a number of recent positive developments towards greater Asia literacy, including:

24 M. Welch, *Committee Hansard*, 27 June 2005, p. 53.

25 M. Welch, *Committee Hansard*, 27 June 2005, p. 53.

26 M. Welch, *Committee Hansard*, 27 June 2005, p. 58.

27 M. Welch, *Committee Hansard*, 27 June 2005, p. 54.

28 M. Welch, *Committee Hansard*, 27 June 2005, pp. 60–61.

- the establishment of an International Centre for Excellence in Asia–Pacific Studies (ICEAPS) at the Australian National University that offers prospects for national coordination of Asia-related activities;
- the establishment of a National Centre for Language Training at the University of NSW, that aims to provide short practical beginners courses through to more advanced courses, which will be targeted to the needs of Australian business;
- an Asia–Pacific Futures Network (APFN), funded by the Australian Research Council, providing a five-year capacity to network research scholars and the wider community of professionals who work in countries of Asia; and
- an expanded scheme of Endeavour scholarships, increasing opportunities for research scholars from Australia to work in Asia and vice versa.³⁰

15.32 The Australia–China Council's (ACC) main contribution through education-related programs—as distinct from the public diplomacy and cultural exchange activities outlined below in Chapter 16—involves supporting students whilst they undertake 'in country' training.

15.33 Ms Dysart on behalf of the ACC informed the committee that there are three tiers to its youth program. The first is the 'China Experience program', where the ACC sends young students studying Chinese in years 10 and 11 to China. The ACC also has a 'Year in China' program, for young people in their gap year who have studied Chinese through school. Students participating in this program go to a foreign language university in Beijing for a year. The third tier to the program is the 'Young Business Scholars in China' program, designed for postgraduates who are reasonably fluent in Mandarin. Students go to Beijing, undergo a month of brush-up language skills concentrating on business language, and then undertake a Chinese business course. Students are then expected to look for an internship with an Australian, Chinese or foreign company in Beijing.³¹

15.34 The ACC has also begun an initiative for the promotion of Chinese language skills, in conjunction with the Chinese Language Teacher's Federation of Australia, and is now funding a national Chinese language speaking competition. Under the

29 Asian Studies Association Website, <http://coombs.anu.edu.au/ASAA/> (accessed 23 August 2005). The objects of the ASAA are: to promote the study of Asian languages, societies, cultures, and polities in Australia; to support teaching and research in Asian studies; to encourage the exchange of information through publications, conferences and seminars, and to act as publishers of periodicals and monographs; to contribute towards an understanding of Asia in the community at large; and to facilitate contacts between scholars and teachers in the field of Asian studies and to serve as a professional body representing their interests to governments and the community.

30 Asian Studies Association of Australia, *Submission P65*, p. 5.

31 D. Dysart, *Committee Hansard*, 29 June 2005, p. 38.

initiative, the ACC meets the cost of the finalists' accommodation and airfares to Sydney.³²

15.35 The Western Australian (WA) government also actively promotes China literacy. The WA Department of Education and Training informed the committee that WA's sister state arrangement with Zhejiang Province led to a Memorandum of Understanding being signed in 1987 between the two government's respective departments of education. This MOU facilitates educator exchanges focussing on schools, TAFEWA, and teachers of the Chinese language. The MOU has also enabled the creation of several sister-school relationships between schools located in Perth and Hangzhou, leading to teacher and student exchanges.

15.36 Eight WA State schools currently teach Chinese language as part of their curriculum, and State teachers are also encouraged to take up short-term contracts in China teaching English as a second language.³³ Mr Jeff Gunningham told the committee that, given the strategic importance of China to Australia, and WA in particular, the further promotion of China and Chinese language studies 'is certainly an area I believe the Department of Education and Training is looking at.'³⁴

15.37 Similarly, the Queensland Government has a number of programs to promote China literacy. In October 2003, an MOU on Education was signed between Queensland and its sister-province Shanghai. This MOU aims to establish collaborative projects of mutual interest in schools and other educational institutions in order to further mutual understanding and cooperation between the parties. Queensland has a similar MOU with Hubei Province. Under the 2005-07 sister-state agreement with Shanghai, English and Chinese language competitions have also been established in each jurisdiction.³⁵

The Confucius Institute

15.38 The Chinese government has undertaken to establish a global network of 100 Confucius Institutes. The committee is aware that the Chinese Government has begun collaborating with two Australian universities for the establishment of two institutes based in Western Australia and Victoria.

15.39 Australia's first Confucius Institute—based at the University of Western Australia (UWA)—opened on 20 May 2005. The committee also notes that the University of Melbourne has announced that it has recently signed a letter of intent to establish a Confucius Institute with the Chinese Consul-General in Melbourne.³⁶

32 D. Dysart, *Committee Hansard*, 29 June 2005, p. 38.

33 WA Government, Department of the Premier and Cabinet, *Submission P45*, p. 3.

34 J. Gunningham, *Committee Hansard*, 1 August 2005, p. 27.

35 *Submission P1A*, p. 4.

36 University of Melbourne *Uninews* vol 14. No. 13, 25 July- 8 August, http://uninews.unimelb.edu.au/articleid_2572.html (accessed: 23 August 2005).

15.40 In addition to teaching, learning and promoting Chinese language studies, the Institute will engage in cultural activities. It is hoped that the Institute will form 'an important bridge to government, the local community, the ethnic Chinese community, the broader community and the business community as well.'³⁷

15.41 The UWA Confucius Institute is funded under a partnership agreement by the National Office for Teaching Chinese as a Foreign Language and UWA. Dr Gary Sigley, Director of the newly-opened UWA Confucius Institute, stated that the establishment of the Confucius Institute program in Australia is:

An indication of the efforts which the Chinese government is making to reach out to the broader world, especially, in this case, in its understanding and desire to promote the learning of Chinese language abroad...It is something that I think is very important for Australia's own future and the future relationship with China.³⁸

15.42 He told the committee that UWA's decision to host a Confucius Institute was part of the university's broader internationalisation strategy, and reflected a trend in recent years for faculties to increase their collaboration with Chinese universities.³⁹ Between 140 and 160 UWA undergraduates receive Chinese language tuition, and approximately eight postgraduate students are currently undertaking research on China.⁴⁰ UWA has also developed an in-country program, whereby students are sent from Australia to China and undertake Chinese language courses.⁴¹ UWA's international centre provides a limited number of bursaries to support students participating in this program.⁴²

15.43 UWA has recently expanded its in-country program through the establishment of closer links with Zhejiang University. Zhejiang University is located in Western Australia's sister-province, and is now the partner university of the Confucius Institute. UWA will begin to host Chinese exchange students in 2005, and has also recently signed an agreement with the National Office for Teaching Chinese as a Foreign Language, gaining accreditation to administer the Chinese proficiency test.

15.44 Dr Sigley stated that the UWA Confucius Institute would provide full-fee paying short-term classes. The classes 'will basically be based on Pinyin and some basic conversational etiquette for business people, government workers and so forth.'⁴³

37 G. Sigley, *Committee Hansard*, 1 August 2005, p. 67.

38 G. Sigley, *Committee Hansard*, 1 August 2005, p. 67.

39 G. Sigley, *Committee Hansard*, 1 August 2005, p. 66.

40 G. Sigley, *Committee Hansard*, 1 August 2005, p. 71.

41 G. Sigley, *Committee Hansard*, 1 August 2005, p. 67.

42 G. Sigley, *Committee Hansard*, 1 August 2005, p. 72.

43 G. Sigley, *Committee Hansard*, 1 August 2005, p. 67.

In the preliminary stages, the courses will be offered as a part of the UWA's outreach public adult education program.⁴⁴

15.45 Although recognising that the UWA Confucius Institute is in its early days, the committee commends the initiative and the work the UWA Institute has undertaken to date. It considers that the establishment of more institutes around Australia will assist to raise the level of China awareness and China literacy throughout Australia at the tertiary level.

15.46 The committee welcomes the Chinese government's interest in creating the Confucius Institutes. It notes, however, that where the Chinese government has sought to establish Confucius Institutes, it would seem to have done so through direct contact with the relevant host institution, rather than through DEST.⁴⁵

Suggestions for improvement

15.47 Various witnesses and submitters to this inquiry made suggestions to remedy Australia's lack of China literacy. A recurrent theme in all submissions was the need for greater government funding and support to promote China literacy programs.

Broader government strategy

15.48 A number of submitters advocated broad-based reform of current policy frameworks and institutional structures. The ASAA made four broad recommendations aimed at improving Australia's Asia literacy. It suggested the creation of:

- 10 nationally funded chairs of language to oversee the teaching and promotion of key languages;
- a nationally funded and nationally available method for teaching languages of lower demand;
- 15 entry-level positions to reposition and renew Australian expertise on Asia; and
- an Australian fellowship scheme for distinguished young scholars to come to Australia.⁴⁶

15.49 The ASAA emphasised that these suggestions must be part of a longer-term strategy to increase Australia's Asia literacy. The central features of this longer-term strategy are found in the ASAA's report *Maximising Australia's Asia Knowledge*. They include:

44 G. Sigley, *Committee Hansard*, 1 August 2005, p. 67.

45 The Confucius Institutes are discussed in more detail below in chapter 16, paragraph 16.24.

46 Asian Studies Association of Australia, *Submission P65*, p. 8.

- establishing a Council for Maximising Australia's Asia Knowledge and Skills. This council would:
 - develop and promote Australia as a knowledge centre for the study of Asia and for activities relating to Asia;
 - link Australia's knowledge and resources about Australia in government, education, business, media, and non-government organisations (NGOs);
 - promote the deepening and diffusion of Asia expertise in primary, secondary and tertiary education systems; and
 - initiate Asia 'education programs' to renew and reposition Australia's Asia knowledge.⁴⁷
- creating a website linking Asia-related to sites to form an 'Asia-Australia Knowledge Portal';⁴⁸
- creating a range of web-based Asia-related units of study to enable people to extend and deepen their knowledge of Asia;⁴⁹
- creating undergraduate degree structures that encourage students to easily incorporate study of Asia and international experience into their courses of study;⁵⁰
- improving the provision of language tuition to teachers;⁵¹
- establishing fieldwork and language fellowships;⁵² and
- promoting the provision of Asian studies in Year 11 & 12 curricula.⁵³

15.50 The ASAA also suggest the convening of a 'Language Summit' to coordinate government and academic programs, and engage the wider community in a discussion about how best to address Australia's ongoing language development needs.⁵⁴

15.51 Going beyond specific recommendations, Professor David Goodman highlighted the need for firmer political commitment from the federal government to the advancement of Asian studies. Although agreeing that providing adequate funding is important, Professor Goodman emphasised that the message emanating from government is imperative in creating a desire within the general population to learn more about China:

47 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 47.

48 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 50.

49 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 51.

50 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 52.

51 Asian Studies Association of Australia, *Submission P65*, Attachment, pp. 57 and 63.

52 Asian Studies Association of Australia, *Submission P65*, Attachment, pp. 58–59 and 62.

53 Asian Studies Association of Australia, *Submission P65*, Attachment, p. 64.

54 Asian Studies Association of Australia, *Submission P65*, p. 10.

It is the political message which is crucial. When this particular [federal] government published its first white paper in 1996 or 1997...and essentially sent out signals, 'We are going to reconsider our commitment to Asia,' our enrolments in Asian languages plummeted. Our enrolments in European languages rose...That is all it takes. Money is not unimportant, but I am more concerned in one sense about the symbols that government puts forward. If government came out and said, uncategorically, 'You have got to go and do China,' that would be enough on one level...But it is not giving out those messages.⁵⁵

15.52 The political messages emanating from government must, however, be backed by financial support. Ms Welch commented that, despite the work being done by several organisations to promote China literacy, budgets remain tight, with little indication that greater funding to support China literacy will be forthcoming. In particular, she noted that, whilst in principle support had been given for the AEF's initiative to produce a national statement affirming the need for enhanced Asia literacy:

There are no guarantees that we will be successful in putting this on the national agenda. There needs to be funding for this area. There needs to be a very long-term commitment. It is something that you need to seed and it needs to grow over time. We are talking about introducing new knowledge and understanding, and it is something that you cannot do in the short term.⁵⁶

Sector-specific suggestions

15.53 In addition to suggesting broader government commitment to advancing Asia and China literacy, many submissions also made recommendations specific to particular education sectors.

Primary and secondary schools

15.54 The importance of introducing Asian content into primary and secondary education as early as possible was frequently raised. Several submitters also affirmed the benefit of 'in country' training—particularly at the secondary level.

15.55 Ms Welch from the AEF noted that the China literacy of primary and secondary teachers needs to be addressed. She claimed that there is a significant need for teacher professional development and increased teacher knowledge and understanding about Asia. She stated that the greatest barrier for teaching about Asia is a lack of teacher knowledge:

Unless there is a determined strategy put forward, it will be the case that we will miss, yet again, another generation of teachers for whom Asia will be

55 D. Goodman, *Committee Hansard*, 29 June 2005, p. 61.

56 M. Welch, *Committee Hansard*, 27 June 2005, p. 54.

foreign and perhaps Asia will not be a focus within their classrooms. That has a flow-on effect with young students as well.⁵⁷

15.56 Ms Welch also stressed the importance of providing teaching materials and developing curricula with Asian content.

Tertiary education

15.57 The need for greater support for in-country training was the most persistent theme to emerge in the tertiary education context. Professor Goodman stated:

The lack of funding is serious in one area of language learning: very few Australian universities send their students overseas to continue their language studies. The reason is that it is twice as expensive as educating them here. It is much less than half as efficient—it is woefully inefficient—to teach people Chinese in Sydney when you could teach them Chinese in Beijing, Guangzhou or wherever, yet the funding model that we have from the government kneecaps us because we do not get enough funding to teach the students properly in that way and we are not allowed to be free of fees.⁵⁸

15.58 Dr Morgan noted that in the UK, and many European universities, students are required to study in China for a period of time as part of their undergraduate major in Chinese. According to Dr Morgan, students are given support to undertake in-country training, so that they do not have to bear the full burden of the considerable costs involved. He stated:

It is that sort of training which not only improves their language capability—that is important—but improves their social and cultural understanding, which gives them the means to communicate much more effectively.⁵⁹

Dr Morgan claims that this is certainly an area to which the government could contribute in terms of raising Australia's level of China awareness.⁶⁰

15.59 Likewise, Dr Sigley emphasised the need for greater support for in-country training and affirmed the importance of in-country training for the establishment of personal networks.⁶¹ He also underscored the need for greater financial support for these schemes.⁶²

15.60 Dr Morgan, whilst supporting in-country training, also suggested that greater emphasis needs to be placed on developing language skills in concert with other skills

57 M. Welch, *Committee Hansard*, 27 June 2005, pp. 54–55.

58 D. Goodman, *Committee Hansard*, 29 June 2005, p. 56.

59 S. Morgan, *Committee Hansard*, 27 June 2005, p. 8.

60 S. Morgan, *Committee Hansard*, 27 June 2005, p. 8.

61 G. Sigley, *Committee Hansard*, 1 August 2005, p. 74.

62 G. Sigley, *Committee Hansard*, 1 August 2005, p. 74.

sets—for broader discipline areas to be married with competency in Asian languages.⁶³ He would like to see more people trained in disciplines such as law, economics, business, engineering and architecture that can competently use the Chinese language and conduct themselves effectively in the Chinese cultural context. He does not think Australia has been able to develop the required capacity to provide individuals with these skills. Dr Morgan's fundamental point is that competence in broader disciplinary areas needs to be complemented with proficiency and understanding in Asian languages and cultures—particularly Chinese.⁶⁴

Findings and recommendations

15.61 The committee considers that far higher priority should be accorded to the promotion of Asia and China literacy. It is imperative that Australia equips its children and young adults with the tools to engage meaningfully with its neighbours into the future—particularly China. The federal government should assume a leadership role in this regard, and send a clear and unequivocal message to Australians that Asia is important: we want and need to engage.

15.62 The Federal government should actively work with the States and Territories to promote the uptake of Asian studies and the incorporation of Asian content at the primary and secondary level. At the tertiary level, students should be encouraged to undertake Asian studies and gain vital in-country experience as part of their degrees. In short, the government needs to adopt a far more proactive stance, and invest more in enhancing China literacy.

Chinese students in Australia

15.63 One perhaps overlooked aspect of education is the role that Chinese students studying in Australia play in promoting bilateral linkages. As noted earlier, Dr Sigley stressed that in-country training enables Australians to build personal networks. The same could also be said of Chinese students studying in Australia. Ms Valerie Kelly commented on the relationship networks forged by Chinese students during their stay in Australia that could be used as a bridge for Australian businesses wishing to operate in China:

There were at least three or four companies that had started up by going through trade missions, finding a product, deciding they could value-add and then marketing it in Australia. Some of them are successful, but a number of them fall by the wayside. That is becoming quite apparent. Interestingly enough, the most successful ones are those that have had Chinese students in Australia who then link to an Australian business and provide the networks. As I mentioned in my summary, I think education is

63 S. Morgan, *Committee Hansard*, 27 June 2005, p. 3.

64 S. Morgan, *Committee Hansard*, 27 June 2005, p. 3.

critical because, in addition to the actual education, the long-lasting personal rapport that is built up through education is critical.⁶⁵

15.64 Australia should seek to maintain contact with Chinese students who have studied in Australia. The committee notes that a number of countries have active alumni programs, whereby they seek to preserve the link between a guest student and the host nation. The UK has a particularly active program through the British Council, whereby UK alumni are invited along to sporting, cultural, educational and networking events aimed at promoting the UK.⁶⁶

15.65 DEST informed the committee that it views engagement with alumni as very important, and told the committee that every two years there is a major Australian alumni event in Asia. The last one was held in Hong Kong in December 2004 and there was strong representation from China. DEST stated, however, that although it does play a role and accepts that there is scope for government activity, ultimately the establishment of alumni networks is the responsibility of tertiary institutions. It recognised the importance of alumni networks:

Of all the countries where I would suggest Australian universities are particularly developing alumni, China is probably in the top couple, if not the key one. A lot of institutions run quite strong alumni arrangements with China. When we have done studies more broadly about why a student chose Australia, we have found it is usually because of a referral from a friend or family. That is by far and away the No. 1 reason and why I would suggest that we have had the sort of growth that we have had.⁶⁷

15.66 Ms Dysart advised the committee that the ACC tries to keep 'some kinds of alumni connections.'⁶⁸ It does not, however, have a specific alumni program. Ms Dysart agreed that developing alumni programs is one of the most effective ways of strengthening linkages with China, especially if students have had a positive study experience and have formed a favourable impression of Australia. She indicated that, whilst it was certainly of value and something that could be developed, the funding was simply not available to allow the ACC to undertake these activities.⁶⁹ The ACC suggested that with greater funding it could take a more proactive role in developing alumni associations for Chinese students that had studied in Australia.⁷⁰

15.67 Another element of the positive aspect of hosting Chinese students—especially in tertiary education—arises from the student's exposure to, and tuition within, a liberal democratic system. Commentators have noted the capacity to exert

65 V. Kelly, *Committee Hansard*, 1 August 2005, pp. 20–21.

66 See <http://www.britishcouncil.org>.

67 F. Buffinton, *Committee Hansard*, 14 June 2005, pp. 31–32.

68 D. Dysart, *Committee Hansard*, 29 June 2005, p. 37.

69 D. Dysart, *Committee Hansard*, 29 June 2005, p. 37.

70 D. Dysart, *Committee Hansard*, 29 June 2005, p. 37.

intellectual influence over students, which in turn can assist China to move towards a more democratic society. Edmund Fung has written, however:

If Australia wants to influence the Chinese intellectually and to encourage them to move in a more liberal and democratic direction, we must try to get a better mix of students to come here, including more of those in the humanities and social sciences, law and education. Modern Chinese history has shown that political reformers were most likely those who had studied politics, constitutional law, philosophy and the liberal arts in the West and/or Japan. In contemporary times the Taiwanese and South Korean cases have also demonstrated that returned students who have done humanities, social sciences and law in the West are more likely to espouse Western liberal democratic values and to demand political and legal reforms. When they become political and business leaders, they are better prepared to make change along Western lines. Engineers and scientists are very important people, but they are rarely the ones to initiate political and social change...it is easy to understand why the Chinese government is reluctant to sponsor humanities and social science students to go overseas. But it is possible for Australian universities to change that to some extent by setting up post graduate scholarship schemes whereby a certain number of awards would be allocated to applicants in those areas every year.⁷¹

Recommendation 22

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

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

71 Edmund S.K.Fung 'Education, Science and Culture', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Melbourne, 1996, p. 129.

Recommendation 23

15.69 The committee recommends that DEST take a more active role in working with Australian educational institutions to develop an effective alumni program.

Conclusion

15.70 Education at the primary, secondary and tertiary levels provides an effective means through which 'China literacy' can be formally promoted, equipping Australian children with the language skills and knowledge base to interact successfully with China.

15.71 The committee recognises the vital role that education plays in promoting greater understanding and affinity between the Chinese and Australian people. Federal and State governments of all political persuasions should support and encourage the uptake of Asian studies in schools and universities, and should more actively engage with Chinese students who are or have studied in Australia. The committee urges the federal government to adopt a more proactive stance in encouraging the development of greater China literacy. If we are to gain the most from our growing relationship with China, Australia needs the capacity to understand and identify how, where and when opportunities to draw closer to China arise.

15.72 It is to that broader level of cultural awareness—achieving understanding outside of formal education delivered at the primary, secondary and tertiary levels—that the committee now turns.

Chapter 16

Public diplomacy, culture and sport, and the Chinese-Australian community

Relationships are an intrinsic part of the whole deal with China, but we need to get to know her and we need to look at her not just as a superpower with geographic proximity to us and a big trade dollar. It has to be more than a marriage of convenience. We have to get to know the Chinese people so that relationships are built on trust, respect and transparency, and it has to come from both sides.¹

16.1 This chapter will consider the role of culture, sport, and tourism as a means to promote China literacy and the broader bilateral relationship. It will include a case study of the West Australian Symphony Orchestra (WASO) visit—illustrating the means through which greater understanding between our two nations can be attained as well as its utility as a platform for the political and economic relationship. It will then consider the role of the Chinese–Australian community in Australia.

16.2 Communication through culture and sport is a highly effective means of promoting understanding and awareness and bringing people together. It can have flow-on benefits for the economic and political relationship.

16.3 Australians have every reason to be proud of their culture. Indeed, the Australian Film Commission has noted:

For Australia, culture is a vital element of our national sovereignty, providing the opportunity for the expression of the nation's regional, ethnic and historical diversity. The development of a national culture, shared values and national identity, as expressed through our cultural production is considered by many to be a sign of good governance.²

16.4 Cultural exchange provides a means whereby Australians can tell other nations about Australia and its people. It enables Australians to demonstrate how we conceive of ourselves, where we have come from, and where we are going as a nation. Similarly, exposure to the cultural products of other nations, such as China, enables us to learn about them.

Cultural interaction and public diplomacy

16.5 Public diplomacy refers to government activities that are designed to communicate cultural understanding, and create a positive perception or promote the activities of a nation or government. Jocelyn Chey has written:

1 V. Kelly, *Committee Hansard*, 1 August 2005, p. 17.

2 Australian Film Commission, *Submission P43*, p. 2.

Like companies and institutions, national governments commission activities designed to improve relations with the public. If the government's targeted recipients are located offshore, these plans or activities become part of official international relations or what is usually called 'public diplomacy'.³

16.6 Numerous foreign governments have recognised the role of cultural communication and public diplomacy in promoting positive perceptions and facilitating relations with the peoples of other countries. The UK has recently published a major report on its public diplomacy program in China entitled *Think UK*.⁴ In his foreword to the final report assessing the success of the *Think UK* project, HE Christopher Hurn, British Ambassador to China, wrote:

Engagement between the UK and China is of fundamental importance to both countries. Having an accurate perception of each other's country helps us get the best out of our relationship. During the research for *Think UK* we tried to see Britain through Chinese eyes. We found that all too often it was backward-looking perceptions which predominated—tradition, continuity, conservatism, the achievements and impacts of the Industrial Revolution. We sought to show that the UK has come a long way since then. *Think UK* set out to demonstrate how modern Britain was diverse, innovative, and full of creative ideas that were changing our world...as a result of *Think UK* I believe that increasing numbers of Chinese people will choose to become involved with Britain, and form long-lasting partnerships.⁵

16.7 The United States government also places a high premium on successful public diplomacy which tends to be more geared towards subtle political influence—promoting understanding and identification with policies and political agendas—rather than fostering societal or cultural understanding. Mr Christopher Ross, former coordinator for public diplomacy and public affairs at the US Department of State has written:

[Public Diplomacy] is not traditional diplomacy, which consists essentially of the interactions that take place between governments. The practitioners of traditional diplomacy engage the representatives of foreign governments in order to advance the national interest articulated in their own government's strategic goals in international affairs. Public diplomacy, by contrast, engages carefully targeted sectors of foreign publics in order to develop support for those same strategic results.⁶

3 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, p. 163.

4 Foreign and Commonwealth Office, *Think UK: Final Report*, Feb 2004, www.fco.gov.uk (accessed: 22 May 2004).

5 HE Christopher Hurn, British Ambassador to China, Foreign and Commonwealth Office, *Think UK: Final Report*, Feb 2004, p. 7.

6 Christopher Ross, 'Public Diplomacy Comes of Age', *The Washington Quarterly*, 25:2, p. 75.

16.8 All activities conducted under the auspices of public diplomacy have as their underlying aim the promotion of understanding about a nation's people or way of life. Ross described it as a longer term effort to develop an overseas understanding and appreciation of a nation's society, people and values.⁷

16.9 Australia, as a mid ranking power in the Asia Pacific, does not have the resources to engage in an expansive public diplomacy strategy. That does not mean, however, that there is not scope for more activity. Australia should actively promote overseas understanding of our society, people and values. More effort in promoting Australian political, cultural and social activity will be of direct benefit to Australia and will promote greater understanding and affinity between the people of China and Australia.

Fostering Australia–China relations

16.10 Having considered the nature of cultural interaction and public diplomacy, we now turn to its use as a means to foster Sino-Australian relations.

16.11 Chey has written that, following the establishment of diplomatic relations between Australia and China in 1972, Australia embarked upon a new era of extensive international diplomacy. Throughout the 1970s, the aims of Australia's international public diplomacy and cultural relations were to promote an image of a new and independent Australia, consolidate regional relationships, enrich the domestic arts and satisfy the aspirations of members of the emerging multicultural society who were eager to reinforce ties with their homelands:

When the government normalised relations with China, cultural relations assumed a prominent place in the bilateral relationship. Scholars, artists and the general public all enthusiastically embraced opportunities for engagement with China.⁸

16.12 The 1980s saw the development of increasingly strong cultural relations between China and Australia, especially following the implementation of Deng Xiaoping's 'Open Door' policies. Chey claims that the increased economic freedom had a flow on effect into the arts. The Chinese were increasingly allowed to access foreign radio broadcasts (such as Radio Australia), and a number of official cultural exchanges took place, including an exhibition of paintings from the Ming and Qing dynasties from the Palace Museum, and an exhibition of terracotta warrior figures from the tomb of the First Emperor of Qin. Australian photographic and contemporary art exhibitions toured China. China's 'Open Door' policies also created new

7 Christopher Ross, 'Public Diplomacy Comes of Age', *The Washington Quarterly*, 25:2, p. 80.

8 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, p. 165.

opportunities for cultural exchanges managed by commercial interests or community organisations.⁹

16.13 The positive gains achieved through the 1980s were, however, set back by the Tiananmen Square massacre and the rise of Pauline Hanson's One Nation Party in the late 1990s. Chey observed that although official cultural exchanges suffered during this period 'the real force emerging as the foundation of the relationship...was not government-led and government-directed, but people-to-people social contacts and cultural networks'. According to Chey, the development of relations during the 1990s were due to the active promotion of multiculturalism, and the expanding number of Chinese migrants to Australia who were keen to explore their cultural roots and national identity.¹⁰

16.14 Australia and China have shared a considerable history of cultural exchange since the initiation of diplomatic relations in 1972. According to the West Australian Symphony Orchestra, this history is of great significance to the bilateral relationship:

Mutually beneficial cultural exchange programs between Australia and China have been highlighted as an essential component of the relationship between the two countries, strengthening the political, social and cultural links.¹¹

16.15 When Mme Fu Ying visited Western Australia (WA) in April 2004, she commented on the responsibility incumbent upon both nations to continue to foster greater cultural understanding. According to the WA Department of Culture and the Arts, Mme Fu Ying and Cultural Counsellor Mr Wang Zhigang:

Made it clear that cultural exchange projects were highly important to the future of the trading relationship and that they hoped to see increased levels of cultural exchange to match the increased levels of trade.¹²

16.16 Various witnesses to this inquiry drew the committee's attention to the need for Australia to take a more proactive stance in cultural promotion and public diplomacy. The WA government underlined the need for increasing trading links to be met with growing cultural interaction.¹³ Dr Dawn Casey emphasised the importance of cultural exchange in promoting mutual understanding, the existence of real interest in China for Australian cultural product, and the need to spark a similar degree of interest for Chinese cultural product in Australia:

9 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, p. 172.

10 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, pp. 175–176.

11 West Australian Symphony Orchestra, *Submission P59*, p. 2.

12 WA Government, Department of the Premier and Cabinet, *Submission P45*, p. 4.

13 WA Government, Department of the Premier and Cabinet, *Submission P45*, p. 30.

A few years ago I took an Indigenous exhibition to Guangzhou, at their request, together with performers from the Torres Strait. There was an amazing outcome for Australia and for them—almost 30,000 people attended during the three-week visit. It seems to me that we need to do—and be supported to do...meaningful exchanges in cultural programs and create an awareness in the Australian population as much as within the Chinese population.¹⁴

16.17 Dr Casey outlined the types of areas in which meaningful cultural exchange could take place, ranging from museum exchanges, science exchanges, cultural conversations, explorations of joint histories, and public exhibitions in both Australia and China.¹⁵ She also noted that cultural exchange is a useful mechanism for bilateral dialogue and communication because it allows the expression of pride in ones cultural heritage and can avoid the pitfalls of other 'politicised' forms of engagement.¹⁶

Promoting China in Australia

16.18 Evidence to this inquiry has indicated that several organisations actively work to promote China awareness in Australia, through many different types of activities.

The Australia–China Council

16.19 The Australia–China Council (ACC) was established in 1978 to nurture the relationship between China and Australia and actively promotes cultural exchange.¹⁷ It has a very small budget of \$A740,000 per annum and comprises eight appointed members and a chair person. The ACC believes that the emphasis on cultural exchange programs should be on young Chinese and Australians, as 'the future relationship depends heavily on educating today's young people to understand each other'.¹⁸

16.20 The ACC has a residencies program, whereby people interested in encouraging the relationship between Australia and China may stay in an apartment in Beijing for up to three months. The residencies program is aimed at people involved in cultural projects, such as artists and writers. The ACC also has a residence

14 D. Casey, *Committee Hansard*, 1 August 2005, p. 19.

15 D. Casey, *Committee Hansard*, 1 August 2005, p. 19.

16 D. Casey, *Committee Hansard*, 1 August 2005, pp. 29–30. Ms Dysart, on behalf of the ACC, also underlined the importance of cultural exchange to the bilateral relationship. It is only through direct experience of each other's cultural values that we can get to know each other and trust each other so that there are no misunderstandings and we can move forward in our business dealings, *Committee Hansard*, 29 June 2005, p. 32.

17 D. Dysart, *Committee Hansard*, 29 June 2005, p. 32.

18 D. Dysart, *Committee Hansard*, 29 June 2005, p. 32.

relationship with the University of Hong Kong. The ACC is about to trial a new program, whereby successful applicants receive an accommodation subsidy.¹⁹

16.21 Ms Dysart told the committee that the independence of the ACC from government allows it to engage on politico-cultural issues with a degree of freedom. The ACC has established the Alice Tay Award for Human Rights, awarded to an Australian applicant who has contributed substantially to furthering understanding of human rights issues in China. The ACC also brought the director of the film *Blind Shaft* to Australia to attend the Sydney Film Festival. *Blind Shaft*—although not screened widely in China—provided information about mine disasters in China. According to Ms Dysart:

[the film screening] was an opportunity for Australians to see not only what is being produced in China culturally but also the problems. I also think that, in its own small way, it sends a signal to China of how Australia feels about those sorts of human rights issues. We do things like that. The reason we can is that we are separate from government and people do not question it.²⁰

Asialink

16.22 Asialink has had a 15 year involvement with public diplomacy, developing Asia–Australia relations, with an emphasis on the people-to-people aspect of bilateral and regional relationships.²¹ It believes that public diplomacy promotes stronger bonds and contributes to the balance of relations. The underlying aim of its policies is to enhance Australia's understanding of the region using 'education' in the broadest sense of the term.²²

16.23 According to Ms Jennifer McGregor, Executive Director of Asialink, China has been a significant focus of Asialink's work, especially in the past few years.²³ She stated that Asialink's successful arts program has provided a 'template' for the establishment of other bilateral person-to-person links in the public policy sphere, especially in the areas of mental health and water use.²⁴ Thus it would seem that initial cultural links have paved the way for a number of other links to be formed across a variety of sectors. Asialink also conducts a 'Conversations' project, where it brings next-generation leaders from Asia and Australia together to discuss major issues, allowing the formation of personal links between future decision-makers.²⁵

19 D. Dysart, *Committee Hansard*, 29 June 2005, pp. 33–34.

20 D. Dysart, *Committee Hansard*, 29 June 2005, p. 39.

21 J. McGregor, *Committee Hansard*, 27 June 2005, p. 51.

22 J. McGregor, *Committee Hansard*, 27 June 2005, p. 63.

23 J. McGregor, *Committee Hansard*, 27 June 2005, p. 51.

24 J. McGregor, *Committee Hansard*, 27 June 2005, p. 55.

25 J. McGregor, *Committee Hansard*, 27 June 2005, p. 56.

The Confucius Institute

16.24 Dr Gary Sigley indicated that, in addition to the role the Confucius Institute will perform in promoting the study of Chinese languages, it will also assume a role in promoting Chinese culture. Dr Sigley stated that the Institute could work with the Chinese Embassy and the Perth International Arts Festival to bring out internationally prominent cultural troupes from China, and would participate in events within the Western Australian cultural calendar whenever possible. Dr Sigley also raised the possibility of working with the Australia–China Council to facilitate an exchange program for artists and writers.²⁶

Other institutions

16.25 The Media Entertainment and Arts Alliance informed the committee that during 2003, a number of Chinese commercial live performance companies toured Australia. Chinese performers and live performance companies also participated in some of Australia's major performing arts festivals. Australian audiences have also enjoyed the performances of a number of Chinese circus companies.²⁷

Promoting Australia in China

16.26 A number of organisations are involved in promoting Australian culture in China. The Department of Communications, Information Technology and the Arts (DCITA) informed the committee that in 2002, Australia was invited to present a week long cultural program at the China Shanghai International Arts Festival.²⁸ According to DCITA:

Australia's image as an innovative and sophisticated country was highlighted through a showcase of contemporary arts which introduced Chinese audiences to a wide range of arts genres from street theatre, contemporary dance, orchestral music, circus, physical theatre, new media arts, visual arts and documentary film.²⁹

16.27 DCITA also informed the committee that the Australian film industry has a strong reputation in China—especially in post-production. The Federal Minister for the Arts and Sport, Senator the Hon Rod Kemp, announced in July 2005 that 10 leading Australian feature films would be presented in Beijing, Shanghai and Guangzhou as part of a series of Australian film festivals. It is intended that the festivals will lead to increased bilateral cooperation between Australian and Chinese film makers. A treaty in bilateral film co-production is currently being negotiated, with the same purpose. The Minister stated:

26 G. Sigley, *Committee Hansard*, 1 August 2005, p. 68.

27 Media Entertainment and Arts Alliance, *Submission P44*, pp. 16–17.

28 DCITA, *Submission P62*, p. 5.

29 DCITA, *Submission P62*, p. 5.

Australia's film industry produces top quality films enjoyed around the world. But Australian films are relatively unknown to Chinese audiences. We plan to change that.³⁰

16.28 The Media Entertainment and Arts Alliance (Alliance) noted that whilst Chinese cultural performers come to Australia fairly frequently, 'conversely, Australia's performing arts companies have rarely been to China.'³¹ The Alliance observes that groups such as Circus Oz and the Flying Fruit Fly Circus have both brought Chinese artists to Australia to train with their performers, but neither circus has ever performed in China. Similarly, Opera Australia has not been seen in China.

16.29 The Alliance noted that dance is one area where Australia has a higher profile. The Sydney Dance Company was the first western modern dance company to perform in China. In 1985, the Company performed in four Chinese cities, and was invited to do so again in 1998. In 2002 they were invited to perform at the Shanghai International Festival of the Performing Arts. The Australian Ballet has also toured China four times in 1993, 1996, 1999 and 2001.³²

16.30 The Melbourne Symphony Orchestra toured China in 2002 as part of celebrations to mark the 30th anniversary of the establishment of diplomatic relations between Australia and China.³³

16.31 The Australia–China Council (ACC) outlined its support for Australian studies centres in 25 universities throughout China. It considers that these centres are an important part of its program.³⁴ The ACC provides grants for a number of projects.³⁵ It also supports a biannual Australian Studies Conference in China. The 2004 conference was held in Xuzhou and was themed 'Australia and Globalisation'.³⁶

30 Media Release: 'Australian films to feature at Australia-China film co-production seminar', 12 July 2005, <http://www.minister.dcita.gov.au/kemp/media/mediareleases> (accessed 29 August 2005).

31 Media Entertainment and Arts Alliance, *Submission P44*, p. 17.

32 Media Entertainment and Arts Alliance, *Submission P44*, p. 17.

33 See <http://www.arts.voc.gov.au/arts/general/archive/release/16mso.htm> (accessed 30 August 2005).

34 D. Dysart, *Committee Hansard*, 29 June 2005, p. 34.

35 Australian–China Council, *2003–2004 Annual Report*, p. 11. In 2003–04, Australian studies centres in China published 12 books and more than 40 articles in academic journals. It had over 70 academics researching and teaching Australian studies; taught more than 60 PhD or Masters students writing Australian studies theses; and taught more than 1700 university students doing courses in Australian studies.

36 Australian–China Council, *2003–2004 Annual Report*, p. 10.

The WASO – A case-study in soft diplomacy/cultural exchange

16.32 In its submission, the West Australian Symphony Orchestra (WASO) detailed its upcoming tour of China. The committee considers that WASO's activities are an ideal case study for examining the benefits that can flow from cultural exchange.

16.33 The WASO claims that the timing of the proposed tour in May 2006 is 'absolutely unique within the historic trade negotiations between our two countries', claiming that the tour would offer significant and important economic, as well as cultural, returns to Western Australia.³⁷ The tour will also coincide with the first shipment of North West Shelf gas to China.

16.34 The orchestra will have two concerts each in Beijing and Shanghai, with single concerts in Hangzhou, Guangzhou, Shenzhen and Hong Kong.³⁸ WASO has indicated that these cities have been chosen because they represent the key cities offering business development opportunities to Australia. They also reflect Perth's sister-state relationship with the Zhejiang Province. In its view arts and culture have a vital role in developing long lasting bonds between people and regions:

...They help to promote understanding and respect for cultural differences and are invaluable assets in creating goodwill, which is essential to the establishment of mutually beneficial trade relations.³⁹

16.35 WASO's submission identified a number of benefits for WA broadly broken down into two categories: 'diplomatic' and 'cultural'. Amongst the diplomatic benefits arising from the tour, WASO stated that it would:

- provide a celebratory offering to China in recognition of the unique and valuable relationship between our two countries;
- showcase many of WA's attributes to the Chinese audience;
- provide a venue and opportunity for WA government officials to develop closer relationships with their Chinese counterparts;
- provide a context for the celebration of the negotiations for a proposed FTA, demonstrating the opportunities for culture and tourism; and
- facilitate meetings of government delegations, business, organisations, and individuals in an informal and relaxed environment where hospitality can be offered and relationships built.⁴⁰

16.36 Amongst the cultural benefits, WASO claims that the tour would continue a major cultural exchange program between the two nations, demonstrate an

37 West Australian Symphony Orchestra, *Submission P59*, p. 2.

38 West Australian Symphony Orchestra, *Submission P59*, p. 2.

39 West Australian Symphony Orchestra, *Submission P59*, p. 2.

40 West Australian Symphony Orchestra, *Submission P59*, p. 7.

unprecedented level of arts and business partnership, and could also be linked into the lead-up events to the 2008 Beijing Olympic Games.⁴¹

16.37 The committee congratulates the WASO on working so effectively with the various government, business and cultural stakeholders to arrange the tour, and wishes it every success in 2006. The committee hopes that events such as this will become a regular occurrence.

Other links

16.38 Victoria has actively promoted cultural relations through sister-state links. In October of 2004, as part of celebrations to mark the 25th anniversary of the sister-state relationship between Victoria and Jingsu, a tapestry was commissioned from the Victorian Tapestry Workshop for display in the new Nanjing Library. Announcing the initiative, Premier The Hon Steve Bracks MP stated that it would also 'weave in well with the sister-institution link between Nanjing Library and the State Library of Victoria'.⁴²

16.39 The National Library of Australia (NLA) informed the committee that its Chinese language collection is the largest in Australia, comprising some 250,000 monographs, 5,100 serial titles, 250 newspaper titles, 10,000 reels of microfilm and 15,000 sheets of microfiche in Chinese, as well as a number of online resources. The NLA stated that the collection's emphasis is on modern and contemporary China. In 2004, the NLA celebrated its China collection with a public exhibition entitled *Xanadu: Encounters with China*:

The exhibition, based on some 150 items chosen exclusively from the Library's collections, was viewed by over 23,000 visitors. They were able to gain a greater understanding of the history of China and its society through the drawings and photographs depicting all aspects of court and street life from the 13th century to the eve of World War II in 1939.⁴³

16.40 The NLA stressed the importance of people-to-people links in facilitating its relationships with Chinese libraries, such as the National Library in China, the National Central Library in Taipei, and over 50 other Chinese libraries and institutions. Formal delegations, informal visits and staff exchanges from Chinese library staff form an important part of the NLA's relationship with China. The NLA also indicated that it has a cordial relationship with the Embassy of the People's Republic of China in Canberra. In March 2005, the Embassy presented the NLA with a replica of a Chinese terracotta warrior that has been placed on display in the Asian collections reading room.⁴⁴

41 West Australian Symphony Orchestra, *Submission P59*, pp. 7–8.

42 See <http://www.arts.vic.gov.au/arts/news/media/22Tapestry.htm> (accessed 30 August 2005).

43 National Library of Australia, *Submission P32*, p. 1.

44 National Library of Australia, *Submission P32*, p. 1.

Sport

16.41 According to the WA government's submission, Australia and China are two of the world's top five sporting nations.⁴⁵ Sporting interaction can lead to a number of positive benefits—social, political, and economic.

General sporting links

16.42 The Chinese government has always understood the value of political and cultural communication through sport. Chey observed that in the 1970s, when the Chinese Communist Party sought to improve its image overseas, it embarked upon 'ping pong diplomacy':

Chinese table tennis delegations were dispatched to various western countries, including Australia, where they received extraordinary reception—not so much from sports enthusiasts as from the general public...Many were prepared to accept uncritically the political olive branch offered by the table tennis delegations without questioning more deeply what China's public diplomacy objectives might be...the Chinese cultural efforts did succeed in breaking down some of the barriers between the two societies—so much so that a cultural 'open door' policy began to emerge in the 1970s, well before its economic counterpart.⁴⁶

16.43 Mr Mike D'Arcy observed that Australian sport has gained considerably from interaction with Chinese sports people. Australian gymnastics, table tennis, volleyball, and badminton have all benefited from the involvement of Chinese coaches and players.⁴⁷ Similarly, Chinese yachting, rugby union, golf, horse racing, and track and field have benefited from interaction with Australian sportsmen and women.⁴⁸

16.44 Aside from elite sporting interaction, Mr D'Arcy has identified social sport as an area where significant advances could be made in the relationship between Australia and China. He is of the view that Australia is in a strong position to significantly contribute to the Chinese government's programs aimed at increasing the uptake of social sport.⁴⁹

16.45 The WA Department of Sport and Recreation also provided the committee with detail concerning WA's sporting interaction with China, and the benefits that can

45 WA Government, Department of the Premier and Cabinet, *Submission P45*, p. 1.

46 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, pp. 166–167.

47 Mike D'Arcy 'China-Australia Sporting Relations: History and Prospects', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Melbourne, 1996, p. 157.

48 Mike D'Arcy 'China-Australia Sporting Relations: History and Prospects', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Melbourne, 1996, p. 157.

49 Mike D'Arcy 'China-Australia Sporting Relations: History and Prospects', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Melbourne, 1996, pp.158–161.

arise from sporting interaction including the promotion of WA as a tourist destination.⁵⁰ For example, in June 2005, Basketball Australia announced a new four-nations tournament that is part of Basketball Australia's drive to forge stronger relations with Asian basketballing nations. It is hoped that the tournament 'will become an annual feature of the international basketball calendar, with Australia and China hosting the event on a rotational basis'.⁵¹

The 2008 Beijing Olympic Games

16.46 The 2008 Olympics provides opportunities for a new level of cooperation between Australia and China, and should serve to enhance considerably the sporting and broader bilateral links between the two nations. In a speech delivered in China in 2003, Sydney Olympics CEO, Mr Sandy Hollway stated:

International relations is not only about the conduct of political and economic affairs between Governments and businesses. It must also be underpinned by the sort of deep international understanding that can only come from closer and closer relations between people. The Olympic games is the most successful popular embodiment of internationalism yet invented by human beings...Because Australia hosted the most recent Summer Games; because we did so successfully; because there are lessons to be learnt; and because we have companies, government agencies and individuals with a proven track record, Australia is in a uniquely good position to help.⁵²

16.47 In its submission, DCITA provided information on the 2005 MOU between the Australian Sports Commission and China's State General Administration of Sport. The MOU identified the key areas of future cooperation between Australian and Chinese sporting organisations, coaches, athletes and administrators in the lead up to the 2008 Beijing Olympics and beyond. They include:

- greater cooperation and communication on international sports issues;
- facilitation by both peak bodies of greater direct links between national sporting organisations in Australia and China;
- encouragement of more cooperation and exchange between researchers in the fields of sport education, science, research and medicine;
- a joint commitment to working against doping and violence in sport, including a closer working relationship between the respective anti-doping bodies in both countries; and

50 WA Government, Department of the Premier and Cabinet, *Submission P45*, p.1.

51 Mr Scott Derwin, <http://sportsaustralia.com/articles/jun05/artid3279.html> (accessed 29 August 2005).

52 Media Release: 'The Australia China Oration Series 2002', <http://www.austemb.org.cn> (accessed 29 August 2005).

- support for cooperation on training of sports administrators, coaches and athletes.⁵³

16.48 DCITA also outlined the Cooperation Memorandum between the Australian Sports Commission and the Beijing Sports Bureau. This agreement outlines activities of interest for Australia in partnership with China. The Memorandum proposes a number of mutual activities between the two countries, namely: athlete training exchange; cooperation and collaboration in applied research projects; and staff (coach/scientist) exchanges.⁵⁴

16.49 In November 2004, the Australian Olympic Committee also signed an MOU with Chinese Olympic officials to facilitate cooperation in the lead up to the 2008 Games. This agreement allows for athletic exchanges, participation in bilateral and multilateral competitions, and exchange of training expertise.⁵⁵ Australia swimmer, Grant Hackett commented:

It's definitely an advantage to us...there are certain things that we can learn off the Chinese, even in [the pool] and you know, we've seen how much in gymnastics and particularly diving, that we've moved forward, and that was learning from the Chinese.⁵⁶

16.50 Some commentators envisage long-term changes taking place because of the Olympic Games. Dr Jie Chen was cautiously optimistic about the positive impact that the Olympics would have on democratisation and Chinese civil society growth.⁵⁷ He claimed that the growth in government-supported volunteerism in preparation for the Olympics 'in many unexpected ways justifies activism by the citizens after the event.' Dr Chen drew parallels with the 1995 International Women's Conference:

It feels like the 1995 women's conference in Beijing. Most Chinese activist women's organisations were spawned by the event. They did not exist before the 1995 conference. Some of them were not allowed to continue but some still went on. So that is a scenario I can predict for the 2008 Olympic Games. I think overall it is positive. Looking at the Seoul Olympics, they had a similar impact on civil society in South Korea. The government likes to pretend that everything is going to be great, exactly like other Olympic Games in terms of citizen volunteerism or whatever, and after the event everything will cool down a bit because of political pressure placed on

53 DCITA, *Submission P62*, p. 7.

54 DCITA, *Submission P62*, p. 7.

55 John Taylor 'Correspondents Report—Australia seeks sporting ties with China' 7 November 2004, <http://www.abc.net.au/correspondents/content/2004/s1236242.htm> (accessed 29 August 2005).

56 John Taylor 'Correspondents Report—Australia seeks sporting ties with China' 7 November 2004, <http://www.abc.net.au/correspondents/content/2004/s1236242.htm> (accessed 29 August 2005).

57 J. Chen, *Committee Hansard*, 1 August 2005, p. 82.

citizen groups. But then you will see that there have been one or one and a half steps forward. I am very hopeful.⁵⁸

16.51 The committee considers that sport provides an ideal vehicle for cultural communication between China and Australia. Both nations are justifiably proud of their sporting achievements, and will grow stronger through exchange and cooperation.

Getting the message across?

16.52 Despite the success of many cultural and sporting initiatives, there is considerable scope for improvement. Although the work currently being done by various organisations is contributing to the positive direction of the bilateral relationship, as Ms Dysart stated:

We should be doing it on a much bigger scale. We should be sending far more people and putting much more resources into this people-to-people relationship.⁵⁹

16.53 Most organisations active in promoting Australian culture and sports would like more funding. The ACC, which receives a lot of applications for general funding, indicated that, with more funding, it would be able to provide seed funding for many more bilateral activities:

For example, we gave the West Australian Ballet \$10,000 in our last funding round. The total budget for their project, which was to tour *La Bohème* through China, was over \$200,000. But what can often happen with a small amount of money is that it can give it a kind of official endorsement and encourage corporate sponsorship. We are working at that sort of level, but obviously, if we had more money, we could be much more effective. We reject a lot of applications.⁶⁰

16.54 Jocelyn Chey claimed that the beginning of the new century has not provided an encouraging environment for the development of Australian cultural relations with Asia, in general, and China in particular:

All too often cultural exchanges have been replaced by exchanges of trade significance. One reason for this shift is probably because these exchanges do not impinge on the problem of national identity. Another is that they suit the materialist spirit of the age, which values all academic and cultural activities in commercial terms. In keeping with this, trade is now the dominant theme of bilateral relations with China.⁶¹

58 J. Chen, *Committee Hansard*, 1 August 2005, p. 83.

59 D. Dysart, *Committee Hansard*, 29 June 2005, p. 35.

60 D. Dysart, *Committee Hansard*, 29 June 2005, p. 35.

61 Jocelyn Chey, 'From Rosny to the Great Wall: Cultural Relations and Public Diplomacy', Nicholas Thomas (ed.), *Re-Orienting Australia China Relations*, p. 178.

16.55 The committee notes that much of the evidence provided by the Federal government on the promotion of culture and sport in China has focussed on commercial gain, rather than on the inherent value that such activities play in fostering general good will and understanding. The committee would like to see a move away from this emphasis toward a greater recognition that the prospects for future interaction also depend on filial relationships and mutual understanding.

The contribution of Chinese-Australian community groups

16.56 The committee is aware of the presence of a variety of Chinese–Australian community organisations that promote the bilateral relationship, as well as contributing to and culturally enriching Australia.

16.57 Chung Wah has been in existence for 96 years, and is the oldest ethnic organisation in Western Australia. It provides social welfare services, looking after over 300 seniors from the Chinese, Vietnamese and Cambodian ethnic communities. Chung Wah has developed such a strong reputation for the provision of high-quality services to the community, that the federal government provides funding for their support programs:

We are one of the most reputable service providers in Western Australia. It was the initiative of the Department of Immigration in Western Australia to ask us to take over looking after the welfare of the Cambodians. From there we went on to the Vietnamese. The idea is that Chung Wah has matured as a Chinese community organisation; it is time that we extend our services to other Asian groups.⁶²

16.58 Chung Wah takes an active role in promoting traditional Chinese culture, acts 'as a bridge for new Chinese migrants to embrace Australian culture so as to integrate with mainstream Australia', and also runs a weekend school attended by over 1000 Chinese and non-Chinese students.⁶³ For example Mr Richard Tan, President of the Chung Wah Association, told the committee that he had led a delegation to the city of Fuzhou to attend a conference on the voyages of Admiral Zheng, thought to have visited Australia some 600 years ago. Chung Wah also has strong links to the Chinese Government, and its representatives in Australia. Mr Tan stated:

We have a very close relationship with China in terms of education, cultural links and so on. Our textbooks in the Chinese school are all donated by the Chinese government.⁶⁴

16.59 Chung Wah also has links to the All China Federation of Returned Overseas Chinese, a Chinese Government Organised Non-Government Organisation

62 R. Tan, *Committee Hansard*, 1 August 2005, p. 37.

63 R. Tan, *Committee Hansard*, 1 August 2005, p. 33.

64 R. Tan, *Committee Hansard*, 1 August 2005, p. 39.

(GONGO), forming a bridge between the Chinese-Australian community and Chinese migrants that have returned to China.

Recognising our Chinese–Australian history

16.60 The Federation of Ethnic Communities' Councils of Australia recognised the 'significant contribution that Chinese immigrants have made to Australia from the early gold rush days'.⁶⁵ Professor John Fitzgerald likewise noted the place of Chinese in Australia's early development. He told the committee that at the end of the Second World War there were about 15,000 Australians of Chinese ethnic background. Today there are roughly 500,000, of whom about 40 per cent can claim to have relatives in or be linked to the People's Republic of China. Professor Fitzgerald highlighted the immense and enduring contribution the Chinese Australian community has made to economic relations, cultural relations and social or people-to-people relations between Australia and China. However, he noted the general lack of awareness in the broader community of the contribution Chinese Australians have made to this country's progress.

Is not always as widely recognised as perhaps it should be. In particular, immigrants from the People's Republic of China...are highly skilled and educated. They are ideal citizens for a knowledge driven economy. The question I would pose is: how welcome do they feel, how much do they feel a part of Australian public life and how widely is their contribution recognised? Are they recognised as free and equal partners in Australian citizenship?⁶⁶

16.61 He noted that, in addition to being educated about China, Australian children should also be taught about the important role the Chinese had in building Australia:

...we need to pay greater attention to our own Chinese Australian history and to our own Chinese Australian society and the role it plays in linking Australia to Asia at the present time, about which very little is known. The role played in Australia's business by social, cultural and business leaders from Australia's various Chinese ethnic communities is absolutely instrumental, and very little attention is paid to it.

...In Australia there is a sense that we still cling to an old notion of white man goes to Asia doing business. That is not how it is happening. Elements of that story could be recast to make Chinese-Australians and, more broadly, Asian-Australians feel more welcome and more widely recognised for the very important role they play in Australia's relations with China and the region.⁶⁷

16.62 Professor Fitzgerald considered that the growth of Asian–Australian communities is as important to Australia's future as good international relations with

65 Federation of Ethnic Communities' Councils of Australia, *Submission P14*, p. 1.

66 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 79.

67 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p.80.

Asian communities abroad. Whilst acknowledging the importance of submissions that consider the international aspects of improving Australia's bilateral relations, Professor Fitzgerald added:

I believe that we will do wonders for our relations with China by working closely with our Chinese–Australian communities. At the present time they are the key to the economic and social linkages with China. To ignore them and imagine that white men in pith helmets are still wandering around the jungles of Asia dealing with this relationship is beyond its use-by date. In my view, we have got to embrace and welcome Asian–Australian communities.⁶⁸

16.63 Furthermore, Professor Fitzgerald considered it is also very important that Australia's new Asian–Australian communities are taught that Australian history has always had a part for Asia. As an example, he suggested that the achievements of Chinese Australians in the 19th and 20th century should be promoted, stating:

It is little known here that China's modern commercial revolution in Shanghai was built by Australian Chinese. The four great department stores on Nanking Road are all built by Sydney Chinese. If you visit Shanghai now—I will take you to the commercial heart—you will not find anybody who is Australian who can tell you, 'This was built by Sydney Chinese: the Kwok family, the Chen family, the Lee family and the Ma family.' Their descendants are still in Australia; they know that story, but no-one else does.

16.64 Professor Fitzgerald asserted that there are many other accounts of a similar nature that could be told about Australia and its historical relations with China that have been mediated by our Australian–Chinese communities. He claimed, however, that in a sense 'they have been rubbed out of the story as well as rubbed out of the immigration quota.' He stated:

I think if there is a policy initiative to come out of this, it ought to be to put Asian Australia back into our history and give it the credit it is due. There are marvellous stories and accounts to be told which would stand Australia in very good stead in China if they were told.⁶⁹

16.65 He argued that providing information about the contribution of Chinese Australians to both the Chinese and Australian communities would play an important role in building links with new Asian and Chinese Australian migrant communities:

One can go to Shanghai and learn that Nanking Road—the greatest shopping centre in Asia—was built by Australian Chinese from Sydney. You can learn that there but you would not learn it here, and I think that is a very great pity. Education is one area in which, not by undertaking propaganda exercises but by simply restoring to our history some of the stories that have been erased from it, we would make a great contribution to

68 J. Fitzgerald, *Committee Hansard*, 27 June 2005, pp. 88–89.

69 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 88.

welcoming new Chinese Australians and Asian Australians into a story that has always had a place for them, even if people sometimes want to rub it out.⁷⁰

Recognising and appreciating the Chinese community in Australia

16.66 Evidence to this inquiry suggests that Australia may not adequately value the presence of the Chinese–Australian community. Members of the Chinese–Australian community already have extensive personal networks back in China that Australian companies, government agencies and cultural organisations do not fully appreciate. Ms Valerie Kelly put the situation simply:

We do not do enough to maintain those links or to see where they have gone to and how we capture them. A lot of business migrants who have used Australia are now back in their old countries and we are not doing enough to capture that...By and large, I have taken time to talk to Chinese in Australia—such as people selling groceries, or students. There is an affinity with Australia and Australians that we are not doing enough to tap into.⁷¹

Recommendation 24

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

Conclusion

16.68 Public diplomacy, cultural and sporting interaction, promotes awareness of China and, at a broader societal level, mutual understanding. It fosters a greater awareness of the Chinese–Australian community's contribution to Australia and encourages greater tolerance and understanding. It builds bridges between the two countries. The committee believes that the Australian government should continue to demonstrate its support for public diplomacy including ensuring that there is adequate funding for the cultural and sporting organisations actively engaged in establishing and maintaining their links with China.

16.69 The committee also considers that the Australia government could do more to ensure that the contribution of the Chinese–Australian community to Australia's development is afforded due recognition. Currently the committee believes that this is a neglected area.

70 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 89.

71 V. Kelly, *Committee Hansard*, 1 August 2005, p. 21.

Chapter 17

Science and technology

An important new dynamic in the next half decade will be the revolution in science and technology. The government is pouring funds into R&D on a scale likely to propel China further and faster on its development trajectory than most observers currently estimate.¹

17.1 Collaborative scientific activity is an often-understated aspect of the relationship between Australia and China. This chapter considers China's growing influence in international science and technology and examines the extent of Australia's current links with China, the benefits arising from these links, and the potential for strengthening and expanding the relationship.

Chinese science and technology

17.2 All science-related submissions to this inquiry commented on China's growing international influence and the scale of its investment in scientific endeavour. The Department of Education, Science and Training's (DEST's) submission stated:

China's emergence as a world player in science and technology over the last decade has been spectacular. Much has been written about its drive towards technological and economic supremacy.²

17.3 According to DEST, China's research and development intensity doubled between 1996 and 2002. In terms of absolute expenditure, in 2002 it ranked third in the world, spending \$US72 billion on research and development, behind only the USA (\$US277 billion) and Japan (\$US107 billion).³ China's investment in research and development as a proportion of GDP has also doubled from 0.6 per cent in 1994 to 1.2 per cent in 2002. In the same period, US spending rose from 2.51 per cent to 2.67 per cent, and Australia's rose from 1.58 per cent to 1.62 per cent.⁴

17.4 China is investing heavily in technological infrastructure, reorienting itself to become technologically competitive and increasing the technical and human resources devoted to manufacturing products. China is also dedicating significant resources to higher education, increasing technology-intensive exports, and experiencing rapid growth in foreign investment in research and development.⁵

1 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, p. 2.

2 DEST, *Submission P30*, p. 15.

3 DEST, *Submission P30*, Attachment 1, p. 1. See also OECD *Science and Technology Industry Outlook*, vol. I (2004), no. 76, p. 21.

4 DEST, *Submission P30*, Attachment 1, p. 1.

5 DEST, *Submission P30*, Attachment 1, pp. 1–2.

Sino-Australian linkages in science and technology

17.5 It is against the backdrop of rising Chinese investment in science and technology that the committee has considered the nature and extent of current Sino–Australian linkages. In its 1996 report, the committee recognised that scientific and technological exchanges helped to build long term contacts in China, dispelled images of Australia as a primary producing nation, and often led to commercial spin-offs.⁶

17.6 Since 1996, it would seem that much has been done to strengthen the scientific links between Australia and China. The committee considers that this is a valuable aspect of the bilateral relationship that should be developed further.

The extent of current linkages

17.7 Current collaborative links between Australia and China are based on the efforts of many different entities in the scientific community, including the Department of Education, Science and Training (DEST), the Department of Environment and Heritage (DEH), the Australian Academy of Science, the Australian Academy of Technological Sciences and Engineering, CSIRO, the Australian Research Council, and individual researchers and institutions. The committee received submissions from many stakeholders in the scientific community. The Chinese Embassy also commented on the extent of the relationship in science and technology.

Department of Education, Science and Training

17.8 DEST regards China as a priority partner for bilateral collaboration, due to the level of Australian research agency interest in China and China's growing influence in international science and technology.⁷ It is the key implementing agency for a number of national agreements with China including the Treaty on Cooperation in Science and Technology; an MOU on Cooperation in Science and Technology; and an MOU on Establishment of a Special Fund for Scientific and Technological Cooperation.

17.9 The Chinese Ministry of Science and Technology is DEST's key bilateral partner. DEST also liaises with the National Natural Science Foundation of China and the Chinese Academy of Science. Its activities mainly centre on raising Australia's science and technology profile. It manages the Joint Science and Technology Commission (JSTC), which provides a forum for high-level dialogue between key policy makers, research agencies and funding agencies.⁸

17.10 It funds the International Science Linkages (ISL) Program. The ISL aims to increase the uptake of leading edge science and technology by promoting access to and participation by Australian researchers in strategically focussed international

6 Senate FADT References Committee, *Australia China Relations*, June 1996, pp. 152–153.

7 H. Borthwick, *Committee Hansard*, 14 June 2004, p. 24.

8 DEST, *Submission P30*, p. 17.

scientific research and technology. DEST also provides competitive funding to the network of Cooperative Research Centres (CRCs) throughout Australia and liaises with a variety of Australian organisations that have an interest in Chinese science and technology.⁹ The National Science and Technology Centre (Questacon) also has a good working relationship with its counterpart organisation, the China Science and Technology Museum in Beijing.

17.11 DEST supports two counsellors based in Beijing and Shanghai. The Counsellors maintain contact with Chinese authorities and provide advice to DEST on Chinese science and technology issues. DEST informed the committee that the Chinese Embassy in Canberra also has dedicated science personnel, including a science and technology counsellor.

17.12 DEST participates in regular high-level bilateral visits. Several significant visits occurred during 2003, including the visit to China by the Minister for Education, Science and Training, the Hon Dr Brendan Nelson MP and visits to Australia by Dr Wu Zhongze, Chinese Vice-Minister for Science and Technology and Professor Lu Yongxiang, President of the Chinese Academy of Science.¹⁰

Department of Environment and Heritage

17.13 The Department of Environment and Heritage (DEH) has a significant amount of scientific interaction with China, based predominantly around environmental protection initiatives. Under the Declaration on Bilateral Cooperation on Climate Change—signed in September 2003—Australia and China cooperate in climate change science.¹¹ Australia also works with China under the China–Australia Migratory Bird Agreement. An MOU also exists between the Australian Bureau of Meteorology and the Chinese Meteorological Administration.¹² DEH states that Australia also enjoys a high level of engagement with China on Antarctic affairs.¹³

The Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering

17.14 In their joint submission, the Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering (the Academies) highlighted the 'increasingly strong links in science and technology between Australia

9 Including CSIRO, Australian Research Council, Australian Centre for International Agricultural Research, Australian Vice-Chancellors' Committee, National Health and Medical Research Council, Australian Academy of Science, Australian Academy of Technological Sciences and Engineering, and the Department of Industry, Tourism and Resources.

10 DEST, *Submission P30*, p. 18.

11 DEH, *Submission P27*, p. 4.

12 DEH, *Submission P27*, pp. 5–7.

13 DEH, *Submission P27*, p. 8.

and China'.¹⁴ They asserted that these links are being fostered by recognition of their importance at levels that include governments, research institutes and universities, and individual scientists.¹⁵ Professor Andrew Smith, from the Australian Academy of Science, indicated that the Academies perform a role in promoting the bilateral relationship, through interaction with equivalent academies in China, involvement in high level mutual understandings, brokering MOUs, and running exchange programs.¹⁶

17.15 According to the Academies, recent examples of successful and growing linkages between Australia and China in science and technology include:

- DEST-funded programs to facilitate bilateral links;
- an inbound delegation from the Chinese Academy of Science (CAS), that resulted in the establishment of a series of high-level Australia-China planning symposia;
- the election of a member of the Chinese Academy of Sciences as a corresponding member of the Australian Academy of Science;
- a growing number of individual agreements for collaboration between Australian universities and institutes and their Chinese counterparts;
- an increase in the number of post-doctoral and post-graduate Chinese researchers working in Australia; and
- the signing of an MOU between the Polar Research Institute of China, the Australian Antarctic Division, and the University of Newcastle to undertake research in atmospheric and space physics.¹⁷

Commonwealth Science and Industrial Research Organisation

17.16 The Commonwealth Science and Industrial Research Organisation (CSIRO) outlined the extensive level of engagement that it has had with China since its first official interaction in 1979.

17.17 In 2003–04, CSIRO was involved in 52 projects funded by the Australian Centre for International Agriculture Research (ACIAR); 13 projects funded by AusAID; and 63 other projects, all of which had links with China. CSIRO's recent interactions with China led to 41 joint publications in 2003 and 47 joint publications in 2004. CSIRO also has 322 employees who speak either Mandarin or another

14 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 1.

15 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 1.

16 A. Smith, *Committee Hansard*, 20 June 2005, p. 14.

17 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 3.

Chinese dialect, 248 of whom were born in China.¹⁸ Over \$A24 million has been invested in joint research projects between CSIRO and over 170 Chinese organisations since the 1980s.¹⁹ CSIRO indicated that collaboration with China tends to be particularly efficient in fields such as agricultural research, mineral exploration, and water and land conservation.

17.18 CSIRO stated that its strategy for the medium to longer term is to expand the sphere of interaction in China. It is currently building on the success of a high-level CSIRO delegation visit to the Chinese Ministry of Education and the Ministry of Science and Technology (MOST), and negotiating an MOU of collaboration with MOST. It signed an MOU with the Ministry of Education in March 2005. These two MOUs will give CSIRO more access to opportunities of collaboration with Chinese universities, key research laboratories and national research agencies.²⁰

The Australian Research Council

17.19 The Australian Research Council (ARC) undertakes activities in three broad areas:

- supporting the best research which is most likely to contribute to innovation;
- brokering partnerships among researchers, industry, government, community organisations and the international community; and
- providing policy advice to the Australian government on investment in the national research effort.²¹

17.20 In 2002 it supported 2,725 international collaborations with researchers from 56 countries. Collaborations with researchers in China ranked equal sixth, with a three per cent share of all collaborations.²² The ARC cited 197 projects it currently supports that involve Chinese partners. The projects are extremely broad-ranging and although the majority involve science and technology, a significant number are in the social sciences.²³

The Embassy of the People's Republic of China

17.21 In their submission, the Embassy of the People's Republic of China in Australia drew attention to the considerable bilateral activity occurring in science and technology.²⁴ They acknowledged the extent of technological development in both

18 CSIRO, *Submission P38*, p. 3.

19 CSIRO, *Submission P38*, p. 4.

20 CSIRO, *Submission P38*, p. 8.

21 ARC, *Submission P71*, p. 1.

22 ARC, *Submission P71*, p. 1.

23 ARC, *Submission P71*, pp. 2–22.

24 Embassy of the People's Republic of China in Australia, *Submission P66*.

nations and claimed that there is great potential for increased collaboration, owing largely to the complementarity of the two nation's areas of scientific expertise.²⁵ Since the two countries signed an Intergovernmental Technology Cooperation Agreement in May 1980, exchanges between technological personnel have increased and the scope for cooperation has expanded.²⁶ They drew attention to five China–Australia Technological Cooperation Joint Committee Conferences that have determined over 70 official projects in fields covering agriculture, nuclear technology, metallurgy, geology, meteorology, space, telecommunication, environment, material, biology, pharmaceutical and health, traditional Chinese medicine and fundamental science.²⁷

17.22 The Embassy noted that China and Australia have agreed to conduct annual talks (in addition to the current tri-annual bilateral conference) to explore additional areas for scientific cooperation. Recently there has been significant cooperation between the two countries in the development of a SARS vaccine, the establishment of a high-level biological safety laboratory, and the Olympic Games. Negotiations are currently underway for the establishment of a 'Technology Park' in Australia, 'aimed at attracting Chinese enterprises' investment and facilitating the industrialisation of the R&D outcomes'.²⁸

The flow-on benefits

17.23 A number of benefits flow from the scientific community's activities. There are obvious economic benefits from collaboration, but the work of the scientific community also plays a vital role in enriching the political, cultural and social aspects of the bilateral relationship.

Economic and scientific benefits

17.24 Scientific linkages may lead to commercial benefit when research projects move out of the laboratory and into the market place. China's economic growth, the size of its market, and the vast and growing resources poured into science and technology should make China a priority nation for Australia.

17.25 CSIRO identified a number of economic and scientific benefits for both nations arising from its 25-year long involvement in China. It stated that, although many cannot be quantified, they are nonetheless important, including:

- the establishment of China's eucalyptus research centre—leading to the planting of Australian tree species like acacia and eucalyptus in broad areas of southern and central China—facilitating the sale of Australian tree seeds and associated services and equipments;

25 Embassy of the People's Republic of China in Australia, *Submission P66*, p. 30.

26 Embassy of the People's Republic of China in Australia, *Submission P66*, p. 30.

27 Embassy of the People's Republic of China in Australia, *Submission P66*, pp. 30–31.

28 Embassy of the People's Republic of China in Australia, *Submission P66*, p. 31.

- the establishment of the radio telescope in Urumqi, by designing and manufacturing the receiver;
- the export of dry land farming technologies, services and equipments;
- the export of membrane and water treatment technologies, services and equipments;
- better understanding of exotic diseases (such as foot and mouth disease, avian virus, SARS etc);
- a better understanding of the management of water and soil resources; and
- a better understanding of mineral ore formation processes which may lead to the discovery of new ore bodies.²⁹

17.26 It should be noted that Australian mines are in the process of introducing technology that will improve productivity, safety and environmental outcomes from technology originally developed in China, such as the Longwall mining technology, with the cooperation of Chinese companies and research agencies. Similarly, Australian mining practice and machinery is being exported to benefit Chinese industry with support from CSIRO and other Australian groups.

17.27 Ms Mara Bun, on behalf of CSIRO, gave the example of research in the area of stored grains as an economic benefit that can flow from scientific collaboration. She also commented on the leadership role that some key Chinese thinkers within CSIRO have played in forming a value-added path to China:

These are young scientists who have been involved in developing the equivalent of the AQIS system in China and have now come to Australia to help forge this partnership, again of mutual benefit. I think what happens in a very beneficial way culturally is that, through these exchanges, the grains industry in Australia is able to partner and have an entree into China which is actually translated or put into a context which is much more accepted, much more contemporary and much more connected on the ground, through science. In my observation that is very valuable to the farming community here, and certainly it does feature in terms of economic benefit.³⁰

17.28 CSIRO also stated that China has significant potential to become an important source of science talent, thereby contributing to the development of Australian science. As China invests more into education and develops its scientific infrastructure and expertise, the 'growing pool of recognised talent can, over time, be recruited to build on the excellent contribution by CSIRO's many scientists of Chinese origin'.³¹

29 CSIRO *Submission P38*, pp. 3 and 6–7.

30 M. Bun, *Committee Hansard*, 20 June 2005, p. 16.

31 CSIRO, *Submission P38*, p. 8.

Political, cultural and social benefits

17.29 The committee recognises that scientific links are not only valuable from a trading and commercial perspective, but can also strengthen the bilateral relationship in other areas. One of the distinguishing features of the global scientific community is its capacity to build self-sustaining networks independent from the more traditional aspects of international relationships. The scientific community often has dynamic links that can provide the foundation for ever-growing cooperation between nations on any number of levels. The methods by which the scientific community establishes and maintains its international networks can provide useful lessons for building other linkages.

17.30 Similarly, the contributions of Australian and Chinese scientists to global science and the betterment of each other's societies can be very important in promoting goodwill and increasing levels of mutual understanding.

Strong foundations for building the relationship

17.31 CSIRO informed the committee that it has had a rich and mutually beneficial relationship with China for over 25 years.³² The Academies also emphasised the importance of the bilateral scientific relationship, both in its own right and in 'underpinning economic, environmental and social developments in both countries'.³³ Endorsing this view, Professor Andrew Smith considered that scientific collaboration can be used as a base upon which Australia and China can build broader networks and mutual respect, 'that is one of the great values of what we are doing'.³⁴

17.32 The Academies made the point that, whereas science can help to strengthen political ties, political difficulties tend not to have a detrimental effect on science:

Tensions that may arise (as between China and Taiwan and Japan) have little direct impact on collaboration in S&T...There is no doubt that scientists in Australia and China will continue along the present track of increasing collaboration. The person-to-person interactions required in these collaborations form one basis for improved relations between the countries.³⁵

17.33 Ms Bun and Professor Smith commented on the ability of science to provide a springboard for developing better and deeper political relationships. Ms Bun stated:

So areas like water and energy are critical priorities for CSIRO. They absolutely align with the relevant research priorities at a national level in

32 CSIRO, *Submission P38*, p. 3.

33 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 1.

34 A. Smith, *Committee Hansard*, 20 June 2005, p. 17.

35 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 3.

Australia and they have been confirmed at a political level in China as the basis for heightened collaboration—I think that is only appropriate.³⁶

17.34 Ms Bun indicated that networks established through CSIRO tend to be very 'bottom-up'—researcher-to-researcher based relationships, that over time provide the basis upon which much bigger projects and networks of association are formed. This report has recognised the importance of people-to-people links in the creation of broader bilateral relationships. The way the scientific community operates is a good example of this.

The scientific community's role in promoting goodwill and understanding

17.35 It is perhaps easy to assign a dollar value to the products of scientific endeavour, and focus on the economic benefits that can flow from collaboration. The contribution that science makes to the general betterment of society should not, however, go unacknowledged. Where Chinese and Australian scientists make positive contributions to one another's societies, this can have an important positive impact on the ways our nations view one another and advance the bilateral relationship.

17.36 CSIRO scientists are being recognised in China for their contribution to the bilateral scientific relationship. This has the potential to impact substantially on the political relationship.³⁷ Ms Bun stated:

In our submission, we tried to document eight or 10 examples of Australian scholars who have made such a contribution in China that they have received prizes—in one case, an honorary citizenship and in another case invitations to organise major conferences and the like.³⁸

17.37 She also commented on the positive social impact that has arisen in the mining industry through CSIRO's work to predict outbursts of coal and gas in seams. This work has had a significant impact on safety standards and a concomitant 'powerful social impact'.³⁹ Dr Ta-Yan Leong also cited the cultural, social and trade advantages resulting from collaboration with the Beijing Meteorological Bureau. He stated that this work:

...is to help them predict air quality over Beijing, which they could then expand to other parts of China to help them understand the sources of all the pollution and so on. This has a big impact on the green Beijing Olympics in 2008. This is going to impact both socially and culturally.⁴⁰

36 M. Bun, *Committee Hansard*, 20 June 2005, p. 17.

37 CSIRO, *Submission P38*, p. 7.

38 M. Bun, *Committee Hansard*, 20 June 2005, p. 16.

39 M. Bun, *Committee Hansard*, 20 June 2005, p. 15.

40 T.Y. Leong, *Committee Hansard*, 20 June 2005, p. 16.

The potential for closer relations

17.38 The committee acknowledges the invaluable contribution that the scientific organisations have made to the bilateral relationship. The benefits already gained from current linkages demonstrate that it is in Australia's long-term interest to support the work of these organisations and develop closer science and technology links with China. Moreover, based on evidence to this inquiry, the time would also appear to be right to undertake a concerted effort to augment the bilateral relationship.

The right place at the right time?

17.39 The Academies assert that Australia is 'in the right place at the right time' to develop even stronger links with China.⁴¹ It is well placed because of its eastern hemisphere location, similar geographical zones, landscapes, and terrains; its strong underlying economic resources; and the common environmental threats faced by both nations. CSIRO's submission supported the notion that Australia is in the 'right place'. It stated that China is an important partner because of 'the complementarity of northern and southern atmosphere locations; similarity in terms of geographic and climatic conditions; favourable conditions for CSIRO to test some of its technologies in China; and both countries have a diverse range of biodiversity, making it advantageous to expand the germplasm and gene pool'.⁴²

17.40 According to the Academies, this is the 'right time' to expand the relationship because:

- China has a self-perceived need for better international recognition of its science and technology;
- high-level government contacts and agreements for collaboration between the two nations already exist;
- there is an increasing availability of funds for Chinese scientists to undertake international research and travel;
- Chinese investment in cutting edge research infrastructure is rapidly expanding;
- a number of Chinese scientists working in Australia have strong links to the 'mother country'; and
- political developments favour Australia as a partner country for scientific collaboration (including training) over the USA.⁴³

41 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 1.

42 CSIRO, *Submission P38*, p. 5.

43 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, pp. 2–3.

17.41 Professor Andrew Smith, on behalf of the Australian Academy of Science, commented on the potential for developing a deeper relationship with China, based on the complementarities between our research and development priorities:

We see China as being a most important partner in science and technology. This comes from the enormous amount of money that China is putting into research and development. It is the third in the world at the moment, after the USA and Japan, and I suspect that in a couple of years it will be ahead of Japan. China is a really big spender in targeted areas of research and development, most of which, I think, are very similar to our own.⁴⁴

17.42 DEH also reiterated the complementarities between China and Australia as a basis for future collaboration, especially in the area of climate change:

The China–Australia collaboration on climate change is a very active one. I think it is rooted in a recognition of considerable similarity of circumstances and complementary economic interests. For example, in the area of land management, where it is well known that China is particularly challenged by degradation of the landscape, there is an opportunity for win-win outcomes in China in terms of restoring tree cover, sustainable agricultural management and the like. Australia, with its similarly large land area, diverse climate circumstances and so on has a good deal to contribute. I might say that there is a deal of two-way flow.⁴⁵

17.43 DEST also acknowledged that a number of factors are strongly conducive towards the establishment of closer links, including the complementarity of the two government's political and development agendas. For example 'in the fields of energy, water environment, agriculture and biotechnology as well as basic research and public health'.⁴⁶

17.44 The evidence to this inquiry indicates that not only are the temporal, geographical and physical conditions conducive, but there is also real willingness within the Australian scientific community to expand its links with China. Professor Smith told the committee:

The eyes of Australian science are very much on China and many more people wish to go.⁴⁷

The way forward

17.45 In turning to the future, the Academies believe 'very strongly that maintaining (and as far as possible increasing) funding dedicated to strengthening links in S&T is

44 A. Smith, *Committee Hansard*, 20 June 2005, p. 14.

45 I. Carruthers, *Committee Hansard*, 20 June 2005, p. 30.

46 H. Borthwick, *Committee Hansard*, 14 June 2005, p. 25.

47 A. Smith, *Committee Hansard*, 20 June 2005, p. 17.

an excellent investment to help ensure strong and mutually beneficial relationships with China, and that practical commercial outcomes will eventuate in many areas'.⁴⁸

17.46 The committee agrees with this statement. It recognises the complementarities between Australia and China, and acknowledges current trends that augur well for strengthened bilateral ties. It now turns to consider what actions could be taken to build on the significant progress already made in science and technology.

17.47 The committee is aware that DEST has two 'education and science counsellors' based in Shanghai and Beijing. These counsellors are tasked with the promotion of Australian education and science. The majority of their work, however, would appear to be oriented towards promoting education, rather than science.⁴⁹ Ms Fiona Buffinton stated:

At the moment the local staff in Beijing have been largely hired on the basis of their ability to engage in the education side of things. In the past, in terms of science, the small engagement has been handled well in Beijing, but there is further potential with China becoming a much stronger player in science...As China emerges, surpasses and produces a very large proportion of [world science], we in turn will want to engage and know what the latest developments are. It is something that we are having an active dialogue about with both the science group and our science counsellor.⁵⁰

17.48 The committee understands that at the moment, the department is considering whether there is a need to employ a science-literate, locally engaged staff member in the Beijing office. The committee asked representatives of the ARC, AAS, ATSE and CSIRO whether they supported this initiative. They strongly welcomed the idea, considering it to 'be of great benefit'.⁵¹

17.49 Representatives indicated that the capacity for a science counsellor to 'look westward' would also be beneficial, given the shape of the Australian economy and agriculture. They also stated that, as China looks towards commercialising the products of its research, it is in Australia's interests to 'get in early':

The transition that China is going through will inevitably mean that over time the needs for commercialising science and partnerships which are about fundamental research will find a path to impact in the marketplace, and therefore there will be greater activity around the collaborators that help to deliver that path. Whether that is through DEST, the industry

48 Australian Academy of Science and Australian Academy of Technological Sciences and Engineering, *Submission P58*, p. 3.

49 *Committee Hansard*, 14 June 2005, pp. 41–42.

50 *Committee Hansard*, 14 June 2005, p. 42.

51 A. Smith, *Committee Hansard*, 20 June 2005, p. 21.

departments or other mechanisms, those are important links for Australia to forge.⁵²

17.50 The committee considers that establishing at least one highly skilled science-literate counsellor, based perhaps in Australia's embassy in Beijing, should be a priority. It is not sufficient to have two DEST officers tasked and skilled primarily under the education portfolio, who may or may not have sufficient time available to devote to promoting Australian science. This is no criticism of the Education Counsellors—the committee has stated elsewhere that they perform a very important role—but rather, a recognition that the growing significance of Chinese science to Australian interests should be reflected by the creation of a dedicated in-country resource.

17.51 The science counsellor position would be geared towards building bilateral links between government organisations, and acting as a conduit for research agencies wishing to establish or strengthen their presence in China. The science counsellor would have extensive knowledge of the Australian scientific context and be supported in his or her role by a science-literate locally engaged staff member with a high degree of familiarity with the Chinese scientific context. The science unit would be in a position to monitor and report on significant developments in Chinese science, indicate where there is potential for Australian involvement, and actively promote Australian innovation and scientific achievement. It would encourage Chinese researchers to view Australia as a destination of choice for international scientific collaboration and promote the trade-related aspects of innovation.

Recommendation 25

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

17.53 DEST informed the committee that a number of proposals agreed to at the last JSTC meeting are currently being discussed with China, including the establishment of a science leaders exchange scheme between future leaders in key science and technology (S&T) organisations in both countries. Its purpose would be to improve mutual understanding of each other's systems and establish important links between institutions. DEST and the Chinese Ministry of Science and Technology are also considering jointly hosting a website to give prominence to existing collaborations and provide information on sources of funding for prospective collaborators. A series of annual symposia between the Chinese Academy of Sciences (CAS) and its Australian counterparts, the Australian Academy of Science (AAS) and the Australian Academy of Technological Sciences and Engineering (ATSE) are also under consideration.

52 M. Bun, *Committee Hansard*, 20 June 2005, p. 21.

17.54 The committee fully supports these initiatives, and considers that the establishment of a science counsellor position in Beijing could facilitate the operation of these activities and assist the Australian government to identify further opportunities.

17.55 On a broader level, representatives indicated that Australia lacks a forum in which the various agencies across government with an interest in pursuing international links can communicate and coordinate their activities.⁵³ The committee considers there is a need for government and non-government stakeholders to meet and discuss opportunities in China and to coordinate their activities. The committee notes that the scientific community has a particular strength in building networks and working cooperatively. These strengths should be utilised. Creating a forum, perhaps hosted by DEST, to discuss China issues would be beneficial. Creating a dedicated scientific presence in China could provide a focal point through which the government could direct its activities.

17.56 The committee urges the government to expand Australia's capacity to form and foster scientific links. The sheer size of the Chinese market, the scale of its development, and the rising levels of investment in research and development present Australia with many opportunities. Science can act as a bridge to closer economic, political and cultural ties. It has significant potential to contribute to the advancement of both nations. Through science, China and Australia can jointly confront the challenges facing both our nations and explore new horizons, to both nations' benefit. In so doing, we can also come to understand more about one another.

53 S. Sedgley, *Committee Hansard*, 20 June 2005, p. 22.

Chapter 18

Political links

18.1 This chapter considers the political links between China and Australia. It takes a broad view on the importance of bilateral political exchanges and visits, emphasising the importance of people-to-people contacts to the overall relationship. It considers the extent to which links are strengthened through cooperation between government departments and agencies. It examines the role of sub-national governments in creating links. The chapter also considers the role of non-government organisations in contributing to the bilateral relationship.

18.2 The common themes running through discussions on political interactions were the benefits gained through cooperation and the vital importance of forming personal relationships to enhance understanding and promote the creation of additional links.

Political visits and exchanges

18.3 Chapter 3 of this report referred to the growing frequency of reciprocal high level visits to bolster the economic relationship. High level visits are also crucial to broader political and strategic interests. They often indicate the health and/or importance of a bilateral relationship.

Exchanges between future leaders

18.4 High level visits are not the only type of political exchange of significance to Australia's interests and its relationship with China. Exchanges and visits from future leaders are also very important, but perhaps do not receive adequate recognition for the role they can play in determining the future course of the Australia–China relationship.

18.5 The Australia–China Council highlighted the value in bilateral exchange for younger Australians and Chinese:

There are very senior Chinese government figures now making regular visits to Australia, but it is often the less senior ones, the younger members of the delegation—those who will be the leaders of tomorrow—whose memories and contacts will be vital in the future. We feel that the need to encourage exchange between middle-level public servants and postgraduate students from all disciplines is a really key area for expansion.¹

18.6 The committee is aware that the Australian Political Exchange Council facilitates bilateral visits between future Chinese and Australian leaders. According to

1 D. Dysart, *Committee Hansard*, 29 June 2005, p. 32.

its website, the Council's exchange program fosters long-lasting ties and friendships between future generations of political leaders in Australia and other countries.²

18.7 The first Australian delegation to China occurred in 1984, and China sent its first delegation in return in 1985. Australia sent its 14th delegation in August 2005.³ The visit programs encompass meetings with government officials across a number of policy areas, briefings from Australian government representatives working in China, and visits to sites of historical and cultural significance.

18.8 The committee considers that these lower level bilateral exchanges and visits are important to the future of Australia's political relationship with China. They create positive impressions in the minds of future leaders from both nations at important formative stages of their careers. They also promote greater understanding of different government forms, and provide an avenue for the development of professional and political contacts.

Cross jurisdictional policy cooperation

18.9 Evidence presented to the committee highlighted the extent to which various Australian and Chinese government departments cooperate with one another on common policy challenges. This aspect of the bilateral relationship should not be understated—it provides an important mechanism for developing personal links between officers at varying levels of government, and also enables both governments to learn about one another and benefit from each other's experience.

18.10 The Department of Family and Community Services (FaCS) told the committee about policy exchange programs it has with various Chinese government authorities. Mr Peter Hutchinson, FaCS, informed the committee that, over the last five or six years, FaCS has established a strong relationship with a number of ministries in China and has carried out a number of cooperative activities with these ministries. They are intended to advance issues of mutual interest in the area of social security and to extend Australia's influence in China. FaCS considers that this cooperation also creates opportunities for Australian business.⁴

18.11 FaCS detailed its work with the Chinese National Development and Reform Commission (NDRC), to assist China rebuild communities affected by the Chinese government's economic reform program.⁵ Through its work, FaCS has been able to familiarise NDRC with the governance mechanisms in Australian communities.⁶ For

2 <http://www.polexchange.org.au> (accessed 5 July 2005).

3 <http://www.polexchange.org.au> (accessed 5 July 2005).

4 P. Hutchinson, *Committee Hansard*, 21 June 2005, p. 22.

5 FaCS, *Submission P25*, p. 3.

6 T. Murton, *Committee Hansard*, 21 June 2005, p. 23.

example, the Chinese Urban Minimum Livelihood Guarantee scheme in Shanghai is derived from an Australian model:

The Shanghai municipal government actually instituted a pilot program to provide a basic living or subsistence allowance for residents of that city. When it was exploring what options were available, it was particularly impressed by the Australian social security system.⁷

18.12 China and Australia also cooperate and exchange policy ideas in response to the problems surrounding their ageing populations.⁸ FaCS is also working with the Chinese government to conduct pilot studies into the applicability of the Stronger Families and Communities Strategy in the Chinese context.⁹

18.13 FaCS indicated that employees of various Chinese ministries, departments and boards visit Australia for training and experience. The focus has been on study tours, but is increasingly shifting towards placements with the department. These placements enable the nominated officer to understand how FaCS works, and how the government interacts with non-government organisations (NGOs). FaCS has also facilitated placements between the Shanghai Municipal Labour and Social Security Bureau and Centrelink.¹⁰

18.14 AusAID indicated that it has initiated a China–Australia governance program based on developing links between Australian and Chinese government agencies. It focuses on areas of mutual interest such as trade-related reform and fiscal management:

The program involves in the first instance looking at government-to-government linkages. We are about to start a program with Treasury here providing training to the National Development and Reform Commission and the Ministry of Finance in China on particular fiscal reform matters. We are also involved in developing links with Family and Community Services on the social safety net and those sorts of things.

In the second part of the program we are also developing a more comprehensive approach to fiscal reform and China has indicated an interest in some of our program budgeting processes and intergovernmental fiscal transfers.¹¹

18.15 AusAID advised that Chinese officers visit Australia to undertake training or participate in study tours. In-country training is also provided. When AusAID undertakes missions to China, it includes personnel from other Australian government

7 T. Murton, *Committee Hansard*, 21 June 2005, p. 23.

8 L. Trainor, *Committee Hansard*, 21 June 2005, pp. 28–29.

9 L. Trainor and T. Murton, *Committee Hansard*, 21 June 2005, p. 28.

10 T. Murton, *Committee Hansard*, 21 June 2005, p. 28.

11 R. Taylor, *Committee Hansard*, 14 June 2005, p. 4.

departments.¹² AusAID also advised that the delivery of its aid programs is coordinated with the local provincial or national government.¹³

18.16 In April 2005, the Minister for Justice and Customs, Senator the Hon Chris Ellison, announced that an MOU on cooperation between Australian and Chinese law enforcement agencies had been renewed.¹⁴ Under the auspices of the MOU, Australian and Chinese law enforcement agencies will cooperate to combat transnational crime through the exchange of information, locating persons of interest and the exchange of technical and scientific expertise to enhance the law enforcement capabilities of each country. As a result of the new MOU, a team of officials will travel to China to discuss closer ties on these issues.¹⁵

18.17 Ms Vivienne Bath commented that Australian regulators such as the Australian Securities and Investment Commission, the Australian Prudential Regulation Authority, and the Australian Competition and Consumer Commission have relations with organisations such as the Chinese Securities Regulatory Commission. Through these relationships, Australian government agencies provide advice and assistance to Chinese authorities aimed at improving corporate governance. Australia also provides judicial training, and Australian lawyers have provided input into the Chinese corporate law reform program.¹⁶

18.18 The Federation of Ethnic Communities' Councils of Australia (FECCA) informed the committee that the Australian Multicultural Foundation (AMF) has been engaged in an exchange with the Chinese Department of Ethnic Affairs. According to FECCA, the exchange has 'facilitated the building of relationships between the Chinese community, ethnic minority groups in China and the Chinese Department of Ethnic Affairs'.¹⁷

18.19 The evidence before the committee suggests that links between Australian and Chinese government institutions are beneficial for both nations. They foster amity, create a greater appreciation of common problems facing both nations, and allow personnel from both nations to increase their skills base. Policy and personnel exchange also assists to develop interpersonal relationships between officers at the middle levels of government who may go on to be future leaders, decision-makers.

12 R. Taylor, *Committee Hansard*, 14 June 2005, p. 12.

13 R. Taylor, *Committee Hansard*, 14 June 2005, p. 14.

14 Senator the Hon Chris Ellison, Media Release 'Australia and China strengthen law enforcement ties', 6 April 2005, <http://www.ag.gov.au/www/justiceministerhome.nsf> (accessed: 3 August 2005).

15 Senator the Hon Chris Ellison, Media Release 'Australia and China strengthen law enforcement ties', 6 April 2005, <http://www.ag.gov.au/www/justiceministerhome.nsf> (accessed: 3 August 2005).

16 V. Bath, *Committee Hansard*, 1 August 2005, p. 89.

17 FECCA, *Submission P14*, p. 2.

Sub-national government links

18.20 As Australia increasingly integrates itself into the global economy, state, territory and local governments are assuming a more proactive stance and developing their own international profiles. Their activities, including the formation of links independent of the Federal government, are adding to the increasingly complex networks of international association characteristic of the modern globalised era.

18.21 Commentators have noted the proliferation of sub-national actors forming links between China and Australia. Ms Elizabeth Pitts, in an article examining the scope of sub-national links, has stated:

The economic and political relationship between national level governments of Australia and China has gone from strength to strength over the past three decades since the normalisation of diplomatic relations in 1972...With relatively few exceptions, the substantive links between sub-national actors in Australia and China have been seemingly under-represented in the existing analysis of Sino-Australian relationships.¹⁸

18.22 Governments in Western Australia, Queensland, New South Wales and Victoria have been active in establishing links with China. Approximately 60 per cent of links are with counterparts from the more economically developed eastern coastal regions of China.¹⁹ According to Ms Pitts, localities that share the same problems and issues are likely to join together. Ms Pitts likens the process of establishing sister relations to a love affair:

There is a period of wooing, followed by a series of ritualised processes through which the two partners must pass, culminating in an agreement that is presumably going to last forever. How the relationship progresses after being established is contingent on the behaviour of both sides.²⁰

18.23 Sub-national links usually take one of four forms: Australian state to Chinese province/municipality; Australian state level department to Chinese provincial or municipality level commission; Australian region to Chinese city or region; or sister city/shire relationships.²¹

18 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia-China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia-China Relations: 1972 to the Present*, Ashgate, London, 2004, pp. 67-68.

19 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia-China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia-China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 69.

20 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia-China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia-China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 72.

21 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia-China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia-China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 74.

18.24 Sub-national links between China and Australia are often facilitated by formal sister state/province, sister city or friendship city relationships. Evidence to the committee suggests that the provinces and cities of China exercise considerable autonomy in the initiation and subsequent conduct of their sister relationships. Sister relationships therefore offer Australian lower level governments the opportunity to develop bilateral relationships, outside of more traditional national-level linkages and networks. Professor John Fitzgerald attributes much of China's recent economic success to the capacity for lower level governments to generate their own international linkages:

The dynamism of the Chinese economy today is due to the relative autonomy of local communities in governing themselves and of local party heads in cultivating international economic relations. It is not all driven from Beijing by any means. Much of China's success is due to the relatively autonomous behaviour of provincial heads.²²

18.25 Dr David Goodman commented on China's economic regionalism and the opportunities this offers sub-national entities for developing bilateral relationships.²³

State and territory governments

18.26 Every Australian state and territory has a sister state relationship with a province of China, except the Northern Territory. This committee noted in its 1996 report that:

The role of State governments and their relationships with Chinese local/provincial governments cannot afford to be overlooked in Australia's economic relations with China. They are likely to become more, not less, important with the decentralisation of economic and political power in China.²⁴

18.27 That prediction has been realised—this inquiry has received considerable evidence to suggest that linkages between Chinese provinces and the states and territories of Australia have strengthened in the decade since this committee last considered the bilateral relationship. The links between the various states and their Chinese counterparts are shown below at Table 18.1.

22 J. Fitzgerald, *Committee Hansard*, 27 June 2005, p. 86.

23 Dr David Goodman, 'China's Provinces and Australia's States: Sister States and International Mates', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Macmillan, South Melbourne, 1996, p. 172.

24 Senate Foreign Affairs Defence and Trade References Committee, *Australia China Relations*, June 1996, p. 119.

Table 18.1: Australian state—Chinese province relationships²⁵

Australian state/territory	Chinese province
New South Wales	Guangdong
Queensland	Shanghai
ACT/Canberra	Beijing
South Australia	Shandong
Tasmania	Fujian
Victoria	Jiangsu
Western Australia	Zhejiang

18.28 As part of his research into the nature of state government linkages with Chinese provinces, Dr Goodman found that the major reason advanced for having a sister relationship was:

They provide a forum within which friendly relations can develop—along with a greater understanding of social, cultural and political sensitivities—and a framework for companies to pursue business opportunities.²⁶

18.29 He commented that sister-state relationships were also viewed as an important political signal on how relations with China are viewed in the broader bilateral context:

It is a symbol of long-term commitment and thus can be regarded as a plank in the development of Australia–China relations as a whole. Moreover, as part of that long-term commitment, it ensures the development within Australia and individual Australian States of specialist knowledge and expertise about China.²⁷

18.30 The major weaknesses of sister state relationships were listed as 'a lack of appropriate economic information' and understanding about the capabilities of industry, the 'difficulties in bringing together two different economic and cultural

25 www.acbc.com.au (accessed 1 September 2005).

26 Dr David Goodman, 'China's Provinces and Australia's States: Sister States and International Mates', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Macmillan, South Melbourne, 1996, p. 179.

27 Dr David Goodman, 'China's Provinces and Australia's States: Sister States and International Mates', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Macmillan, South Melbourne, 1996, p. 180.

systems with different expectations, processes and infrastructures', and the cost of maintaining relationships.²⁸ Lack of funding was identified as a major weakness in relation to cultural and educational exchanges.²⁹

18.31 The committee considers that Chinese regionalism and provincial political autonomy offers great opportunities for Australian sub-national actors to form bilateral networks. Sister relationships provide social, political, and economic benefits for both nations.

18.32 The activities of Australian state and territory governments in China occur both within and outside of sister city relationships. The following section looks at the nature of the relationships between China and Western Australia, Queensland and Victoria.

Western Australia

18.33 The submission from the Western Australian (WA) government stated that Western Australians have long enjoyed deep social and cultural links with China and have had strong political links for some decades. The WA government has a systematic program to further strengthen and deepen its relationship with China and it nurtures this relationship through frequent and regular exchanges and visits at the most senior government level.³⁰ It has 'a strong sister state relationship and a number of cultural exchanges and guest nation programs'.³¹

18.34 The WA government maintains a presence in its own right at Australia–China trade fairs, exhibitions and conferences, provides trade commissioners and participates in joint studies and feasibility investigations with China. It also works closely with DFAT and Austrade in relation to the proposed FTA with China. It has established links with China in education and agriculture and developed various policy initiatives with both national and provincial-level Chinese governments across a range of portfolios.³²

18.35 The WA Government and other witnesses from WA underlined the value of the state's 18–year sister state relationship with Zhejiang Province.³³ Mr Jeff Gunningham told the committee that, at the secondary and primary school level, the

28 Dr David Goodman, 'China's Provinces and Australia's States: Sister States and International Mates', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Macmillan, South Melbourne, 1996, p. 180.

29 Dr David Goodman, 'China's Provinces and Australia's States: Sister States and International Mates', Colin Mackerras (ed.), *Australia and China: Partners in Asia*, Macmillan, South Melbourne, 1996, p. 181.

30 WA Government, Department of the Premier and Cabinet, *Submission P45*, p. 25.

31 M. Beach, *Committee Hansard*, 1 August 2005, p. 15.

32 WA Government, Department of the Premier and Cabinet, *Submission P45*.

33 WA Government, Department of the Premier and Cabinet, *Submission P45*, pp. 26–27.

Department of Education uses the sister state relationship with Zhejiang to facilitate student and teacher exchanges.³⁴ Dr Gary Sigley indicated that the University of Western Australia's (UWA's) recently established Confucius Institute worked extensively through WA's sister state relationship.³⁵

Queensland

18.36 The Queensland Government has developed a considerable trading relationship with China, as well as a significant amount of inter-government interaction.³⁶ It established a sister state relationship with the Shanghai Municipal Government in 1989. In July 2004, the Premier of Queensland, The Hon Peter Beattie MP, and Mayor Han Zheng signed the Seventh Memorandum of Understanding of Agreed Cooperation between the governments for the period 2005–2007. In July 2004, Premier Beattie also signed an MOU on Promoting Friendly Exchanges between Queensland and Guangdong Province with the Governor of Guangdong, Mr Huang Hua.³⁷

18.37 Queensland has established a Queensland Government Trade and Investment Office in Hong Kong. The Queensland China Council has also been in existence since 1988, and actively works to promote and facilitate commercial, cultural, educational technological and scientific interchanges throughout China.³⁸

18.38 In April 2004, the Queensland government and the Municipal People's government of Jiangmen City signed a Letter of Intent. Areas of cooperation under the auspices of the letter include project development and planning, landscaping and construction. The Hon Tom Burns AO also signed an MOU with the Shandong Agricultural Delegation to deepen and broaden areas for cooperation in agricultural trade and exchange.³⁹

Victoria

18.39 Victoria has had a sister state relationship with Jiangsu Province since 1979.⁴⁰ The relationship features regular reciprocal visits by senior government officials. The Victorian Premier, the Hon Steve Bracks MP, has visited Jiangsu twice, most recently in 2004. Visits to Victoria by several Vice-Governors of Jiangsu have also been

34 J. Gunningham, *Committee Hansard*, 1 August 2005, p. 26.

35 G. Sigley, *Committee Hansard*, 1 August 2005, pp. 67–68.

36 Premier of Queensland and Minister for Trade, *Submission P1A*, p. 2.

37 Premier of Queensland and Minister for Trade *Submission P1A*, p. 2.

38 Premier of Queensland and Minister for Trade *Submission P1A*, p. 2.

39 Premier of Queensland and Minister for Trade *Submission P1A*, p. 3.

40 Victorian Government, *Submission P47*, p. 1.

frequent in recent years.⁴¹ According to the Victorian government, the relationship with Jiangsu 'is the most mature and well developed of Victoria's sister state relationships', and has been used to facilitate sporting and cultural exchanges, as well as visits by study groups.⁴²

18.40 The committee recognises the many benefits accruing from the various state and territory government's sister relationships with their Chinese counterparts. The committee wishes to acknowledge the invaluable activities these governments also undertake to promote Australia's commercial, educational, social, cultural and political profile in China, outside of the sister state framework.

Local governments

18.41 Sister city/shire relationships are the most common type of sub-national relationship, and entail the linkage of Australian city and shire councils with city level governments in China.⁴³ The statistics relating to the prevalence of sister city links are conflicting. The Australian Sister Cities Association lists 50 'Affiliations with China', shown below in Table 18.2.⁴⁴ Ms Pitts has stated that, depending on the organisation consulted, numbers can range from 30 to over 80 linkages.⁴⁵

41 <http://www.dpc.vic.gov.au/CA256D8000265E1A/page/Government+Initiatives-Victoria's+Sister+States!OpenDocument&l=10-Government+Initiatives~&2=60-Victoria's+Sister+States~&3=~> (accessed 30 August 2005).

42 <http://www.dpc.vic.gov.au/CA256D8000265E1A/page/Government+Initiatives-Victoria's+Sister+States!OpenDocument&l=10-Government+Initiatives~&2=60-Victoria's+Sister+States~&3=~> (accessed 30 August 2005).

43 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 74.

44 Australian Sister Cities Association, *Register of Affiliations*, pp. 3–4, <http://www.asca.asn.au/documents.html> (accessed 11 August 2005).

45 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 69.

Table 18.2: Register of Affiliations between Australian and Chinese Cities⁴⁶

Australian town/city	Chinese town/city	Australian town/city	Chinese town/city
ANMATJERE, NT	Dong–Sheng, Inner Mongolia, AR	LATROBE CITY, VIC	Taizhou City
ARARAT, RURAL VIC	Taishan, Shandong Province	LAUNCESTON, TAS	Taiyuan, Shanxi Province
ARMADALE, NSW	Yanji	MELBOURNE, VIC	Tianjin, Tianjin Province
BANKSTOWN, NSW	Shijizhuang	MAROOCHY SHIRE, QLD	Xiamen
BAW BAW, VIC	Jiujiang, Jiangxi Province	MAROOCHY SHIRE, QLD	Chengdu
BLACKTOWN, NSW	Liaocheng City	MAROOCHY SHIRE, QLD	Anqui
GREATER BENDIGO, VIC	Tianshui, Gansu Province	MORELAND, VIC	Xianyang, Henan Province
BRISBANE, QLD	Shenzhen, Guandong Province	MOSMAN, NSW	Mudanjiang, Heilongjiang Province
BROKEN HILL, NSW	Taixing	MURRAY BRIDGE, SA	Sanmenxia
BUNDABERG, QLD	Naning City, Guangxi Province	NARRANDERA, NSW	Ulumugi, Xinjiang Uygur
CAIRNS, QLD	Beihai, Guangx Zhuang	PERTH, WA	Nanjing
CHARTERS TOWERS, QLD	Daqing	PORT ADELAIDE, SA	Zhi–Fu Yantai City Shandong Prov.
CITY OF PORT ADELAIDE, SA	Yantai, Shandong Province	PORTLAND, VIC	Zhangjiagang
COCKBURN, WA	Yueyang, Hunan Province	PORT PIRIE, SA	Suizhou, Hubei Province
DANDENONG CITY (City of Greater), VIC	Xuzhou, Jiangsu Province	ROCKDALE, NSW	Tanggu
DARWIN, NT	Haikou, Hainan Province	SHOALHAVEN, NSW	Jiamusi, Heilongjiang Province
DUBBO, NSW	Wujiang, Jiangsu Province	SOUTH GIPPSLAND, VIC	Jinshan
EAST GIPPSLAND, VIC	Weifang	SOUTHERN GRAMPIANS, VIC	Gaoyou
GEELONG (City of Greater), VIC	Lianyungang, Jiangsu Province	SYDNEY, NSW	Guangzhou, Guangdong Province
GOLD COAST, QLD	Beihai, Guangxi Zhuang	TOOWOOMBA, QLD	Jingmen, Guangdong Province
GOULBURN, NSW	Jiangdu	TOWNSVILLE, QLD	Changsha, Hunan Province
GREATER LITHGOW, NSW	Pingdingshan, Henan Province	WAGGA WAGGA, NSW	Kunming, Yunnan Province
HARVEY BAY, QLD	Leshan	WHYALLA, SA	Ezhou Hubei Province
HURSTVILLE, NSW	Changzhou	WOLLONGONG, NSW	Longyan
KOGARAH, NSW	Ma’anshan City	YOUNG, NSW	Lanzhou, Gansu Province

18.42 The Australian Local Government Association (ALGA), representing 673 local councils across Australia at the national and international level, stated that the

46 Source: Australian Sister Cities Association, *Register of Affiliations*, pp. 3–4, <http://www.asca.asn.au/documents.html> (accessed 11 August 2005).

purpose of sister city relationships is to foster close cultural and business ties with regions in China. Several Australian cities have links with Chinese counterparts, including Adelaide, Brisbane, Gold Coast, Hurstville, Melbourne, Perth, Port Adelaide, Port Pirie, Sydney and Wollongong.⁴⁷ The committee will now look at two of these sister city links.

Wollongong City Council

18.43 Wollongong City Council (WCC) has a friendship city agreement with the City of Longyan in Fujian Province. The relationship started with intercity visits in 1998 and 1999, and was formalised in 2000.⁴⁸ The MOU between Wollongong and Longyan 'ensures promotion and cooperation between the two cities to facilitate student exchanges and cooperation in various fields including industry, agriculture, forestry, animal husbandry, trade, science and technology, culture, education, environment protection and health'.⁴⁹

18.44 Wollongong also has relations with China outside of its sister city relationship in sporting, cultural, commercial, and social activity and actively promotes itself within China as a tourist destination.⁵⁰

18.45 Mr Bob Doyle informed the committee that the sister city relationship began originally as a political initiative, but has increasingly led to the development of broader cultural, educational, sporting and commercial links between Longyan and Wollongong.⁵¹ He emphasised council's proximity to the local community and their capacity to foster people-to-people connections:

The various local governments are the ones who have the relationships with the cities and the people, so I would say it is a vital link. If you do not have that, you do not have a link—you have an artificial talk-to-talk. But if you do not have local government involved, it is not going to go anywhere. I strongly make the point that I think local government is an absolutely vital link in it, because that is where the people will come from. The people who will assist—whether they be tourists or exchange students or whatever—will all come out of local government and the community, certainly with the aid of state and federal governments, but I think this is a 'be on the ground' situation.⁵²

18.46 Mr Doyle also underlined the need for genuine engagement that produces tangible outcomes:

47 Australian Local Government Association, *Submission P67*, pp. 4–6.

48 Wollongong City Council, *Submission P10*, p. 3.

49 http://www.wollongong.nsw.gov.au/2943_2972.htm (accessed 11 August 2005).

50 Wollongong City Council, *Submission P10*, pp. 2–14.

51 R. Doyle, *Committee Hansard*, 29 June 2005, p. 88.

52 R. Doyle, *Committee Hansard*, 29 June 2005, p. 88.

You cannot have a ‘We’ll come over and see each other a couple of times a year and tell each other how great we are’ approach. For us, it has to be real; and there have to be positive outcomes for the other people we talk to, without any question—for our kids, which is what it is all about.⁵³

Brisbane City Council

18.47 Brisbane City Council (BCC) has had a sister city relationship with Shenzhen, a seaboard city in the south of Guangdong Province, since 1992.⁵⁴ Shenzhen occupied the John Reid Pavilion at the 2005 Royal Queensland Show. The show is an annual event to promote Queensland's industrial, pastoral and agricultural resources, and has been running for almost 130 years.⁵⁵

18.48 The Shenzhen exhibit was one of the largest undertaken by a single exhibitor at the show and incorporated merchandise, business development for importers and exporters, networking and hospitality events, fashion and cultural performances from the Shenzhen Dance Troupe. Shenzhen's participation in the Royal Queensland Show was promoted as another successful venture under the auspices of the sister city relationship:

This event is a clear indication of the strength of the sister city relationship between Brisbane and Shenzhen and provides a building platform for future business and economic links between our two cities.⁵⁶

18.49 The committee considers that the ability of local governments to foster people-to-people links, promote economic cooperation, and increase understanding and cultural exchange should not be understated nor undervalued. The work of local governments, such as Wollongong City Council and Brisbane City Council, is vital to strengthening the overall bilateral relationship between China and Australia. The committee now turns to consider what actions could be taken at the national, state and local levels to build upon the work done by the various levels of government to date.

53 R. Doyle, *Committee Hansard*, 29 June 2005, pp. 92–93.

54 <http://www.apcsummit.org/brisbanesistercities/> (accessed 29 August 2005).

55 http://www.epa.qld.gov.au/cultural_heritage/places_and_meanings/ekka_history/ (accessed 7 September 2005).

56 Cr Campbell Newman, Lord Mayor of Brisbane and Mr Xu Zongheng, Mayor of Shenzhen, *Welcome Statement: Brisbane–Shenzhen Sister City Relationship*, Shenzhen Exhibit, Royal Queensland Show.



The Shenzhen exhibit at the Royal Queensland Show

Sub-national linkages—working together effectively?

18.50 In its 1996 report, this committee noted that state and federal government agencies often did not cooperate or coordinate effectively with one another in relation to their activities in China.⁵⁷ It found that Australia needed a forum in which all three tiers of government with relations with China could meet and discuss strategies to gain the most benefit.⁵⁸ The committee recommended that federal, state and local governments that have a relationship with China should meet to discuss the benefit of establishing an annual conference to discuss issues related to economic relations with China. The committee also suggested that consideration should be given to involving peak industry and other bodies with interests in China in such a national conference.⁵⁹

18.51 Despite this recommendation for coordinated action, the issue has arisen again in this inquiry as one of the main difficulties in relation to the proliferation of links across the different levels of governmental. The degree to which the levels of

57 Senate Foreign Affairs Defence and Trade References Committee, *Australia China Relations*, June 1996, p. 119.

58 Senate Foreign Affairs Defence and Trade References Committee, *Australia China Relation s*, June 1996, p. 119.

59 Senate Foreign Affairs Defence and Trade References Committee, *Australia China Relation s*, June 1996, Recommendation 10, p. 120.

government are aware of each other's work, and actively coordinating their activities would still seem to be problematic. Ms Valerie Kelly stated:

State and federal governments do not seem to know what the other is doing ...State governments do not seem to relate to what the federal government is doing. There needs to be more communication in that area. Australian businesses, universities and research centres do their own thing. So what little competitive edge we have as a country is gone. It is lost in the wash because of a lack of communication and integration between the networks that Australia has in China. We need to work together to form an analysis of what each of us is doing and try to develop a strategy...In summary, the biggest challenge for us is inside: we have to face our own inadequacies first before we tackle the inadequacies we face outside.⁶⁰

18.52 Ms Elizabeth Pitts has also argued that Australian governments need to develop an effective mechanism to increase cooperation between the various Australian governments and departments that have established relations with China. She noted that 'A related issue is how to gain more data from participants in both Australia and China and how to increase transferral of information between them'.⁶¹ She stated further that the growing number of interested parties in sub-national agreements creates an identifiable and increasing need for an improved working model to capture all of the possible outcomes of these collaborations.⁶² Such an initiative would be useful to coordinate activity, and would also provide the federal government—and indeed other governments and stakeholders—with a means to identify and utilise pre-existing networks of association and communication between Australia and China:

The national governments would be well placed to look beyond the identification of economic complementarities and attempt to implement strategies that use and strengthen the channels of communication that have been established by sub-national governments over the past 20 years.⁶³

18.53 On the degree to which these relationships spring up independently from the central government, and the need for Australian governments to coordinate their activities, Mr Gary Woodard, a former Australian Ambassador to China, stated:

In regard to China, coordinating Australian federal and state relations in overseas activities may seem an excessively complicated challenge. But it

60 V. Kelly, *Committee Hansard*, 1 August 2005, p. 18.

61 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 81.

62 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 68.

63 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 68.

is not a new situation and it has always been a challenge. Similarly, in China, coordinating the provinces is an even greater challenge and one they have not yet solved. I will give an example. When sister state relations were being entered into in 1984—those relations were entered into first by Victoria and then by New South Wales—suddenly another state, Fujian, announced it was having a sister city relationship with a state of Australia. The central government in Beijing had no idea that those negotiations had been taking place and at the time I think they had some reservations about that particular relationship. I suppose in that respect we have a common interest at the national level with the national or central government in China in being as aware as possible of what is going on. But I am sure on many occasions differing interests will be pursued and it will be possible to call into line either states or provinces. However, the aim is to know as much as possible about what is going on and to attempt to ensure that what happens is orderly and serves the total interests of each country and of the relationship.⁶⁴

18.54 Federal constitutional arrangements may also limit the extent to which state and local governments have the authority to undertake projects suggested by Chinese counterparts.⁶⁵ Ms Pitts provided an example where Chinese interlocutors proposed a prawn farming and tuna fishing initiative with Queensland. This encountered several problems, including restrictions on foreign workers and the Federal government's jurisdiction over fishing licenses:

The Queensland government does not have the power to allow projects such as these to go ahead, but could positively support negotiations regarding these projects between other parties. The contrariety between the powers of various levels of government in a federal system is exacerbated when opposing parties hold office at different tiers of governance.⁶⁶

18.55 It has been suggested that to develop and benefit fully from the establishment of sub-national linkages, information needs to be gathered concerning the nature of current relationships and guidance provided to parties interested in initiating such linkages.⁶⁷ Ms Pitts suggested establishing a body specifically tasked as a national coordinating agent. The duties performed by this body could include the collation and dissemination of data related to sub-national linkages, and the monitoring of activities under sub-national agreements. This body would promote the benefits of sub-national

64 C. Woodard, *Committee Hansard*, 27 June 2005, p. 26.

65 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 79.

66 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 79.

67 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 79.

links, and would provide advice on the range and nature of activities undertaken by those party to the associations. She explained:

The scopes of agreements have broadened to include most facets of modern life. However with a few specific joint objectives and a small amount of coordination, many more exciting opportunities could be borne from the tangle of international community ties.⁶⁸

18.56 Ms Pitts envisaged that this peak body would either sit in the Australia–China Council or be outsourced to an education institution such as AsiaLink or the Australian National University.

18.57 The committee notes that in 1996 it made specific recommendations regarding the need for greater inter-government cooperation and coordination. It believes that almost a decade later, the situation still needs to be addressed. While ever there is a lack of awareness and cooperation between all levels of government, opportunities go begging. Australia cannot fully extract the benefits from growing numbers of links between Australia and China unless it acts in a considered and coordinated manner. Given the current FTA negotiations, it would seem timely to acquire a more complete picture of the multiple levels of engagement and activity in China and work to develop and implement a coordinated strategy.

Recommendation 26

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

Non-government organisations

18.59 In addition to the evidence outlining the nature of sub-national government links, the committee has received evidence outlining the role that non-government organisations (NGOs) play in forming bilateral links with China.

18.60 NGO links are another element of the increasingly complex and multifaceted relationship between Australia and China. A number of Australian and international NGOs either operate in China, or have connections with Chinese NGOs. It should be emphasised, however, that Chinese NGOs are different to the NGOs operating within Australia.

68 Ms Elizabeth Pitts, 'Collaborators, Business Partners, Friends: Australia–China Sub-national Government Relations', Nicholas Thomas (ed.), *Re-Orienting Australia–China Relations: 1972 to the Present*, Ashgate, London, 2004, p. 81.

18.61 Professor Stephen Fitzgerald noted that civil society and NGOs are new to Chinese society.⁶⁹ He claimed that the seeds of today's Chinese civil society were laid by Deng Xiaoping after 1978 'with the opening not of the Chinese economy, but of the Chinese mind, to ideas and influences *outside* what officialdom offered...but it was only at the end of the 1990s that the concept, and the reality, were permitted to emerge into the open'.⁷⁰

18.62 Professor Fitzgerald claimed that over the past decade, the Chinese government has moved from tacit acceptance to open encouragement of civil society (although with notable exceptions, including the Falun Gong movement). Chinese NGOs now operate in a number of fields, but are most active in relation to poverty and the disadvantaged, equity, education, HIV/AIDS, and gender.⁷¹ Environment is also an area of considerable NGO activity. NGOs can only operate as long as they are not viewed as a threat to the political order. They are subject to government interference, and cannot operate with the same degree of freedom as Western NGOs.⁷²

NGO relations with China

18.63 Ms Alison Tate, ACTU, stated that the ACTU has good communications with the All China Federation of Trade Unions (ACFTU). The ACTU noted, however, that the ACFTU is structured differently to traditional trade unions. It must operate under restrictive rules of association, and does not directly elect its representatives. It lacks sufficient independence to qualify for membership to the International Confederation of Free Trade Unions.⁷³

18.64 The last ACTU delegation to China was in 1989, and there were plans to send a delegation during 2005. Ms Tate indicated that the ACTU's relationship with the ACFTU works as a bilateral dialogue process, covering issues such as workers' rights, labour standards and human rights more broadly.⁷⁴ It stated that it works outside of formal and more traditional bilateral government dialogue processes, and is in the process of establishing civil society bilateral links:

The ACTU participates through the network of non-government organisations in the bilateral annual discussions. We are not going to Beijing as part of the dialogue that is happening in the coming weeks. But

69 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, p. 27.

70 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, p. 27.

71 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, p. 27.

72 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID. p. 27; see also J. Chen, *Submission P60*.

73 A. Tate, *Committee Hansard*, 27 June 2005, pp. 72–73.

74 A. Tate, *Committee Hansard*, 27 June 2005, pp. 73–74.

we have actively participated with other non-government bodies, parts of civil society in Australia, trying to strengthen the cross-sectoral human rights dialogue with Chinese based civil society organisations. The ACFTU, the Chinese trade unions, do participate in human rights bilateral dialogues with EU members and in dialogues with other countries, but until this year there had not been an opportunity to have a direct civil society to civil society dialogue—previously, it was government to government only.⁷⁵

18.65 The union indicated that, to date, it has not been able to engage openly on human rights issues, but that it hopes to in the future. The ACTU drew the committee's attention to the many unofficial human rights and labour rights groups in China.⁷⁶ The ability to form and establish relationships with alternative, non-government entities forms a vital part of the bilateral relationship, creating alternative networks of association, and also assists China to move towards a more democratic social and political model.

18.66 The Australian Fair Trade and Investment Network (AFTINET) and the Australia Tibet Council indicated that they have links with community organisations in China and discussed a number of issues surrounding human rights and working conditions. These organisations also have links to the Chinese and Tibetan Australian communities. Dr Patricia Ranald from AFTINET stated:

We have met with community organisations in both Hong Kong and China that work in China, and so our information, for example, about labour and environmental issues in China is informed by those sorts of direct community contacts.⁷⁷

The benefits of NGO relations

18.67 The benefits arising from NGO relations are obvious when efforts lead to improvements in the living conditions and political, economic and social rights, protections and freedoms of the Chinese people. NGO's work in raising awareness of issues affecting the Chinese population is also apparent in campaigns aimed at the general public. One of the less widely acknowledged and publicised benefits of bilateral association comes, however, through the creation of interpersonal contacts and networks of association, and the subtle and indirect impact of exposure to the forms and methods of association inherent in NGO structures and operations.

18.68 Dr Jie Chen drew the committee's attention to the complex network of civil society connections between Australia and China and the 'increasing interest by civil society NGOs in China and by NGO activists and campaigners in Australia'.⁷⁸ He told

75 A. Tate, *Committee Hansard*, 27 June 2005, p. 74.

76 A. Tate, *Committee Hansard*, 27 June 2005, p. 75.

77 P. Ranald, *Committee Hansard*, 29 June 2005, p. 5.

78 J. Chen, *Committee Hansard*, 1 August 2005, p. 76.

the committee that he has studied forms of networking and cooperation between NGOs on issues such as environment, conservation, gender equality, children, animal wellbeing, health, development and aboriginal affairs. He made the point that:

These are...not really popular non-state relations that the public media is interested in. It is not business relations that I am talking about, nor is it the usual cultural and educational exchanges or tourism. I am talking about what is happening between the burgeoning civil society in China—that is, organised activism by citizens—and its Australian counterpart, which is far more developed.⁷⁹

18.69 Dr Chen claimed that the rise of Chinese civil society organisations reflects a common global phenomenon—the proliferation of organised participation by citizen groups in world affairs. He asserted this new phenomenon is giving rise to 'cross-border solidarity and joint advocacy and other collaborative projects between Australian NGOs and foreign NGOs on shared issues and values.'⁸⁰

18.70 In addition to the interpersonal networks built through NGO activity, Dr Chen considers that the trans-national networking and collaboration between the burgeoning Chinese NGO community and its Australian and Western counterparts is of direct benefit to Chinese society and politics. He claimed that, quite apart from the transfer of issue-specific skills from the West to Chinese civil society, these trans-national collaborations have larger socio-political implications for Chinese society. They stimulate interest among the Chinese population in volunteering and promote autonomous activism and grassroots empowerment.⁸¹

18.71 Dr Chen drew particular attention to research he has undertaken into a group of Australian activists concerned with the protection of bears in Sichuan province. The group operates bear sanctuaries, undertakes community education campaigns and education programs. He observed that their activities have:

...generated new Chinese activist NGOs which take the concept of the third sector very seriously. They make uniforms, they have learned skills from Australian activists and they have come to know that things can be done not by business or government authorities but by themselves. It may involve just bears and giant pandas, but the sense of autonomous activism and issue oriented advocacy has been generated, and that, in a society which is dominated by family and authority, can in the long run create an increasingly autonomous third sector. That bodes well for Chinese democratisation in the future.⁸²

79 J. Chen, *Committee Hansard*, 1 August 2005, p. 76.

80 J. Chen, *Committee Hansard*, 1 August 2005, p. 76.

81 J. Chen, *Committee Hansard*, 1 August 2005, p. 76.

82 J. Chen, *Committee Hansard*, 1 August 2005, p. 77.

18.72 Dr Chen asserted that participation in the work of NGOs 'is a very virtuous process of democratisation', allowing citizens to participate in non-politicised democratic processes. He contented:

Nothing is more dangerous than having a top-down democratisation in China when citizens are not even knowledgeable about how to associate themselves on issues like animal welfare or giant panda protection.⁸³

18.73 He described his recent visit to China, where he had observed the operation of a number of Chinese Government organised non-government organisations (GONGOs), and in particular, the All China Women's Federation:

I felt quite impressed that they seemed to have a lot of leeway and they usually cited the international experiences as reasons why they behaved in the way they were behaving now. They recalled the collaboration with international women's organisations through which they got knowledge about international treaties and conventions on gender equality. They knew how, say, Australian and American women NGOs did their business and lobbied governments and how their Western counterparts made use of international conventions on gender equality to benefit themselves in workplaces. So the door has been opened up, even for the Chinese GONGOs. It is really positive.⁸⁴

18.74 Dr Chen noted that trade union societies organised by the aid of state enterprise workers have successfully lobbied local authorities to improve their conditions. He also drew the committee's attention to an environmental campaign in the Xinjiang province against the construction of a dam. The environmentalists liaised and campaigned with international conservationists. Dr Chen stated that this liaison:

...provided...Chinese activists with international treaties on the environment that the Chinese government itself had signed and ratified. The grassroots community in China did not know a thing about what sort of international treaties their government had been signing and ratifying, so Western activists have given them the information. They used information to campaign against the Chinese government itself, and they were very successful in many cases.⁸⁵

18.75 Dr Chen emphasised that, in his view, the space for pluralisation in China is getting bigger. He claimed that, to a large extent, this can be attributed to the Chinese NGOs collaboration with the international NGO community. In his view, through interaction with the NGO community, Chinese NGO members learn advanced campaign and fund raising skills, meeting procedures and transparent decision-making processes. The financial relationships that Chinese NGOs have with international NGOs also improve transparency in annual auditing, annual reports and key performance indicators. Indeed, he believed that 'international collaboration is

83 J. Chen, *Committee Hansard*, 1 August 2005, p. 77.

84 J. Chen, *Committee Hansard*, 1 August 2005, p. 79.

85 J. Chen, *Committee Hansard*, 1 August 2005, p. 81.

probably the single most important contributor to the increased level of transparency and accountability'.⁸⁶

18.76 Dr Chen based his assertions about the role of NGOs in facilitating a smooth transition to democracy on his observations of Taiwan's democratic evolution, stating that the types of organisations that facilitated the smooth transition to Taiwanese democracy 'were almost exactly the sorts of NGOs we have in China today'.⁸⁷ Dr Chen emphasised the role that foreign NGOs had played in this process:

The international counterparts of Taiwanese NGOs such as Oxfam, World Vision and International Save the Children Alliance set up projects within Taiwan and therefore transferred some democratic practices and culture into the Taiwanese community. Without maturity and growth of the Taiwanese NGO community before democratisation, I would say the Taiwanese democratisation process would not have been as smooth as we are seeing today. Let us not lose sight of the contributions made by numerous grassroots activists in Taiwan... Numerous citizens already knew how to associate, how to organise themselves, because they had been doing so for years, except that it was on other issues, like the environment.⁸⁸

18.77 Dr Chen claimed that an examination of the processes of democratisation in other nations—such as Korea, Brazil, Mexico and Argentina—reveals 'common stories of burgeoning local civil society NGOs collaborating with Western campaign groups'.⁸⁹ He stated:

My point is that there is so much Western governments can do in putting pressure on China on the issue of human rights. There is so much that the UN and US Congress can do in improving China's chance of democratisation. What is equally important, judging from the early experiences involving China, is the subtle pluralising impact on Chinese society as a result of NGOs' collaboration across national borders, which may well not be on human rights at all; it may be on other things. But it helps slowly chip away China's authoritarian, family-dominated and authority-dependent political culture.

18.78 In his view, the growing presence of civil society organisations fills a vacuum in the Chinese process of development. He noted that while China has strong government, a strong army and a powerful business lobby, it lacks citizens with self-organising and advocacy skills:

What is lacking is issue-oriented, 'public good' oriented networks transcending family names and transcending family lineage. That is the indicator of growth of civil society. That is lacking—a sort of independent third sector. Traditionally, that is exactly what blocked the Chinese path

86 J. Chen, *Committee Hansard*, 1 August 2005, p. 83.

87 J. Chen, *Committee Hansard*, 1 August 2005, p. 78.

88 J. Chen, *Committee Hansard*, 1 August 2005, p. 78.

89 J. Chen, *Committee Hansard*, 1 August 2005, p. 81.

towards liberalisation...This third sector, as a concept and a reality, was never there in China. Unless we have that, any democratisation will have to be top down, depending on whether a reform-minded secretary-general of the party suddenly grabs power and starts having elections. But what can elections do for a population if nobody even knows how to campaign on SARS or the environment? That sort of election may not be terribly impressive.⁹⁰

18.79 Professor Stephen Fitzgerald was of the view that the growth of civil society may offer China an alternate path to political and social development than the model followed by western democracies. He considered that the emergence of Chinese civil society may be the most significant issue on the Chinese political landscape for some time to come but that it had a long way to go.⁹¹ He stated:

... but civil society has arrived, and the idea of civil society contributing importantly to the community and public life and to government has legitimacy. The issue now is not whether China will have a developed civil society but, having left behind a centuries-old idea of the relationship between government and governed, how it will work out a new 'social contract' between the society and its government. This is one of the most important issues of our time.⁹²

18.80 The committee considers Dr Chen's evidence and Professor Fitzgerald's writings, regarding the importance of NGO activity in assisting Chinese progress towards democratisation, highlight an additional way to strengthen and deepen Australia and China's relationship.

18.81 Their observations underline the importance of allowing NGOs some voice in the many types of formal meetings, gatherings and conferences in which Australia and China participate. The committee understands the reluctance on the part of governments to allow access to such gatherings but nonetheless it should ensure that NGOs are not shut out completely from such engagement. For example, the Human Rights Dialogue provides an opportunity for encouraging some input from NGOs.

Committee view

18.82 The evidence to this inquiry has demonstrated that any relationship between two nations cannot be viewed purely in economic terms. The bilateral relationship comprises a complex web of interrelationships between a diverse range of actors. Contributors to the ongoing evolution of the relationship include individuals, community organisations, educational institutions, sporting associations, scientific and technological research agencies and bodies, NGOs, sub-national governments, and

90 J. Chen, *Committee Hansard*, 1 August 2005, pp. 81–82.

91 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, p. 27.

92 Stephen Fitzgerald, *China 2001–2010: An Update*, additional information provided by AusAID, pp. 29–30.

federal, state and local government departments, to name but a few. The extraordinarily broad range of activities these stakeholders participate in are not necessarily tied to economic benefit. The committee considers, however, that there is a tendency for the nation's gaze to become fixed upon financial gain, with insufficient attention paid to investing in alternative means of engagement.

18.83 Australia's challenge is to identify and recognise the vital role that various stakeholders play in contributing to the strength and vitality of the bilateral relationship, and to support them in their activities. Rising to this challenge will require a broader appreciation of the value and work being done by a range of organisations.

18.84 The possibilities for deepening Australia's relationship with China are enormous, and there is much the two countries can learn from and about one another. The committee reiterates Mr Richard Tan's comments:

Friendship in business is built on mutual profit taking. That friendship is as lasting as the profit margin. Real and genuine friendship can be developed through promoting mutual understanding and appreciation of each other's culture and traditions. Thus, while emphasising economic gains, we should not lose sight of the long-term benefits of exchanges in other areas.⁹³

18.85 Australia should seek to know more about China, to understand and explore its vibrant cities, cultural depth, rich history, intellectual traditions and the diversity of its people. Australia should develop pathways to scientific innovation with China, and support and engage with the Chinese people as they move towards a more democratic, open and accountable society. Australia cannot do this through trade alone.

18.86 Political interaction between the two national governments, lower level state, territory, provincial, and local governments, and non-government organisations can raise public awareness and understanding of the relationship between the two nations and lead to closer cooperation.

Conclusion

18.87 China has taken just over a decade to make the successful transition from a closed economy to one of the leading trading nations in the world. It has adopted an export-oriented strategy to underpin its economic development and has made remarkable progress in dismantling barriers to trade through the WTO. In opening up its markets, China has become a dynamic, strong and rapidly expanding economy offering opportunities for countries, such as Australia to strengthen and deepen the relationship.

93 R. Tan, *Committee Hansard*, 1 August 2005, p. 35.

18.88 This report looked at both the opportunities and challenges that China presents for Australia. It is optimistic that Australia can forge closer ties within China that will prove mutually beneficial for both countries. The Executive Summary brings together the main themes in the report and lists the committee's recommendations.

SENATOR STEVE HUTCHINS
CHAIRMAN

Additional comments by Australian Democrats

Senator Stott Despoja

The Democrats agree with the evidence presented in the Chair's report.

We share the concerns raised and endorse the recommendations contained therein, particularly in relation to human rights and labour standards.

Although we acknowledge the committee has placed a reasonable emphasis on such issues, we would like to highlight further the continued violations of labour standards and human rights in China and draw attention to Australia's obligations to ensure that trade is conducted in a way that is in accord with Australian values and international human rights conventions. Australia must ensure that economic considerations do not outweigh human rights considerations.

We note Amnesty International's 2005 Annual Report that stated:

There was progress towards reform in some areas, but this failed to have a significant impact on serious and widespread human rights violations perpetrated across the country. Tens of thousands of people continued to be detained or imprisoned in violation of their fundamental human rights and were at high risk of torture or ill-treatment. Thousands of people were sentenced to death or executed, many after unfair trials. Public protests increased against forcible evictions and land requisition without adequate compensation. China continued to use the global "war on terrorism" to justify its crackdown on the Uighur community in Xinjiang. Freedom of expression and religion continued to be severely restricted in Tibet and other Tibetan areas of China.

The Australian Democrats acknowledge differences in culture and political systems between Australian and China, but reject arguments that this somehow justifies inaction or silence on human rights abuses and dismal labour standards in China.

We also note concerns raised during the inquiry, and noted by the committee, in relation to the numerous allegations made of intimidation, surveillance and suppression of groups and individuals within Australia by the Chinese Government, in particular, but not limited to, practitioners of Falun Gong. We reaffirm our position that such activity by a foreign Government within Australia is totally unacceptable.

We agree with comments made by the Australian Council of Trade Unions, among others, in relation to guidelines on multinational enterprises. There is far more room for a debate on the appropriate application of a corporate code of conduct for Australian businesses operating overseas. While we acknowledge the committee's recommendation on this issue and the difficulties involved with such an endeavour, we urge governments, NGOs and businesses to work toward the formulation of formal guidelines for Australian corporations operating overseas.

We also note the importance of Taiwan to Australia's national interests and again urge the Australian Government to allow high-ranking Taiwanese officials transit stops in Australia, and to recommence Australian ministerial visits to Taiwan.

SENATOR STOTT DESPOJA
AUSTRALIAN DEMOCRATS

Appendix 1

Public Submissions

- P1 Mr Peter Beattie MP, Premier of Queensland and Minister for Trade
- P1A Mr Peter Beattie MP, Premier of Queensland and Minister for Trade
- P2 Australian Strategic Policy Institute
- P3 Mr Jon Cook
- P4 Mr Jarrad Clark, Edith Cowan University
- P5 Dr Thomas Alured Faunce, Australian National University
- P6 Mr Anthony James
- P7 Professor and Mrs N Ormerod
- P8 Mr Geoff Edwards
- P9 Senator Robert Hill, Leader of the Government in the Senate, Minister for Defence
- P10 Wollongong City Council, Mr Bob Doyle
- P11 Mr David Novy (Maitreya)
- P12 Mr Jonathan Schultz
- P13 Queensland Nurses' Union, Ms Gay Hawksworth
- P14 Federation of Ethnic Communities' Councils of Australia, Mr Abd-Elmasih Malak
- P15 Name withheld
- P16 Australian Fair Trade and Investment Network, Ms Jemma Bailey and Dr Patricia Ranald
- P16A Australian Fair Trade and Investment Network, Ms Jemma Bailey and Dr Patricia Ranald
- P17 Mr Francis Lee
- P18 The Asialink Centre, Ms Jennifer Conley
- P19 Department of Foreign Affairs and Trade, Mr Jeff Robinson
- P20 Dr Bill Lloyd-Smith
- P21 Asia Education Foundation, Ms Kathe Kirby
- P22 Mr Peter Van Ness, Contemporary China Centre, Australian National University
- P23 Australia Tibet Council, Mr Paul Bourke
- P24 Hunt & Hunt Lawyers, Mr Jim Harrowell

- P25 Department of Family and Community Services, Mr Lee Trainor
- P26 Mr Reg Little and Mr James Flowers
- P26A Mr Reg Little
- P27 Department of the Environment and Heritage, Mr Phillip Glyde
- P28 Tears of the Oppressed, Ms Elizabeth Scott
- P29 Professor John Hicks, Charles Sturt University
- P30 Department of Education, Science and Training, Ms Bici Byrnes
- P31 WTO Watch Qld, Ms Terrie Templeton
- P32 National Library of Australia, Ms Jan Fullerton
- P33 Northern Territory Government, Ms Clare Martin
- P34 Rio Tinto Australia, Mr Charlie Lenegan
- P35 AusAID, Mr Peter Callan
- P36 Australian Manufacturing Workers' Union, Mr Alister Kentish
- P37 Australian Customs Service, Ms Christine Marsden-Smedley
- P38 CSIRO Business Development & Commercialisation, Ms Mara Bun
- P39 Air Power Australia, Dr Carlo Kopp and Mr Peter Goon
- P40 Australia China Business Council, The Hon Warwick L Smith
- P41 Department of Agriculture, Fisheries and Forestry, Ms Felicity Moran
- P42 Australian Council of Trade Unions, Ms Sharan Burrow
- P43 Australian Film Commission, Mr Drew MacRae
- P44 Media, Entertainment and Arts Alliance, Mr Simon Whipp
- P45 WA Government, Department of the Premier and Cabinet
- P45A WA Government, Department of the Premier and Cabinet
- P45B WA Government, Department of Agriculture
- P45C WA Government, Department of Culture and the Arts
- P46 Department of Transport and Regional Services, Mr Nick Bogiatzis
- P47 Victorian Government, The Hon. André Haermeyer MP
- P48 Qantas Airways Limited, Mr David Hawes
- P49 Business Council of Australia, Ms Melinda Cilento
- P50 Ingeus Limited, Ms Therese Rein
- P51 Department of Immigration and Multicultural and Indigenous Affairs, Ms Rosemary Greaves
- P52 Dr Rosita Dellios, Bond University

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- P53 Professor David S G Goodman, University of Technology, Sydney
- P54 Professor Colin Mackerras
- P55 Minerals Council of Australia
- P56 Mr John Rogers
- P56A Mr John Rogers
- P57 China Business Focus
- P58 Australian Academy of Science; Australian Academy of Technological Sciences and Engineering
- P59 West Australian Symphony Orchestra
- P60 Dr Chen Jie
- P61 Mr Garry Woodard
- P62 Department of Communications, Information Technology and the Arts
- P62A Department of Communications, Information Technology and the Arts
- P63 Australian Industry Group
- P64 National Farmers' Federation
- P65 Asian Studies Association of Australia Inc (PDF 155KB) Attachment
- P66 Embassy of the People's Republic of China in Australia
- P67 Australian Local Government Association
- P68 Ali Abusalem
- P69 Department of Industry, Tourism and Resources
- P70 Mr Gary L Fellman
- P71 Australian Research Council
- P72 Professor John Fitzgerald
- P73 Mr Richard Opie
- P74 Dr Stephen L Morgan
- P75 Australia-China Council
- P76 Mr John Craig
- P77 Dr Anne Kent
- P78 Mr John C Massam
- P79 The Human Rights Council of Australia
- P80 The George Institute for International Health
- P81 Mr Tony Pratt

Appendix 2

Public hearings and witnesses

Tuesday, 14 June 2005, Canberra

BORTHWICK, Ms Hilary Jessie, Group Manager, Science Group, Department of Education, Science and Training

BUFFINTON, Ms Fiona, Chief Executive Officer, Australian Education International, Department of Education, Science and Training

BYRNES, Ms Bici, Assistant Director, International Cooperation Branch, Australian Education International, Department of Education, Science and Training

CALLAN, Mr Peter, Acting Assistant Director General, East Asia Branch, AusAID

DEANE, Ms Bronwyn, Assistant Director, International S&T Relations, International Science Branch, Science Group, Department of Education, Science and Training

PROCTOR, Mr Murray, Acting Deputy Director General, Asia and Corporate Resources, AusAID

TAYLOR, Mr Robin James, Director, North Asia Section, AusAID

VAN OMME, Ms Kristie, Acting Director, North Asia, Trade Agreements and APEC, International Cooperation Branch, Australian Education International, Department of Education, Science and Training

WHITTLESTON, Ms Shelagh, Branch Manager, International Cooperation Branch, Australian Education International, Department of Education, Science and Training

Thursday, 16 June 2005, Canberra

McCARTER, Ms Mary Louise, Acting Assistant Secretary, China Free Trade Agreement Task Force, Department of Foreign Affairs and Trade

MORTON, Ms Lydia, First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

NEUMANN, Mr Richard James, Executive Officer, East Asia Branch, Department of Foreign Affairs and Trade

ROBINSON, Mr Jeff, Assistant Secretary, East Asia Branch, North Asia Division, Department of Foreign Affairs and Trade

SAXINGER, Mr Hans, Director, China Economic and Trade, North Asia Division, Department of Foreign Affairs and Trade

Monday, 20 June 2005, Canberra

ALLEN, Mr Rodney John, Acting Director, Australian Antarctic Division, Department of the Environment and Heritage

BUN, Ms Mara, Director, Business Development, Commonwealth Scientific and Industrial Research Organisation

BURNS, Mr Craig Stuart, General Manager, Trade Policy, Department of Agriculture, Fisheries and Forestry

CARRUTHERS, Mr Ian, First Assistant Secretary, International, Land and Analysis Division, Australian Greenhouse Office, Department of the Environment and Heritage

FERRIS, Mr Jason Andrew, Assistant Director, Migratory and Marine Species Section, Department of the Environment and Heritage

GRINBERGS, Ms Helen Mary, Director, International Partnerships Section, Australian Greenhouse Office, Department of the Environment and Heritage

LEONG, Dr Ta-Yan, Senior Adviser, Commonwealth Scientific and Industrial Research Organisation International

MORRIS, Mr Paul Charles, Executive Manager, Market Access, Department of Agriculture, Fisheries and Forestry

SEDGLEY, Mr Simon Henry, Director, Executive and External Relations, Australian Research Council

SMITH, Ms Kerry Jayne, Director, International Section, Department of the Environment and Heritage

SMITH, Professor Andrew, Fellow of the Australian Academy of Science, Australian Academy of Science

THAPPA, Ms Nina Subhashree, Policy Adviser, International Section, Department of the Environment and Heritage

THOMAS, Dr Mandy, Executive Director, Humanities and Creative Arts, Australian Research Council

WILSON, Mr Ken, Assistant Director, Executive and International Affairs, Bureau of Meteorology of Australia

Tuesday, 21 June 2005, Canberra

BROWN, Ms Vicki, General Manager, International Energy Branch, Department of Industry, Tourism and Resources

DILLON, Ms Catherine Mary, Manager, Minerals Development Section, Department of Industry, Tourism and Resources

HUGHES, Mr Peter, First Assistant Secretary, Refugee, Humanitarian and International Division, Department of Immigration and Multicultural and Indigenous Affairs

HUTCHINSON, Mr Peter, Acting Branch Manager, International Branch, Department of Family and Community Services

JONES, Mr Barry, Executive General Manager, Invest Australia, Department of Industry, Tourism and Resources

KILLESTEYN, Mr Ed, Deputy Secretary, Department of Immigration and Multicultural and Indigenous Affairs

McMAHON, Mr Vincent, Executive Coordinator, Border Control and Compliance Division, Department of Immigration and Multicultural and Indigenous Affairs

MILEY, Mr Kenneth, General Manager, Trade and International Branch, Industry Policy Division, Department of Industry, Tourism and Resources

MORRIS, Mr Peter, General Manager, Tourism Division, Department of Industry, Tourism and Resources

MURTON, Mr Timothy James, Acting Assistant Section Manager, Capacity Building, Department of Family and Community Services

RIZVI, Mr Abul, First Assistant Secretary, Migration and Temporary Entry Division, Department of Immigration and Multicultural and Indigenous Affairs

STONE, Mr Geoff, Manager, Development Section, Offshore Resources Branch, Department of Industry, Tourism and Resources

TRAINOR, Mr Leonard Archer, Section Manager, Capacity Building, International Branch, Department of Family and Community Services

TUCKER, Dr Peter, General Manager, IP Australia, Department of Industry, Tourism and Resources

WILLIAMS, Mr Jim, Assistant Secretary, Unauthorised Arrivals and Detention Operations Branch, Department of Immigration and Multicultural and Indigenous Affairs

Wednesday, 22 June 2005, Canberra

FARGHER, Mr Ben, Chief Executive Officer, National Farmers Federation

HOOKE, Mr Mitchell Harry, Chief Executive, Minerals Council of Australia

MITCHELL, Mr Scott Anthony, Policy Manager Trade, National Farmers Federation

PEARSON, Mr Brendan, Director, Public Affairs, Minerals Council of Australia

Monday, 27 June 2005, Melbourne

APPLE, Mr William Nixon, Industry and Investment Policy Adviser, Australian Council of Trade Unions

FITZGERALD, Professor John Joseph, Private capacity

JACOBS, Professor Jeffrey Bruce, Private capacity

MACMILLAN, Mr Steven, Consultant, China Business Focus

McGREGOR, Ms Jennifer, Executive Director, Asialink

MORGAN, Dr Stephen Lloyd, Private capacity

MURPHY, Mr Edward Francis, International Committee Member, Australian Council of Trade Unions

TATE, Ms Alison Margaret, International Officer, Australian Council of Trade Unions

WELCH, Ms Maureen Joan, Director, Asia Education Foundation

WOODARD, Mr Charles Garrard, Private capacity

Wednesday, 29 June 2005, Sydney

ATISHA, Mr Tenzin, Representative of His Holiness the Dalai Lama in Australia and New Zealand

BAILEY, Ms Jemma Renee, Trade Justice Campaigner and Policy Officer, Australian Fair Trade and Investment Network

BARNETT, Ms Kate, National Director, Australia China Business Council

CAMERON, Mr Doug, National Secretary, Australian Manufacturing Workers Union

CONROY, Mr Pat, National Projects Officer, Australian Manufacturing Workers Union

DAVIS, Dr Robert Brent, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry

DOYLE, Mr Robert, Manager, Economic Development, Wollongong City Council

DYSART, Ms Dinah Mary, Deputy Chair, Australia-China Council

GOODMAN, Professor David Stephen Gordon, Private capacity

HARROWELL, Mr James (Jim) Geoffrey Fulton, Partner, Hunt and Hunt Lawyers

KENTISH, Mr Alister, National Projects Officer, Australian Manufacturing Workers Union

LUNGTOK, Mr Lobsang, Private capacity

PHELAN, Mr Liam, Policy Officer, Australia Tibet Council

RANALD, Dr Patricia, Convenor, Australian Fair Trade and Investment Network

Monday, 1 August 2005, Perth

BATH, Ms Vivienne Diane, Private capacity

BEACH, Mr Michael Ian, Principal Policy Officer, Trade and Services, State Development

Strategies Group, Department of Industry and Resources

BIDDULPH, Dr Sarah, Private capacity

CALDER, Mr Duncan Harvey, Council Member, Australia China Business Council, Western Australian Branch; and National Chairman, China Business Practice, KPMG

CASEY, Dr Dawn, Chief Executive Officer, Western Australian Museum

CHEN, Dr Jie, Private capacity

DELLIOS, Dr Rosita, International Relations Analyst, Centre for East-West Cultural and Economic Studies, Bond University

GUNNINGHAM, Mr Jeff, Managing Director, Education and Training International, Department of Education and Training

HART, Mr William Shelton, General Manager, Government Relations and Approvals, Rio Tinto Iron Ore

HOWARD, Mr Lyall James, Manager, Government and Corporate Relations, Rio Tinto Ltd

KELLY, Ms Valerie Priscilla, Trade Policy Analyst, Business Development, Department of Agriculture

LITTLE, Mr Reginald Eric, Private capacity

LUCAS, Ms Allanah, Executive Director, Culture and Arts Development, Department of Culture and the Arts

SATCHWELL, Mr Ian David, Executive Member, Australia China Business Council, Western Australian Branch

SIGLEY, Dr Gary, Director, Confucius Institute, University of Western Australia

TAN, Mr Richard Wah Chooi, President, Chung Wah Association

Tuesday, 13 September 2005, Canberra

BAXTER, Mr Peter, First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

BIRRER, Mr Chris, Director, North and South Asia, International Policy Division, Department of Defence

COTTON, Professor James, School of Politics, Australian Defence Force Academy

DIBB, Professor Emeritus Paul, Chairman, Strategic and Defence Studies Centre, Australian National University

HARRIS, Professor Stuart Francis, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University

JENNINGS, Mr Peter, Director of Programs, Australian Strategic Policy Institute

NAPIER, Dr Mark Donaldson, Executive Officer, Human Rights and Indigenous Issues Section, International Organisations and Legal Division, Department of Foreign Affairs and Trade

ROBINSON, Mr Jeff, Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

ROGGERO, Mr Peter James, Director, China Political and External Section, East Asia Branch, Department of Foreign Affairs and Trade

SADLEIR, Mr Michael, Executive Officer, China Economic and Trade Section, East Asia Branch, Department of Foreign Affairs and Trade

SARGEANT, Mr Brendan John, Head, Strategic Policy Division, Department of Defence

TAYLOR, Dr Brendan Kevin, Strategic and Defence Studies Centre, Australian National University

TOW, Professor William Terry, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University

VAN NESS, Dr Peter, Contemporary China Centre, Research School of Pacific and Asian Studies, Australian National University

Appendix 3

Additional information, tabled documents and answers to questions on notice

Department of Education, Science and Training

- copy of "Memorandum of Understanding on Cooperation in Education and Training between the Ministry of Education of the People's Republic of China and the Department of Education, Science and Training of Australia", dated 2 December 2002 (in English and Chinese).
- "Arrangement on Higher Education Qualifications Recognition between the Government of Australia and the Government of the People's Republic of China", dated 24 October 2003 (in English and Chinese).

AusAID

- correspondence dated 17 June 2005—request to replace a document tabled at the hearing on 14 June 2005.
- "China–Australia Human Rights Technical Cooperation Program: Matrix of Activities 1997–2005".
- "A Summary of Australian Development Scholarships for China 2003 to 2005".

Asialink and Asia Education Foundation

- magazine: *AEF News* (Volume 14/No 1/June 2005)
- booklet: *Asialink; The University of Melbourne; An initiative of The Myer Foundation*
- booklet: 'The US, Taiwan and the PRC; Managing China's Rise: Policy Options for Australia' by Professor Hugh White, *Melbourne Asia Policy Papers* (Number 5, November 2004) published by The University of Melbourne
- booklet: 'Trade in Services; Policy Options and Implications for Australia-Asia Relations' by Professor Christopher Findlay, *Melbourne Asia Policy Papers* (Number 6, March 2005) published by The University of Melbourne
- CD: *Voices & Visions from China; Texts for the Senior English Classroom*

Embassy of the People's Republic of China

- Correspondence dated 24 June 2005 including reference materials
- Magazine: *Combat Cults and Protect Human Rights*
- Leaflet: 'Xiao Dengliang: I oppose fabricating rumors in my name'
- Leaflet: 'Fu Yibin hacked family members to death'
- Leaflet: "'Falun Gong" is a Cult; Fallacies of Li Hongzhi'
- Leaflet: 'Expose the True Feature of Falun Gong'
- Leaflet: 'Falun Dafa; Peaceful Journey of truthfulness-compassion-forbearance'

- Information sheet: "'Falun Gong' Is a Cult; A Doctoral Student Breaks with 'Falun Gong' (3 copies)
- Booklet: "'Falun Gong' Is a Cult VI' published by New Star Publishers 2000
- Booklet: "'Falun Gong' Is a Cult VII' published by New Star Publishers 2000
- Booklet: 'Li Hongzhi & His "Falun Gong", Deceiving the Public and Ruining Lives' published by New Star Publishers 1999
- CD: *Memorandum On "Falun Gong"*

Anita Chan, Contemporary China Centre, Australian National University

- 'Chinese Labour Standards, China's Trade Union Federation, and the Question of Engagement', paper presented at a symposium on 14 and 15 February 2005

Department of Industry, Tourism and Resources

- email dated 1 July 2005, providing clarification of evidence given at the hearing on 21 June 2005

Department of the Environment and Heritage

- correspondence dated 7 July 2005—answers to questions on notice from hearing on 20 June 2005 re climate change project and collaborative project on cultural heritage.

Department of Education, Science and Training

- correspondence dated 7 July 2005—answers to questions on notice from hearing on 14 June 2005 re:
 - number of visits to the 'Study in Australia' website
 - number of high school students studying Chinese
 - DEST's role in intellectual property rights in the context of FTA with China
 - 'Agreement between the Government of Australia and the Government of the People's Republic of China on Co-operation in Science and Technology' dated 8 May 1980
 - 'Memorandum of Understanding under the Agreement between the Government of Australia and the Government of the People's Republic of China on Cooperation in Science and Technology' dated 16 May 1989
 - 'The Management of a Special Fund: Memorandum of Understanding between The Department of Education, Science and Training of Australia and the Ministry of Science and Technology of the People's Republic of China for Scientific and Technological Cooperation' dated 4 July 2005

Australian Bureau of Agriculture and Resource Economics

- correspondence dated 14 July 2005 including copy of report
- *Developments in Chinese Agriculture* Abare Report by Ivan Roberts and Neil Andrews dated July 2005

Department of Foreign Affairs and Trade

- correspondence dated 18 July 2005—answers to questions on notice from hearing on 16 June 2005 re:
 - list of Australian participants at the June 2005 Human Rights Dialogue
 - summary of issues and participants at the Australia-China Human Rights Dialogues
 - internet links to copies of Australia's nuclear safeguards agreements with nuclear weapons states
 - specific measures that would be required of China to ensure that Australian-obligated uranium does not end up in nuclear weapons
 - confirmation of the Australian companies seeking to export uranium to China
 - confirmation that the issue of nuclear waste has not arisen in discussions with China
 - China's position on Japan's move to lift restrictions on whaling at the International Whaling Commission meeting in Ulsan, South Korea
 - brief history and copy of ASEAN's Treaty of Amity and Cooperation
 - Australia's relations with Hong Kong
 - Australia's relations with Macau
 - copy of the Australia-China MOU on the launch of FTA negotiations
 - details of AusAID's HIV/AIDS project in Xinjiang.

Department of Foreign Affairs and Trade

- Correspondence dated 2 August 2005—further information on AusAID's HIV/AIDS project in Xinjiang, Western China following a recent field visit by Australia's Special Representative on HIV/AIDS, Ms Annmaree O'Keefe.
- Correspondence dated 11 October 2005 – answers to question on notice from roundtable hearing on 13 September 2005 re:
 - Background information on the Asia Pacific Partnership on Clean Development and Climate
 - Background information on negotiations towards a Nuclear Cooperation Agreement with China.

AusAID

- correspondence dated 27 July 2005—answers to questions on notice from hearing on 14 June 2005 re:
 - number of people who travelled to China in the last year to provide development assistance or to Australia as recipients of assistance
 - breakdown of ODA expenditure to China

- example of a case study in development—Datong Cleaner Environment Project
- recording of AusAID financial commitments for future years
- copy of two documents by Fitzgerald Consulting:
 - *China 2001-2010: Political, Economic and Social Issues of Reform and Transformation*, December 2000
 - *China Country Strategy Review 2002-2005: Report and Recommendations to AusAID*, March 2001

Mr Liam Phelan, Australia Tibet Council

- correspondence dated 24 August 2005—additional information arising from hearing on 29 June 2005 re correspondence from the Australia Tibet Council to DFAT regarding the annual Bilateral Human Rights Dialogue between Australia and China dated:
 - 15 July 1998
 - 10 August 1999 (media release)
 - 4 August 2000
 - 8 October 2001
 - 5 August 2002
 - 16 July 2003
 - 12 October 2004
 - 20 May 2005

Professor Stuart Harris, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University

- email correspondence dated 15 September 2005—additional information arising from the roundtable discussion on 13 September 2005.

AusAID

- correspondence dated 30 August 2005—answers to written questions on notice dated 19 July 2005 re:
 - China in the south west Pacific (6 questions)
 - good governance programmes/human rights (5 questions)

Department of Immigration and Multicultural and Indigenous Affairs

- correspondence dated 10 September 2005—answers to questions on notice from hearing on 21 June 2005 and answers to written questions on notice dated 19 July 2005 re:
 - staffing levels in DIMIA
 - staffing levels in multicultural affairs area
 - promotion of multicultural relations
 - Chinese–Australian community related activities undertaken by DIMIA
 - DIMIA actions to promote greater awareness of the Chinese–Australian community's contribution to Australian society

- recent reports from quality control codes and statistics in relation to processing various categories of risk
- visa categories that Chinese protection visa applicants arrive on
- copy of protection visa application form
- visa breakdown for 77 PRC national granted refugee status in 2003–2004

Department of Education, Science and Training

- correspondence dated 12 September 2005—answers to written questions on notice dated 19 July 2005 re:
 - Chinese studies in Australia (6 questions)
 - science and technology (4 questions)