

Wollongong City Council Office of Economic Development

Submission to the

Senate Foreign Affairs, Defence and Trade References Committee

Inquiry into Australia's relations with China

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1 Introduction and Summary

Wollongong City Council's Office of Economic Development is making this submission to the Inquiry into Australia's relations with China because it considers it important that the Inquiry take into account China's importance to the economies of regional Australia.

As this submission demonstrates, China already plays a major role in Wollongong's economy and organisations in the city are being proactive in pursuing opportunities that exist to participate in the dramatic development of the Chinese economy.

This submission will provide the Senate Foreign Affairs, Defence and Trade References Committee with information about the breadth and strength of our region's connections with China, what we are doing to expand our connections with China and policy issues affecting the potential for growth.

Wollongong's economy is evolving from an historic reliance on the steel and coal industries to a more balanced economic base reflecting the importance of the education, information technology, services and tourism sectors. This submission reflects that evolution.

In gathering information for this submission, the Office of Economic Development spoke to the major operators in the city's key sectors of education, industry, business support and tourism to provide the Senate Inquiry with an overview of Wollongong's connections with China and issues that arise as a result of government policy.

This submission specifically addresses the following terms of reference of the Inquiry:

- (a) Australia's economic relationship with China with particular reference to:
 - 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:
 - ii Opportunities for strengthening the deepening political, social and cultural links between Australia and China.

The submission is broken into the following sections:

Wollongong's civic, cultural and sporting connections with China: provides an overview of the city's sister-city relationship with Longyan in Fujian Province and other sporting and cultural connections.



The Education Sector: examines the vitally important contribution Chinese students at the University of Wollongong make to the university and to Wollongong's economy, contributing over \$50 million annually in university fees and living expenses. The submission highlights the way government policy is impacting on the university's ability to grow that sector. It also examines the role that TAFE NSW – Illawarra Institute and the Wollongong Conservatorium of Music play in the city's educational links with China.

Tourism: demonstrates the way Tourism Wollongong has actively targeted China as its main source of international visitors, the success of this strategy and the potential for growth.

Manufacturing: examines two of Wollongong's major manufacturing operations, BlueScope Steel and Metal Manufactures Kembla Products (MM) which both have long-standing associations with China. MM outlines its concerns over the dumping of cheap copper products from China on the Australian market. It also is concerned for the long-term viability of Australia's strategically important copper industry if a free trade agreement is instituted with China. The company believes an FTA would have the potential to wipe out Australia's domestic copper manufacturing industry which would have serious strategic implications for the nation, as well as costing Australia hundreds of millions of dollars annually in export earnings. It would also cost 500 jobs in Wollongong – jobs this city cannot afford to lose. BlueScope Steel outlines its operations in China and the relatively small role played in those operations by the company's Port Kembla Steelworks located in our city.

Business support: Looks at the importance placed by the Illawarra Regional Development Board and the Illawarra Business Chamber on developing closer business ties with China, and their suggestions for ways in which the Australian Government could assist.

Should you have any further queries regarding this submission, please contact Council's Manager Economic Development, Mr Bob Doyle on telephone (02) 4251 4799 or email him at rdoyle@wollongong.nsw.gov.au.

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2 Civic, cultural and sporting connections with China

Wollongong City Council (WCC) has a Friendship City relationship with the city of Longyan in Fujian Province. The relationship started with inter-city visits in 1998 and 1999 and was formalized in 2000.

Since then activities involving Wollongong and Longyan have included:

- Mayoral visits to China and Australia by the respective mayors
- WCC supporting the Australia-Longyan Association
- WCC helping to facilitate the use of Port Kembla harbour facilities to enable an association member to export timber products to Longyan
- Establishing an educational visiting program to Longyan for Wollongong high school students
- Exhibition of works by a Longyan artist at the Wollongong City Gallery
- Hosting a six-month study visit by a Longyan engineer to study the city's methods of dealing with environmental issues surrounding waterways and water quality
- Providing advice (through Tourism Wollongong) to assist Longyan develop its tourism industry.

The relationship between the two cities has been built on friendship and cultural exchanges, but both cities are now keen to develop stronger business connections.

Sporting ties

The Wollongong Hawks National Basketball League club has recently established a sister club relationship with the Shanghai Sharks basketball team. It is expected to result in team visits, junior development programs, women's basketball initiatives, constructive dialogue with civic and business leaders and increased tourism activity.

Cultural connections

In April 2005 the Wollongong Conservatorium of Music Jazz Orchestra will perform in a concert at the Beijing Central Conservatory as well as conducting a series of workshops.



3 The Education Sector

The University of Wollongong

The University of Wollongong (UOW) has considerable and long-standing connections with the People's Republic of China. UOW currently has approximately 1700 Chinese students enrolled in its courses in Australia making it the largest body of foreign students at the university. They are largely involved in postgraduate study (for reasons that will be explained later).

The economic benefit to the university and the city (and indeed the nation) is considerable, given that each student pays university fees of approximately \$15,000 per annum and spends at least an equivalent amount on living expenses. That means that the UOW Chinese students contribute at least \$51 million annually.

There are also around 300 Chinese students studying English language courses at Wollongong University College in preparation for studying at UOW, further underlining the importance of the economic contribution from Chinese students.

The most popular courses for Chinese students at UOW are:

- Engineering mechanical, mechatronics, computer and electrical
- Informatics computer science, internet science and information and communication technology (ICT)
- Commerce Master of Business Administration, professional accounting, marketing, finance
- Science superconductivity, nanotechnology, photonics, intelligent materials.

UOW has educational links with around 20 universities and educational institutes in China, including Beijing Normal University, Beijing Polytechnical University, East China University of Science and Technology and Northeastern University.

UOW conducts short courses in China with teaching partner institutions including Huazhong University of Science and Technology and Beijing Normal University. The Faculty of Law's Centre for Transnational Crime is finalizing an agreement to conduct courses for the Beijing Police Force.

The University also has valuable research linkages with China, such as a cross-cultural diabetes research project it is conducting with a hospital in Shanghai and an estuarine waters research project involving UOW's Faculties of Law and Science. In the past these research projects were generally funded by the Australian-Chinese Research Collaboration Scheme, which unfortunately no longer operates.

UOW's Faculty of Education has for 10 years run a highly successful program sending students to Beijing schools for teaching practicums.



Issues

Clearly, Chinese students make an enormous contribution to both the University and Wollongong's economy. However, the potential for growth in the numbers of Chinese students is being seriously affected by Government policies.

The Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) imposes strict controls on Chinese students entering Australia. DIMIA classifies China as a Category 4 country (the highest classification currently imposed) in its risk assessment of foreign nationals most likely to breach conditions of their student visa.

This has serious implications for Australian universities, including UOW, in their efforts to attract Chinese students. It has the effect of severely restricting the number of Chinese students undertaking undergraduate courses in this country – to the detriment of Australian universities and the Australian economy.

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 (typically 1-2 years of study).

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.

UOW believes there is a strong case for changing China's Category 4 status.

TAFE NSW – Illawarra Institute

TAFE NSW - Illawarra Institute is the leading provider of vocational education and training in southern NSW, delivering more than 500 courses to over 40,000 students through nine specialist teaching facilities.



In 1997 the Illawarra Institute began to seriously explore the possibilities of expanding into China. Since then the Institute has developed a series of programs and consultancy services in China and has around 20 staff working there.

Around 90 percent of the Institute's teaching programs for Chinese students are carried out in China, mainly through associations with Chinese colleges. Courses offered include an Advanced Diploma of International Business and Certificate courses in English language training, Business Administration and Beauty Theory. There is a particularly strong demand for English language training in the run-up to the 2008 Olympic Games in Beijing and to service Chinese growing tourist industry.

The remaining 10 percent of teaching programs for Chinese students are carried out in the Illawarra, as part of the Institute's international courses. These include English language courses, surveying, business, information technology and commercial cooking.

The Institute's consultancy services are generally provided to Chinese government authorities at the national and provincial level and typically involve assisting Chinese education administrators to develop their administrative and teaching skills, as well as mentoring programs. Consultancies to government bodies are generally gained through government conduits such as the federal Department of Education, Science and Training's Australian Education International, AusAid and TAFE NSW's international marketing arm TAFE Global.

Issues

TAFE NSW – Illawarra Institute Director Barry Peddle has a unique perspective on the opportunities in China for Australian vocational education providers. Mr Peddle is chair of TAFE Directors Australia and Australian delegate to the World Federation of Colleges and Polytechnics, so looks at opportunities from an international and national perspective as well as driving the Illawarra Institute's own programs in China.

Mr Peddle says Chinese investment, both public and private, in schools, vocational and higher educational infrastructure is phenomenal, reflecting a determination by the Chinese authorities to sharply improve education and skills training standards across the country. However, 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.

Mr Peddle believes 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.

"The Chinese would like to have a national training system and curriculum framework founded on quality business systems standards like the Australian Quality Training Framework, and there certainly are major opportunities to provide training to help them achieve that," Mr Peddle said. "Australia has an advantage over many other countries because the Chinese recognise the quality of our system which is really international best practice. At the moment education isn't a high priority in Australian aid programs, but it should be because we have the expertise to provide real benefits, especially for developing countries."



Wollongong Conservatorium of Music

The Wollongong Conservatorium of Music has entered into an agreement with the Beijing Central Conservatory to establish a music and study program for senior high school students. It is proposed that the Beijing Central Conservatory, which is a vast complex providing both music training and secondary schooling, send up to 20 students per year to Wollongong for two years of senior secondary schooling combined with music study at the Conservatorium. They would study Higher School Certificate subjects in conjunction with a nearby Catholic college which has approval to enroll overseas students.

The Conservatorium currently offers a music Diploma and Advanced Diploma in conjunction with Northern Rivers Conservatorium Arts Centre which is a Registered Training Organisation (RTO) on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS). The Conservatorium has lodged an application for registration as an RTO with CRICOS approval in its own right.

The Conservatorium is working with agents of Beijing Central Conservatory to promote the program in China and it intends to investigate marketing possibilities in other centres. Part of the program is a plan to teach English as a second language in conjunction with music study by placing a teacher in Beijing for 9-12 months prior to the students' departure.

The Conservatorium has already established links with China. The Principal and Chairman of the Board visited Beijing in 2004, and early in 2005 a group of 35 students and teachers from Guangzhou visited the Conservatorium for a one-week series of workshops and performances. In April the Conservatorium Jazz Orchestra will visit China en route to performances in Japan including performances at World Expo in Nagoya. The orchestra will stage concerts and conduct workshops at the Beijing Central Conservatory and neighbouring schools.

Issues

The Conservatorium feels that organisations like it that have no experience in negotiating international business agreements could benefit from more support from the Australian Government (through AUSTRADE). This support would include specialist advice on dealing with Chinese organisations and monitoring of negotiations.



4 Tourism

Tourism Wollongong (TW) has actively targeted the Chinese market as the main source of international visitors to the city and surrounding region.

The motivation was simple. TW has limited funding so cannot adopt a "scattergun approach" to overseas marketing. It identified China as the international market with the highest potential for growth. This was based on figures that showed 30,000 Chinese tourists to Australia in 1994, 120,000 in 2000, 220,000 in 2004 and projections of 623,000 by 2010 and one million by 2013.

Clearly, the ability to tap into even a small percentage of these visitors would provide strong tourism growth for Wollongong and the Illawarra region. TW 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. It has also worked closely with Tourism NSW representatives based in Hong Kong who cover the Chinese and North Asia market. 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 Guangong Province.

The marketing campaign focused on a number of key attractions. These included:

- the Nan Tien Temple which is the largest Buddhist temple in the Southern Hemisphere
- study tours for language courses at the Wollongong University College
- day tours that include watching the hang-gliders at spectacular Bald Hill at Stanwell Park; a
 beachside seafood or BBQ meal washed down with locally-made "boutique" beer at
 Wollongong's Five Islands Brewery restaurant; visiting some of the city's beautiful beaches
 and Kiama's famous Blowhole; and a visit to a lavender farm near Robertson in the Southern
 Highlands.

The strategy is working. In 2004 8,000 Chinese tourists participated in day trips from Sydney to Wollongong and the Illawarra region as part of their Australian holiday package. Typically, the day-trip itinerary included most or all of the attractions listed above.

It has been an important exercise in building brand awareness of Wollongong, and in working out what appeals to the Chinese visitors. Exit surveys show that they admire the city's scenery particularly the way the mountains come down to the sea, enjoy visiting the beaches and the Nan Tien Temple, and like the opportunity to experience high-quality western-style food and beer in a beachfront location at the Five Islands Brewery. They also appreciate the friendliness they encounter from local people.

Wollongong's challenge now is to convert these day trips to overnight or longer visits.

TW also sees great potential in teaming with the Wollongong University College and other education providers to provide short-course English language training for Chinese people in the lead-up to the Beijing Olympic Games in 2008.



Issues:

A key issue affecting Chinese tourist numbers to Australia (and hence to Wollongong) is the Australian Government's Approved Destination Status program. This limits the opportunities for residents of some of China's less advanced provinces (principally in northern and western China) to obtain tourist visas because it is considered that they are more likely to breach their visa conditions and remain in Australia illegally.

Tourism Wollongong supports this policy in principle, because it recognizes the potential damage to the legitimate Chinese tourist market that would result from widespread visa breaches. However, Australia must not allow other international markets such as Britain and western Europe to erode our market with more attractive visa scenarios.

Another key issue affecting growth is the availability of aircraft seats on the Australia-China route. TW would like to see the Australian Government playing a more pro-active role in increasing air traffic between the two countries.



5 Manufacturing

Metal Manufactures

Wartime necessity led to the establishment of Metal Manufactures Limited (MM) at Port Kembla in 1916. Prior to that, Australia had no capacity to manufacture the copper wire, cable and other products that the country had come to depend on. The nation's isolation from "friendly" suppliers of copper products was cruelly exposed during the First World War, forcing the Commonwealth Government to instigate the establishment of the plant.

The vessel containing the first consignment of equipment for the new plant was torpedoed and sunk by a German submarine on the voyage from Britain. Such was the importance of the new plant to Australia that a second shipment, this time with an escort of warships, was hastily arranged. The plant produced its first copper products in 1918 and since then has played a crucial role in Australia's development.

This historical context is important in the consideration of MM's position in 2005 and beyond.

MM's copper products have been instrumental in the development of the nation's telecommunications and electrical power capabilities. MM is a world-class manufacturer of more than 180,000 tones of copper and aluminum products for the energy, telecommunications, information technology, transport, building construction, munitions and equipment manufacturing sectors. Hundreds of thousands of jobs in the manufacturing, energy, telecommunications and construction sectors across Australia rely directly on the reliable supply of high quality copper products.

Almost half of MM's products are exported each year, generating hundreds of millions of dollars in export income for Australia and helping to sustain the 500 jobs at its Port Kembla plant and a further 170 in other locations.

China is one of MM's biggest markets. The company has been exporting its Kembla brand copper tube to China for 20 years, and wire and rod for 12 years. In 2003, for example, the value of the company's exports to China exceeded \$350 million.

China manufactures increasingly large amounts of copper products itself, but MM has been able to maintain its position in the Chinese market because of its relationship with customers who require the reliability and high quality of its products for high tech applications.

Issues

On the surface, then, Chinese economic growth and the "freeing-up" of trade between Australia and China appears positive for MM. However, the real situation is much more challenging – due to the dumping of cheap copper products on to the Australian market from subsidized manufacturers in China and the difficulties of regulating business dealings with China.



MM is Australia's only remaining manufacturer of copper rod and one of two remaining copper tube producers. Others have closed over the years with Mt Isa Mines the last copper rod producer ceasing production in 1998.

A key factor in the shrinking of Australia's copper processing industry has been the threat from cheap imports and in particular over the last few years those from China. Chinese manufacturers have a gross oversupply of copper tube and are given export subsidies that allow them to dump it in Australia at prices significantly lower than the cost of manufacture. This is also starting to happen with copper cable as China increases its production and sells the excess in Australia (and elsewhere) below cost.

In the past MM has been able to compete with these cheap imports on the basis of quality, but this advantage has been eroded as Chinese quality has improved while its producers have continued to receive government subsidies and significant export "incentives". MM has no problem with competition and free trade, provided the competitors have to compete on the same terms and the trade is really "free".

China is not a market economy, and is unable to meet the requirements of the World Trade Organisation to be described as such. However, the Australian Government appears intent on pursuing a Free Trade Agreement between the two countries. Clearly there is no "level playing field" for manufacturing of copper products in both countries as Chinese manufacturers are heavily subsidised. This keeps China's domestic and export prices for copper products artificially low and makes it difficult to mount "anti-dumping" cases against it.

MM is greatly concerned at the prospect of a Free Trade Agreement with China. The company believes a FTA would have the potential to virtually wipe out the domestic copper manufacturing industry because MM would be unable to compete with the cheap copper products flooding in from China as its manufacturing capacity continues to expand.

In 2005 Australia is even more dependent on copper products than it was in 1916, and MM strongly questions the wisdom of putting at risk such a critical industry so soon after the bungled FTA outcome for its products in the recent agreement with Thailand where Australian producers were in fact placed at a disadvantage.

There are strategic concerns that are as relevant for Australia today as in the First World War. If MM closes, Australia would be isolated from the supply of copper products, placing the nation's telecommunications, energy, power distribution and munitions industries in a very precarious position – dependent on imports whose supply and quality cannot be guaranteed. Macro economic theory may need to be adapted to take account of strategic industry issues such as MM's case and others like it.

Without a more focused approach on the impacts of "free trade" agreements, Australia could also lose a valuable export earner – and 500 people in Wollongong could lose their jobs.



BlueScope Steel

Australia's international steel producer BlueScope Steel has the largest manufacturing presence of an Australian company in China, and is currently undertaking a major expansion program.

It currently operates four BlueScope Lysaght rollforming facilities producing painted and coated steel products for the Chinese building and construction market and two BlueScope Butler plants which manufacture pre-engineered steel buildings.

A \$280 million metallic coating and painting plant at Suzhou Industrial Park near Shanghai with an annual capacity of 250,000 tonnes of coated steel and 150,000 tonnes of painted steel is currently under construction, and is due to be operational in 2006. In January 2005 the company announced it would build a \$45 million BlueScope Butler plant in Guangzhou to be operational in 2006. It is also undertaking a \$16 million expansion of its BlueScope Lysaght plant at Langfang, near Beijing, to be completed by 2006.

BlueScope Steel established its brand in the China market in 1990 using imported steel coil. In 1994 the company established its first rollforming plants in Shanghai and Guangzhou, and in 2003 added plants in Chengdu and Beijing. In 2004 BlueScope Steel acquired the US-based Butler Manufacturing Company which had two plants in China and market leadership in pre-engineered buildings.

The majority of the steel coil now used in these plants is sourced in China from local steel producers. However, the company does use some imported coated and uncoated steel coil, including steel produced at BlueScope Steel's Port Kembla Steelworks.

The Port Kembla Steelworks produces around five million tonnes of steel annually, of which approximately 40 percent is exported. Exports to China typically represent between five and ten percent of Port Kembla's export total each year.

Therefore, while China clearly is of major significant to BlueScope Steel's global strategy the Port Kembla Steelworks plays a relatively small direct role in the company's Chinese operations.



6 Business support

The Illawarra Regional Development Board

The Illawarra Regional Development Board (IRDB) is made up of 12 business and community leaders chosen from across the Illawarra. Its role is to develop strategies to identify business and investment opportunities in the five local government areas of Wollongong, Shellharbour, Kiama, Shoalhaven and Wingecarribee.

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.

Mr Pedersen said AUSTRADE officials based in Hong Kong had been extremely helpful to the delegation, providing extensive briefings and support. He said the delegation had received a very positive reception, and the IRBD intended building on this initial contact.

The IRDB is keen to generate investment in the Illawarra region by Chinese companies already operating in Australia and those considering setting up in Australia. Mr Pedersen also considers there are excellent opportunities for Wollongong-based companies to utilise their expertise in areas such as software development and heavy engineering with Chinese companies, particularly in the run-up to the 2008 Olympic Games in Beijing.

Issues

The IRDB is concerned that the Australian Government's Approved Destination Status regulations restrict opportunities to do business with the Chinese provinces whose residents find it difficult to obtain visas to visit Australia.

The IRDB also would like to see a more proactive role by AUSTRADE officers to link Australian companies (Such as Wollongong's IT and engineering firms) directly with potential Chinese partners. Mr Pedersen believes the Chinese market is so broad that it would be helpful to have assistance finding the "right" partners.

Illawarra Business Chamber

The Illawarra Business Chamber (IBC) represents around 700 Illawarra businesses, ranging from the region's largest manufacturing companies to medium and small enterprises. An affiliate of Australian Business Limited, the IBC plays a leading role in economic development issues across the Illawarra region.



In this economic development role, the IBC is closely involved in the region's push into China. In November 2004, IBC president Terry Wetherall visited China with a Wollongong business, civic and tourism delegation to the Fujian International Friendship Cities Conference. Wollongong was one of four cities invited to address the conference about opportunities for building economic ties with China.

In his speech to the conference, Mr Wetherall told delegates about the diversity of opportunities in our region for Chinese investment and/or trade including heavy industry and manufacturing, agricultural products (particularly wine from the Shoalhaven's growing wine district) and utilising our expertise in areas ranging from heavy engineering and construction to information technology. He reported strong interest from Chinese delegates at the conference.

In February 2005, IBC chief executive Tim Lewis joined a Tourism Wollongong delegation to China and other countries in North Asia. Mr Lewis said the visit highlighted the potential for Illawarra firms to not only export their goods to China, but their services and expertise.

Issues

The IBC believes there are enormous opportunities for developing the connections between China and specific regional areas of Australia such as the Illawarra. China is a massive and complex nation which understands the notion of regional diversity. This provides opportunities for Australian regions to build strong relationships with specific regions in China.

Mr Wetherall believes the Australian Government should recognise and foster these opportunities by funding individual regions to conduct marketing campaigns highlighting what they have to offer. For example, if it had the resources this region could conduct a *Buy Illawarra* promotion in targeted areas of China that would establish a profile for the region and provide a brand for the products, technology, expertise and services we offer. It would also assist in promoting the region's tourism and investment opportunities to the Chinese.