

Supplementary submission
Senate Inquiry on Australia's relationship with China
from Australian Fair Trade & Investment Network (AFTINET)
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On 9 December 2004, the Senate Foreign Affairs, Defence and Trade Committee announced a Senate Inquiry into Australia's relationship with China. AFTINET forwarded a submission to this Inquiry in March 2005 ('the March Submission'). In that submission, AFTINET noted that Australia-China Joint Feasibility Study on the Free Trade Agreement (FTA) had not yet been completed and that we would appreciate the opportunity to make an additional submission to the Senate once the Feasibility Study was completed and publicly released. The Feasibility Study was released on 19 April.

This submission responds to the findings in the Feasibility Study and was prepared in consultation with AFTINET members. It should be read in conjunction with the March Submission.

1. Insufficient community consultation

The Australian Government announced the start of negotiations on 18 April and publicly released the Joint Feasibility Study on 19 April. This timing undermines the effectiveness and the transparency of the community consultation process. The purpose of the Joint Feasibility Study was to assess the opportunities and challenges of the FTA as a basis for the decision whether to proceed with negotiations (DFAT, 2004). It was our understanding that the Government would release the results of the Feasibility Study for public scrutiny and debate before deciding whether to proceed with negotiations. Delaying the release of the Feasibility Study meant that there was no opportunity for community or parliamentary debate about the reliability of the claims in the Feasibility Study and about the impacts of an FTA on human rights, workers' rights or the environment in China or Australia.

2. Flaws in the modelling of the Feasibility Study

The Feasibility Study predicts a \$24.4 billion boost to Australia's GDP over the period 2006 – 2015 if the FTA proceeds (DFAT, 2005, p4). AFTINET is concerned that this claimed economic benefit is misleading as it is based on unrealistic assumptions. The claimed benefit is calculated on the basis that *all* tariffs will be

removed across *all* sectors by 2006. This is an unrealistic expectation given the following:

- It is unlikely the FTA will even be signed by 2006, as the Government expects negotiations to continue into 2007 (Brown, 2005).
- It is unlikely that the FTA will lead to immediate tariff reductions. The Feasibility Study concedes that any phase-in would reduce the claimed economic benefit by at least 25 % (DFAT, 2005, p131).
- It is unlikely that the FTA will be comprehensive in scope due to China's reluctance to liberalise trade in a number of sensitive sectors, chiefly services and investment, and agriculture. The Feasibility Study has been carefully worded to say that FTA negotiations will cover "products across all sectors" not all products across all sectors (DFAT, 2005, p134).
 - a) *Services and investment*: Three quarters of the predicted gains in the Feasibility Study are from the services and investment sectors, but it is questionable whether these sectors will be comprehensively liberalised. Exports of services such as banking, telecommunications and education are mainly hampered by China's complex regulations, which will be difficult to change in bilateral negotiations (Taylor, 2005, p4).
 - b) *Agriculture*: The majority of the remaining benefits are predicted to come from Australian exports of wool, wheat and dairy products. However, these gains rely on China liberalising its agriculture sector. Chinese officials are hesitant to agree to concessions that could increase competitive pressures on China's rural poor. China's reluctance to liberalise agriculture is implied in the Feasibility Study, where individual case studies of the cotton, dairy, poultry, wool, wheat, sugar and rapeseed sectors are qualified by the statement that "[g]iven differences in competitiveness and levels of productivity between ... production in Australia and China, a possible FTA could also take into account the impact of further liberalisation on the development of China's ... production and farmers' incomes" (DFAT, 2005, p29 – 36).

The claimed benefit is further undermined by the use of unrealistic assumptions built into the economic modelling. As economic commenator David Bassanese explains, "almost by definition, these models would show gains from an FTA – even if we get

squat from the other side” (Bassanese, 2005). For example, the model does not account for indirect loss of competitiveness as some industries collapse. Bassanese illustrates this with an example from the auto industry: “Allowing China to make all our cars, for example, could also give it a relative new edge in making all our catamarans, including for export markets” (Bassanese, 2005). The model also assumes full employment, which means that workers can move easily from one industry to another. This automatic transition between industries is unlikely when many of the predicted job losses will occur in regional areas, where there are limited opportunities for alternative employment. As Bassanese explains, “We can’t teach car makers to become computer programmers overnight. In reality, such sectoral change ... comes at the cost of leaving a rump of newly redundant workers on welfare for the rest of their working lives” (Bassanese, 2005).

3. Failure to address community concerns about workers’ rights and environmental standards in China

The Feasibility Study does not address community concerns about the potential social and environmental impacts of the China FTA. For detail of these concerns, we draw your attention to section 2.2 of the March Submission. We understand that similar concerns were raised in a number of other submissions to the Feasibility Study. It is an inadequate response from the Government to dismiss these genuine community concerns about workers’ rights and environmental standards.

4. Community impacts in Australia and China

The Feasibility Study predicts that unemployment in certain industries will rise as a result of the China FTA. Australia already has low average tariff rates and further reductions, especially in the sensitive areas of textiles, automobile parts and other manufacturing industries, will lead to reductions in output and factory closures.

We particularly draw attention to the following:

- *Textiles and clothing industry*: The Feasibility Study predicts that the FTA will lead to a fall in both output and employment in the clothing industry. The Feasibility Study predicts that 1500 jobs will be lost by 2015 (Adams et al, 2005,

p27). The Textiles, Clothing and Footwear Union of Australia estimates that 21,000 clothing industry jobs would be lost under an FTA (Sutherland, 2005, p4).

- *Motor vehicles and parts industry*: The Feasibility Study predicts that 400 jobs will be lost (Adams et al, 2005, p28) in the motor vehicles and parts industry. The Australian Manufacturing Workers Union predicts that many more jobs will be lost. As National Secretary Doug Cameron explains: “My concerns are about the future of one million manufacturing jobs. My concerns are about the de-industrialisation that [the Government] is presiding over in this country” (Meet the Press, 2005). There are already reports that Tri Star Engineering, which makes steering and suspension components in Marrickville NSW, is negotiating to relocate to China (Smith, 2005).
- *Horticulture industry*: The horticulture industry predicts that local growers may lose \$500 million a year and 5000 jobs under the FTA, because they will be unable to compete with China’s lax regulation of pesticide residue and contamination (AAP, 2005).

China’s rural communities are similarly under threat from the FTA. A modelling report by economists at Monash University, Nankai University and the Chinese Academy of Social Sciences estimates that an Australia-China FTA would cost approximately 180,000 farming jobs in China (Adams et al, 2005, p28). The Chinese government predicts a larger impact on rural communities (Garnaut & McDonald, 2005, p8). As explained by Cheng Guoqiang, a researcher for agriculture and trade for the State Council of China, “the livelihoods of 3 million herdsmen will be hurt to some degree if a huge volume of Australian wool enters the Chinese market” (Garnaut & McDonald, 2005, p8).

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