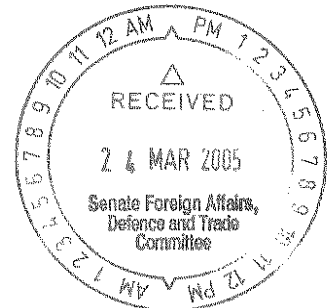




Australian Government
Department of Foreign Affairs and Trade



24 March 2005

Dr Kathleen Dermody
The Secretary
Senate Foreign Affairs, Defence and Trade References Committee
Suite S1.57
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

Thank you for the invitation to provide a submission to the Senate Foreign Affairs, Defence and Trade References Committee on Australia's relations with China.

Please find attached the department's submission which addresses directly the Committee's terms of reference on economic and political aspects of the relationship.

Our submission highlights China's increasing importance as bilateral partner, our growing bilateral economic engagement through the Trade and Economic Framework and possible free trade agreement, and notes the opportunities and challenges presented by China's growing regional role.

Yours sincerely

A handwritten signature in black ink, appearing to read 'JR', followed by a horizontal line.

Jeff Robinson
Acting First Assistant Secretary
North Asia Division



**FOREIGN
AFFAIRS AND
TRADE**

**Inquiry by the Senate Foreign Affairs,
Defence and Trade References
Committee into:**

Australia's relations with China

**Submission by the Department of
Foreign Affairs and Trade**

March 2005

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On 8 December 2005, the Senate referred the matter of Australia's relations with China to the Committee for inquiry and report by 15 September 2005. The following is submitted by the Department of Foreign Affairs and Trade (DFAT), providing an overview of current bilateral relations between Australia and China, addressing directly the inquiry's terms of reference.

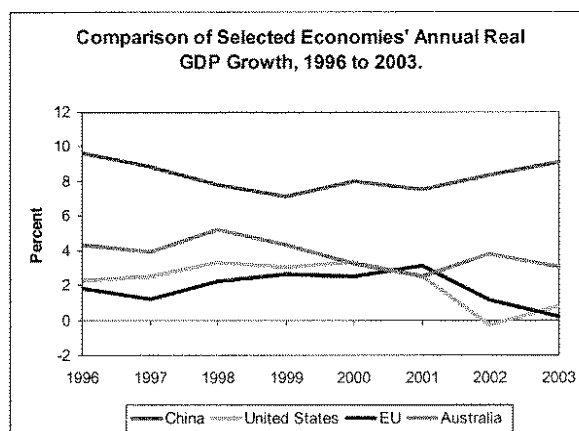
(a) Australia's economic relationship with China with particular reference to:

i. Economic developments in China over the last decade and their implications for Australia and the East Asian region

China's rising economic, political and strategic influence is one of the most important factors currently shaping Asia's future. Underpinning this ascendancy has been China's economic opening initiated in the late 1970s, which has led to China's rapid economic development and provided both motivation and opportunities for China to strengthen and expand its engagement and integration with the regional and global economies. China's economic reform process has, however, also presented its leaders with a range of domestic economic and social challenges.

Economic Developments in China

China has enjoyed remarkable economic success over the past decade, experiencing only modest disruptions from domestic, regional and global economic shocks such as the 1997 Asian Economic Crisis, the Severe Acute Respiratory Syndrome (SARS) epidemic, the Iraq War, and drought. China's real GDP grew at an annual average rate of 7.9 per cent over the past five years fuelled by high levels of investment and sustained economic reform. At the same time, Australia's five year average economic growth rate of 3.4 per cent was one of the strongest among developed economies and was the result of strong productivity growth following sweeping micro-economic and structural reforms since the early 1980s.



China began to adopt a policy of reform and opening to the outside world at the end of the 1970s. This marked the beginning of China's transition from a communist command-style economy to a market-based economy. In 1993, China's Constitution was revised to state explicitly that 'the State adopts [a] socialist market economy mechanism', which has provided a legal basis for the continued development of a market economy in China. The process of China's entry into the WTO provided additional impetus to China's economic system becoming increasingly more compatible with the world trading system.

Following China's accession to the WTO in 2001, China conducted a massive review and modification of its domestic legislation and introduced new legislation which provides China with a sound legal basis for governing its market economy.

Since the adoption of the reform and opening policy, China's economic development has been spectacular with GDP increasing by 9.7 per cent per year in the 1980s and 10.7 per cent per year in the 1990s. Annual growth has continued in the 7-9 per cent range during the period 2000-2004 and has been associated with relatively stable prices, substantial increases in employment, a pegged exchange rate, and surging growth in foreign trade. China's total merchandise imports and exports reached US\$851.2 billion in 2003, increasing by 37 per cent compared with the previous year and making China the third largest merchandise importer in the world. China's economic strength has driven the emergence of an increasingly outward-looking middle class, albeit one that is concentrated in the large cities along China's eastern seaboard.

These economic successes are based on effective macro and micro economic management, and China's transition to a market economy. Combined with strong growth in domestic consumption and investment and rapid integration into the world economy, these factors should continue to sustain China's rapid economic growth and development over the long term. Official projections of real annual GDP growth over the next decade continue to be in 7-9 per cent range.

Economic and Social Challenges

Notwithstanding the economic reforms undertaken so far, China continues to tackle a number of systemic economic and social challenges that, if left unmet, could undermine China's long-term economic prospects. These include the inter-related problems of the technical insolvency of the banking sector, the reform of the state-owned enterprise sector, and growing unemployment resulting from this reform. The agriculture sector continues to remain a depressed sector of the economy and farm wages, though rising, remain very low.

In contrast, very rapid growth in China's industrial, construction and property sectors has attracted large-scale speculative and non-productive investment. The Chinese Government is using administrative and monetary measures to limit these investments in a managed and orderly manner.

Infrastructure bottlenecks on the eastern seaboard, particularly in the energy and rail transport sectors, also threaten to limit industries' capacity to source adequate electricity and raw material inputs. President Hu Jintao identified as a key goal of the current leadership, reducing the wealth disparities between the poorer western provinces and relatively wealthy coastal provinces. Managing these and other challenges will be a continuing test for China's leaders and Government to meet its primary goal: maintaining social stability and balanced development.

Implications for Australia and the East Asian region

Building a stronger trade and economic partnership with a growing and more influential China has become an important objective of Australia's foreign and trade policy. Australia and China are important economies in the Asia-Pacific region as well as globally. China is the world's seventh largest economy, Australia the fourteenth. Both are very substantial markets with combined imports of goods and services worth nearly US\$600 billion in 2003.

Due to its complementary trade specialisation and role as a major input supplier to Chinese industry, Australia should continue to profit from Chinese economic expansion. In other East Asian economies, China's industrial expansion is stimulating restructuring that should help boost industrial efficiency and growth; and this also should promote Australian exports to the region. However, destinations of some Australian exports will continue to shift as developed regional economies move out of labour and resource intensive industries to more human capital intensive industries.

As noted in the DFAT Economic Analytical Unit's 2003 report "*China's Industrial Rise: East Asia's Challenge*", "China's rapidly developing and restructuring economy, particularly its expanding manufacturing sector, is impacting significantly on other East Asian economies. While some regional policymakers and analysts' alarmist scenarios of widespread hollowing out are unjustified, at least part of the considerable restructuring occurring in North East and South East Asia does appear to be in reaction to China's rapid industrial expansion. However, other East Asian economies are finding new markets in which to specialise and generally are expanding their export revenues in areas competing with China. China's growth also is generating considerable new opportunities due to Chinese industry's expanding input demand. As China develops further, pressure for other economies to restructure will persist, but provided firms can flexibly adjust their workforces and undertake new investments, they should be able to reposition themselves to take advantage of growing world demand, including from China. Their close proximity to a dynamic and increasingly open Chinese economy should strongly advantage other East Asian economies.

Particularly since the Asian [economic] crisis, China is absorbing a larger share of FDI entering East Asia, but generally this is not disproportionate to China's population and GDP. New technology accompanying FDI into China and other regional economies continues to invigorate major industries, increasing market competition. Further trade liberalisation from a successful Doha Round, as well as from the negotiation of the ASEAN-China Free Trade Agreement, should stimulate competition and trade, providing opportunities for regional economies to further specialise and expand their economies.

East Asian economies, including Japan, the ROK, Taiwan, the Philippines, and Singapore, that are restructuring to meet China's growing demand for components and resources will benefit significantly. More developed regional economies like Japan, Hong Kong, Singapore and Australia are also benefiting from cheaper imports of final goods from China, particularly labour intensive manufactures.

Particularly via its resource exports, but also by exporting advanced manufactures and services, Australia is benefiting from China's rapid development. Some of Australia's exports may divert to China from traditional regional markets like Japan and, to a lesser extent, the ROK and Taiwan, as they increasingly shift out of capital intensive heavy industry into more human capital intensive advanced goods and services. As Australia's economy is highly complementary to China's, Australia stands to derive substantial benefits from Chinese growth.

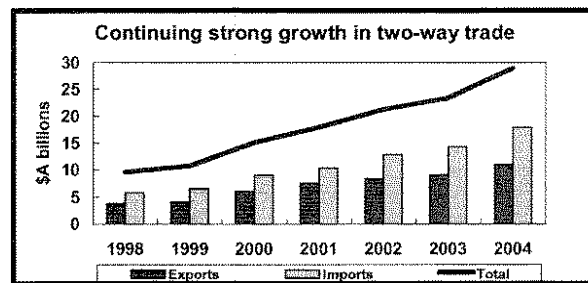
On balance, as China's rapid growth expands East Asia's GDP, it should benefit the rest of East Asia significantly, invigorating domestic industries and providing new export opportunities. While such widespread restructuring always generates losers as well as winners, all regional economies, but particularly those with more flexible and open economic policy settings, should benefit considerably from opportunities to refine their specialisations and to access China's growing market."¹

II. Recent trends in trade between Australia and China;

Trends in Bilateral Merchandise Trade

The Australia-China commercial relationship has boomed over the last decade, largely reflecting comparative economic strengths, economic complementarities, a strengthening investment relationship and, more generally, closer bilateral and economic cooperation. Looking ahead, implementation of the 2003 Trade and Economic Framework (TEF), a possible FTA, and the opportunities presented by the 2008 Beijing Olympics and 2010 Shanghai Expo should continue to expand the bilateral trade and investment relationship.

In 2004, two-way merchandise trade was valued at \$28.9 billion according to Australian statistics. This represents a trebling of trade since 1999 and highlights the dynamic commercial relationship between the two economies. China now is Australia's third largest trading partner for goods², and Australia is China's 8th largest³.



In the past year, China also became Australia's second largest merchandise export market (overtaking the United States) and second largest import source (overtaking Japan) and overtook Japan as our largest iron ore customer.

Over the next few years, two-way trade should continue to grow at double-digit rates in response to the pace of economic growth in both countries, the general expansion of intra-industry trade within the Asia-Pacific region, and opportunities to build new areas of competitive strength in the bilateral relationship. Developing trade policies to support

¹ Economic Analytical Unit; *China's Industrial Rise: East Asia's Challenge*; Department of Foreign Affairs and Trade, 2003. p 71.

² According to Australia's statistics.

³ According to China's Customs Statistics.

and reinforce bilateral trade and investment linkages will be a key part of enhancing this growth and moving towards a closer integration of the Australian and Chinese economies.

Australia's Merchandise Exports to China

The high rate of economic growth achieved in China over the past two decades, as well as the complementary nature of the two economies, has generated significant opportunities for Australian exporters. China took over 9 per cent of Australia's merchandise exports in 2004, compared to 3-4 per cent in the first half of the 1990s, and is Australia's second largest merchandise export market. As Table 1 shows, merchandise exports reached \$11 billion in 2004 and have increased at a trend growth rate of around 20 per cent per year since 1998.

In 2004, primary commodities accounted for around two-thirds of the value of Australia's merchandise exports to China. Iron ore, alumina, wool, wheat, and energy (including petroleum and coal) are Australia's largest exports. China also is an important market for barley and animal hides.

Trade in resources, energy and agricultural commodities is expected to continue to grow rapidly in response to demand pressures generated by China's industrialisation. 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.

China also is an important destination for Australian manufacturing exports. Over the past five years, Australian exports of simply transformed manufactures (STMs) and elaborately transformed manufactures (ETMs) like electrical machinery and telecommunications equipment have grown at around 20 per cent a year, driving growth in Australia's total manufacturing exports. Again, this area of trade with China seems set to increase substantially over the next few years. Strong Chinese economic growth will continue to underpin demand for STMs as key industrial inputs into the production process. Trade in ETMs will be driven by the increasing importance of intra-industry trade, regionally and globally; the growing sophistication of China's economy which is creating new opportunities for niche products and services; and the expanding purchasing power of China's consumers.

China's Merchandise Exports to Australia

Since 1998, Chinese merchandise exports to Australia have grown by 21 per cent per year, or over three times as fast as growth in total Australian imports during this period. Australia now takes about 1.4 per cent of China's total exports compared with about one per cent in the first half of the 1990s: Australia was China's 8th largest merchandise export market in 2003⁴. Manufactured goods dominate Chinese exports to Australia, accounting for well over 90 per cent of total merchandise exports in 2004. Exports totalled \$17.9 billion in 2004.

⁴ According to China's customs statistics.

Table 1: Merchandise Trade Details

\$A million	2000	2001	2002	2003	2004	% YOY
Australian exports	6009	7582	8373	9089	10960	20.6%
Australian imports	9073	10312	12847	14256	17924	25.7%
Balance	-3064	-2730	-4474	-5178	-6964	

Some Australian merchandise exports to China grew in year 2004...

\$A million	2003	2004	\$A Change	% Change
Total exports	9089	10960	1871	20.6%
Lead, zinc and manganese ores	120	390	270	224%
Cotton	69	211	142	210%
Nickel	75	142	67	88%
Coal	243	417	174	72%
Iron Ore	1739	2453	714	41%
Copper	116	156	40	35%
Wool	939	1245	306	33%

... while others declined

\$A million	2003	2004	\$A Change	% Change
Barley	167	144	-23	-14%
Liquefied Propane	138	115	-18	-17%
Crude Petroleum	765	460	-305	-40%
Pig Iron	232	95	-137	-59%

China's manufactured exports to Australia are increasingly higher value added products. While traditional exports like textiles, clothing, footwear, toys and furniture continue to grow solidly and still account for a significant share of exports, higher value added products like computers and telecommunications equipment are growing even more rapidly. Other fast growing manufactured exports to Australia include electrical machinery, sound and video recorders, televisions, household electrical appliances and heating and cooling equipment.

China's large, low cost workforce means it is expected to retain its competitiveness in labour-intensive exports. At the same time, the proportion of skill- and technology-intensive merchandise in China's exports to Australia should continue to rise as China moves more into higher value added manufacturing industries.

Trends in bilateral trade in services

Trade in services is difficult to quantify. 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 the five years to 2003 - and China now ranks as Australia's seventh largest export market for services. Education services and tourism dominate this trade. Chinese enterprises also are increasingly active in selected Australian services markets,

predominantly in transportation and travel services. Chinese shipping companies and airlines are prominent, and Australian tourist numbers to China are growing rapidly. Education is Australia's leading services export to China. Trade was valued at nearly \$1 billion in 2003 – an amount that exceeds exports of major commodities like coal and aluminium.

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.

The growth of two-way tourism also has been spectacular, in large part because of Australia's status as an 'approved destination' for Chinese tourists. 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.

There also has been strong growth (around 12 per cent per year) in the number of Australian tourists visiting China. 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.

Beyond tourism and education, there have been significant increases in trade in services that are embodied in the movement of goods and generally in meeting the requirements of foreign companies operating in China and Chinese companies operating in Australia. They include, for example, financial services; professional services like legal, engineering, and data base services; communications services; air and maritime transport services; services linked to developing partnerships in energy and mining; and freight and logistics services. Trade also has been increasing in environment, recreational and sports-related services, and scientific and technical consulting services.

Trends in Two-Way Investment

Chinese investment in Australia has increased rapidly in recent years, albeit from a low base. 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 million⁵. Most of this investment is in resources, energy and processing commodities, but manufacturing and real estate also attract significant investment.

Australian investment in China has been rising since the 1980s and annual inflows now amount to several tens of millions of dollars, which is fairly modest given the size and rapid growth in Australia-China trade. 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, 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.

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.

III. The Australia-China Trade and Economic Framework and possibility of a free trade agreement (FTA) with China;

China's accession to the WTO gave Australian exporters unprecedented access to the Chinese market. It is, however, no greater or lesser access than is available to the other 147 members of the WTO. To keep Australian exporters ahead of their third country competitors, the Australian Government has been advancing a very active and ambitious bilateral trade policy agenda with China. As part of the 2003 Trade and Economic Framework with China, the Australian Government has explored the possibility of an FTA with China – which would provide preferential access to each countries' markets and give many Australian exporters a real advantage over their international competitors in China.

Trade and Economic Framework

In October 2003, during the visit to Australia by Chinese President Hu Jintao, Australia and China signed a Trade and Economic Framework (TEF) to strengthen the long-term trade and investment relationship. A key element of the TEF was an agreement to undertake a joint study into whether or not the two countries should enter into negotiations on a possible FTA (see text at Annex B).

The Framework set the direction for the future development of the strong and rapidly expanding trade and economic relationship between Australia and China and is helping to build a strategic economic relationship with China similar to those Australia has established with Japan and the Republic of Korea. The practical measures and co-operative activities contained in this Framework will make it easier to do business with China and provide for closer government-government, business-business and people-people linkages.

⁵ According to China's statistics.

A key goal of the TEF is to expand areas of the economic relationship that have not grown as rapidly as Australia's export of primary products and import of manufactured goods. The TEF contains references, for example, to expanding services trade and promoting further two-way investment. The trade facilitation measures outlined in the TEF, which may be reinforced through future FTA negotiations, may underpin the recalibration over time of our trade profile with China.

Since conclusion of the TEF in 2003, both countries have made significant efforts to facilitate trade in identified areas. For example, Australia and China have signed customs cooperation and food safety MOUs and convened high level education and training, agriculture, wool, sanitary and phytosanitary measures, trade remedies, health, and resources dialogues.

Possible Australia-China FTA

As noted above, a key element of the Trade and Economic Framework is a commitment to undertake a joint feasibility study into a possible FTA between Australia and China.

The Australia-China joint FTA feasibility study does not commit China and Australia to a free trade agreement. Rather, the joint study presents a basis upon which the Australian and Chinese Governments can consider the opportunities and challenges of such an agreement prior to any decision being taken to commence negotiations. In deciding whether to commence FTA negotiations, the Australian government will consider the recommendations of the study, and whether to treat China as a market economy for the purposes of anti-dumping.

The FTA feasibility study is comprehensive, covering goods, services and investment. The terms of reference for the FTA study, as set out in Annex II of the TEF, are as follows:

- to provide an overview of recent trends in bilateral trade and economic relations;
- to assess recent international trade policy developments and the possible implications for Australia-China trade and investment;
- to identify and describe existing barriers to trade and investment flows, covering goods, services and investment and other issues that might be addressed in a free trade agreement;
- to identify possible cooperation measures to promote trade and investment liberalisation and facilitation between Australia and China;
- to assess the impact of the removal and/or reduction of existing barriers to goods and services trade and investment; and
- make conclusions and recommendations as regards options for future action.

The FTA feasibility study provides an opportunity to explore the benefits to Australian exporters and service suppliers of removing or reducing trade barriers. It explores the potential gains of trade facilitation measures such as cooperation in the movement of business people, customs procedures, technical standards and electronic commerce. It also examines any challenges or costs that an FTA might involve.

The FTA feasibility study has involved active engagement with industry, including through requests for public submissions to the study and discussions with business, States and Territories and other interested parties. These consultations are a key input into the determination of Australia's priorities for inclusion in the joint FTA feasibility study.

Advice to date suggests that a possible FTA with China should aim to be comprehensive (covering goods, services and investment) and seek to address both Chinese tariffs and behind the border issues (such as transparency of administration and intellectual property enforcement) that impact on trade and investment, while at the same time being sensitive to possible domestic employment and income impacts.

The consistency of this advice is reflected across almost all industry sectors, whether it be, for example, the grains, dairy and meat producers, the steel, chemicals and automotive industries, the mining and energy sectors, or the financial, education, legal and telecommunication service providers.

IV. Ongoing barriers and impediments to trade with China for Australian businesses

Since China acceded to the WTO in 2001, the Chinese Government has made significant strides in bringing its business environment into line with world standards. China's WTO accession commitment undertakings were arguably the most ambitious any country has undertaken to enter the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT). Australian exporters have gained, and will continue to gain, significant market access to China from the timely implementation of its WTO commitments across the breadth of the relationship - including in agriculture, manufacturing and services.

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.

Other non-tariff measures which could be addressed by a possible FTA include: sanitary and phytosanitary measures; technical regulations and standards and conformance; customs administration, valuation and port clearance; transparency of administration and appeal and dispute resolution; import licensing registration procedures; state/provincial administrative arrangements; and state trading.

Services trade is expanding rapidly and will be an increasingly important element of the commercial relationship in the future. Both countries have a mutual interest in expanding education and tourism in services trade, and, reflecting complementarities, trade in other services is becoming more important. Impediments to Australia's services exports to China relate mainly to commercial presence (mode 3) issues.

Growth in bilateral investment is modest relative to growth in bilateral trade. Barriers to further investment stem from China's foreign investment regime and concerns over the protection afforded to foreign investment.

V. Existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth agencies and Australian Government programs

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.

As China continues to open to the global market and devolve service provision from the state to the private sector, international firms, including Australian firms, are entering emerging sectors. For example, Australian companies are operating across the breadth of China's commercial profile, including *inter alia* the legal, banking, insurance, education, health, information technology, logistics, aviation, construction, architecture, accounting and sport sectors.

Although the private sector continues to expand and displace the public sector as a proportion of industrial output⁶, the Chinese bureaucracy still wields tremendous power in the commercial realm, in terms of private business establishment and operation. This level of government intervention influences the Chinese Government's interaction with foreign companies looking to operate there. Without strong and public support from the Australian Government, Australian companies would face a more challenging business environment in China.

The Australian Government, through the Minister for Foreign Affairs, the Minister for Trade, the Department of Foreign Affairs and Trade and Austrade provides strong support and advocacy for companies looking to enter the China market. Australia now has permanent diplomatic representative posts in Beijing, Shanghai, Guangzhou and Hong Kong and Austrade has representative offices in a further five cities: Dalian, Chengdu, Hangzhou, Nanjing and Kunming. In addition, the Australia China Business Council (ACBC) in Australia and Beijing, with associated business chambers in Shanghai and Guangzhou work hard to expand the commercial relationship and people-to-people links.

The Guangdong LNG win in 2002 exemplifies how close collaboration between Australia's Government and industry can advance the national interest.

⁶ The state sector in China accounts for about one-third of urban industrial output but accounts for proportionally higher shares of bank lending and fixed investment.

Guangdong LNG – Australia’s Biggest Ever Export Deal

On 18 October 2002, Australia’s largest ever single-value export deal was formalised at Parliament House in Canberra between Australia and China, with the signing of the Sale and Purchase Agreement for a A\$25 billion LNG sale by the Australian gas sellers and Chinese buyers. That signing marked the first steps in attaining an Australian strategic objective: a long-term energy partnership with China.

The deal was achieved by sustained and close cooperation between business and the federal and Western Australian state governments and received strong and critical Ministerial and Prime Ministerial support over a sustained period.

That signing will see the North West Shelf Venture supply the Guangdong LNG Terminal and Trunkline Project Joint Venture with between 3 and 4 million tonnes of LNG per annum, valued at up to AUD 1 billion per year for a quarter of a century from 2006. A separate government-to-government agreement signed the same day established the Australia-China Natural Gas Technology Partnership Fund - a \$25 million joint research fund to cover training in bilateral gas cooperation over the next decade.

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.

VI. Opportunities for strengthening and deepening commercial links with China in key export areas.

The expanding bilateral commercial relationship is also encouraging commercial interest in new areas. Australian firms are active in China in niche areas, including in architecture, medical and health services, agricultural consulting, technologies and machinery, minerals technology, and environmental products and services. Chinese firms similarly are active in Australia in areas like agricultural and resource processing, tourism and technology supply. 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.

- China’s per person GDP in 2003 was around 4.4 per cent of Australia’s in current US dollar terms;
- Over two-thirds of China’s total population remain in rural areas and agriculture contributes around 15 per cent of China’s GDP. In Australia, 3 per cent of the population are occupied in the agricultural sector producing around 4 per cent of GDP;
- Manufacturing is the key driver of China’s economic growth and development and contributes around 35 per cent of GDP. In Australia, manufacturing accounts for 12 per cent of GDP and services for 71 per cent of GDP.

While such differences present challenges in the possible negotiation of an FTA, their presence, along with similarities like the common commitment to economic and social reform and the openness of both economies, suggests that an FTA could increase the scope for trade creation and deliver benefits to each economy. In this sense, Australia and China seem ready for closer economic integration.

(b) Australia's political relationship with China with particular reference to:

I. China's emerging influence across East Asia and the South Pacific;

China's growing economic, political and military influence is a key long-term challenge for the East Asia region and the South Pacific, but it brings significant benefits and opportunities. China is seeking to build closer relations with its neighbours to ensure access to the resources it needs to further its economic development and to support other policy goals, including in relation to Taiwan.

Australia encourages China's constructive engagement in the region.

As China's economy grows and it becomes more deeply enmeshed in the global economy, China finds it has more in common with major economic powers, including the United States. Its growing reliance on resource and energy imports means it has a greater stake in regional peace and stability, and global regimes aimed at minimising threats, for example, from terrorism and the proliferation of weapons of mass destruction.

In recent years, China has become more comfortable with using multilateral institutions to pursue its interests. It understands the importance of friendly and cooperative international relations, and of being accepted as a constructive member of the regional and international community.

II. Opportunities for strengthening the deepening political, social and cultural links between Australia and China

Since the formal establishment of diplomatic relations in 1972, the bilateral political relationship between Australia and China has developed strongly. Visits by Prime Minister Howard to China in August 2003 and by President Hu Jintao to Australia in October 2003 underlined the importance placed by both Governments on the continued development of this mutually beneficial relationship.

Both governments show their commitment to the relationship through exchanges of high-level visits, including Parliamentary exchanges which are highly regarded by the Chinese as a means to expand political dialogue.

China has become an important player in international affairs and in institutions that are important to Australian interests. China's accession to the WTO in 2001 and support for the war on terrorism are positive signs that it takes seriously its international responsibilities as an emerging regional power. Australia continues to engage China, including through our annual human rights dialogue and re-established annual security

and disarmament talks, to encourage further progress on issues such as human rights and non-proliferation.

Australia is a source of development assistance and advice to China (separate AusAID submission provides detail).

People-to-people links are a vital strut of the relationship. The Australia-China Council plays an active role in promoting such links. Its current priorities include Youth Exchange Programs, to encourage young Australians to develop their interest in China; and the Australian Studies Program, which supports Australian Studies Centres in Chinese universities.

The Chinese community in Australia plays an influential role in our people-to-people links with China, and high growth in education and tourism has bolstered these links.

III. Political, social and cultural considerations that could impede the development of strong and mutually beneficial relationships between Australia and China

The Australian Government's approach to the relationship with China is to pursue constructive and friendly relations on the basis of mutual respect and recognition both of our shared interests and of our differences. Chinese leaders accept our approach as realistic, sustainable and healthy to the overall relationship. This approach has been endorsed by successive high-level Chinese visitors.

Central to this approach is the set of bilateral dialogues we have established which advance cooperation while managing differences. Our dialogues cover aid, trade and economic cooperation, resources, defence, regional security and disarmament, human rights and consular matters.

Sensitive issues which have the potential to cause difficulty include Taiwan and human rights.

The Australian Government's policy towards Taiwan is based on the Joint Communiqué of 21 December 1972. Under the terms of the communiqué, Australia recognised the Government of the People's Republic of China as the sole legal Government of China and acknowledged the position of the Chinese Government that Taiwan is a province of the People's Republic of China. Accordingly, Australia does not accept that the authorities in Taiwan have the status of a national government and the Australian Government can have no official dealings with Taiwan. All Australian Governments since 1972 have adhered to this policy.

Within this framework, the Government firmly supports the development, on an unofficial basis, of commercial and other mutually beneficial contacts between Australia and Taiwan.

Our approach to human rights in China is constructive and based on dialogue rather than public confrontation. Our human rights technical cooperation program aims to advance human rights at a practical level, including through assisting China's legal reform efforts.

Though progress is slow, this approach is preferable to the alternative - public condemnation of China - which would generate no progress at all. Chinese people enjoy a greater degree of personal freedom than before and Australia has acknowledged that, but our views on human rights still differ. The Chinese government now acknowledges these differences, and the fact that there are human rights problems in China that need to be addressed.

(c) Australia's 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;

China's growing economic, political and military influence is a key long-term challenge for the East Asia region, but it brings significant benefits and opportunities.

Australia welcomes China's increased regional cooperation, including with ASEAN and through 'ASEAN plus three' (ASEAN plus China, Japan and the Republic of Korea) and other regional groupings.

Australia has reminded China that regional structures should be open and inclusive, and that continuing strong political, strategic and economic engagement in the region by the United States is vital to regional security and prosperity.

China's leaders recognise that a stable regional security environment is essential for China's economic development. They also recognise that a productive relationship with Washington is in China's interests. However, China's relationship with the United States is a complex interaction of strategic, economic and political issues, including the sensitive issue of Taiwan, that requires careful management by both sides. Some bilateral tension is inevitable.

Australia encourages China's constructive engagement in the region, such as its contribution to the six-party talks on the North Korean nuclear issue. Australia has, on many occasions, discussed the DPRK nuclear issue with Chinese leaders and officials. Australia has shared its perspectives on the issue with China, and has continued to encourage China to use its influence to encourage the DPRK to engage productively in the six-party talks process. However, while China provides an economic lifeline to the DPRK through shipments of fuel oil and food aid, its influence is limited.

Despite growing economic integration between China and Japan, with each the other's largest merchandise trading partner, political ties remain strained. Irritants include growing competition for resources, the recent intrusion into Japanese waters of a Chinese nuclear submarine, Chinese oil and gas exploration near the median line between Chinese and Japanese EEZs, and the long-running dispute over Prime Minister Koizumi's visits to the Yasukuni Shrine.

Australia sees the Japan-US alliance as a cornerstone of regional security. Good relations between China and Japan are also important to regional stability. With China's growing influence, the development of more open and cooperative links between the United States,

Japan and China will be of fundamental importance to maintaining regional stability and prosperity.

Heightened tensions or conflict across the Taiwan Strait would seriously damage the security and prosperity of the Asia-Pacific region. Australia continues to urge both sides not to engage in any unilateral moves to change the status quo, and for them to explore new approaches to dialogue leading to a peaceful, negotiated settlement of their differences.

II. The strategic consequences of a China-ASEAN free trade agreement;

On 29 November 2004, China and ASEAN concluded some elements of an FTA on trade in goods. The agreement will lead to the reduction or elimination of tariffs by all countries by 1 January 2020 though provisions remain for continued tariffs of up to 50 per cent on a limited list of "highly sensitive" items. An agreement on a dispute settlement mechanism was also completed but agreements on services and investment have not yet been finalised.

The China-ASEAN FTA is one of a growing number of proposed or concluded bilateral and regional FTAs. China was the first of ASEAN's dialogue partners to commence FTA negotiations. China pursues FTAs for a mixture of economic and political reasons. China is hoping that its FTA with ASEAN will extend its influence while at the same time securing supplies of resources vital to its continued economic development.

As a general principle, Australia welcomes initiatives that improve regional economic growth and liberalise trade.

III. China's expanded activities across the South West Pacific.

China has steadily increased its level of activity in the South Pacific, reflecting its increased engagement across the board with the outside world. Its activities can be grouped in three broad categories.

Diplomatic

China has a strong diplomatic presence in the South Pacific, with more diplomats, though not missions, than any other country. There are Chinese Embassies in seven Pacific island countries (PICs): Fiji, the Federated States of Micronesia, Nauru, Papua New Guinea, Tonga, Vanuatu and Western Samoa. A priority task is the competition for diplomatic recognition by Taiwan, which has Embassies in the five PICs that recognise it - Kiribati, Republic of the Marshall Islands, Palau, Solomon Islands, and Tuvalu.

China and Taiwan both support their diplomatic work with high-level visit diplomacy. Many PIC heads of government visit Beijing (or Taipei) before they visit Canberra or Wellington. Senior official/business delegations regularly visit in the opposite direction.

China, like Taiwan, is increasingly active in Pacific regional diplomacy. China is an active participant in the dialogue partner sessions of the Pacific Islands Forum and gives

financial support to regional projects and organisations, for instance in fisheries, tourism and oil research. China funds a Pacific Trade Office in Beijing designed to foster two-way trade, and has indicated it may be willing to open a similar office in Hong Kong.

Aid

China has greatly increased its aid to the Pacific in recent years, as has Taiwan. Neither China nor Taiwan provides transparent or complete figures, so it is impossible to arrive at a reliable estimate of the value of their aid. One academic study suggests that Chinese aid could total up to \$300 million annually. Taiwanese aid is perhaps one-third of China's amount.

Both China and Taiwan use economic assistance as a lever in their competition for diplomatic recognition. Their aid programs tend to focus on prestige projects in a "chequebook diplomacy" competition, applying less rigorous standards of transparency, accountability and governance than other donors. In some cases, as when Taiwan sought to win Vanuatu's recognition in November-December 2004, there have been claims of direct payments to local politicians by both Taiwan and China. Australia opposes chequebook diplomacy, because it works against regional countries' efforts to improve living standards, governance and political stability.

China has provided modest training and logistical support to military forces in Fiji, PNG, Tonga and Vanuatu.

Business

China has a strong and growing business presence in the Pacific, supported actively by its diplomatic missions. Over 3,000 Chinese state and private enterprises have been registered in the Pacific region, with investments of about US\$800 million. Industry sectors include construction, aviation, shipping, fisheries, scrap metal, and hotels. China is also showing interest in natural resources. Chinese tourists are visiting the South Pacific in increasing numbers as China reaches agreement on approved destination status with more governments in the region.

Increased economic activity has been accompanied by an increase in the ethnic Chinese population in Pacific island countries. A minority have been involved in various forms of transnational crime linked to China, Taiwan and elsewhere. Australia is working on this issue with regional law enforcement authorities.

Australian policy

Australia welcomes China's constructive engagement in the South Pacific. As part of our ongoing dialogue with the Chinese Government, we encourage China to increase the accountability and transparency of its aid program in line with regional aspirations for economic development and improved governance. Australia has made clear its opposition to chequebook diplomacy.

As to the competition between China and Taiwan for diplomatic recognition, Australia recognises that PIC governments must make their own decisions. We observe, however, that Australia has chosen to follow a one-China policy and that this has enabled us to develop a strong relationship with China and simultaneously to maintain unofficial relations with Taiwan focused on economic, cultural and other people-to-people links. Australia would be concerned if PIC governments changed recognition for financial reasons, and has made this position known in the region.

China: Relative Importance to Australia

Merchandise Trade (2004)

- 3rd largest trading partner (A\$28.9 bn).
- 2nd largest export market (A\$11 bn – 9.3% of total exports)
- 2nd largest source of imports (A\$17.9 bn – 12.7% of total imports)

Australia: Importance to China (2003)

- 13th largest merchandise trade partner
- 12th largest import source
- 12th largest export destination.

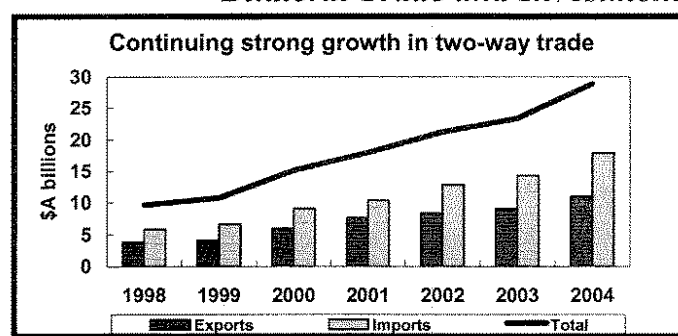
Services Trade (2004)

- 7th largest services export market (A\$1269m)
- China's share of Australia's services trade exports was 3.7%.
- 8th largest services import market (A\$995m).

Two-way Investment (as at 30 June 2003)

- China was Australia's 18th largest investment destination (\$1.2 billion).
- *Focus:* manufacturing, mineral exploration, legal, banking and education services
- China was 14th largest investor in Australia (\$2.2 billion).
- *Focus:* resources and property sectors.

Bilateral Trade and Investment



Merchandise Trade Details

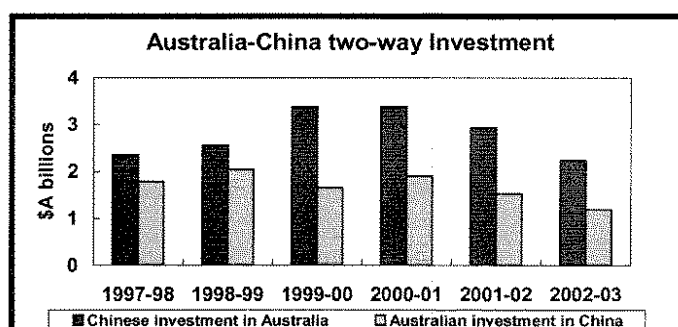
\$A million	2000	2001	2002	2003	2004	% YOY
Australian exports	6009	7582	8373	9089	10960	20.6%
Australian imports	9073	10312	12847	14256	17924	25.7%
Balance	-3064	-2730	-4474	-5178	-6964	

Some Australian merchandise exports to China grew in year 2004...

\$A million	2003	2004	\$A Change	% Change
Total exports	9089	10960	1871	20.6%
Other Ores (excl. iron and copper)	120	390	270	224%
Cotton	69	211	142	210%
Nickel	75	142	67	88%
Coal	243	417	174	72%
Iron Ore	1739	2453	714	41%
Copper	116	156	40	35%
Wool	939	1245	306	33%

... while others declined

\$A million	2003	2004	\$A Change	% Change
Barley	167	144	-23	-14%
Liquefied Propane	138	115	-18	-17%
Crude Petroleum	765	460	-305	-40%
Pig Iron	232	95	-137	-59%



Feb 2005

Trade and Economic Framework between Australia and the People's Republic of China

Australia and the People's Republic of China ("the Parties"):

Acknowledging the long-term stability and rapid growth of their bilateral economic and trade cooperation since the establishment of diplomatic relations in 1972;

Desiring to strengthen their long-term friendly and cooperative relationship and to develop a healthy, stable partnership into the twenty-first century;

Recalling the *1973 Trade Agreement Between the Government of Australia and the Government of the People's Republic of China* which has served as the basis of the Parties' trade and economic relations since that time;

Reaffirming the Parties' commitment to strengthen vigorously the multilateral trading system as embodied in the World Trade Organization (WTO), and to promote regional economic development through cooperation in APEC;

Reaffirming the Parties' commitments to formulate a framework for economic and trade cooperation on the basis of the principles of equality, complementarity, mutual benefit and respect;

Emphasising the Parties' commitments to developing trade and investment, and their belief that developing a framework for negotiation and dialogue is a crucial factor in unlocking the potential of the economic relationship;

Believing that signing by the two Parties of this Trade and Economic Framework will reflect their wish to build a stronger economic and trade relationship and push that relationship to a higher level;

Have arrived at the following understandings:

-Paragraph 1-

By means of all-round economic and trade cooperation, the Parties will cooperate to achieve balanced and comprehensive trade and investment facilitation and liberalisation.

-Paragraph 2-

The Parties will take steps to promote strategic cooperation in key sectors with outstanding potential, *inter alia*, energy and mining; textiles, clothing and footwear; agriculture; mechanical and electronic products; tourism; education; inspection and quarantine; customs cooperation; environmental protection; investment; information and communications technology; biotechnology; public health; food safety; and intellectual

property rights. The Parties will facilitate mutual business travel and the activities of business associations. They also will participate jointly in China's Central and Western development initiatives. The cooperation in the above-mentioned areas and related initiatives will assist firms of both countries to identify commercial opportunities and strengthen bilateral trade and investment. See Annex I for details on sectoral strategies.

-Paragraph 3-

The Parties recognise the benefits of regular bilateral meetings between Leaders and Ministers, including those responsible for trade, the economy, agriculture, resources and energy, in building a stronger bilateral partnership and will work together cooperatively to facilitate such meetings, including at multilateral and regional fora.

The Parties will enhance dialogue on trade and economic cooperation, strengthen the Australia-China Joint Ministerial Economic Commission, and take steps to facilitate bilateral trade and investment and resolve issues that may arise.

The Parties recognise the opportunities presented by high-level visits in both directions and will use such contacts to pursue further growth of bilateral trade and economic cooperation, and to strengthen consultation on multilateral and regional trade and investment and other matters of common interest. They also support the development of various forms of cooperation between the Australian and Chinese business communities.

-Paragraph 4-

The Parties will promote high-level two-way visits and dialogue between the government, business and academic communities of the Parties for the purpose of developing and enhancing the trade and investment partnership and strengthening cooperation on issues of mutual interest.

The Parties recognise the importance of regular high level consultations on regional and multilateral trade issues, including in APEC and the WTO, and of seeking to coordinate policy positions and approaches to the extent possible. The Parties will hold regular dialogue on these issues at appropriate senior officials level.

-Paragraph 5-

The Parties will enhance dialogue in matters of trade, including trade remedies, to afford each other fair treatment in trade policy and trade measures.

-Paragraph 6-

The Parties recognise that all national government measures which impact on bilateral trade and investment should be carried out in a reasonable, objective and transparent manner. The Parties will afford adequate opportunity for consultations to exchange information on issues raised by the other country with respect to such matters.

-Paragraph 7-

The Parties will afford adequate opportunity for consultations to exchange information and views on issues related to the possible implications of agreements between either country and a third country or countries that provide for preferential treatment of trade or investment.

-Paragraph 8-

As an expression of the will of the two countries to build an even stronger economic and trade relationship, Australia and China will jointly undertake a feasibility study into a possible bilateral Free Trade Agreement (FTA) negotiation. (See Annex II for details.) The study will be completed by 31 October 2005.

Recognizing China's tremendous achievements in establishing a market economy, Australia will not apply Sections 15 and 16 of the *Protocol of Accession of the People's Republic of China to the WTO* and Paragraph 242 of the *WTO Report of the Working Party on the Accession of China* during the course of the study. Recognizing that Australia and China should negotiate on an equal basis, a joint decision by the two Parties to negotiate an FTA will take account of the results of the feasibility study and only follow Australia's formal recognition of China's full market economy status.

-Paragraph 9-

The Parties will establish a Joint Committee on Trade and Investment under the framework of the Australia-China Joint Ministerial Economic Commission to review progress in implementing this Framework, and to report to the Ministers of both countries.

The Joint Committee will be composed of representatives of both countries and will be chaired jointly by appropriate senior level officials.

The Joint Committee will organise consultations on specific trade or investment issues as necessary and may establish working groups.

-Paragraph 10-

This Framework will take effect on the date of signing by the Parties, and will remain in effect for five years and for subsequent periods of five years each unless, in the period ending six months before the end of each such five year period, one of the Parties informs the other that it wishes to terminate the Framework at the end of the relevant five year period.

Both English and Chinese language versions of this Framework and its annexes are equally authentic.

SIGNED at _____ this _____ day of _____ 2003.

For the Government of Australia
Mark Vaile, Minister for Trade

For the Government of the People's Republic of China
Yu Guangzhou, Vice Minister for Commerce

ANNEX I

In order to promote stable economic growth and steady expansion of markets for key sectors, Australia and China will extend their cooperation, including in the trade policy area, and create favourable conditions for trade and investment for both countries. Areas of cooperation mutually determined by the Parties are:

Energy and mining

Australia and China are engaged in a number of bilateral cooperative activities to develop trade and investment in the areas of mining and energy, through the *Australia-China Bilateral Dialogue Mechanism on Resources Cooperation* ("Bilateral Dialogue Mechanism") and the *Australia-China Natural Gas Technology Partnership Fund*. The Parties wish to build on this successful energy and mining relationship through, *inter alia*:

- enhancing the development of the long term minerals and energy partnership, including through concrete actions under the Bilateral Dialogue Mechanism, to improve the regulatory and policy climate, cooperation in the area of training, research and development and promoting business linkages and exchanges; and
- concluding administrative arrangements for the *Australia-China Natural Gas Technology Partnership Fund* to build a greater depth of partnership and enhance mutual understanding of the role that clean energy (i.e. natural gas and LNG) resource development and use plays in the creation of national and regional wellbeing.

Textiles, Clothing and Footwear

The Parties have established strong trade relations in textiles and clothing. Both attach high importance to the liberalisation of this trade. They believe that the trade in textiles and clothing can be further promoted through the following measures:

- strengthen cooperation and dialogue aimed at promoting long-term relations of mutual benefit, integrating measures to improve conditions of trade and investment, and encouraging development of business links and contacts;
- hold regular trade fairs and exhibitions in Australia to strengthen promotion of Chinese products;
- in the textile industry, encourage deeper bilateral cooperation in pre-processing of wool, waste water treatment, training, apparel design, fashion, marketing, etc; and
- support the formation of joint ventures or joint development of brands between the two countries' clothing and textiles firms to jointly open the world market.

Agriculture and Quarantine Inspection

Australia and China are engaged in a number of bilateral cooperative activities in the areas of agricultural trade and investment, for example through the *1984 Agreement between the Government of Australia and the Government of the People's Republic of China on Agricultural Cooperation* and the *1984 Protocol between the Government of Australia and the Government of the People's Republic of China on a Program of Cooperation in Agricultural Research for Development*. The Parties wish to build on this through, *inter alia*:

- concluding a Plant Quarantine Protocol on Australian Wheat and Barley Imports into China;
- concluding a Memorandum of Understanding on Cooperative Activities in Water Resources;
- working towards concluding a Memorandum of Understanding on Cooperation on Sanitary and Phytosanitary Matters;
- strengthening communication and consultation mechanisms in relation to inspection and quarantine matters, and improve mutual understanding of each country's inspection and quarantine procedures; and
- enhancing cooperation and dialogue on quarantine management regulations, registration policies and other policies and practices to identify areas where improvements can be arranged; consultations on food safety inspection and certification issues to improve transparency and facilitate compliance and two-way trade; and concrete action to facilitate business and commercial linkages and exchanges.

Development of China's Central and Western Regions

China is willing to share Australia's advanced experience in improving and disseminating pasture and animal husbandry products.

China is willing to strengthen cooperation in human resources, including promoting bilateral contacts between experts and inviting Australian experts to train managers and technical personnel in central and western regions.

China will adopt various effective formats through which to organise business representatives from central and western regions to visit Australia, promoting contacts and cooperation between the regions' business sectors and Australian business.

Investment

Australia and China already are important investment partners for each other, and both welcome the trend of growing investment. Each country has an interest in leveraging off the natural resources, industrial strength and human talents of the other, particularly through ongoing investment linkages. The Parties wish to enhance this process through, *inter alia*:

- cooperating and exchanging information aimed at improving the climate for two-way investment, including action to enhance transparency and predictability, improving administrative decision-making processes and the protection of investments and investors; and
- taking action to build institutional linkages between Australian and Chinese agencies with a view to promoting visits, conferences and other activities.

Services

Australia-China services cooperation and trade is expanding rapidly. The Parties recognise that the expansion of such trade and the deepening of cooperation will benefit both Parties.

The Parties recognise the importance of education and training in removing obstacles to poverty reduction and economic growth. The Parties note the existence of the *2002 Memorandum of Understanding on Cooperation in Education and Training* that builds upon the two former education Memoranda of Understanding (1995, 1999) and identifies fields of mutual interest and creates opportunities to develop programs for cooperation in education and training on the basis of reciprocity and mutual benefit. The Parties will meet to discuss the priorities to expand cooperation in education and training. They wish to further expand the relationship by concluding an Arrangement on Higher Education Qualifications Recognition between the Government of Australia and the Government of the People's Republic of China.

China hopes to enhance cooperation with Australia in matters of labour services, especially in agriculture, horticulture, manufacturing, medical treatment and public welfare agencies. China hopes to explore possibilities for cooperatively training nurses. China hopes Australia will determine to employ Chinese personnel in industries with relative labour shortages; expand areas of cooperation step by step; and facilitate Chinese personnel travelling to Australia.

The Parties hope to complement each other in engineering projects, making full use of the relative advantages enjoyed by each side, and enhance cooperation in such projects in China, Australia or third countries.

The Parties will explore the possibility of Chinese firms investing under contract in Australian resources and mining development projects, further deepening bilateral cooperation in these fields.

Information and Communications Technology and E-commerce

The Parties note the existence of the *1999 Memorandum of Understanding between the Ministry of Information Industry of the People's Republic of China and the Department of Communications, Information Technology and the Arts of Australia concerning Cooperation in the Information Industries* that encourages cooperation between the

Parties in the field of information industries and will seek to intensify cooperation under this MOU.

Customs Cooperation

Australia and China already work closely together on customs issues, reflecting the importance of those issues in the expansion and facilitation of trade and commercial relations. The Parties wish to enhance this in the following ways:

- working toward concluding an MOU on customs cooperation and mutual assistance;
- promoting dialogue between Chinese and Australian Customs and their commercial circles in order to build communications and understanding between customs and business on both sides. Customs procedures should, on the basis of compliance on the part of firms, be simplified, facilitating trade for firms;
- continuing to promote electronic commerce strategies and drive the development of paperless trading;
- jointly raising standards of clean government. There remains room for greater cooperation in raising such standards and further promoting trade facilitation; and
- stepping up cooperation in law enforcement. Chinese Customs' specific law enforcement departments will set up robust liaison channels at working level with relevant Australian Customs departments to stamp out smuggling, especially of drugs; will regularly share information on enforcement work, new technology and methods; and will further promote bilateral cooperation and contacts in enforcement.

Australia is welcome to continue WTO training for Chinese officials involved in inspection and quarantine, certification and accreditation, standardisation, quantification, customs, paperless trading, and so on.

Intellectual Property Rights

Intellectual property rights are an important component of business activity, research and development, and their protection is key to success in higher technology sectors and services.

The Parties recognise the importance of the protection of intellectual property rights in providing a stable and competitive business environment for enterprises and in encouraging research and innovation. The Parties will work cooperatively bilaterally, regionally and multilaterally on matters of intellectual property protection.

Public Health

The Parties note the existence since 1993 of a *Memorandum of Understanding on Health Cooperation* between the Department of Health, Housing, Local Government and Community Services of the Government of Australia and the Ministry of Public Health of

the People's Republic of China, which provides a framework within which proposals for health activities in fields of mutual benefit can be jointly considered. Under this framework, the Parties wish to enhance their cooperation in the field of public health by, *inter alia*, concluding a new Plan of Action on Health Cooperation.

Food Safety

The Parties note the existence of the *1980 Agreement between the Government of Australia and the Government of the People's Republic of China on Cooperation in Science and Technology* that seeks to strengthen friendly relations and scientific and technological cooperation between the two countries.

The Parties recognise the importance of food safety and food standards for ensuring people's health, for improving their standard of living and for the development of international trade. The Parties are committed to providing strong scientific and technological support for food safety and will enhance their cooperation by, *inter alia*, concluding a Memorandum of Understanding on Scientific and Technological Cooperation in Food Safety.

Technical Barriers to Trade

In order to facilitate trade and ensure that technical regulations and standards do not become unnecessary obstacles to trade, the Parties will seek to develop work plans and mechanisms devoted to promoting further cooperative activities in related areas.

The Parties will:

- work towards concluding a bilateral understanding (supplementing multilateral commitments), or a cooperative framework program for quality supervision, inspection and quarantine, to enhance cooperation in WTO-related training for China's inspection and quarantine personnel;
- strengthen communication and consultation mechanisms in relation to differences over inspection and quarantine, and improve mutual understanding of each country's inspection and quarantine procedures;
- strengthen cooperation in standards, quantification, certification and accreditation issues. The Parties should fully utilise the 1999 China-Australia-New Zealand Standard Wool Contract, set up two-way liaison channels, enhance contacts and linkages, and jointly adopt effective administrative measures to deal with existing issues, including retesting requirements for wool, to ensure the interests of the two Parties and promote bilateral trade;
- cooperate to assist China to participate more broadly in regional standards and certification mechanisms. At the same time, the Parties should enhance arrangements and consultations between their certification agencies on mutual recognition of certification of each other's mechanical and electronic products. In addition, the Parties should encourage exchanges between officials and experts in certification, accreditation/compliance assessment and standardization; and

- consider working towards concluding a Mutual Recognition Agreement on Mechanical and Electronic Products on the basis of the earlier work done by the bilateral Joint Group for Certification of Mechanical and Electronic Products.

Work and Business Visas

The Parties will endeavour to simplify application procedures for business visas, shorten processing times and, to the greatest extent, facilitate personnel engaged in normal business activities, ensuring that delegations and individuals are able to meet their schedules. At the same time, each Party should facilitate provision of long-term work visas for business people carrying out long-term commercial activities in the other country.

The Parties will enhance information exchange and counselling and explore possible measures to facilitate issuance of visas, in particular for firms and organizations of major commercial interest to both Australia and China.

Industry Consultations

The Parties recognise the valuable contribution that industry and business groups, including bilateral chambers of commerce, make to strengthening bilateral trade and investment relations. To enhance the role that such groups can play in supporting Australia-China business links, including through dialogue with Governments, the Parties will make efforts to enable these groups in a timely way to be legally registered and accredited in each of their respective locations.

Anti-dumping

The Parties will set up bilateral government mechanisms for anti-dumping notification and consultation, resolve differences through dialogue and consultation and, to the maximum extent, reduce the impact of anti-dumping actions on normal trade.

Export Controls and Cooperation with the Australia Group (AG)

Relevant Chinese agencies hope to strengthen their communications and contacts with the Australia Group.

The Ministry of Commerce (MOFCOM), as China's executive body in this respect, hopes to establish counterpart relations with Australia's export control departments, and strengthen communications and cooperation.

The Parties will enhance dialogue in the field of export controls and treat each other fairly.

ANNEX II

The joint feasibility study into a bilateral Free Trade Agreement negotiation will be conducted with the following terms of reference:

- to provide an overview of recent trends in bilateral trade and economic relations;
- to assess recent international trade policy developments and the possible implications for Australia-China trade and investment;
- to identify and describe existing barriers to trade and investment flows, covering goods, services and investment and other issues that might be addressed in a free trade agreement;
- to identify possible cooperation measures to promote trade and investment liberalisation and facilitation between Australia and China;
- to assess the impact of the removal and/or reduction of existing barriers to goods and services trade and investment; and
- make conclusions and recommendations as regards options for future action.