Australia China Business Council

Submission to the

Senate Foreign Affairs, Defence and Trade Committee Inquiry

Australia's Relations with China

Australia China Business Council
澳大利亚中国工商业委员会
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Executive summary

The submission is designed to provide the Committee with a perspective of the current Australia-China economic relationship, based on the experiences of many of the companies the Australia China Business Council (ACBC) represents. On these bases we have identified some of the challenges Australian companies will face in doing business with China in the future, and factors that will influence policy makers in Australia concerned with developing our commercial and wider relationship with China.

China since the early 1980s has progressively transitioned from a command economy towards a market oriented economy. Economic growth since the early 1990s has been phenomenal, with dramatic increases in productivity in most sectors and significant increases in the standard of living for much of the population.

Moreover, China's accession to the WTO in 2001 has prompted acceleration in market and trade reforms that can be further encouraged through bilateral agreements such as a Free Trade Agreement (FTA) with Australia, providing the emphasis remains on 'freeing' trade.

In this context it is important to recognise that trade with China is not one way. Two-way trade between Australia and China is of great importance to Australia. Although the trade balance is heavily in China's favour, China has become a major market for Australian exports, overtaking the US to become our second largest export market.

The potential for China to continue to grow as a market for many Australian commodities is undoubted. Whether this potential is fully realised will depend on how China meets a range of challenges along the path to sustainable growth. These challenges may not be as great as those already met, but they are nevertheless manifold and diverse, involving both micro and macroeconomic management, as well as social, political and environmental issues.

The challenge for Australia is to position itself effectively to make the best of the range of opportunities that will arise from a growing China. Australia's competitors are more than willing to take market share from Australian suppliers. It is important then that we look to the efficiency of our domestic markets and institutions, as well as all aspects of our trading relationship, to ensure we secure, maintain and grow our place in the market.

The joint feasibility study process with China provided an important opportunity for Australian business to communicate its commercial objectives with respect to China and for the Australian Government to focus on commercial issues of real consequence to Australian industry.

The ACBC believes that, effectively negotiated, an FTA with China will be of lasting benefit to Australia – in economic, strategic and security terms. The ACBC welcomes the announcement that Australia and China have agreed that all sectors must be included in any future FTA negotiation. Without this agreement, the benefits to both sides from any FTA would have been seriously diminished.

It is noted that much of the public commentary on an FTA with China has to date focused on the potential benefits of an FTA for sectors such as services, resources and agriculture. It is important that the contribution of the manufacturing sector to Australia's prosperity not be overlooked.

Further strengthening the business environment for Australian business in China is a matter of key interest for the ACBC and its members. While the process will involve a wide range of parties, the Australian government carries an important responsibility to enhance, where possible, the capacity for Australian business to operate in and with China. The ACBC sees a range of possible industry-specific areas for cooperation, including areas where the Australian government could work with specific companies or industry groups in both countries.

Opportunities for strengthening and deepening commercial links with China exist in a wide range of sectors:

- Australia is well placed to play a role in China's agricultural development, not just as a supplier of raw materials and agricultural products, but also in education, training, and expertise is livestock breeding, irrigation and water management, and environmental management.

- In financial services, further liberalisation of the current restrictions would allow Australian banks and other financial institutions to offer a greater range of products and services to their customers in China.

- Investment by Australian companies in China would increase if the Chinese government were to ease restrictions on establishment of wholly foreign-owned enterprises in a range of industry sectors, as well as dealing with concerns over profit repatriation, tax rules and foreign exchange rules, intellectual property protection and avenues for recourse.

- Further significant growth in Australia's exports of resources and energy commodities to China can be anticipated, but the success of Australian companies in gaining a share of the growing Chinese resources and energy market will depend on their skill and patience in establishing long-term business relationships and delivering total supply chain solutions.

- Various barriers to entry currently exist in the telecommunications sector in China, including both explicit and more subtle administrative hurdles, which can make investment by Australian telecommunications companies difficult.

- Travel from China to Australia has grown significantly in recent years, driven by the strengthening economic relationship between the two countries, and the fact that Australia was granted Approved Destination Status (ADS) for tourists from China. The 10-year projections for growth in traffic between Australia and China are the highest for any market for both inbound and outbound.

- Australian firms in the service industries have internationally competitive skills and expertise which would provide good opportunities if China were to relax many of the constraints that currently exist on the ability and rights of foreign firms to compete on fair and equal terms with Chinese competitors in China.

It seems certain – for the reasons outlined in this submission – that Australia's future relationship with China will be more important for us than our relationship with many other countries. The ACBC therefore believes that Australia should have as an objective to assist China wherever appropriate to make continuing progress in its economic and social systems, with Australian firms playing a strong role in promoting such progress by engaging in mutually beneficial trading and investment activities.

1 Introduction

1.1 The Australia China Business Council

The Australia China Business Council (ACBC) is a non-profit, non-governmental organisation established to promote commercial links between Australia and the People's Republic of China (China). The present day ACBC was officially launched in Canberra on 19 November 1996 by then Minister of Trade, the Hon. Tim Fischer. The ACBC was the outcome of a merger between the old Australia China Business Council and the Australia China Chamber of Commerce and Industry Limited (ACCCI). These were the two principal Australia China business organisations formed in 1973 and 1974 respectively, after the normalisation of relations between Australia and China.

The ACBC is a national organisation with strong, autonomous branches in all mainland Australian states. Incorporated as a public company limited by guarantee, it is managed by a national board of directors representing a wide range of industries with interests in China. Refer to **Appendix I** for a list of current directors.

The ACBC has more than 500 predominantly corporate members comprising a wide cross-section of Australian business interests and companies, ranging from large companies (above $50 million annual turnover) to small and medium-sized enterprises ($50 million and below) and individual members.

The vast majority of ACBC members are engaged in trade or investment with China and ancillary services industries, deriving up to 10 per cent of their current revenue from China. In a survey of ACBC members (January 2005), 22 per cent of respondents said that between 10 and 30 per cent of their turnover was China-derived, and 12 per cent said more than 30 per cent of their turnover was China-derived.

The ACBC's most valued activities for members include business seminars and briefings, networking opportunities involving Australian and Chinese government officials, and lobbying and influencing Australian and Chinese policy makers.

The ACBC has served as a respected host for a number of high-ranking dignitaries from China. In 1999 the Council hosted a small business reception for President Jiang Zemin during his state visit to Australia. This was the only function on the President's itinerary specifically designed to allow him to meet selected Australian business leaders with trading and investment ties with China. In 2003, ACBC was again honoured to host the only business reception for the state visit of President Hu Jintao. Refer to **Appendix II** for a list of recent event highlights.

1.2 Submission to the Senate Inquiry

Economic growth in China over the past quarter century, and particularly the last decade, has had wide ramifications for Australia. This submission provides an overview of the opportunities and challenges associated with the emergence of China as a world economic power, and the implications for our economic relationship in the future.

The principal focus of this submission is Australia's economic relationship with China, as set out in the following terms of reference for the Senate inquiry:

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

ii. Recent trends in trade between Australia and China;

iii. The Australia-China Trade and Economic Framework and possibility of a free trade agreement with China;

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

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

vi. Opportunities for strengthening and deepening commercial links with China in key export sectors.

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

2.1 Economic developments in China

At the beginning of China's recent growth phase, which commenced in the early 1980s, the economy was predominantly agricultural and relatively closed. Opening to the world economy has removed what had been tight constraints of resources and technology on Chinese economic development. China's abundant labour became an asset rather than a liability for economic growth when it could be traded for scarce capital intensive and technology-intensive products.

China's economic growth since the early 1990s has been phenomenal by any standards.

	Growth of real GDP (% pa)	Growth of total imports (% pa)	Growth of imports from Australia (% pa)	Trade balance (% of GDP)
1991-1997	11.2	15.4	15.0	1.5
1998-2004	8.2	22.6	22.1	2.6

Growth in the early stages of economic development is often very high, reflecting 'easy' gains to be made. Later growth is slower. China has experienced some slowdown, but growth remains remarkably strong.

In common with most countries, China's trade has grown faster than its GDP. This is consistent with China becoming engaged with the global economy. The differential between trade growth and GDP growth has widened, signifying an acceleration of this process.

Imports from Australia have, on average, grown in line with China's total imports.

Moves to internationalise the Chinese economy coincided with the maturing of the Japanese and some of the newly industrialised economies in East Asia, and their structural adjustment out of labour-intensive exports in the 1970s and 80s. Since then, China's industrialisation and social transformation has progressed on a vast scale with strong growth in private and infrastructure investment, domestic consumption, and exports, all of which have led to growing demand for resources and energy. Industrialisation has followed the familiar pattern of recent newly industrialising economies with a trend from agricultural and primary resource production and exports, to those that are labour-intensive and subsequently capital-intensive.

This expansion in manufacturing and construction activity associated with the process of industrialisation supports rapid growth in minerals and metals consumption in both absolute and per person terms. Given the size of China's population and scope for improvement in its built infrastructure and the material wellbeing of its people, in the absence of major political or economic disruptions to growth, materials-intensive growth can be anticipated for an extended period.

China is now the world's sixth largest economy and remains among the fastest growing in the world. Annual GDP growth has averaged 8.2 per cent over the last decade. Industrial production has grown even more strongly than the economy as a whole, averaging more than 13 per cent a year over the past ten years, compared with OECD growth of just 2.2 per cent over the period. As a result, China is now ranked fourth in the world in terms of the value of industrial output and rivals the United States of America (US) as the world's principal consumer of minerals and metals. Foreign exchange reserves totalled US$614.5 billion at end 2004, the second largest in the world.

In other words, China since the early 1980s has progressively transitioned from a command economy towards a market oriented economy. Much progress has been made, particularly with the restructuring and corporatisation or privatisation of many State Owned Enterprises (SOEs). The reform process has been gradual but constant, which has allowed the population time to adjust to market reforms. The market forces driving the economy in most sectors have resulted in dramatic increases in productivity and significant increases in the standard of living for many sections of the population. However, the reform process has a long way still to go, particularly with respect to the development of institutional infrastructure in such fundamental areas as the banking, finance and legal sectors. Greater corporate governance procedures and controls are still required for publicly listed companies to develop a vibrant securities and capital market within China.

Of the several key reasons for China's remarkable economic growth in recent years, none is more significant than global trade liberalisation. China's industrial growth has been underpinned by an ability to import raw materials, components and semi-finished products, which have seen strong import growth, and by relatively free access to world markets for its output, which has seen a corresponding growth in exports. This has sent a powerful signal that China intends to remain open and engaged with the world economy. Growth in China's trade has been balanced, with the trade surplus (or occasional deficit) remaining modest.

China's accession to the WTO in 2001 has prompted acceleration in China's market and trade reforms that can be further encouraged through bilateral agreements such as a Free Trade Agreement (FTA) with Australia, providing the emphasis remains on 'freeing' trade.

In this context it is important to recognise that trade with China is not one way. As Australian industry expands, so does its need for world competitive inputs. Increasingly, China is becoming a competitive supplier. Access to Chinese and other international suppliers is important to control costs and keep Australia's operations globally competitive.

The potential for China to continue to grow as a market for many Australian commodities is undoubted. Whether this potential is fully realised will depend on how China meets a range of challenges along the path to sustainable growth. These challenges may not be as great as those already met, but they are nevertheless manifold and diverse, involving both micro and macroeconomic management, as well as social, political, financial and environmental issues.

2.2 Challenges ahead for China

2.2.1 Domestic economic management

China's most recent challenge has been to manage a potentially overheating economy with its associated risk of inflation and economic disruption. Overall, the Government's macroeconomic management in the past decade has been excellent. If recent measures to slow growth in sectors believed to be expanding too rapidly are successful, leading to a slower rate of growth in demand for minerals and energy in the short term, they will set the economy on a more sustainable long term path.

2.2.2 Infrastructure bottlenecks

China's growth has put a strain on its infrastructure in various ways. Infrastructure development has been a priority at both the national and provincial level in recent years. Nevertheless, demand for infrastructure services has outstripped supply in a number of major sectors. Shortages of power, water, migrant labour, management skill, arable land and transport facilities have been reported. The lack of adequate electricity supply in many provinces is curtailing industrial production growth and leading to supply interruptions that negatively affect businesses and households. In some cases, investment and policy distortions are causing or at least compounding the problem.

China's projected import demand for a range of resources is now such that questions of securing long-term supply are coming to the fore. China is increasingly looking to long-term supply relationships in various forms to ensure that the resources it needs will be available. The issue of energy security is particularly sensitive. China's energy planners are paying considerable attention to issues of oil security. Other measures to address liquid fuel security include the construction of China's first coal liquefaction plant. Encouragement is also being given to China's oil companies to participate in the exploration and development of overseas oil reserves and to purchase overseas upstream assets.

Domestic resource development could play a significant role in addressing some of these issues. However, much of China's mineral sector is small scale and inefficient. Lack of clearly defined property rights in mineral developments has proved a powerful disincentive to the participation of the global mining industry in the development of China's resources. This situation is slowly changing and the coming decades may see participation by the world's major mining houses in China's minerals industry, facilitating the transfer of exploration and production technology and management skill.

2.3 Regional implications

The challenge for Australia is to position itself effectively to make the best of the range of opportunities that will arise from a growing China. Apart from resources and energy commodities, we can expect a growing demand for agricultural products and niche manufactured goods. China will also be looking for a diverse range of skills and services.

Across all these fields we can expect strong competition from alternative suppliers such as Brazil, India, South Africa and SE Asian countries. Australia must look to the efficiency of its domestic markets and institutions if it is to remain internationally competitive and so continue to hold market share in China.

3 Recent trends in trade between Australia and China

3.1 Trade

The growth of China as a key player in the international trading arena has been rapid and profound. Two-way trade between Australia and China has been part of this process, and of great importance to Australia. Although the trade balance is heavily in China's favour, China has become a major market for Australian exports, to the extent that it has in the past year overtaken the US to become our second largest export market.

Over the past decade Australia's merchandise exports to China have increased from US$2.4 billion to US$11.5 billion, making China Australia's second largest export market. In 2003-04 resources accounted for almost 60 per cent of the total, with iron ore, energy (including petroleum and coal), and alumina the most important products. Agricultural products, especially wool, are also significant, and are likely to become more so in the future. The LNG contract that commences in 2006 will add between $700 million to $1 billion to the local economy annually, over a 25 year period.

Australia's merchandise imports from China totalled $15.3 billion in 2003-04, making China Australia's third largest source of imports. The main products are clothing, computers, footwear, toys, games and a wide range of other manufactured goods.

Trade in services between China and Australia is significant and growing. The two largest sectors are education and tourism. These dominate Australia's service exports to China, accounting for around two-thirds of services exports in recent years.

China is by far the largest source of foreign students in Australia, with almost three times the number of the second-highest source, South Korea. According to Australia Education International, there were 68,857 Chinese students enrolled across all education sectors in Australia in 2004, representing 21 per cent of all foreign students enrolled here. A growing number of Australian educational institutions are conducting courses for Chinese students in China itself – a trend that is expected to grow in the coming years.

Australia is an important destination for Chinese tourists, and in 2003 more than 176,000 PRC visitors came to Australia, whilst some 114,000 Australians visited China. Australia was the first, and is now one of only a handful of Western countries to be granted Approved Destination Status (ADS) by China for tourism. It has been estimated that by 2010 more than one million Chinese tourists will visit Australia annually.

3.2 Investment

Whilst trade has dominated the commercial relationship between Australia and China, in recent years two-way investment has increased significantly and is certain to play a growing role in the relationship in future. However it is important to note that investment has not expanded at the same rate as the trade relationship. While China is Australia's second largest export destination, China is only Australia's eighteenth largest investment destination.

At June 2003, Chinese investment in Australia amounted to $2.2 billion making China the fourteenth largest investor in Australia. Investment is mostly in the resource development, minerals processing, real estate and agriculture sectors. It is expected that the Chinese will increasingly seek to invest downstream in resources ventures in particular in order to have an investment involvement in the different stages of the production chain. This has already started to happen.

At June 2003 Australian investment in China amounted to $1.2 billion, making it our eighteenth largest foreign investment destination. Of the estimated 300-400 Australian businesses present in China, a survey in 2000 indicated these were split approximately evenly between manufacturing; property and business services; and a wide range of other sectors including finance, insurance, education, mineral exploration, information services and energy supply.

4 The Australia-China Trade and Economic Framework and the possibility of a Free Trade Agreement with China

4.1 Australia-China Trade and Economic Framework

On 24 October 2003, Australia signed the Trade and Economic Framework with the People's Republic of China. A key element of the Trade and Economic Framework was a commitment to undertake a joint feasibility study into a possible Free Trade Agreement (FTA) between Australia and China.

The joint feasibility study process provided an important opportunity for Australian business to communicate its commercial objectives with respect to China and for the Australian Government to focus on commercial issues of real consequence to Australian industry.

4.2 Possibility of a Free Trade Agreement

The ACBC believes that, effectively negotiated, an FTA with China will be of lasting benefit to Australia – in economic, strategic and security terms. The ACBC welcomes the announcement that Australia and China have agreed that all sectors must be included in any future FTA negotiations. Without the inclusion of all sectors, the benefits to both sides from an FTA would be seriously diminished.

An FTA should ensure that market liberalisation and related agreements by China can be implemented and administered consistently at all levels of government – central, provincial and municipal.

An FTA should also address the fact that certain sectors of the economy remain effectively closed to Australian business (particularly to services such as finance, law, insurance and status of education as a business). These have implications for the adoption of Market Economy Status (MES), and require clarification of China's future intentions.

The time frame for implementation of an FTA should be realistic and manageable.

Full transparency in the relationships between SOEs themselves, and between SOEs and other government agencies, is essential in ensuring the effective functioning of vibrant securities markets. The ACBC therefore believes that the Government should accord high priority to the achievement of this transparency in the course of any FTA negotiations.

In economic terms ACBC expects the benefits of an FTA to outweigh the costs. It should be recognised, however, that there are likely to be some negative impacts on some sectors, at least in the short and medium term.

Areas of the manufacturing sector are likely to experience increased competition, although tariff levels and other constraints on imports of manufactured imports into Australia are already very low. Impacts, both positive and negative, will differ from one

State and region to another throughout Australia. Victoria's automotive and textile, clothing and footwear industries, for example, will be likely to be disadvantaged relative to WA's resources and agriculture sectors.

This disparity may, in effect, highlight the need for different policies and strategies under a broad agreement that encourages and facilitates greater emphasis on joint ventures and other collaborative arrangements between Australian and Chinese firms. Moreover, the challenge that the growth of Chinese productive capacity will pose for Australia's manufacturing sector highlights the need for a clear articulation in Australia of an overarching national policy and framework in support of manufacturing. This is something that the country's manufacturing sector considers is currently lacking.

Much of the public commentary to date has focused on the potential benefits of an FTA for sectors such as services, resources and agriculture. In this context, it is important that the contribution of the manufacturing sector to Australia's prosperity not be overlooked.

On the positive side we would expect Australian business to benefit from preferences over other foreign competitors in China's market. An FTA could also be expected to foster more interest in and a greater understanding of the capacity and depth of Australian industries by the Chinese.

5 Ongoing barriers and impediments to trade with China for Australian businesses

5.1 Impact of WTO accession on trade with China

China's accession to the WTO on 11 December 2001 has substantially increased transparency levels on imports and exports to China. Import licence requirements and quota restrictions have been lifted for many products and lower tariffs have been applied according to the 'national treatment' principle, whereby imported products are given equal treatment as domestically made products. Further changes are likely as China continues to negotiate several bilateral and regional preferential trading agreements.

Barriers and impediments to trade with China remain. These can be pre-border, border and/or post-border. Border issues tend to be relatively transparent. Post-border issues on the other hand can be much more complex, subtle and opaque. The most significant of the impediments are post-border, as they are a reflection of China's evolving institutional framework.

In general, membership of the WTO has compelled China to become a more open and stable trade environment. At the same time, however, its rapid rate of growth and transition ensure that risks are still present.

Australian exporters currently face the prospect of bureaucratic intervention by Chinese authorities. In line with WTO requirements, the Chinese Government must ensure that this is not disguised protection. Australian businesses may also run into various forms of domestic inter-provincial protection.

The Chinese government has made positive progress in addressing many of the systemic issues associated with imports and quota administration. It is of critical importance that the impetus for implementation of WTO reforms, particularly in areas of agricultural reform, intellectual property protection, trade in services, and equality of treatment for domestic and foreign businesses, be maintained.

The analysis of the aforementioned sectors is vital for the commencement of FTA negotiations.

5.2 Non-tariff impediments to trade and investment in China – legal, regulatory, administrative, contractual, intellectual property

5.2.1 Legal, regulatory and administrative systems

Many organisations engaged in trade with China are affected by problems with China's legal, regulatory and administrative systems. The pace of structural change and economic reform and growth has required rapid adjustments in China's legal and regulatory system. In many sectors this has resulted in multi-layered, overlapping and opaque administrative processes.

Recognition of the limitations this places on China's capacity to make and comply with trade obligations, is vital to understanding the bilateral relationship.

Issues of particular concern to ACBC members trading with or investing in China include:

- Inconsistency of interpretation of regulations, in particular due to a lack of the concept of precedent;
- The inherent risk of inconsistent or even conflicting determinations resulting from China's multi-level and overlapping administrative system, which increases the possibility of multiple approvals being required for any one application or legal problem;
- The strain on China's administrative infrastructure at all levels of government resulting from the large number of new laws promulgated to cope with the expanding scope of China's economy;
- Practical difficulties in relation to transparent decision-making and rapid and efficient review of administrative decisions;
- Limitations on impartiality, predictability and reliability caused by the multiple systemic inadequacies within China's arbitration system; and
- Lack of effective enforcement procedures.

5.2.2 Contracting

China is moving rapidly towards a legal system which enshrines written contracts with the same sanctity as in Western systems, but improvements are still required. Generally, though not always, contractual disputes are issues of culture rather than bona fides.

The historical absence of an independent judicial process in China allowing parties to enforce written contracts means that Chinese companies place far more reliance on building relationships than they do on the written word. Contracts are often seen as evidence of the parties' intentions at the time, a milestone in an evolving relationship, and therefore subject to renegotiation at any time.

Despite the transition to a free market economy, Chinese companies, particularly State Owned Enterprises (SOEs) still generally follow Government directives, even if that places them technically in breach of contracts with third parties.

Strong corporate governance and transparency need to be introduced and enforced, first with publicly listed enterprises and then corporate and government-owned entities throughout the country.

5.2.3 Intellectual property

Despite genuine government commitments, and publicised crackdowns, problems with intellectual property continue and remain a concern for foreign investors. The administrative, rather than the judicial, system is largely responsible for the enforcement of intellectual property rights, and would appear to be overwhelmed. Enforcement of intellectual property rights in China is the major issue of deep concern to all Australian business. This is a problem common to most developing countries.

Regional protectionism and barriers to inter-provincial trade also continue, creating a sense that foreign companies are unable to compete on equal terms. China needs a mechanism to apply consistency to enforcement, as the issue of inconsistency in the application of laws and regulations encourages local protectionism. It also extends to allegations of 'home-town' decisions in arbitration and intellectual property enforcement, together with inconsistent tax regimes. Better enforcement would make it easier to prevent export of goods that violate trade marks.

Australian companies often grossly underestimate the level of technological advancement in China. The development of reputable Chinese brands, and the increase in research and development activities within China generating world-class technology, is forcing the authorities to address these problems. For the present, they remain a serious concern.

Even when foreign companies are successful in prosecuting intellectual property infringement claims in China, the remedies and orders of compensation are likely to be inadequate measures of the real loss suffered by the foreign company.

Australian business would benefit from a special tribunal, or expedited process, for dealing with intellectual property claims. Training Chinese officials in intellectual property enforcement would also provide a valuable opportunity for Australia and China to work together.

5.2.4 Specific regulatory concerns

China's continued use of tariffs and quotas to artificially manipulate trade are of particular concern to Australian organisations. The use of quotas to control supply has led to market uncertainty, inefficiency and price distortions. Trade in wool and other raw materials has been particularly affected by these policies.

The role of the State Assets Supervision and Administration Commission (SASAC) in overseeing the wholesale reform of SOEs remains critical to driving future market behaviour by these enterprises. Virtually every major trading contract between Australia and China has been made with an SOE, so their influence on the bilateral relationship cannot be overstated.

Notwithstanding the burgeoning private sector contribution to economic growth, China's SOEs still have a stranglehold over key areas of the economy. This, and at times a lack of transparency, has the potential to stifle trade and lead to anti-competitive behaviour.

A key concern that business requires to be addressed is the need within corporate China (including SOEs and others) for clear accountability, strong corporate governance, and unambiguous transparency with all stakeholders (shareholders, employees, customers and suppliers).

Market access is another significant concern for Australians interested in investing and engaging with China. Although Chinese markets have opened significantly to foreign investment in the last few years, with new industries becoming open to investment all the time, thresholds remain high, and approval and application procedures are often complicated and time-consuming.

Significant regulatory barriers remain on the operation of wholly owned foreign enterprises (WOFEs), such as the inability to obtain full import/export licences, strict controls on foreign exchange movements, restrictions on inter-company loans and the retention of capital within Chinese domiciled enterprises, and concerns with regard to the convertibility of renminbi (RMB).

A recent commitment by China to treat foreign and domestic companies equally under the tax regime will be welcomed by Australian companies. However, issues with tax remain. Some examples include variations between provinces and local authorities for internal taxes and duties, an inability to group tax losses, and for some producers the payment of double tax.

5.2.5 The way forward

Some of the regulatory and industry specific issues mentioned above may be addressed through formal bilateral agreements between Australia and China. However, real change through reform of China's legal system to remove non-tariff barriers cannot be achieved quickly, nor can it be addressed through the terms of an FTA or other bilateral agreement.

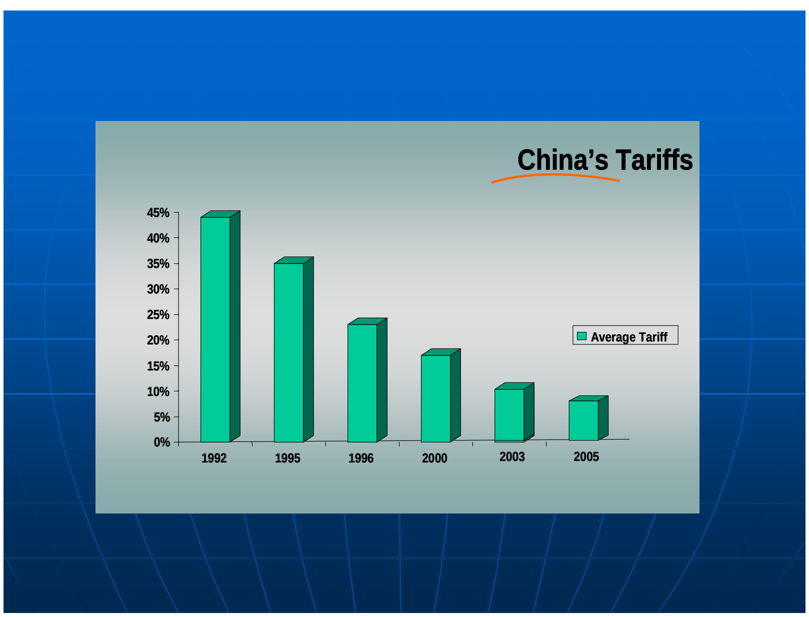
Australian negotiators of a bilateral agreement should recognise the non-uniform legal and administrative environment across China. It would be useful to recognise an objective of effectively measuring regional variation in the legal and administrative environment and use this as a benchmark for measuring the success of any bilateral agreement and identifying areas for capacity building.

5.3 Tariff and other non-tariff barriers

5.3.1 Tariffs

Since China's accession to the WTO, many tariff rates have been substantially lowered. The customs duty liability arises at the time the goods enter into China.

The following chart demonstrates China's progress in reducing tariffs:



The average tariff rate has fallen from around 40 per cent in 1992 to 15.3 per cent in 2001 and 8.9 per cent in 2005.

Current industry-specific tariff rates include:

- Industrial products have reduced from 15.6 per cent to 8.9 per cent
- Agricultural products are now taxed at 15 per cent
- By 2006, the rate for sedan cars will drop to 25 per cent
- By 2006, car parts and accessories will be taxed at 10 per cent.

The problem of tariff levels has decreased and will continue to do so over time (although many people still do not make allowance for the levy of VAT on imports).

However, the need to reflect WTO regulations, which are completely different to previous Chinese valuation measures, has seen the introduction of a new set of valuation standards. Because customs law is still evolving, this has led to risks stemming from unclear or unknown legislative requirements.

Customs valuation and tariff classifications should adhere to customs legislation and WTO regulations. Complexities arise from the collection of customs duty on an ad valorem basis and because China Customs is under revenue collection pressure from the Chinese Government. The upholding and enforcement of customs legislation and WTO regulations therefore remains to be seen, as do the consequences that could result from either intentional or unintentional non-compliance.

One tariff-related issue of concern is the tariff rate quotas that apply to a number of agricultural exports from Australia. Under these arrangements guaranteed global access is provided for a specific volume of imports at a preferential or low tariff, with imports above the agreed volume subject to a generally prohibitive rate. Greater clarification and transparency in the quota allocation process is desirable.

5.3.2 Quota administration

Quota administration has been a major area of concern in the past, particularly for wool, where the system caused considerable trade disruption, including price spikes and the development of a secondary market leading to higher domestic prices. Despite new arrangements that have been put in place, quota administration remains an obstacle for certain Australian exporters into China.

5.3.3 Other non-tariff barriers

Other non-tariff barriers are listed as follows:

- **Capital requirements**. Relaxation of ownership and capital thresholds would improve access to China by Australian SMEs.
- **Statutory inspection**. This generally requires certain strategic or sensitive imports (usually food and fibre) to be subjected to sampling and testing by Chinese authorities (AQSIQ) prior to their acceptance into China. While China has agreed, as part of its WTO commitments, to adopt international standards for product assessment and conformity, there are still many examples where this is not the case.

- **Sanitary and phytosanitary measures**. Provision has been made within the WTO for an agreement covering food safety and animal and plant import controls, known as the SPS Agreement. This is a particularly important issue to ensure the protection of agricultural products from pests and diseases not currently found in either Australia or China, however it is important that SPS measures are based on science and not used as a non-tariff trade barrier.

Other non-tariff barriers that have been enforced since WTO accession include China Compulsory Certification (CCC), controls and prohibitions applying to varied types of equipment, and certificated pre-inspection of used machinery prior to shipment to China.

6 Existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth Agencies and Australian Government Programs

6.1 Existing strengths of Australian business in China

The ACBC views the existing strengths of the current Australian-China business relationship both in economic and institutional terms. Strong personal and business links, as are actively fostered by the ACBC, have delivered valuable improvements in mutual understanding. These, in turn, have supported impressive gains in trade and investment, for the benefit of both countries.

The Australian Trade Commission (Austrade) and the Department of Foreign Affairs and Trade (DFAT) are the primary Commonwealth agencies used by ACBC members in doing business in China. A high proportion of members say that Austrade and DFAT are very useful in their China business activities and play a highly complementary role to the ACBC.

The ACBC greatly values its close relationships with Austrade and DFAT and extends ex officio membership to both agencies. Austrade and DFAT have representatives on the ACBC national board and on most state branch executive committees. The ACBC is extremely grateful for the ongoing support provided by DFAT, Austrade, the Australian Embassy, and the Australian Consulates-General.

The Australian business community in China is well supported by the Australian Chamber of Commerce (Austcham) in Beijiing, Shanghai, Guangzhou and Hong Kong. A very high per centage of ACBC members have said they would support the establishment of closer links with the Austchams. The Australia China Business Forum of 24-30 October 2004 was the inaugural activity co-organised by ACBC together with Austcham Beijing and Austcham Shanghai and was a great success in bringing together members of the Australia China business community.

6.2 Scope for improvement through assistance via Commonwealth Agencies and Australian Government Programs

Further strengthening the business environment for Australian business in China is a matter of key interest to the ACBC and its members. While the process will involve a wide range of parties, the Australian government carries an important responsibility to enhance, where possible, the capacity for Australian business to operate in and with China. This is particularly the case, given the extent to which Australian business and Australians generally have benefited from the two-way commercial relationship thus far.

The ACBC views as the core areas for improvement in this context those that increase certainty for parties doing business in China.

The ACBC sees this improvement as the most likely role for the Australian government in encouraging Australian business in China to aid and promote positive institutions.

Another important role is to lessen barriers to information flows, allowing business to profit from increased certainty in market mechanisms. In particular, where institutions specific to Australian business and trade can be made more predictable or robust, such opportunities are of primary interest to ACBC members.

Australia should also support efforts to improve the availability and reliability of data at a sub-national level to allow Australian companies with local operations in China to make better informed risk-management decisions.

In the context of strengthening institutions, the ACBC recognises and commends the Australian Government's current program, through its assistance arm AusAID, to provide technical assistance in governance matters to Chinese agencies. The ACBC sees a range of possible industry-specific areas for cooperation, including areas where the Australian government could work with specific companies or industry groups in both countries.

Broadly, such areas include transfer of technology and technical expertise in the following key areas:

- Customs administration;
- Cooperation towards building expertise for enhanced quarantine capacity;
- Recognition of qualifications in key service areas, and recognition and harmonisation of technical standards in areas such as telecom service provision;
- Streamlining standards for goods and testing procedures for products such as minerals, dairy products and wool;
- Increasing efficiency in supply chains in areas such as auctioning and competitive distribution of bulk imported goods; and
- Improving regulatory and reporting standards to promote strong corporate governance and clear accountability within SOEs and the broader securities market.

Australia should utilise the prospect of negotiations for an FTA to provide further frameworks and opportunities for initiating and, subsequently, regularly monitoring such cooperative activities.

7 Opportunities for strengthening and deepening commercial links with China in key export sectors

Australia's rapidly growing exports to China have come principally from the minerals and energy sectors. At the same time, though it has attracted less public attention, there has also been significant growth in Australian exports to China – and investment in China – by a wide range of other sectors, ranging from manufactures to rural sector products, education, legal and financial services, building, construction and industrial design, and tourism, convention and exhibition services.

There has also been some major investment in China by Australian companies. Trade and investment are each vital components in the deepening of commercial relations between the two nations.

7.1 Agriculture

Australia is well placed to play a role in China's agricultural development, not just as a supplier of raw materials and agricultural products, but also in education, training, and expertise in livestock breeding, irrigation and water management, and environmental management.

China's demand for important agricultural commodities is forecast to grow by an average of 15 per cent to 2010. This forecast might prove to be conservative, with rising income levels and improved living standards likely to increase demand for foodstuffs, while at the same time, supply of farming land might be expected to be constrained through increasing pressure on water and land availability as a consequence of competition from further industrial and residential expansion. Considerable potential therefore exists for substantial growth in exports to China of Australia's broad acre crops, such as grains (mainly barley, but possibly also wheat if present restrictive marketing arrangements are removed), as well as exports of Australian oil seeds, livestock, dairy, meat, and fibre products derived from grazing.

Australia can also offer agriculture services, expertise and investment to make a positive contribution to resolving agricultural sustainability concerns in China such as water scarcity and land degradation. Australia has experienced similar problems and has put in place environmental and resource management programs that could be useful to the Chinese situation.

Australia has expertise in vocational education and training that would be of particular value to China. Education is fundamental to improving resource management, achieving greater productivity benefits, and developing new businesses including 'value-adding' to farm output through processing, distribution and marketing. Much of the education requirement is for practical training and re-skilling programs, and the Australian TAFE system would provide a valuable model for rural capacity building.

7.2 Financial services

The engagement of Chinese and Australian banks and other financial institutions in each country is not hypothetical – it is already a reality. The Bank of China has operated in

Australia since 1942. In recent years, several Australian banks and insurance companies, including ANZ Banking Group, Commonwealth Bank, Macquarie Bank and the IAG insurance group have been granted licences to establish and develop their business in China, including as investment partners with equity capital in Chinese banks.

Australia's banking and financial markets are open to foreign competition. Foreign banks can apply for a banking licence and compete in any area, including retail banking business, so long as they comply with Australia's banking and corporate laws and meet prudential standards. Foreign banks, with the approval of the Treasurer, can invest in Australian banks. The Australian market is also open to foreign securities companies, insurance companies and fund managers.

China has embarked on the process of opening up its banking and financial markets to foreign banks in an orderly way. China applies certain restrictions to foreign banks, securities firms, insurance companies, and fund managers. These restrictions relate to geographic location of foreign institutions, levels of foreign ownership in Chinese banks, capital requirements, investment quotas, waiting times for approval, access to market segments and regulatory approval for financial products. Some of these restrictions are to be lifted under China's WTO commitments.

As noted above, some Australian banks and insurance companies have successfully established their business in China and there is potential for them to expand their business, consistent with their own business plans, if they are able to secure greater access to the banking and financial markets in China.

It is hoped that an FTA would encourage stronger Australian participation in Chinese banking and financial markets. This could be done through further liberalisation of the current restrictions to allow Australian banks and other financial institutions to offer a greater range of products and services to their customers in China. The ACBC hopes that China will recognise that Australian financial institutions are making a constructive and sustained commitment to the development of their business in China, consistent with the strong and growing economic links between Australia and China. We hope that over a reasonable time China will encourage greater participation by Australian banks and other financial institutions, subject to sovereign regulation by China. This can be done in a measured way through an agreed framework in the context of an FTA.

7.3 Investment

Investment by Australian companies in China would increase if the Chinese government were to ease restrictions. Currently Chinese government restrictions include a requirement for Government approval on all foreign investment and restrictions on the establishment of wholly foreign-owned enterprises in a range of industry sectors including mining and minerals processing, transport and some transport infrastructure and telecommunications to name a few. Often there is a requirement for foreign investors to have a local partner who often has majority ownership. There is also uncertainty over profit repatriation, tax rules and foreign exchange rules, as well as concerns about adequate protection of intellectual property and avenues for recourse.

7.4 Minerals and energy resources

Australia's mineral and energy exports to China are projected to continue to grow strongly over the period to 2015, although the situation varies from commodity to commodity. As well as being a significant consumer of mineral and energy commodities, China is also a major producer. From Australia's perspective, China is therefore both a competitor and a customer of the Australian resources sector.

Australian producers of iron ore, alumina, copper and nickel have benefited from China's growing industrial production. China's rapidly increasing production of steel and aluminium and the lack of sufficient domestic raw materials to support this production growth is expected to result in China importing increasing quantities of iron ore, nickel and alumina for the foreseeable future.

China is a significant producer of lead, tin and zinc, and because its production costs are relatively low for these commodities, they are particularly competitive. China also has the ability to produce low cost refined metals. This means that Australian producers of refined and smelted metals such as aluminium, lead and zinc are competing against China for export market share.

7.4.1 Aluminium and alumina

China accounted for nearly 19 per cent of world aluminium consumption in 2003, compared with 4.8 per cent in 1990. It is now the second largest consumer behind the US (21 per cent of world consumption in 2002). With output of 5.6 million tonnes in 2003 (20 per cent of world primary production), China is the world's largest producer of primary aluminium.

China is expected to remain a net exporter of aluminium in the short to medium term. There is little prospect of significant growth of Australian exports to China in the foreseeable future. However, as China is the world's largest producer of primary aluminium, with no significant increases in alumina capacity planned, China's demand for imported alumina is expected to rise concomitantly.

Australia, as the world's largest producer and exporter of alumina (32 per cent of total world production in 2003), is in a strong position to take advantage of China's expected growth in alumina imports. Some of the new alumina refinery developments in Australia are in response to prospective growth in demand in the Chinese market.

7.4.2 Steel and iron ore

From 1990 to 2003, China's consumption of crude steel increased from 70 million tonnes to nearly 255 million tonnes, making China the world's largest consumer of steel. Over the same period, China's production of crude steel also grew at a rate of 10 per cent a year to reach 220 million tonnes. China is therefore a major importer of steel, with net imports of around 35 million tonnes in 2003. If economic growth continues at current high levels, then it is likely that demand for steel products within China will continue to increase strongly.

A key question for sectors that compete or potentially compete with Chinese steel products is - at what point will China cease to be a net importer of steel products and become a net exporter? There is a range of forecasts for the timing of this event, but it is widely considered inevitable at some time in the future. Approximately 65 million tonnes of new flat steel production capacity is currently proposed in China. A slowing of economic growth in China could, therefore, see China rapidly become a net exporter of steel to markets such as Australia. In this scenario, Chinese steel producers are likely to enjoy significant scale and cost advantages in comparison to their Australian counterparts. Australia does not export significant quantities of steel to China.

While China is a major producer of iron ore (240 million tonnes in 2003), its reserves and mine output are of insufficient quantity and quality to meet the growing demand from steel producers. As a result, China's imports of iron ore have grown significantly, rising from 14 million tonnes in 1990 to 148 million tonnes in 2003.

China is currently Australia's second largest customer for iron ore, surpassed only by Japan. Australian exports of iron ore to China grew by an average of 10 per cent a year from 1990 to 2003. As a result of China's increasing demand for iron ore, Rio Tinto and BHP Billiton have embarked on major expansion plans, accelerating developments of mining projects and associated infrastructure.

7.4.3 Energy

Strong growth in economic output, especially in industrial production, has continued to lead to a considerable increase in China's total primary energy consumption. A major contributor to growth in recent years has been increased output in the electricity, iron and steel, aluminium and chemicals sectors. Coal continues to dominate the fuel mix in China but its share is slowly declining. In 2001 coal accounted for 69 per cent of total primary energy consumption, compared with 80 per cent in 1990. Oil accounted for around a quarter of primary energy consumption in 2001 and was used mostly in the transport sector. While consumption of gas remains a minor proportion of energy consumption, at less than 4 per cent in 2001, it is expected to grow more rapidly than other fuels over the next decade and beyond.

7.4.3.1 Coal

China's coal production in 2003 was a record 1.6 billion tonnes. This follows steady increases from a production low in 1997 of around 1 billion tonnes and has been driven by strong increases in demand from all key sectors, but especially electricity and steel. Nevertheless, the increase in production has been insufficient to meet the growth in China's demand for coal and shortages of both thermal and metallurgical coal have been widespread throughout the country. Physical shortages of coal were exacerbated by high prices and by rail transport constraints.

China's long-term coal export commitments mean that it has been notably absent from the international thermal coal spot market. This made a significant contribution to increases in international spot coal prices since the end of 2003. In order to overcome some of the domestic coal supply gap, China increased its imports of coal in 2003.
One of the outcomes of the domestic coal shortages has been a shift in China's coal policy away from the export focus that has been dominant since 1999 to one of ensuring that domestic markets are satisfied. Over 40 per cent of China's rail capacity is absorbed by moving coal.

7.4.3.2 Oil

China's oil consumption was a record 5.3 million barrels a day in 2003, with China overtaking Japan to become the world's second largest consumer of oil. The transport sector accounts for around 40 per cent of China's oil product consumption and is the largest source of growth in oil demand. This situation is likely to accelerate over the medium term, with road transport playing a key role in future demand. At the end of 2002, China had almost 10 million private motor vehicles, compared with 816,000 in 1990. Aviation is also a rapidly growing component of the transport sector for both passengers and freight.

China's total oil production, currently 3.4 million barrels a day, is expected to decline gradually over the medium to longer term. Its net oil imports rose sharply to an average 1.9 million barrels a day in 2003 and reached an average 3 million barrels a day in the first two months of 2004. This implies that China's oil import dependency was 36 per cent in 2003 and potentially higher in 2004, compared with 12 per cent only five years ago. Around 50 per cent of China's crude oil imports are sourced from the Middle East and this share is likely to increase. China's oil import dependence is likely to continue to rise over the medium to longer term. Potential net imports exceeding 5 million barrels a day by 2015 will make China an increasingly significant participant in world oil markets and it can be expected to exert a stronger role in the determination of international oil prices.

7.4.3.3 Natural gas

China's natural gas consumption remains low relative to other fuels but recent developments in the sector, such as the introduction of emission controls on some coal fired plants, are likely to underpin rapid expansion in gas supply. Since the mid-1990s, natural gas has increased in significance in China's short and long term energy planning. It is now the focus of accelerated investment in exploration, production, transmission and liquefied natural gas (LNG) imports. The government has embarked on a major expansion of gas infrastructure, including pipelines and power plants.

A further development in China's gas market has been the commitment to import LNG. In 2001, China approved the construction of the country's first LNG receiving terminal in Guangdong province. In 2002, Australia's North West Shelf project was granted the foundation contract to supply around 3.3 million tonnes of LNG a year to the terminal for 25 years. Supply is expected to begin in mid-2006.

7.4.4 Investment in China's gold mining sector

Australia and China are the world's second and fourth largest gold producers respectively. China's gold operations are generally small scale and face significant environmental and safety challenges – areas in which Australian mining is generally recognised as 'best practice'.

Over the past five years, access by foreign companies to Chinese gold assets has increased significantly and there are now more than 40 foreign companies exploring for gold in China. Australian companies have established a leadership position and an Australian company, Sino Gold Limited, is investing $100 million in developing and constructing China's second largest gold mine in the country's poorest province, Guizhou.

Foreign investment in the mining sector will raise benchmarks for environmental, safety and community management across the industry and lead to service provision opportunities for Australian companies.

Whilst the scale of investment in the gold sector is small relative to other mineral sectors, success in this area is likely to be a precursor to larger investment by Australian iron ore, alumina, copper and nickel producers into the exploration in China in the future.

7.4.5 Conclusions – minerals and energy resources

Australia is not the only country exporting minerals and energy to China. The Chinese are seeking to diversify their suppliers for reasons of security as well as economics. Australia's competitors are more than willing to take market share from Australian suppliers. It is important then that we look to all aspects of our trading relationship to ensure we secure, maintain and grow our place in the market.

Long-term relationships provide the foundation for a trading partnership that is increasingly complex and interdependent. China, having successfully concluded joint ventures with Australian companies, is looking to invest directly in our industry and to participate in total supply chain solutions. Chinese SOEs are expected over the next decade to heavily invest overseas and take up sizable equity stakes in Australia's resources sector, to ensure stable supply of energy, gas and minerals for China's industrialisation needs.

China has chosen a growth model that promotes full participation in global markets and the result is materials-intensive economic growth. It already has had a fundamental impact on global resources and energy trade and on the market for Australia's minerals and energy commodities. China has also become a rival producer of metals such as aluminium.

Given the potential scale and scope of ongoing growth in China's economy, further significant growth in Australia's exports of resources and energy commodities to China can be anticipated. However, if strong growth is to be sustained, China must meet a number of important challenges. Issues related to effective domestic economic management, overcoming infrastructure constraints, and achieving environmental sustainability, amongst others, must be addressed.

The success of Australian companies in gaining a share of the growing Chinese resources and energy market will depend on their skill and patience in establishing long-term business relationships and delivering total supply chain solutions.

7.5 Telecommunications

Telecommunications is essential infrastructure for a growing Chinese economy and a competitive telecommunications sector is imperative in creating a secure environment for Australian investment.

Various barriers to entry currently include both explicit and more subtle administrative hurdles which can make investment by Australian telecommunications companies difficult. Such barriers include a combination of prohibitive regulatory and business factors that apply to the telecommunications services market – factors that are more onerous than those covering other service sectors.

Some improvements in this sector have been seen in recent months. Rules for foreign investment in Chinese carriers providing basic services were permitted from December 2004 but were restricted to 25 per cent and within the geographical boundaries of Beijing, Shanghai and Guangzhou. The geographical restrictions are to be removed by the end of 2007, but even then the maximum foreign equity stake will be capped at 49 per cent. In effect, China's regulations permit participation with only a very limited set of potential partners, and these potential partners are not in any way required to embrace foreign joint ventures.

Australian companies need to be satisfied that China's regulatory regime gives sufficient clarity and consistency for them to be confident about investing. Therefore the ACBC would like to see an FTA provide accelerated access for Australian telecommunications providers, as well as the development of a regulatory regime in China that is largely harmonised with conditions in Australia and one which reflects international norms.

7.6 Tourism

The World Tourism Organisation predicts that by 2020, China will be the world's fourth largest outbound source of tourists with approximately 100 million Chinese travelling. Passenger numbers in China are forecast to grow at 8.4 per cent per year over the next twenty years, compared with a global average of 5.1 per cent. China is set to become the second largest aviation market after the US, largely due to the combination of large population, rapid GDP growth and a liberalising economy.

The Australian Tourism Forecasting Council's 10-year projections for growth in traffic between Australia and China are the highest of any market for both inbound and outbound. China is clearly an important market in its own right, but it also has potential as an aviation hub market for Australia. Traditional Asian hubs for passenger traffic en route to Europe have been Singapore and Bangkok. Chinese cities offer an exciting stopover alternative for Australian travellers and a chance for Australian airlines to tap into the sizeable China-Europe market.

Travel from China to Australia has grown significantly in recent years, driven by the strengthening economic relationships between the two countries, and the fact that Australia was designated Approved Destination Status (ADS) for tourists from China.

ADS was granted to Australia by the Chinese Government in April 1999 – the first Western country to receive such status. This allowed Chinese citizens from Beijing, Shanghai and Guangdong Province to apply for special short stay tourist visas as self-funded group leisure travellers to Australia. In October 2003, a further six Chinese regions were added to the list following an agreement between the Australian and Chinese Governments to expand the program. This will occur in several phases, eventually covering the whole of China.

Since the introduction of the ADS, inbound visitors from China have grown at an average of 20 per cent, and according to the latest Tourism Forecasting Committee forecasts, are expected to continue growing at these rates.

7.7 Other sectors

Australian firms have internationally competitive skills and expertise in a wide range of service industries, which would provide good opportunities if China were to relax many of the constraints that currently exist on the ability and rights of foreign firms to compete on fair and equal terms with Chinese competitors in China. These service industries include:

- Advertising
- Accountancy
- Architecture and design
- Construction and real estate
- Convention and exhibition services
- Education
- Insurance
- Legal
- Logistics
- Management consultancy
- Securities
- Sports and physical training

7.7.1 Mutual recognition of qualifications

One important example of the constraints on foreign firms is the lack of recognition of professional qualifications gained outside China. Mutual recognition of graduate qualifications from accredited universities is highly desirable. The precedent for mutual recognition of qualifications has already been set under CEPA (the 2003 economic agreement between China and Hong Kong), which provides for recognition by China of certain Hong Kong qualifications and/or access to sit Chinese professional exams. As Australian and Hong Kong qualifications share significant common grounds, ACBC believes Australia should push for China to extend formal recognition of Australian qualifications.

Freer movement of professional and skilled workers between Australia and China – subject to appropriate regulatory mechanisms – would advantage Australia by providing access to the large number of skilled graduates in China. It would also enable China to have access to skilled Australians in relevant fields, such as the legal and accounting professions, when it liberalises its existing constraints in these and other areas.

The ACBC would urge Australia to seek to achieve this objective either in the context of any FTA negotiations or as a separate issue.

Achieving mutual recognition of qualifications would be highly significant for various service sectors. It would also facilitate Australian capital markets being seen as an increasingly important stepping stone to US capital markets. Such recognition, combined with improved regulatory controls, would facilitate access to Australian capital markets (the second largest in the Asia Pacific) for Chinese companies seeking global finance, thereby broadening and deepening Australia's own capital markets at a time when Chinese companies are considering alternatives to the US capital markets due to rising concerns of immediate compliance with Sarbane Oxley regulations.

7.7.2 Opening of the legal sector

Australian legal firms have major limitations placed on their ability to service clients doing business in China. Australian legal firms would like to be able to hire Chinese lawyers in China and form joint ventures or economic associations with Chinese law firms. Australia legal firms would also like to open offices in multiple locations more easily, as the application process is currently too cumbersome.

In more general terms, the ACBC believes that, wherever possible, Australia should seek equal treatment in China with Chinese firms, so that we can grasp the opportunities that would then exist in those industries and sectors where Australian firms are seen to have a comparative advantage.

8 The future of Australia-China trade relations: Where to from here?

Australia and China are currently experiencing an unprecedented high point in the commercial relationship between our two countries. Steady 7-8 per cent growth in China over the next 15 years will provide huge potential business opportunities across many Australian industries and sectors, most notably in minerals and energy resources.

Moreover, with 10 per cent of the Chinese population now estimated to be entering the middle class, demand for professional services is expected to grow rapidly.

The ACBC sees significant opportunities for Australia in the liberalisation of the services sector including areas such as tourism, legal, insurance, banking, tourism and telecommunications, architecture, construction and engineering. In the education sector, China has already become Australia’s largest single-country source of overseas students. More than 40,000 young Chinese are now studying in Australia and this industry will continue to experience growth.

In summary, the ACBC believes that Australia’s future relationship with China will be more important for us than our relationship with many other countries.

It follows that the ACBC supports a comprehensive FTA with China covering goods, services, investment and the harmonisation of regulatory processes. The ACBC believes an FTA with China will add to Australia’s standing as a serious player in the international trade arena and further complement the existing trade agreements now in place.

The ACBC also believes that Australia should have as an objective to assist China wherever appropriate to make continuing progress in its economic and social systems, with Australian firms playing a strong role in promoting such progress by engaging in mutually beneficial trading and investment activities.

China has achieved major economic growth while still developing the fundamental institutional framework that underpins economic growth in most other countries. This should encourage Australia to support China’s institutional development wherever possible, particularly given the enormity of the task involved.

Appendix I

ACBC National Board of Directors

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Hon. Warwick Smith
Executive Director, Macquarie Bank Limited

Vice-President
Kevin Hobgood-Brown
Partner, Deacons

Vice-President and Director (WA)
Mr Bill Bloking
President, Australia-Asia Gas, BHP Billiton Petroleum

Vice-President
Mr Martyn Mitchell
Partner, PricewaterhouseCoopers

Vice-President and Director (WA)
Mr Frank Tudor
General Manager LNG Marketing China, Woodside Energy Limited

Treasurer
Mr John D'Arcy-Evans
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Mr David Powell
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Mr John Borghetti
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Ex Officio Board Member
Ms Lydia Morton
First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

Ex Officio Board Member
Mr Michael Clifton
Manager, International Liaison North Asia, Austrade

National Executive Directors and Secretariat
Mr Jim J Short
Ms Kate Barnett

Appendix II

ACBC Event Highlights

Engaging the Dragon – The Challenges for Australian Manufacturing in the Chinese Century
Mr Kirby Adams, Chief Executive Officer, BlueScope Steel Limited

The Chinese Economy – Current and Future Prospects of the Australia-China Trading Relationship
Dr Alan Thomas, Australian Ambassador to China

China Today – What Business Needs to Know
Ms Lydia Morton, First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

The Victorian Government's Strategy for Increasing Engagement with China
Hon. John Brumby MP, Treasurer, Minister for State and Regional Development and Minister for Innovation

Directions in China's Financial Reform
Mr Li Yong, Vice Minister, PRC Ministry of Finance

Are You Ready for China?
Hon Paul Holloway MLC, Minister for Industry, Trade and Regional Development, Minister for Resources Development, Minister for Small Business

Managing Growth in China – China's Vision for the Future
HE Madam Fu Ying, China's Ambassador to Australia

China – Driving Future Global Tourism
Mr David Baffsky AO, Chairman, Accor Asia Pacific

The Rise and Rise of Shanghai: What it Means for China and Australia
Mr Sam Gerovich, Consul General to Shanghai

Globalisation in the China Context
Mr Peter O'Byrne, Managing Director, Austrade

Investing and Exporting to China: Gamble or Calculated Risk?
Hon Mark Vaile MP, Minister for Foreign Trade

HE Mr Hu Jintao
A select group of Australian business leaders participated in a dialogue with HE Mr Hu Jintao, President of the People's Republic of China, on Australia-China trade relations and areas for cooperation

China and North East Asia: An Australian Perspective on Trade and Security Issues
Mr Kevin Rudd MP, Shadow Minister for Foreign Affairs

From Edward Little to the Present Day China – The Commercial Opportunity
Hon Warwick Smith, Executive Director, Macquarie Bank and National President, Australia China Business Council

Does China Matter? A Look at Australia-China Trade on our 30th Anniversary of Diplomatic Relations
Mr Martin Walsh, Senior Trade Commissioner, Austrade Beijing

Australia's Engagement with China
Hon Paul Keating, Former Prime Minister of Australia

Reflections on the Reform Process in China: A Diplomat's View
Ms Penny Richards, Consul General to Shanghai

Australia and China, Diversity and Strength
Hon. Alexander Downer, Minister for Foreign Affairs

HE Mr Jiang Zemin
A business reception with the President of the People's Republic of China