



Department of the Premier and Cabinet
Government of Western Australia

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

Dear Dr Dermody

Inquiry into Australia's relations with China

I refer to the letter, dated 9 December 2004, from the Chair of the Senate Foreign Affairs, Defence and Trade References Committee to the Premier of Western Australia seeking views for the Committee's inquiry into Australia's relations with China.

Attached is a submission from Western Australia which includes comments from a number of Western Australian government agencies.

I apologise for the delay in providing this response to the Committee. If you have any queries or require further information, please contact Ms Ruth Young in the Office of Federal Affairs, Department of the Premier and Cabinet on (08) 9222 9516 or e-mail rzyoung@dpc.wa.gov.au.

Thank you for the opportunity to provide comment. I look forward to hearing of the result of the inquiry.

Yours sincerely



Petrice Judge
**EXECUTIVE DIRECTOR
OFFICE OF FEDERAL AFFAIRS**

22 April 2005

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCE
COMMITTEE: INQUIRY INTO AUSTRALIA'S RELATIONS WITH
CHINA**

COMMENTS FROM WESTERN AUSTRALIA

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DEPARTMENT OF SPORT AND RECREATION

The Department of Sport and Recreation, through its Sport International WA section, helps the State's sporting associations to organise exchanges with other countries and assists overseas athletes and sporting organisations seeking opportunities for competition and training in Western Australia.

China and Australia are two of the world's top five sporting nations. Consequently, there are sporting benefits to be gained through an active interaction. The commercial spin-off comes through the use of Western Australian infrastructure and expertise at coaching camps and in friendly competition.

While China dominates in certain sports, Australia does in others. Two years ago, China examined the merits of basing its Equestrian Team in Perth to train here for the 2008 Olympic Games, which would have resulted in a few million dollars being spent here. However, France and Germany, being two other nations strong in equine sports, were able to offer the Chinese a cost free training environment due to industry in the two countries sponsoring the initiative.

Early this year, the Guangdong Water Polo Team trained and participated in a major annual water polo tournament in Perth for a month, meeting its own expenses. Television exposure not only gave increased credence to the competition, but also promoted tourism in Western Australia through images of these players enjoying the unique experiences this State has to offer.

Further cooperative sporting activities would be of mutual benefit to both countries.

DEPARTMENT FOR PLANNING AND INFRASTRUCTURE

China Southern Western Australian Flying College

China Southern Airlines (CSA), the largest airline in China, operates more than 320 routes to 85 destinations of which 260 are domestic, 39 are international and 20 Hong Kong routes. The Group operates the most extensive domestic route network of all Chinese airlines.

In 1993 CSA established the China Southern Western Australian Flying College (CSWAFC) (60 per cent owned by CSA) to train pilots. Two bases were established at Jandakot Airport and Merredin.

The Merredin base (260 km east of Perth) was established with the purchase of the Merredin airstrip from the Merredin Shire Council. CSWAFC invested \$13 million into the airport, an accommodation village in Merredin and other related infrastructure and operational expenditure. The Western Australian Government contributed \$1.5 million in 1996 towards the reconstruction of the runway, comprising:

- \$1 million through the Regional Headworks Scheme for the development of headworks connection; and

- \$500,000 through the Regional Airports Development Scheme (RADS). Subsequently, the State Government has assisted with three further RADS grants (2001, 2003 and 2004) totalling \$163,000.

Current situation

The flying training course in WA takes about 14 months to complete after students have undertaken prior academic studies at Beijing University, which is a two-year course. To date 750 students have been trained at CSWAFC. Upon completion of the flying training course in WA, students return to Beijing University to graduate with a Bachelors Degree in Aviation and then undertake simulator training at CSA's facility at Zhuhai. The pilots are then qualified to become first officers on the CSA fleet.

The College plans to increase its annual output of students from the current intake of 130 per year to over 200 per year by the end of 2005, further student increases are planned beyond this date to over 300 students per annum.

The Western Australian Government enjoys a very good relationship with CSWAFC. Ongoing activities provide a significant contribution to the local economies of Jandakot and Merredin. The college is a good corporate citizen at both locations. With the expected growth in airline activity throughout China and the world, continued partnership arrangements, such as this, are important at a State and regional level.

DEPARTMENT OF FISHERIES

Major impediments to trade with China for Western Australian seafood exporters are the high tariffs on seafood entering China. Apparently most WA seafood companies doing business with China have sold their products to Hong Kong from where they are transported to China. It is understood that this so called 'grey channel', however, has been severely disrupted over the last year or so, resulting in much less WA lobster, for example, getting into mainland China.

DEPARTMENT OF EDUCATION AND TRAINING

With its huge resources sector and existing lucrative export arrangements with China, Western Australia is ideally placed to capitalise on China's economic development. The existing joint ventures between Hamersley Iron and the China Iron and Steel Industry (the Channar Mine) and Hamersley Iron and the Shanghai Baosteel Group Corporation (Eastern Range Mine), with a joint worth of \$360 million, are prime examples of the benefits to Western Australia of capitalising on export opportunities with China.

Australia's and, in particular, Western Australia's skills shortages have developed due to record levels of business investment and economic growth and, although apprenticeship numbers have increased significantly over the last few years, Western Australian industry needs skilled workers now.

The Western Australian Government has recently announced the formation of a Skills Advisory Board (the Board), composed of industry, regional and union representatives, in a

bid to tackle the skills shortage and highlight areas most in need. In addition, the Western Australian Minister for Education and Training has announced her intention to establish a skills training taskforce to look at the issues limiting young people from moving into trades, together with opportunities for introducing more flexibility into training.

If we are to alleviate the current problem of skill shortages and ensure the future availability of a skilled workforce, additional Commonwealth funding will also be necessary to develop training programs aimed at re-skilling and up-skilling existing workers, and encouraging the youth of our State to take up apprenticeships in areas of most need.

The Western Australian Department of Education and Training has recognised, for some time, the significant potential in China for a range of education and training services, including international student recruitment and offshore delivery of courses and training, both within China and to Chinese nationals in Western Australia. Over the last 18 years, the Department has developed a strong presence in China and details of existing arrangements can be found below.

Since 1998, the growth of Chinese students to Australia has trebled in number and the Chinese education system cannot cope with the demands placed upon it. With the lead up to the Beijing Olympics in 2008, as well as membership of the World Trade Organisation, the pressure is on China to produce graduates with the skills required in both China and the global marketplace.

However, given the enormity of demand, recruitment of international Chinese students into TAFEWA, the schools sector and affiliated programs, has not been as successful as it could be. The overwhelming barrier to developing the education and training sector's market share is linked to the strict immigration regulations. Despite the large number of Chinese students in Australia, the vast majority are university students. Other sectors have been kept out of the market due to the rigorous visa entry requirements. The English language market, in particular, suffers as a consequence, which has a roll-on negative effect for other education and training areas.

Some relaxation of the entry visa requirements, together with additional Commonwealth funding, would enable Australian education and training institutions to take full advantage of the opportunities now available.

Western Australian Department of Education and Training's involvement in China

Western Australia's sister state arrangement with China's Zhejiang Province led to a Memorandum of Understanding (MOU) being signed in 1987 between the Zhejiang and Western Australian Departments of Education which led to educator exchanges focusing on schools, TAFEWA and teachers of the Chinese language.

Under the current MOU, sister school relationships have been established between several Perth and Hangzhou schools, which have led to exchanges of teachers and students. Eight State schools currently teach the Chinese language as part of their curriculum and State teachers on long service leave are encouraged to take up short-term contracts in China teaching English as a second language.

The TAFEWA network currently delivers Business and English courses in Hefei through the ACATAFE College, E-commerce courses in Hangzhou and Art and Design at Hujia in Beijing.

In addition, TAFEWA hosts several fee-for-service fellowship training programs in Western Australia with a course duration of between three and six weeks.

The Department also markets for international students in China and there are currently approximately 20 Chinese students in Western Australia studying various programs.

DEPARTMENT OF CULTURE AND THE ARTS

Two representatives of the Chinese Government, Mr Wang Zhigang, Cultural Counsellor and Mme Fu Ying, Ambassador, from the Embassy of the People's Republic of China, visited Western Australia in April 2004. During their visit, they drew attention to the quickly developing economic ties between China and Western Australia and commented on the responsibility to foster greater cultural understanding between the two trading partners. They made it clear that cultural exchange projects were highly important to the future of the trading relationship and that they hoped to see increased levels of cultural exchange to match the increased levels of trade. Mr Wang sought meetings with cultural organisations during his visit and is assisting several organisations with their plans to develop cultural programs involving China.

The Western Australia Ballet intends to tour to China later in 2005, visiting the cities of Shanghai, Hangzhou and Beijing.

The Western Australia Symphony Orchestra (WASO) is planning to tour China during 2006. It is intended that WASO will participate in several major festivals and visit Beijing, Hangzhou, Shanghai, Shengzhen, Guangzhou and Hong Kong. It is also intended that WASO's joint venture partners (sponsors) will host major VIP functions in each city. WA wine will be showcased throughout the tour and there are opportunities for WA to progress other trade agendas also, which will be pursued after the tour is officially announced. This is an excellent example of how cultural connections can strengthen trade relationships and WASO will be seeking additional funds from the Commonwealth and Western Australian Governments to cover the remainder of the costs associated with touring the 100 member orchestra.

In acknowledgement of the importance of cultural exchange activity between China and Australia, and its likely increase, it is recommended that greater funding (separate to that provided to arts development) be made available to support cultural exchanges that meet diplomatic or trade objectives.

DEPARTMENT OF INDUSTRY AND RESOURCES

1 INTRODUCTION

Western Australia and China have a mutually supportive, strong and expanding commercial relationship. Western Australia largely supplies raw materials and services to help sustain China's rapid economic growth and development.

China is Western Australia's second largest trading partner and a significant source of investment. In 2002/03 China was Western Australia's second largest trading partner with total trade valued at \$4.6 billion. Western Australia's exports to China were valued at \$4.064 billion. It was the State's seventh largest source of imports valued at \$560 million.

Western Australia's current trading patterns with China are strongly focused on commodities particularly in the resources sector. The State is the 'front door' to Australia's trading relations and the outcome of the Senate Inquiry will be of particular interest to Western Australian industry.

Western Australia's mineral and petroleum resources endowment is a strategic national endowment and needs to be viewed in the national interest. It is only through having strategic gas and mineral (eg iron ore, nickel and alumina) reserves that Australia is able to enter long term liquefied natural gas (LNG) contracts with countries like China.

The State's exports to China include iron ore, alumina, titanium dioxide pigment, petroleum oils, zircon, canola, wheat, barley, wool, skins and hides, pearls and precious stones, lobsters, building materials, mining and telecommunication equipment and services, heating and cooling equipment.

In addition to the State's activity in resources and energy, Western Australian companies are active also in niche areas of China's economy including education and training services, design and construction, rural telecommunications systems, tourism, e-commerce, agribusiness and technology and other knowledge based industries.

Western Australia's interests in China are not just economic interests but extend to include the need for cultural relations and the need to form a strategic alliance that will aid regional stability.

2. WESTERN AUSTRALIA'S ECONOMIC RELATIONSHIP WITH CHINA

2.1 Economic Developments in China Impacting on Western Australia

After twenty years of rapid economic change, China has become one of the world's largest economies and an important driver of global demand. Following a long period of isolation, two decades of rapid structural change and integration have seen the economy of China become a major presence in the global economy. The International Monetary Fund (IMF) has estimated that, based on market exchange rates, China is now the world's sixth largest economy and the fourth largest trading nation in the world. Driving China's rise to eminence has been rapid growth in output. Over the past two decades China's economic growth rate

has averaged over 9% a year. More recently, China's average growth rate of 8.9% a year over the last decade compares with OECD growth of 2.6%.

In the past decade, China has seen a significant shift in the sectoral composition of her economy, away from agriculture towards manufacturing and services (Table 1). This is to be expected as increasing disposable incomes in China provide access to consumer goods and services and provide opportunities for Australia's elaborately transformed manufactures and services.

Table 1

	Sectoral Share of GDP (%)			
	1982	1992	2001	2002
<i>Sector:</i>				
<i>Agriculture</i>	33.3	21.8	15.8	14.5
Industry	45.0	43.9	50.1	51.7
<i>Manufacturing</i>	37.3	33.1	34.2	44.5
Services	21.7	34.3	34.1	33.7

Source: World Bank

Manufacturing output has grown rapidly, with industrial production rising by an average of over 13% a year in the past decade, compared with growth of 2.2% for the OECD.

In an important development paralleling this growth performance and reflecting its growing integration with the world economy, China has increased its share in international export markets as its output of manufactures has risen. Overall over the past twenty years, China's share of global trade has risen from just 1% to 6%.

The rapid improvement in China's manufactured export performance reflects her growing competitiveness. This competitiveness reflects a number of factors including a sharp improvement in labour force productivity, relatively low labour costs and a plentiful supply of unskilled and skilled labour.

Along with an increase in export volumes, China's exports have become more diverse over the past ten years. From a concentration on footwear, clothing, fuels and light manufactures in the 1980s and early 1990s, exports have diversified across the board to see rapid growth in, for example, exports of industrial inputs, office machinery and telecommunications equipment. There has been a more recent shift into exporting technology intensive goods, including ADP equipment and electronic goods more generally.

Rapidly rising import demand has stimulated growth in regional economies. Over the past two years China has also played an important role in lifting global economic activity as the United States, Japan and Europe have taken somewhat uncertain steps to recovery.

In trying to determine the likely path of China's economy over the medium term it is necessary to look at what has been the important drivers of its rapid rise in economic growth. It is then necessary to decide to what extent these factors are likely to persist or be replaced by other drivers.

Research into China's growth path suggests a number of factors underpinning the rapid growth of the China economy since the late 1970s.

The first of these has been rapid capital formation supported by high levels of domestic savings and foreign investment. China's saving rate remains high and should allow ongoing physical capital investment over the medium-term.

The second factor has been a significant step up in productivity growth. This has resulted from a number of key drivers. The first was the program of reforms undertaken by the Government of China since 1978. These include liberalisation of the agricultural sector, easing of restrictions on private ownership and reduced controls on movement of people between the provinces and the cities. An important factor has been a reduction in average tariff rates on imports from 55.6% in 1982 to 12.3% in 2002. This has allowed a reduction in the costs of imported capital equipment helping to boost China's competitiveness in manufactured exports.

Human capital development has improved over the past decade, though remains at a lower level than other regional competitors. This improvement should continue into the future improving the productivity of China's labour resources and competitiveness.

The shift of economic resources, particularly labour, between the low productivity agricultural sector to the higher productivity manufacturing and services sectors has boosted overall productivity. China still has a very large non-urban agricultural labour force and consequently has plenty of additional productivity to come from the shifting of resources to the industrial sector.

The key point is that China's GDP per capita, at around US\$1,060, remains well below that of Japan, the NIEs and most of the ASEAN-4. Therefore, if development continues along the path of these economies, China's GDP per capita should become much larger than all of them. China is still at the start of the industrial development process. China's vast labour resources, both in terms of quantity and potential quality, its ability to attract investment from overseas and its ability to fund investment through its own high levels of savings augurs well for a sustained period of economic growth.

If China is able to navigate the sometimes treacherous waters facing a developing economy, over the medium term, demand for minerals and metals should continue to grow significantly.

The process of industrialisation contributes to rapid growth in mineral and metals consumption in both absolute and per person terms. At its current stage of development, China's per capita consumption of metals is well below mature regional economies such as Japan and Korea. Consequently, one would expect that, further along her current development path, China's absolute and per person consumption of metals, both domestically produced and imported, should rise significantly.

As China's economy matures, the mechanisms driving rising demand for metals include rising infrastructure investment and increasing domestic disposable incomes. In terms of the latter, as disposable incomes rise, and given China's large population, consumption of durable goods is likely to rise significantly and along with it production. Steel and other fabricated metals compose a significant proportion of durable goods inputs.

China has seen a significant growth in production of durable goods over the past decade including air-conditioners, computers and televisions, which has paralleled rising home ownership of these products and penetration of export markets. This trend should continue.

According to ABARE China's automobile manufacture has grown rapidly from low levels since 1990, with production growing by 30% in 2002 alone. Given that less than 1% of the population of China currently owns a car there is clearly scope for growth in this market and thus demand for fabricated metals.

Minerals and metals intensive, infrastructure spending has been a key element of the China Government's approach to sustaining economic development, including, the Three Gorges Dam, electricity generation and transmission capacity, pipelines and transport and communications facilities. However, current levels of infrastructure are inadequate to supply domestic requirements given the rapid pace of development. This is particularly the case in relation to electricity generation, with power outages hampering industrial production in some provinces. In addition, transport infrastructure is struggling to ensure supplies of raw materials, such as iron ore. Government moves to offset these bottlenecks through improved infrastructure should provide an additional impetus for metals and minerals demand.

China's development is not evenly dispersed geographically from its east coast to western provinces. Where the east coast has advanced rapidly and has a well-developed economy and infrastructure, western China is less developed. China needs to maintain a considerable rate of economic growth to ameliorate the dispersion of economic growth. The Western Australian Government, together with energy and minerals production companies believe that China's leaders will ensure that their country's development and economic growth will continue at relatively high rates.

An important element of the expected increase in demand for metals driven by the increase in China's production of metals-intensive manufactures for export is that the increased supply of manufactured products on world markets should drive down their prices. Increased demand for manufactures due to lower prices should, other things equal, drive higher demand for metals.

Given the foregoing analysis, China's impact on Australia's trade is expected to be long term. Australia needs to seize the opportunities emerging from China's growth by working cooperatively with the States and Territories to develop a clear direction about how best to position Australia in responding to China's growing economy.

<p>Recommendation 1: Given that China's development is expected to be enduring, the Commonwealth and State and Territory Governments should enter into a dialogue to develop a strategic vision for Australia's trading relations with China.</p>
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2.2 Trends in Trade between Western Australia and China

Western Australia's relationship with China is focused on trade and investment with activity strongest in the resource sector. It is a long and enduring relationship extending back to China's involvement in the Channar project. The more recent \$25 billion LNG supply contract highlights the ongoing nature of this cooperative relationship. China is Western

Australia's largest market for alumina (including a 30 year supply contract with Alcoa from 1997) and has the potential to be the largest market for nickel. Western Australia's agricultural exports to China are considerable, totalling \$664 million in 2003/04. China is Western Australia's largest market for wool and second largest market for barley. Both China and Western Australia recognise the potential for mutual growth in their relationship, including areas such as professional services, education and training, shipbuilding and agricultural processing.

Resources

Over the next decade, China's predicted rapid industrial growth and boom in infrastructure spending is expected to boost demand for Western Australia's mineral resources such as iron and copper ore, nickel, alumina and LNG and for related products and services such as mining equipment, services and technology.

China is the world's third largest importer of minerals with Australia ranked as China's ninth largest supplier. Given that China is a major growth area, it is a high priority market for Western Australia's natural resources.

China is a particularly important market for Western Australia's liquefied natural gas. China is moving towards increasing its consumption of clean energy (LNG) from 3% currently to 8% by 2020. This provides further opportunity for Western Australia.

Recommendation 2: The Commonwealth Government should work closely with the States and Territories to leverage from the strong resources trade between Australia and China to introduce Australian manufacturers and service providers to China.

Agriculture

In 2002/03, Western Australia exported 19% of Australia's total agricultural exports to China totalling \$575 million. For the same year, China was Western Australia's largest market for wool and second largest market for barley. Western Australia also exports significant quantities of oats, fruits and some dairy products.

Food security and rural development are the drivers for agriculture in China. The change in wages is driving the urbanisation of China, which in turn is putting pressure on land and the agricultural sector to increase productivity. The successful adoption of knowledge and innovation is the key for China to increase productivity. This provides opportunities for Western Australian producers.

As China becomes more integrated into global agricultural markets, it is expected to become less competitive in grain and wool production. Also, China's broad acre farming is expected to be threatened by the increasing pressure on water resources. Opportunities exist for Western Australia to increase its exports to China including wheat, barley, canola, wool, seafood, wine and dairy products.

China's Government actively promotes the provision of fresh milk to schoolchildren, thus strong opportunities exist in attracting investment from China to the Western Australian dairy industry. The Australian dairy industry, including the Western Australian industry, is one of

the lowest cost producers of dairy products in the world when subsidies are taken into account.

In the woollen textile sector, Western Australia has an interest in attracting China's interest in early stage wool processing and is, through the Western Australian Department of Agriculture, participating in a joint research and development project with CSIRO to develop anti-itch wool.

Education and Tourism

In 2003, 57,579 students from China studied in Australia, of which 2,987 students (5%) came to Western Australia. While the figures for Western Australia are small at present, there is considerable growth potential.

In 1997, the Central College of TAFE and Anhui Science and Technology Commission established the Anhui China Australia TAFE College in Hefei, the capital of Anhui Province in China. The joint venture commenced its English language courses in April 1997. The College also runs a successful twinning course in E-commerce with Hangzhou University of Commerce. Earlier this year, the College concluded in principle agreement with five colleges in Zhejiang Province to deliver various courses.

Central TAFE is conducting a joint foreign program with Shaoxing Yuexiu Foreign Language College since September 2003. Currently there are 118 students enrolled under the English Language program. On completion of the English Language program, students will move on to complete their Diploma in Business English and Advanced Diploma of Business Management.

In 2003, 167,000 tourists from China visited Australia of which 5,800 (3.5%) came to Western Australia. The Western Australia Tourism Commission is committed to having a marketing presence in China by mid 2005 to increase Western Australia's profile in the market.

<p>Recommendation 3: The Commonwealth Government to sponsor the teaching of Mandarin in Australian schools.</p>
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Investment

China is already investing in a range of important joint ventures primarily in the resources sector and to a more limited extent, in agriculture. With the deregulation of China's energy markets and the increased price competitiveness of our energy inputs, there is an expectation of further investment being sourced from China.

Government-to-government relationships are very important factors for investment attraction and doing business with China. Western Australia has a good track record in fostering positive relationships with China's government, representative industry bodies and companies by maintaining close ties with our Sister State and other partners. Western Australia also sends and receives regular delegations and trade missions.

Recommendation 4: Government-to-government relations, both at the central and regional level, are essential to providing the environment for the development of business relationships with China. As such, the Commonwealth Government in conjunction with the States and Territories needs to continue to build its relationship with China at the highest level, as a means of securing opportunities for Australian business firms to participate in China's economic growth.

The recently negotiated contracts for the sale of LNG to China by the North West Shelf Joint Venture will require substantial investment in new processing capacity and pipelines. A considerable proportion of this investment will be sourced from offshore. Similar contractual arrangements will be needed to bring on-stream the development of the Gorgon gas field, requiring investment of approximately \$4 billion by the end of the decade.

Some \$5 billion is currently being expended to increase capacity within the iron ore industry. This is being underwritten by additional contractual and investment-based supply arrangements with China. Also Sally Malay and Radio Hill nickel developments are fully dependent on China contracts for the entire output.

The majority of companies investing in and developing major energy and minerals projects in Western Australia have been large global organisations exporting to world markets. The State Government has encouraged direct foreign investment in large-scale developments and continues to rate investment attraction as a key ingredient for sustainable prosperity and industry development.

2.3 Ongoing Barriers and Impediments to Trade for Western Australian Businesses

Western Australian businesses face many of the same barriers to trade as their national counterparts. Western Australian consultations in respect of the Australia-China Free Trade Agreement Feasibility Study identified a number of perceived opportunities and likely issues. These are:

- Improved governance and transparency of regulations;
- Assurances of market access given the influence of State Owned Enterprises;
- Greater market access through reduced tariffs;
- Easing of investment regulations and providing most favoured nation treatment for Australian investors;
- Support for policies to develop China's energy market;
- Preservation of Australia's quarantine regime;
- Increased access to China's outbound leisure market;
- Greater harmonisation of Australia and China's intellectual property regime;
- Minimisation of technical barriers to trade including wine label registration;
- Harmonisation of standards in relation to the pharmaceuticals and the information, communications and technology sectors and customs processes;

- Recognition of professional qualifications and accreditation of educational institutions in Australia; and
- Easing of visa requirements.

Stakeholders, particularly officials working closely with the mining and agricultural sectors, indicated that clients have expressed a desire for greater transparency of China's legal and policy framework. There is concern by clients about whether they are operating within China's legal and policy framework. While there is no specific information to determine the veracity of claims, the following observations have been expressed:

Despite a substantial amount of decentralisation of government responsibilities in China, the implementation of the priorities and policy directions that are established at the central government level in China occurs mainly at the local levels of government (provincial and municipal or county governments). The implementation is not always consistent with the central policy settings. Also, there are few procedures in place to appeal regulatory decisions.

It is not always clear as to which level of government has responsibility for the laws relating to trade and investment. The rules and regulations with which a business needs to comply are often not transparent. Access to information on policies and regulations is difficult to obtain. There is a need for greater transparency.

Laws and regulations in China are quite general, making it difficult for companies to determine whether or not their activities contravene particular regulations. In particular the regulations governing Tariff Regulation Quotas (TRQ) administration need to be transparent. (See Tariffs - Agricultural Produce)

Recommendation 5: That Australia and China work together to improve the transparency and quality of China's legal framework governing business activity in China.

Tariffs

China's tariffs have been reducing since accession to the WTO but there remain peaks that impact on trade. Some of China's neighbours are receiving benefits from tariff concessions and tariff rate quotas that are not being afforded to Australia's exporters.

China's protected sectors include agricultural products and processed food, raw material fibres such as wool, wool tops and cotton, some mineral products, petroleum products and a range of manufactured items, machinery, textiles and clothing, and steel and motor components.

Western Australia's major exports to China are resources, which do not attract high tariffs. However, value added products such as aluminium do attract higher tariff rates. Under its WTO commitments, China has agreed to reduce tariffs on a number of products for example, alumina from 18% to 8% and gold from 9% to 7%. A further reduction in these tariff levels would be beneficial to Western Australian industry.

China will continue to phase out quotas over several years. In the meantime, quotas will continue to limit the export of many commodities including grain and edible oils with quota allocations largely remaining non-transparent to outsiders.

Under the WTO, China will also open up tariff quotas guaranteeing market access for some important export commodities including wool, wheat, and canola. Tariff rate quotas (TRQ) apply to imports of wheat, corn, rice, soybeans and vegetable oils with out-of-quota tariff rates as high as 121.6%. China's regulations governing TRQ administration have not been made public.

Many products subject to import quotas also require import licences, for example some wool, grains, oilseeds and oilseed products, cotton and fertiliser. Import licences are difficult to obtain.

Western Australia is interested in the export of horticultural products to China. The Commonwealth Government is keen to establish formal access agreements for Australian citrus and mangoes, and also hopes to promote the sale of table grapes, cherries and stone fruit.

There is potential to increase the sale of premium wines with the emergence of a wealthy middle class in China. A reduction in duties would benefit the wine industry. The industry has advised that China's taxes on wine are based on value not volume. Such a tax system severely disadvantages premium producers and small to medium producers that do not enjoy the economy of scale of the larger producers. Large wine producers in Australia support a value-based tax because of their lower production costs, which result from their economies of scale and their focus on lower priced wines, in particular, cask wine.

The Western Australian wine industry is comprised mainly of family operations producing high-quality varietal wines. The average export price of Western Australian wines is significantly higher than the national average. Therefore a volume based tax structure would advantage Western Australian wine producers.

Reports from the industry indicate that wine producers in China are arguing for a volume-based tax in order to keep out cheap imports that compete with their own wine industry.

Investment

China's and Australia's investment regulations (administered by the NDRC and Ministry of Commerce in China and Foreign Investment Review Board in Australia) need to be considered further in respect to removing any undue obstacles from gaining mutual benefits from two way investment opportunities. In particular, Australian companies should have the same rights as China's companies to build, own and operate importation infrastructure.

The deregulation of China's energy market and its policies for the development of natural gas infrastructure would support the continued expansion of Australia's LNG export market.

Quarantine

There are a number of quarantine issues that are considered to impede trading relations between China and Western Australia. China's quarantine processes need to be transparent

otherwise they are perceived as a non-tariff barrier. For instance, China's quarantine authorities inspect and approve meat processors before they are able to export to China. In Western Australia, there is only one processor licensed to export beef to China and only one licensed for the export of mutton. This is restricting. Another example is that China's quarantine authorities require the inspection of two bottles of wine before each shipment is cleared for arrival in China. This process can take two to three months and is considered unnecessary and too restrictive.

Recommendation 6: That Australia work with China to liberalise China's inspection processes related to Australia's meat and wine exports.

Marketing Arrangements

COFCO is the only importer of wheat into China and its practice is to aggregate the total demand for flour and then to seek the cheapest wheat available on the market. The result is that mills in China seeking a quality variety of grain and wanting to specialise are unable to purchase the wheat required for their production. The business practices of COFCO limit trade opportunities in China and Western Australia.

Tourism Services

Stakeholders are seeking increased access to the outbound leisure market through an increase in the number of approved tour operators in Western Australia. The China National Tourism Administration (CNTA) regulates the outbound leisure travel market. The CNTA granted Approved Destination Status (ADS) to Australia in 2001 and currently three CNTA ADS approved Perth-based Inbound Tour Operators service this market. This is a relatively small number of ADS approved agents to service what is anticipated to be one of the true growth markets for Western Australian tourism.

Recommendation 7: The Commonwealth Government support the Western Australian Government seeking more direct flights between Australia and China to improve the flow of tourists in both directions and increase business travel and provide air transported trade opportunities.

Intellectual Property (IP)

A number of technology intensive exporters and joint ventures from Western Australia, particularly in the biotechnology and information communications technology (ICT) sectors, are deterred from doing business in China because of concerns about the protection of their intellectual property. Fashion designers and furniture manufacturers have raised this concern too.

Stakeholders have conflicting views about China's IP regime. Some claim that China does have a sound IP legal framework but that China's legal system is not able to handle enforcement nor is China's legal system well understood by Australian businesses. On the

other hand, the perception of a number of Western Australian businesses is that there is no legal means to enforce breaches of IP protocols in China.

Technical Barriers to Trade

Western Australia supports cooperative activities to ensure technical regulations and standards do not become an unnecessary obstacle to trade. In particular, the need to obtain a licence to sell imported wines in China has been raised as an issue. There is up to five months lead time in securing label registration, providing samples and supporting documentation before being able to sell into the domestic market. Locally produced wines are not subject to a licensing requirement.

The harmonisation of standards would benefit the pharmaceutical and ICT sectors and customs processing. There have been press reports that China is developing its own standards in relation to the ICT industry. This is a legitimate business practice to differentiate products and markets but it will have implications for the Western Australian ICT industry. Customs processes are another area that would benefit from harmonisation of standards. There are comments raised by Western Australian businesses that customs procedures, including customs valuation are very dependent on 'relations' and therefore negotiable.

Recognition of Qualifications and Institutions

Recognition of Australian qualifications and all institutions, public and private, would be beneficial to the development of the Western Australian education industry.

Visas

Overcoming difficulties that business people and students experience in obtaining visas would lead to greater opportunities for those exporting their services to China and for attracting inward investment. A number of the requirements stakeholders are seeking to be changed are directly under the control of the Commonwealth's Department of Immigration and Multicultural and Indigenous Affairs (DIMIA). The suggestions include:

- Streamlining visa processing to reduce the time taken to grant visas;
- Establishing a visa category for investors;
- Relaxing the English requirements for students from China studying in Australia;
- Easing requirements for vocational education students; and
- Relaxing the criteria under visa condition 8202.

The following comments received from stakeholders provide some further elaboration in relation to business and student visas:

Businesses have reported that it is currently difficult to obtain visas or extensions for travellers to or from China. Delays in issuing visas cause negative flow on effects, limiting business interest in tendering for and undertaking projects.

A local Western Australian migration agent business suggests that there would be benefit in establishing a specific visa category for senior management personnel travelling from China to Australia to manage their investments.

As a part of the arrangements of the inaugural Guangdong LNG project, there is a program to fund China's natural gas industry personnel to engage in training in Australia. These arrangements are important for building relationships. Simplification of the visa process would facilitate success of the program.

DIMIA requires all international students from China, 16 years and over, to have passed an International English Language Testing System with a cut-off score of 5.0 or 4.0 on the condition that they study at an English Language Intensive Course for Overseas Students centre for 30 weeks on arrival in Australia.

It is anticipated that the new requirements will delay the entry of students from China by up to six months because, prior to entering Australia, they will have to study and sit for the IELTS test. The Government of China does not permit students to exit until they have completed their Year 9. In the past they have entered Australia part way through our Year 10. This has given them the opportunity to be assimilated into the new school culture and pedagogy, participate in intensive English language programs and acquire the language of instruction as used in Australian schools before commencing their post compulsory TEE studies.

It has been estimated by government school sector agents in China and by private providers in Australia, that approximately 90% of China's international education market will be lost to Australia as the students will travel to countries with less restrictive visa conditions.

Prior to DIMIA introducing the new requirements, schools across Australia provided comprehensive English language programs to overseas students in a mixed mode of intensive language lessons with English language support in mainstream classes. This was deemed to be educationally sound and an effective method of acquiring language. An outcome of this has been the consistent high TER scores achieved by the international fee paying students.

While the students recruited after 1 April 2004 will have higher levels of English on arrival, they will be arriving later, be older and will still have to assimilate in the Australian classroom and acquire the language of instruction. This has the potential to reduce their TER success rate.

DIMIA's rulings with regard to vocational education courses also mitigate against students electing to study in Australia. It is much easier for the potential students to pursue their studies in other countries. DIMIA has increased the visa application fee, from \$315 in 2003 to \$400. In addition, the DIMIA requirement for the lodgement of a substantial bond excludes many potential students. These additional costs over and above the tuition fees and accommodation costs influence the destination of students.

Migration agents claim that some students have had their visas cancelled under visa condition 8202 (students have to attend 80% of their classes and demonstrate satisfactory exam results, certified by the education provider). Greater flexibility in application of the criteria would avoid penalising genuine students. A number of students currently fail to meet the criteria because of adjustments or language problems.

Recommendation 8: That Australia and China work together to facilitate the streamlining of the issuing of business visas and work permits in both directions.

2.4 Opportunities for Strengthening and Deepening Commercial Links with China in Key Export Sectors

Western Australian producers have developed commercial relationships with customers in China over several decades. These companies have valued, very highly, the steadily increasing sales over this time. They have worked successfully to establish their customers' confidence in the quality of the products and the reliability of supply. New business relationships between numerous Western Australian companies and companies in China are being generated and opportunities are emerging for direct investment both ways in a wide range of industries.

Iron and Steel

Since 1996, China has become the largest steel producer in the world with an annual output of over 100 million tonnes.

Iron ore exports are listed by the Australian Bureau of Statistics (ABS) as Australia's fourth most valuable commodity export for 2002/03 at \$5.3 billion. This represents 5% of the total value of the nation's exports. China passed Japan as the world's largest iron ore importer in 2003. China's imports of 148 Mt of iron ore for 2003 are expected to grow rapidly. Some industry analysts are predicting that China's demand for imported iron ore could more than double by 2010. Iron ore exports are particularly relevant when considering existing direct equity investment by China in Western Australia resource projects. China has interests in a number of iron ore and iron processing ventures in Western Australia.

- Channar Iron Ore Mine is a 25-year joint venture between Hamersley Iron and China Metallurgical Import and Export Corporation (CMIEC), signed in 1987 for the development of a mine with the capacity to produce 10 million tonnes per year of iron ore for the China market. The project is worth \$120 million, which was for a long time China's single largest overseas investment.
- Hamersley Iron (Rio Tinto) and the Shanghai Baosteel Group concluded a joint venture agreement in 2002 for the development of Eastern and Western Ranges Iron Ore Mines for annual delivery of 10 million tonnes of iron ore to China worth over \$300 million per year to China for 20 years. The mine was opened in April 2004.
- Beijing Capital Steel Group has joined with Rio Tinto, Nucor and Mitsubishi to invest in the HiSmelt project presently being constructed at Kwinana. The first stage will produce 800,000 t/a of pig iron, with plans to duplicate this plant.
- Laiwu Steel Group in Shandong has signed an agreement to duplicate the Hismelt plant at its works in Shandong.
- In March 2004, four China Steel Mills (Magang, Wugang, Tanggang and Shagang) signed a joint venture agreement with BHP Billiton Iron Ore for the development of Wheelarra deposit at Jimblebar. The deal is worth around US\$11 billion.

- CITC Australia, a subsidiary of China's biggest State-owned enterprise CITC, takes a significant stake in Koolan Island iron ore developer Aztec Resources ahead of a decision to mine, paving the way for an offtake agreement.

Western Australia has intense interest in pursuing further expansions and new potential developments for iron ore and processing.

Alumina

Western Australia's second largest export item to China is alumina. The consumption of aluminium in China has surged in recent years and it has been estimated that in 2003 the demand for aluminium increased by 28%. Global aluminium consumption is also rising at a time of limited alumina supply. In 2002, Western Australia produced 20% of the world's alumina and 68% of Australia's alumina output. In 1998 Alcoa commenced shipping alumina to China under a 30-year agreement with China National Nonferrous Metals Import and Export Corporation for 400,000 t/a. At present the outlook for alumina remains strong and major expansions of production facilities are planned for the Pinjarra, Wagerup and Worsley alumina refineries. The expansions are mainly driven by the rapidly rising demand for alumina and aluminium from China.

Nickel

Approximately 65% of world nickel production is used in the stainless steel industry. The high rate of growth in China is forecast to result in increasing demand for Western Australian nickel. China lacks any significant nickel resources and relies on imports to meet its stainless steel demand. Western Australia remains Australia's only nickel producer with production in 2002/03 totalling 191,678 tonne. An increase in prices combined with an increase in sales volumes resulted in the value of sales increasing 23% to a new record of \$2.46 billion.

In July 2003, a life-of-mine Concentrate Sales Agreement was signed with Jinchuan Nickel to purchase entire production of concentrates (around 60,000 tonnes) from Sally Malay nickel mine in Western Australia (lifetime 5.5 years). In August 2003, WMC Resources and Jinchuan Group signed a nickel supply deal that will see 120,000 tonnes of nickel-in-matte exported to Jinchuan between 2005-2010 from WMC's Kalgoorlie Nickel Smelter in Western Australia.

Liquefied Natural Gas (LNG)

Western Australia's petroleum sales increased by 7% in 2002/03 to \$10.5 billion. LNG is the State's second most valuable petroleum product after crude oil. Western Australia has an estimated 120 trillion cubic feet of gas. The North West Shelf Gas Project is the only LNG project in Australia.

In 2003, China National Offshore Oil Corporation finalised a joint venture agreement with North West Shelf project participants to be a partner in the China LNG venture which will export LNG to Guangdong, China's pilot LNG project, beginning in 2006.

Seven LNG projects are being seriously considered in China and a number more discussed. Gorgon through Chevron Texaco, Browse through Woodside and Scarborough through BHP Billiton are actively marketing LNG in China.

These resources are so immense that a range of opportunities exists for gas-to-liquids projects and to increase Australia's production of chemical products. The Western Australian Government has budgeted for, and is proceeding with, the provision of multi-user industrial estates, infrastructure and utilities, in the Pilbara for the gas processing industry. It is expected that a major gas processing industry will be operating in Western Australia within the next few years. 'Clusters' of gas processing projects will be encouraged so that Western Australia can realise the benefits from internationally competitive companies and gas processing operations.

Direct investment by companies from China within joint venture structures would, in some instances, provide the financial backing and guaranteed markets that the projects need to enable development to proceed. Western Australia is meeting the surging demand from China for steel-making raw materials and liquid natural gas development. The contract, to supply China's Guangdong province for 20 years, is worth \$25 billion, the first of several expected major LNG deals for Western Australia's gas-rich northwest as China's energy demand doubles over the next decade. The high values of the commodities exported from Western Australia are extremely significant to Western Australia's economy and also to the national economy.

Recommendation 9: To take advantage of the expected high consumer demand in China, the Commonwealth Government should take positive steps to support companies in securing both short and long-term contracts for Australian goods and services.

Recommendation 10: The Commonwealth Government should encourage China to invest in or support, through long-term contracts, downstream processing within Australia that takes advantages of our world-class infrastructure development and reliable energy supplies.

Crude Oil and Condensate

Western Australia remains the nation's primary producer of crude oil and condensate. The ABS lists coal as Australia's most valuable commodity export at a value of \$11.9 billion (10% of total exports). Crude petroleum products are the second most valuable commodity export group at a value of \$5.9 billion (5% of total exports).

Gold

The gold market in China has been gradually opened after China's accession to the WTO. Gold imports will be increased from the present 350 tonnes per annum to around 500 tonnes or more per annum, with the majority of the gold imported destined for the jewellery industry. Non-monetary gold at \$5.6 billion is the third most valuable commodity export.

Recommendation 11: The Commonwealth Government to work cooperatively with the States and Territories to focus on resources sector cooperation to take full advantage of China's industrialisation process and leverage opportunities for early stage processing and related investment and services trade.

Sub-Recommendation 11.1: Facilitate joint studies between the Commonwealth Government and Western Australia to identify and encourage opportunities for the establishment of projects that provide mutual benefit.

Education

China's burgeoning middle classes are already sending their children to study in Australian universities in growing numbers. There is potential for Western Australia.

China Southern West Australian Flying College is an investment by China Southern Airlines in training pilots at Jandakot and Merredin. This is still the only pilot training facility owned 100% by China in an overseas country and has been in operation for 10 years. China Southern is examining expansion of the College and has the potential to double its existing operation in Western Australia to over 400 students per year.

Central TAFE is involved in the establishment of the Anhui China Australia TAFE College in Hefei and the conduct of a joint e-commerce Advanced Certificate in Hangzhou with the Hangzhou University of Commerce.

Shipbuilding

High-speed ferries have been supplied from Kwinana to operate in the Pearl Delta and have an excellent reputation for reliability and quality.

Tourism

It is expected that in the next 10 years, China will become a major source of inbound tourists, with somewhere between one million and 1.4 million tourists between 2010 and 2014.

Engineering and Technical Services

Western Australia has a long history and great strength in construction. A number of Australia's major construction companies are, or were originally, based in Western Australia. Construction accounts for 8% of Western Australia's total factor income compared to 6.6% for Australia as a whole. Metal products and manufacturing accounts for 29% of Western Australia's factor income, compared to 18% in Australia as a whole. Given China's enormous construction development and, on joining the World Trade Organisation, its greater openness to services trade, China presents a major opportunity to further develop construction, engineering and related technical services.

2.5 Existing Strengths of Western Australian Business in China and the scope for Improvement through Assistance via Commonwealth Government Agencies and Programs

In the above section, the strength of the commercial relationships between Western Australian businesses and China are highlighted. These strengths can be supported through the work of a number of Commonwealth Government agencies and programs in much the same way as the Western Australian Government provides support to industry. For instance:

- Direct support to exporters.
- A commitment to and significant involvement in Australia-China trade fairs, exhibitions and conferences, including the provision of trade commissioners.
- Undertaking joint studies and feasibility investigations with China.
- Undertaking development activities through the provision of information, coordination of services and the streamlining of approvals processes for major resource projects.

Already, there are instances where the Commonwealth and State and Territory Governments are working together to support industry. In addition to this, there are areas where a strong national approach is required, for instance in establishing the right environment for infrastructure provision.

The Western Australian Government seeks better coordination of Commonwealth and State and Territory Governments' visits to China to capitalise on a consistent and uniform message about how Australia sees its trading relationship with China. It is suggested that a forum needs to be established in Australia that allows for information exchange, sharing experiences and the development of a common national message.

Recommendation 12: The Commonwealth Government to work cooperatively with States and Territories to develop a systematic, national approach to growing Australia's trade and investment relationship with China.

Sub-Recommendation 12.1: The Commonwealth Government to establish a sub-committee of the National Trade Consultations Ministerial meetings for the purpose of sharing information and improving coordination on Australia's opportunities arising from China's economic growth.

Sub-Recommendation 12.2: Through this sub-committee, a mechanism is found, to involve industry consultation and information sharing.

Sub-Recommendation 12.3: - The sub-committee to be charged with developing the strategic vision for Australia's trading relations with China.

Sub-Recommendation 12.4: - The sub-committee to develop a mechanism to ensure better coordination of visits to China by Australian and State and Territory Government delegations.

Direct Support for Exporters

The advice services provided by the Department of Foreign Affairs and Trade and Austrade offices based in China is invaluable to businesses. The Western Australian Government recognises the significant contribution of in-country officers and in May 1994, appointed a

Regional Director to its Hong Kong office who, in conjunction with the Perth office, is responsible for identifying commercial opportunities in China and assisting Western Australian organisations to develop those opportunities. The Hong Kong Office has now relocated to Shanghai.

Joint Studies

The involvement of government in establishing and facilitating a range of studies to support industry is a means of leveraging the existing business strengths and exploring additional opportunities. Western Australia has recognised this as a tool for engaging with China's development agencies and its government to develop opportunities, including:

- The Western Australian Government recognises the benefits of high-value added, gas-based processing industries and is working with the Commonwealth Government to support the establishment of these projects. Feasibility investigations and finance raising activities are continuing on several large-scale projects.
- The recently signed 'Memorandum of Intent Between China Industrial Overseas Development and Planning Association and the Western Australian Trade and Investment Promotion Shanghai Representative Office' specifically includes an agreement to conduct a joint study of the potential for steel industry processing in Western Australia. This study is now underway. The MOI also provides for joint seminars and general information exchange.
- A Memorandum of Understanding (MOU) was signed in March 2004 with Tiangin Ministry of Commerce to foster an information exchange, joint studies and the promotion of investment and trade opportunities.
- A MOU in 2004 was agreed between the Xinjiang Department of Land and Resources and the Western Australian Department of Industry and Resources (Geological Survey of Western Australia) to foster interactions, training and investment opportunities.
- The \$25 million Australia China Natural Gas Technology Partnership Fund has been established as a result of the Guangdong LNG deal. The Australian parties to the Fund are the Western Australian and Commonwealth Governments and the North West Shelf Joint Venturers. The Australian secretariat to manage the fund is hosted within the Western Australian Department of Industry and Resources and, the University of Western Australia and Curtin University of Western Australia have been selected to provide training in Australia.
- In addition, Western Australia is currently undertaking a study on the feasibility of energy cooperation with Zhejiang Province with special attention to LNG as an important source of clean and economic energy for Zhejiang. The Department of Industry and Resources is also undertaking a study on Zhejiang to identify possible business opportunities and to forge closer economic relations with the Province.
- The Western Australia-Zhejiang Economic Exchange Committee was established in 1995 to promote economic exchanges between the two regions. The Committee consists of two Sub-Committees and is currently co-chaired by the Minister for State Development and the Vice Governor of Zhejiang. The last meeting was held in 2001 in Western Australia. The Committee has become increasingly focused on concrete and achievable exchange projects. It has proven to be beneficial in providing momentum for commercial activities between both regions. Zhejiang has provided Western Australia with much commercial benefit.

- Examples of Memoranda of Understanding include WorkSafe and Zhejiang Economic and Trade Commission; Department of Agriculture and Zhejiang Department of Agriculture; Department of Education and the Education Department in Zhejiang; and the Western Australia Chinese Chamber of Commerce and Zhejiang Federation of Industry.

Support for Industry Restructuring

Manufacturers and the relatively labour intensive parts of Western Australia's agriculture are facing significant competition from China in both home and overseas markets. The furniture industry, which traditionally sees imports running at 10% of the domestic market, is facing penetration of 50%. In the steel fabrication industry, China's bids are priced at up to 50% below domestic tenders while the massive expansions underway in China's shipbuilding capacity represent a future threat to that sector in Western Australia.

There are concerns from manufacturers and unions about changes to the administration of Australia's anti-dumping provisions, what is perceived as unfair competition from China's State Owned Enterprises and the impact on jobs in Western Australia's manufacturing sector. The negative impacts of China's growth on some sectors in the Western Australian economy is irreversible and needs to be managed while taking every opportunity to grow the huge benefit the State is currently enjoying and will continue to enjoy from China's economic growth.

Cooperation by the Commonwealth Government in developing a more comprehensive national strategy to address these issues would be welcome.

The Western Australian Department of Industry and Resources is about to commence a major study of the furniture industry and its future prospects in the context of reduced supplies of native hardwood timber, higher input costs and greatly increased levels of import competition. Through the Western Australian Manufacturing Council, the Western Australian Department of Industry and Resources is assisting the Steel Institute of Australia (WA) to carry out an assessment of its members' future prospects in the context of strong continuing pressure from China.

Recommendation 13: Joint studies to be undertaken between the Commonwealth Government and Western Australia in the manufacturing sector to consider policy responses that will equip the sector to respond to increased competition pressures from China.

Infrastructure Provision

The provision of world-class infrastructure is a key factor in attracting investment and providing Australia with the capacity to expand its exports and develop trading relationships with countries such as China. Shortcomings in infrastructure provision have recently been highlighted by the Reserve Bank as a reason for Australia's worsening trade deficit.

With Western Australia's resource endowments being a major factor in the increasing level of trade with China, it is important that the State's issues relating to the provision and funding of infrastructure are addressed.

Major resource projects often seek Commonwealth and/or State Government assistance to locate in Western Australia. This is often on the basis of assessing Australian governments' willingness to compete with overseas locations for 'footloose' investment.

Traditionally, to attract such projects, the State Government has been the provider of economic and social infrastructure and the Commonwealth Government has provided incentives by way of the company tax regime (eg accelerated depreciation).

In recent times the roles of the State and Commonwealth Governments have blurred as:

- The Commonwealth Government has reduced specific industry assistance measures such as accelerated depreciation.
- Constraints such as WTO requirements and the National Competition Policy have restricted the assistance measures available to governments (eg WTO rules prohibit direct subsidies and grants to export oriented companies).
- The amount of assistance sought has increased as projects have increased in magnitude and complexity and the costs of developing infrastructure in remote regions remain high (gas processing projects have typically requested assistance in the order of \$100 million).
- The State's budgetary position continues to require careful management. The short-term budget position could deteriorate should large infrastructure projects be undertaken, particularly when there is limited budget flexibility due to the commitments made to education, health and other social services.
- Benefits from projects have been shown to be increasingly flowing to the Commonwealth Government with the State receiving a relatively small proportion of direct financial returns (eg Monash University modelling of the Gorgon Gas project indicates that this project would improve the Commonwealth Government budgetary position by \$11.4 billion in net present value terms over the life of the project. In contrast, Western Australia's budgetary position would improve by only \$1 billion in net present value terms over the life of the project).
- The Commonwealth Grants Commission equalisation process effectively redistributes up to 75% of the State's royalties to other jurisdictions, while the State's economic support and development costs are not properly recognised. The State feels that current arrangements act as a disincentive to invest in infrastructure essential for the long-term growth of the State and nation.
- Given the above, from a Western Australian viewpoint, there has been an increased need for the Commonwealth Government to have greater involvement in funding the infrastructure necessary to attract major resource projects and allow Australia's export capacity to grow.

Recommendation 14: The Commonwealth Government, in consultation with States and Territories should take a more active role in the funding of multi-user infrastructure identified by the States and Territories as being required to grow inbound investment for project development and Australia's exports to countries such as China.

Role of Trade Treaties and Various Agreements

One of the key elements of the Australia-China Trade and Economic Framework Agreement has been the signing of a number of cooperative agreements including the Memoranda of Understanding on the establishment of the Natural Gas Partnership Fund, Sanitary and Phytosanitary Cooperation, Cooperative Activities in Water Resources, and Scientific and Technology Cooperation in Food Safety, an Arrangement on Higher Education Qualifications Recognition, a Protocol on Australian Wheat and Barley Exports to China and an Implementation Plan on Health Cooperation.

These cooperative agreements help to build a stronger trade and economic relationship between Australia and China in areas relevant to Western Australian industry. There is the potential for Western Australian industry to benefit if there were greater opportunities for the State to actively participate in the discussions. For example, given that Western Australia plays an important role in resources trade with China it is in the State's interest that the Bilateral Dialogue Mechanism on Resources Cooperation (signed between the Commonwealth's Department of Industry, Tourism and Resources and China's National Development Reform Commission [NDRC]) takes place annually and that Western Australia has an opportunity for active involvement. There has been only one meeting held to date, that is in Beijing in 2001 and the second resources dialogue is going to be held in Brisbane in September 2005.

From Western Australia's point of view, these dialogues provide an opportunity for a better exchange of information on China's demand and supply for mineral resources. The dialogue could assist Western Australia to better identify and plan for China's future needs in the mineral sector. It could also encourage the exchange of early information about companies in China interested in investing in Western Australia. The exchange of information promotes better government-to-government and business-to-business linkages.

Recommendation 15: That meetings under the Bilateral Dialogue Mechanism on Resources Cooperation signed between Australia's Department of Industry, Tourism and Resources and China's National Development Reform Commission (NDRC) take place annually and that all States and Territories should be encouraged to attend and be able to suggest and present agenda items.

3. WESTERN AUSTRALIA'S POLITICAL RELATIONSHIP WITH CHINA

Western Australians have long enjoyed deep social and cultural links with China and have had strong political links for some decades. The Western Australian Government has a systematic program to further strengthen and deepen its relationship with that of China's Government.

3.1 Opportunities for Strengthening the Deepening Political, Social and Cultural links between Western Australia and China

The Western Australian Government nurtures its relationship with China through:

- frequent and regular exchanges and visits at the most senior government level;

- sister-State relationship;
- joint initiatives in education and training; and
- cultural exchanges (eg Guest Nation Program).

For a number of years, there have been frequent and regular exchanges and visits at the most senior government level. The Governor of Western Australia, former Premiers of Western Australia and the current Premier and Ministers have visited China. For instance, the previous State Development Minister jointly led a mission to China in 2002 and 2004 with the Western Australian Chinese Chamber of Commerce. The Chairman of the Communist Party of China's Central Military Commission and Premier both visited Western Australia. These visits contribute significantly to deepen relations on all levels.

The establishment of a Consulate-General for China in Perth in October 1994 indicated that the Chinese Government views its trade and investment relationship with Western Australia as important. The Consulate-General provides valuable assistance to the Western Australian Government and businesses dealing with China.

The Western Australia-Zhejiang Sister State Relationship is in its 18th year. China's economy in 1987 was dominated by state owned enterprises and the government was a major determinant of who did business with its companies. Although a market economy is emerging, major projects are still determined (and have to be approved) by the Government of China.

Cultural exchanges include the Western Australian Ballet touring Zhejiang in 1998 and a number of Western Australian music bands have performed in Zhejiang. In 2002, 14 women artists from Zhejiang held an exhibition at the Hellenic Art Gallery, Western Australian Museum and Art Group, Connection Visual II held an exhibition in Hangzhou. In 2004, the China National Offshore Oil Corporation made a significant donation to the Western Australian Symphony Orchestra Appeal Fund.

Other examples of the strength of Western Australia's relationship with the Province include:

- About half of Western Australia's iron ore sales to China go through Ningbo Port in Zhejiang Province. Further trade is shipped through Zhejiang's other ports, namely Majishan (built by Baosteel, China's largest steel mill) and Beilun.
- Zhejiang has one (200,000 tonne capacity) of the three largest malting facilities in China. About half of its barley supply comes from Western Australia. China is Western Australia's largest market for barley.
- Taiwan's Reward group has one of China's three largest wool-scouring mills in Ningbo, Zhejiang Province. Western Australia is an important supplier of wool to that mill.
- Zhejiang has played an important role in introducing Western Australia's canola to China. China is one of Western Australia's main markets for canola.
- The Sister-State Relationship is also beneficial to Western Australia in achieving other successes in Zhejiang. For example, Central TAFE College has two projects in China, one in Zhejiang Province and one in Anhui. Central TAFE had a lot of support from the Zhejiang Government when it was first set up.

- A study into Zhejiang's future power requirements and the potential for this being met by LNG imports is currently being undertaken between the Western Australian Department of Industry and Resources and Zhejiang's State Development Planning Commission.
- Much of Western Australia's development experience is relevant to China's central and western provinces. Western Australia has provided specific training and consultancy expertise to China in the past and will continue to look for these opportunities in the future.

There are also several examples of joint initiatives in the area of Education and Training reflecting the developing good relationship between China and Western Australia, including exchanges of teachers, teaching materials, and conduct of various courses and programs.

China was selected as the first guest nation to participate in the 2002 Perth Royal Show under the new Guest Nation Program. This was a joint initiative by the Royal Agricultural Society Western Australia and the Western Australian Department of Industry and Resources. Companies from China provided a special exhibition of the country's commerce and culture. The Guest Nation Program provided the opportunity to create new commercial ties and strengthen cultural links between China and Western Australia. Exhibiting companies also visited local industries to explore possible joint venture opportunities.

3.2 China's Relationships in the Region

In the early 1990s, the Commonwealth Government publicly recognised Australia as being a part of Asia. However, with recent events and the current public profile of Australia's alliance with the United States of America, the Australian public generally has recognised a change of direction away from Asia even though the Commonwealth Government's engagement with Asia is more firmly based than in the past.

It has been made clear from various levels of government in China to Western Australian delegations that Australia needs to decide its strategic position with regards to Asia. Australia's identification with the region and in particular, China is a critical relationship issue impacting on our trading environment long term.

Recommendation 16: The Commonwealth Government to promote a consistent message about how Australia sees itself in relation to China and to grow the public's understanding of that relationship.

As China's economy becomes more powerful and approaches the size and productivity of the North American trading bloc and the European community, it changes the economic relationships between countries in the region. China's search for security in the region will of itself cause interest.

The sheer size and growth rate of China's economy is changing the focus of attention in the region. The marketing strategy of a number of regional economies is to encourage Australian companies to do business in their country as a means of benefiting from the growth of China. The marketing pitch is that they have connections and understand the market in China but are somehow more accessible to Australian SMEs than in the China market.

China is undertaking trade negotiations with a number of countries in the region and this challenges Japan's interests and the United States involvement in the region. Trading arrangements can adversely impact on Western Australia's export markets. For example, a change in tariff arrangements favouring Thailand agricultural exports over those of Western Australia have caused difficulties for local fresh food distributors.

China's considerable demand for minerals and energy means that it is searching the world for suppliers. While Australia and China may have complementary economies and our futures are co-dependent, Australia is not the only source nor the largest provider of the minerals and energy products required by China for its development. There are competitors in the market place and it is to China's advantage not to be solely dependent on any one supplier or country for its much-needed inputs.

DEPARTMENT OF AGRICULTURE

KEY POINT SUMMARY

1. China is an important market for Western Australia and there is a strong and growing relationship in trade in the agri-food sector.
2. In 2003-04 approximately 99 per cent of Australian wheat exports to China were from Western Australia with an estimated value of \$165 million.
3. Western Australia was also responsible for all of the nation's exports of barley (estimated value \$25 million) and oats (estimated value \$3 million) in the same period.
4. Western Australia also exported 75 per cent of Australian seafood exports (estimated value \$41 million) in 2003-04.
5. China's growing status as a major economic power has seen the emergence of some 967 retail chain operators, growing by more than 35 per cent per annum since the 1990s. These chain store operations have also extended to other retail formats such as speciality stores, professional stores and convenience stores.
6. Growing brand awareness and increasing demand for higher quality commodities among Chinese consumers provides increasing opportunities for Western Australian agri-food exporters to increase their market-share in China, particularly as these relate to dairy products, western type food and speciality food products.
7. However, discussions with exporters reflect that there are issues inherent in the grain, meat, wine, seafood, processed food and horticultural sectors that have the potential to hinder trade with China.
8. More importantly, it is a misnomer to assume that the plethora of web-based intelligence is the panacea to market intelligence. Larger companies wishing to expand into China receive little or no assistance in relation to up-to-the-minute market research or access to 'free' on-the-ground specialist consultant resources that provide comprehensive market intelligence and inroads into Chinese networks which help overcome challenges and complexities peculiar to the Chinese market.
9. China's aggressive thrust into capturing market share for agri-food products in the price-sensitive ASEAN region will likely be stepped up in the event of a China-ASEAN Free Trade Agreement.
10. China has also doubled its exports in key sectors of WA agri-food exports to North Asia.
11. Many of these markets have addressed China's competitive thrust in capturing market share by resorting to vertically integrated manufacturing processes, thereby taking advantage of China's cheap labour intense resources while retaining the development and implementation of core intelligence properties within their home base.

12. Joint trade activities resulting from these initiatives are mutually beneficial for all parties concerned.
13. There is evidence to show that one Western Australian company to have adopted these practices believes that this approach has been beneficial to the company's growth and operational processes.
14. Western Australia has a sister-state relationship with Zhejiang Province. Perth has also established a sister-city relationship with Nanjing City, Jiangsu Province.
15. In addition to the state representative in China based in Beijing, the WA Department of Agriculture appointed a Senior Trade Consultant in Agriculture based in Hong Kong in April 2004, to promote trade in agriculture, fisheries and food products as well as to attract inward investments into Western Australia. The consultant is also available to provide more on-the-ground assistance to exporters dealing with the complexities of business and cultural practices, communication, relationship building and trading in China.
16. Recognising the importance of relationship building in leading to the longer term achievement of commercial outcomes, the Western Australian Department of Agriculture has also signed a Memorandum of Understanding (MOU) with several Chinese organisations and research institutes, including the State Administration of Foreign Expert Affairs, Shandong Academy of Agricultural Science, Yishui County People's Government in Shandong Province, Shandong Provincial Department of Agriculture, and Zhejiang Provincial Department of Agriculture.
17. In grain alone, there are some eight research initiatives involving Chinese tertiary and research institutions and the Western Australian Department of Agriculture and its associated links with tertiary institutions. Details of these are listed on pages 36 and 37.
18. Other linkages have also been forged through agricultural research initiatives in the horticultural (fruit and vegetables), wool, sheep and cattle industries.
19. From a political viewpoint, it is critical that Commonwealth government agencies recognise and harness the importance of state-based linkages and research into China's agricultural reform when evaluating Australian contributions to multilateral funding agencies working on agricultural reform in China.
20. It is important that any initiative to develop closer ties with China leads to a merging and integration of cultural and social insights which enrich and strengthen both the Chinese and Australian communities to the mutual growth of both nations. The importance of China as a trading nation must equally mirror the importance of Australia as a small, progressive and developed global economy, so that both countries together contribute positively to the integrating global environment.
21. The Western Australian agricultural sector supports any initiatives designed to build a positive and mutually beneficial relationship with China. However, there are mixed reactions as to whether the concept of a free trade agreement will fruitfully and successfully address all of the issues facing Australian agriculture in China.

1. INTRODUCTION

China's gradual but steady progress as a world economic power has been assisted by its admission into the WTO (2000), the impending Beijing Olympic Games in 2008, and the staging of the World Expo in Shanghai in 2010.

China is the world's most populous nation and the largest farm producer, by volume. However, China's overall gross domestic product (GDP) is growing faster than agricultural GDP. Rising incomes, strong consumer demand, and limited arable land for crop production indicate that agricultural imports will likely grow as domestic consumption outpaces domestic supply. In addition, China's modernisation process and major developments in the retail sector have seen growing brand awareness and an increase for higher quality commodities amongst Chinese consumers which include an interest in western cuisine (dairy, cereals, fast-food, convenience and speciality foods).

China's aim for self-sufficiency has also seen a commitment to agricultural reform that includes plans to enhance agricultural development, as well as strategies to increase livestock and dairy production.

Trade with China, however, is not without its complexities. There is a wide gap between cultural awareness, business nuances, management, technical and language skills. Relationships are an intrinsic element of Chinese business culture and relationships can fall apart because of communication and associated difficulties.

2. RECENT TRENDS IN TRADE BETWEEN WESTERN AUSTRALIAN AND CHINA IN THE AGRI-FOOD SECTOR.

Australia's agribusiness exports to China for 2003-2004 was in excess of \$2 billion of which Western Australia's agri-food exports was more than \$531 million, a rise from \$431 million in 2002-2003. Overall, there has been an estimated 1.5 per cent increase in agri-food exports to China from Western Australia since 2000-01 (see Appendix 1).

These figures confirm that China is an important market for Western Australia and that there is a strong and growing trade relationship between WA and China. Indeed, China's growth potential is such that it is likely that it will overtake Japan as Western Australia's major market by 2010.

Trade Trends

Appendix 1 provides details of agricultural and rural exports from Australia and in particular, Western Australia to China over the five year period 2000-2004 (both years inclusive).

Western Australia's share of wheat exports has grown by approximately 33% from 2000-01 (\$5,026,000) to almost 99% of the wheat export income for 2003-2004 (\$165,494,000 compared to the total Australian figure of \$168,486,000).

Although Australian exports of barley and oats have been on the decline, Western Australia was responsible for all of the 2003-04 export income, valued at an estimated \$24,883,000 and \$2,701,000 respectively.

Wine exports from Western Australia have also increased by approximately 35% from \$10,000 (2000-01) to an estimated \$352,000 (2003-04). This increase mirrors the national approximate 32% increase over the same period (estimated \$7,073,000 to \$2,242,000 between 2000-2004).

Live cattle, beef, veal and lamb cuts have also increased marginally over the years.

Wool exports have also increased since 2000-01 although a 1% slight drop is recorded between 2002-03 and 2003-04 (from \$260,800,000 to \$256,875,000).

Western Australia is responsible for the bulk of marine exports which have also increased by 6% over the five year period 2000-04, from \$7,162,000 to \$41,228,000 in 2003-04. (Australia's total exports for 2003-04 were \$69,623,000).

On the downside, horticultural exports (vegetables, fruit, floriculture, other crops) have been on the decline Australia wide since 2000-01 and Western Australia's share was almost non-existent in these sectors over the last financial year.

Western Australia's top 10 exports for 2003-2004 were greasy wool, wheat, crayfish, barley, sheep skin, sheep offal, live cattle, wool degreased, meat and animal fat.

Industries expecting to benefit following China's accession to WTO include wool, sugar, wheat, barley, meat, seafood, horticulture, dairy, cotton, rice, oilseeds, wine, processed food, hides and skins.

3. THE AUSTRALIA-CHINA TRADE AND ECONOMIC FRAMEWORK AND THE POSSIBILITY OF A FREE TRADE AGREEMENT WITH CHINA.

Despite the evidence of a growth in trade between Western Australia and China over the last five year period, there is evidence to show that future incremental growth is constrained by the complexities of dealing in the China market.

The prospect of a free trade agreement with China is generally supported by the Western Australian agri-food sector if, in the final analysis, it were to lead to a reduction of the trade barriers and trade distortions which hinder market expansion for the agri-food sector in China.

4. ON-GOING BARRIERS AND IMPEDIMENTS TO TRADE WITH CHINA FOR AUSTRALIAN BUSINESSES

In order to develop an appreciation of relationships and trade issues faced by the exporting community, a telephone and email survey of industry associations, and some seventy-five companies was conducted by the Department of Agriculture. Although the initial response

rate was less than 20%, follow-up telephone calls to major players within the different industry sectors provided qualitative feedback which is detailed in the following section.

Significant factors in hindering trade are outlined below:

Wheat

Feedback from exporters is that, although, no tariff barriers exist:

- state-owned COFCO is the only approved importer in China based in Beijing;
- flour mills cannot import preferred wheat varieties; and
- COFCO aggregates total demand & seeks cheapest wheat in volume available on market.

Meat

Exporters, including offal exporters, report that:

- only a limited number of meat processors (one for beef, one for mutton from WA) can export to China;
- on arrival, demurrage costs are very high;
- products left on dock before clearance (unfairly) enforce price reductions;
- products previously entering through the 'grey market' are now constrained at Chinese entry points through over-policing by Chinese authorities; and
- repacking of Australian product in United States labelled cartons facilitates entry

The following suggestions were provided:

- Trade policy emphasis should be placed on marketing processed fresh, chilled and frozen meat in preference to live animal shipments.
- Ausmeat, or similar agency, should be involved in establishing the Chinese set of specifications for all products with a view to removing areas of contention and the receiver's ability to change a specification without prior notification.
- The Australian Meat and Livestock Association should be encouraged to embark on educational programs with a view to familiarizing the Chinese with Australia's products and usage. These educational undertakings should reflect a familiarity with the host country's tastes and preferences.
- Efforts should also be made to acquaint the Chinese industry with Australia's greater meat industry with particular emphasis on its sophistication and modernism.
- Promotion of better quality meat is essential. Emphasis could also be placed on expanding the range of offal products.
- At ministerial level, discussion should be held regarding the integrity of receivals and regarding the veracity and method of International Monetary Transfers.

Dairy cattle

China's agricultural reforms project strong demand for dairy cattle. Exporters, however, report that prolonged approval and policing processes (up to eight months) act as a strong non-tariff barrier.

Wine

There is a burgeoning middle-class projects growing market for premium wines. Exporters noted, however, that:

- tariff is calculated on import value rather than import quantity;
- much of Western Australia's wine industry comprises small family business producing high quality wines, which acts to constrain volume sales;
- over-policing by Chinese quarantine requires two bottles be sent in advance; and

- lengthy approval process (two months) acts as a non-tariff barrier.

Seafood

Sentiment expressed by exporters in relation to seafood is “that there is much to be done”. They see that a big and fast-growing market is restrained by:

- high tariffs (up to 40%) on prawns and lobsters;
- over policing by import officials directed by Beijing; and
- shipments through Hong Kong followed by road distribution to mainland China is still cheaper than paying duty.

Products sent for processing and re-export, however, encounter no problems.

Comment was also made that politicians in Canberra were generally swayed by the amount of trade and the current state of (trade) relations between Australia and China and seemed surprised that there are inherent problems such as those listed above.

Processed Foods

Exporters report:

- high import duties;
- overlapping of state, provincial, and central government laws and regulations;
- lack of transparency in legal processes, investment and trading issues;
- huge differences in cultural and business practices; and
- tendency for Chinese to seek quick economic returns – ‘get rich quick!’

Salt

The Chinese have expressed an interest in fine food salt products. These products require an import licence, which should be available. When a Chinese importer applies for such a licence, however, the licence is not forthcoming.

Horticulture

Quarantine and disinfestation processes (which shorten shelf life and lead to discoloration and subsequent reduction of fruit quality) are major issues for the horticultural sector.

5. EXISTING STRENGTHS OF AUSTRALIAN BUSINESS IN CHINA AND THE SCOPE FOR IMPROVEMENT THROUGH ASSISTANCE VIA COMMONWEALTH AGENCIES AND GOVERNMENT PROGRAMS.

Peters and Brown, a division of Fonterra, New Zealand, and based in Western Australia, has a branch office in China and representation on the ground has helped alleviate much of the difficulties associated with growing market share in China.

With regard to the type of government assistance which might have been useful in assisting Peters and Brown establish a presence in China, it was reported that up-to-date market information as well as the ability to seek advice from a locally based specialist senior consultant who understood the pertinent issues and had access to networks relating to establishing a presence in the market would have been invaluable. By and large, Austrade’s concentration and drive to create new exporters has been at the expense of larger Australian companies which receive no free assistance for market research (Austrade driven ‘market profiles’ are currently non-existent) nor is ‘free’ on-the-ground intelligence readily available

when attempting to enter a market such as China. While companies, by and large, are happy to incur the cost of establishing a presence in new markets, China as a market poses additional complexities, many of which are historically related to deep-seated and entrenched business nuances, cultural and social norms quite unlike other global markets.

Two other company representatives have suggested that using China as a low-cost labour base to complement higher value adding to products in Australia, subsequently marketed under an Australian brand name, has been a valuable approach to securing a market presence and market share in China as well as other markets.

By and large, however, the survey showed that the majority of companies doing business in China were still challenged and frustrated by the complexities of doing business there. More importantly, at least one company has preferred to look to other markets since China's ascent into the WTO, and currently does not address opportunities in China.

6. OPPORTUNITIES FOR STRENGTHENING AND DEEPENING COMMERCIAL LINKS WITH CHINA IN KEY EXPORT SECTORS

Initiatives

The Western Australian Department of Agriculture has a strong policy of working with WA exporters, and, recognising China's looming emergence as a major economic power, has over the years, worked strategically towards forging long term ties with China. In addition to the sister-state relationship with Zhejiang Province and the sister-city relationship with Nanjing City, Jiangsu Province, the Western Australian Government (WA Department of Agriculture together with the Department of Industry and Resources) appointed a Senior Trade Consultant in Agriculture based in China in April 2004, to promote trade on agricultural, fisheries and food products and inward investment into WA, and to provide more on-the-ground assistance to exporters dealing with the complexities of business nuances, cultural practices, communication, relationship building and trading in China.

Sister-state and sister-city relationships have greatly strengthened the friendship and cooperative spirit between China and Western Australia, through personnel and technical exchanges, collaborative research and the training of the Chinese agricultural scientists.

The appointment of a WA Senior Trade Consultant has also had very positive outcomes. Since the appointment in April 2004, the consultant has assisted in developing new trade worth \$12 million for Western Australia.

China's commitment to agricultural reform and the proposed and ongoing expansion of the agricultural sector in grains, dairy and animal husbandry industry also provide opportunities to strengthen ties which will lead to deepening commercial links with China in key export sectors.

While China's new farm subsidies are targeted at grain producers, they do not provide strong incentives to increase grain production. In addition, China, like Australia, suffers from desertification and land degradation and much is still to be done in establishing a natural resource and environmental management structure for agricultural regions across China.

The Department of Agriculture and its associated links with WA tertiary and research institutions, has established technical and professional links with the Chinese tertiary and agricultural sectors which, in the longer term, will lead to a strengthening and deepening of commercial links with China in key export sectors through the following initiatives:

Research Initiatives in Grain

Letters of Intent signed with China, November 2003:

- Henan Agricultural Institute, Zhengzhou
- The Institute of Crop Sciences (ICS) of the Chinese Academy of Agricultural Sciences, Beijing
- The Huazhong Agricultural University (HAU), Triticeae Laboratory, Wuhan, Hubei Province
- The Zhejiang University (ZU), Hangzhou, Zhejiang Province
- The Jiangsu Academy of Agricultural Sciences (JAAS), Institute of Food Crops, Nanjing, Jiangsu Province
- The Hubei Academy of Agricultural Sciences (HAAS), Crop Breeding and Cultivation Research Institute, Wuhan, Hubei Province
- The Northwest Sci-Tech University of Agriculture and Forestry (NWSUAF), Yangling, Shaanxi Province
- The Shandong Academy of Agricultural Sciences (SAAS), Crop Research Institute, Jinan, Shandong Province

Ongoing research in cereals and grains:

- Comparative genomics research to develop novel molecular tools for wheat and barley breeding with Beijing Institute of Genomics, Chinese Academy of Sciences
- Wheat drought tolerance research project under ACIAR with Chinese Academy of Agricultural Sciences, the North-West University of Agriculture and Forest, Henna Academy of Agricultural Sciences, Hubei Academy of Agricultural Sciences, Shandong Academy of Agricultural Sciences
- Wheat and barley genomics research with Chinese Academy of Agricultural Sciences
- Barley novel gene pool research with Zhejiang University and Huazhong Agricultural University
- Functional food and novel germplasm research with Zhejiang Institute of Nuclear Agricultural Sciences, Nuclear Agricultural Science Division of International Atomic Energy Agency and United Nation Food and Agriculture Organization
- Develop joint barley research centre with Zhejiang University, Zhejiang Academy of Agricultural Sciences and Chinese Academy of Agricultural Sciences

Research Initiatives in Wool

- The first assembly of the world trade data for wool into a world wool model. This activity is being undertaken in conjunction with the University of Western Australia. The objective of the model is to be able to project the possible/likely impact of a change on world wool trade, and as China currently takes over 50% (of which Western Australia's share is 25% approx) of Australia's wool exports, China is a key cog in the wool world. This model could be useful in assessing the impact of a China-Australia Free Trade Agreement or other changes to trade policy. The model being formulated is unique in that it doesn't treat 'apparel' wool as homogeneous.

- The deployment of the Wool Portal (hosted as part of the Department of Agriculture web site) in Chinese (Mandarin). This was accomplished in 2004 and some introductory material was taken to a conference in Beijing in November. The Department will be looking to scale this operation up through promotion at other events and to Universities within China. At this stage the Department does not have the contacts nor any contracts. The Nanjing Wool Market is a logical start, but the language barrier is a challenge to be addressed.

Research Initiatives in Livestock Development and Animal Husbandry

Sheep

- Lecture and advise on the introduction and management of meat breeds of sheep in Shanxi Province, China
- Significant potential exists for the export of quality wool less meat sheep and Boer goat embryos to Shanxi and other parts of China.
- Significant needs also exist for technical training in the fundamentals of nutrition, body condition and selection on performance.

Cattle

Conducted an epidemiology and disease free zone training course in Shandong Province, China. The course was funded by Crawford Fund, AusAid and APEC. It was a four-week course and was attended by 90 veterinarians, including five from South East Asia.

Meat

Promotion of consistent high quality Western Australian beef on the back of the Meat Safe Australia scheme.

Memorandum of Understanding (MOUs)

The Department of Agriculture has signed MOUs with several Chinese organisations and research institutes, including the State Administration of Foreign Expert Affairs, Shandong Academy of Agricultural Science, Shandong Provincial Department of Agriculture and Zhejiang Provincial Department of Agriculture. Some semi-commercial activities have been developed through the MOUs (for example, the training of the Chinese animal husbandry scientists and veterinarians and the establishment of disease free zone in Shandong Province – funded by AusAid).

There will, no doubt, be many more areas where the WA Department of Agriculture will continue to build industry and tertiary networks to help WA agribusiness exports to China.

7. OPPORTUNITIES

Prepared foods and speciality foods

Western Australia is home to a number of world renowned agri-food businesses in the food service, speciality foods and convenience foods that would be more committed to developing a stronger market presence in China if the existing trade distortions and barriers were to be reduced.

Seafood

While Western Australian seafood exporters currently enjoy the major share of marine exports to China, much more commitment would be made to service the Chinese market if the current difficulties and constraints as outlined in the previous section were to be reduced or eliminated.

China's growing affluence is also leading to consumer preferences for high quality products. Seafood is a long-established Chinese favourite food and demand for environmentally clean, high quality ocean-bred seafood (for example, prawns and rock-lobsters as against those farmed in China) have strong appeal in Chinese cuisine.

Dairy food

China's dairy sector has still a long way to go before being able to service the growing demand for dairy products in China. Western Australia's dairy sector ranks among the most productive sector in Australia and would, no doubt, seek to more strategically address the opportunities in China if the market were more open to trade.

Grain

Western Australia is already a lead player in wheat and grain exports to China. However, existing quotas are prohibitive and act as a barrier to increase trade in these sectors.

Red Meat

Younger Chinese influenced by western culture and education are showing an increased tendency for red meat in preference to pig and poultry meat.

Pig meat

Pork features highly in Chinese menus and Western Australia's pig industry is well placed to serve this market in China.

Edible meat and offal products

Other edible meat and offal products have a large market in China. However, much of the existing market, for offal products in particular, have been constrained by over-policing and non-trade barrier tactics at Chinese entry points.

Horticulture

Australia's opposite seasons provide complementarity for horticultural products which make opportunities for horticultural products in China very attractive. However, China's quarantine restrictions and delays in granting entry status for horticultural products have meant that these opportunities have not been able to be addressed and utilised fully.

Live cattle exports versus biotechnology in animal husbandry

China's reference for live cattle exports has meant that opportunities for biotechnology in dairy and herd development have been left untapped. Western Australia has both the skills base and the experience of dealing with animal husbandry and dairy development in many other countries around the world. Much of this expertise could be applied to China's ambitious plans to increase dairy and beef herds as part of its agricultural reform.

Bio-security

The presence of SARS and threat of the Avian Bird flu leave China and its agricultural sector very vulnerable to these diseases. Western Australian veterinary experts are already providing input into this sector.

8. THREATS

Exporters surveyed by the Department of Agriculture report key obstacles to trade being:

- Lack of transparency in many legal and commercial processes and lack of international accreditation
- Overlapping of provincial, state and central government agencies in relation to government laws and regulations relating to commercial processes
- Differences in interpretation of laws and jurisdiction dependent on law of the presiding officer
- Over-policing by agencies at export entry points (for example, border checks at Guangzhou)
- High import duties in some sectors
- Lack of transparency in investment and trading issues
- Uncertainty relating to protection of intellectual property
- Doctrine of Chinese business being governed by horizon of 'get rich today' with little long-term strategy in place
- Major differences in maturity of Chinese businesses - many meetings take place in hotels, or venues other than the permanent place of trading so that no assessment of business capabilities is possible
- Opportunistic and entrepreneurial nature of Chinese business makes it difficult to assess the 'core business' of the agency.

9. CHINA AS A MAJOR FOOD EXPORTER

An analysis of China's trade statistics in Agricultural products, agri-food and fibre products over the period 1999-2004 shows that China is fast emerging as a major global food exporter.

Live animal exports

China exported 147,000 live sheep and 6,000 live cattle to Jordan in 2003-04 (<http://englishedition/nation/userobject1ai90195.html> 1/3/05).

Seafood/Marine products

China is itself a major producer and exporter of seafood and marine products but markets tend to be targeted at the price-sensitive ASEAN region.

Evaluating China's competitiveness in some of Western Australia's key agri-food sectors, there is evidence to show that China's exports have shown exponential growth in the following areas:

(Statistical Reference Source for trade trends reflected below: <http://www.gtis.com/gta>)

ASEAN region

Agri-food and fibre products

In assessing Australia's major export markets to the ASEAN region, there is evidence to show that China's agri-food and fibre products have almost quadrupled in Thailand, doubled in the Philippines and increased by an estimated 1.5% to Singapore, Indonesia.

Fruit and vegetable products

Statistics also reflect an exponential growth in China's fruit and vegetable exports to Malaysia, Indonesia, and Thailand (increments ranging from 500% and upwards). For example, the export of Chinese carrot to Malaysia has increased from 1,630 tonnes in 2000 to 17,893 tonnes in 2003.

Edible preparations of meat, fish, crustaceans, etc.

Similar exponential growth trends are reflected in China's exports of the above products to the major markets in the ASEAN region. (Increases range from 250% and upwards).

From this evidence it would appear that while the standard of aquaculture processes in China fall far short of conditions and regulations for the aquaculture industry in Australia and is seen as a threat by the marine/seafood sector in Australia, the same concern is not reflected in the major price sensitive ASEAN markets.

Prepared cereal, flour, starch or milk, bakers wares

China is also a major exporter of cereal, flour, starch or milk and bakers wares products to the major ASEAN markets with export growths over the five year period (1999-2004) reflecting increases from as much as 200%-300%).

Live animal exports

China exported 147,000 live sheep and 6,000 live cattle to Jordan in 2003-04 (<http://englishedition/nation/userobject1ai90195.html> 1/3/05 16:25).

North Asia

Agri-food and fibre products

Significant in this sector is the observation that China's agri-food and fibre exports to Japan, Taiwan, Hong Kong and South Korea reflect increases of between 150%-200% over the period (1999-2004).

Fruit and vegetable exports

Fruit and vegetable exports from China to North Asia also reflect increases of between 150-200% during the period 1999-2004.

Edible preparations of meat, fish, crustaceans, etc.

Similar increases of between 150-200% for China's exports to North Asia are reflected for edible preparations of meat, fish, crustaceans, etc.

Prepared cereal, flour, starch or milk, bakers wares

China's exports to North Asia for cereal, flour, starch/milk and bakers wares have also increased between 150-200%.

Live animal exports

China's live animal exports to Japan and Korea increased by 200% over the five year period 1999-2004.

South Pacific - Papua New Guinea

Agri-food and fibre products

China's exports to PNG for agri-food and fibre products increased by 900% over the period 1999-2000.

Fish, crustaceans and aquatic invertebrates

Increases of between 150%-200% for Chinese exports of fish, crustaceans and aquatic invertebrates are reflected between 1999-2004.

United States of America and Germany

Increases of between 1.5%-2% is also in evidence for China's agri-food and fibre and edible vegetable exports to the United States and Germany.

10. CHINA'S EMERGING INFLUENCE ACROSS EAST ASIA AND THE SOUTH PACIFIC

China's importance as a major trade partner is evidenced from its potential to overtake Japan as Western Australia's major market for agricultural products.

However, given the evidence provided in the previous sector of China's increasing importance as a major agri-food and fibre exporter, it becomes critical that Australia develop a collaborative and mutually beneficial relationship in China's agricultural sector such as targeting some common markets outside Australia and China.

While it is clear that China's exports in the horticultural sector have increased exponentially in the major ASEAN markets, the growth in North Asia has not been as aggressive. Much of this could relate to markets such as Japan being more brand conscious and not as price sensitive as markets in the ASEAN region.

There is evidence to show that North Asian markets are addressing the threat posed by China in the manufacturing sector by aligning and integrating much of their manufacturing

processes in China. This strategy will, while providing access to cheap labour, will also, in the longer term, do much to enhance the political relationships between China and its manufacturing partners. To this end, China's success at labour-intensive activities in the agricultural sector (horticulture, aquaculture and prepared food products) must be evaluated from the prospect of integration with Australian branding and reputation as a quality food producer and exporter.

11. OPPORTUNITIES FOR STRENGTHENING THE DEEPENING POLITICAL, SOCIAL AND CULTURAL LINKS BETWEEN AUSTRALIA AND CHINA

China ranks as Western Australia's second largest market for agri-food and fibre products but on-the-ground representation to assist and tease through trade issues on a daily basis is relatively light in comparison. Australia needs to have a more unified presentation in China to promote food and fibre products. There is a strong need for government, at the state and Commonwealth level, to provide a level of infra-structural support that addresses day-to-day operational issues peculiar to the Chinese market. Australians are generally well liked as people and deeper social and cultural links embedded in relationships entrenched through cooperative industry and training networks would do much to strengthen ties between Australia and China.

12. POLITICAL, SOCIAL AND CULTURAL CONSIDERATIONS THAT COULD IMPEDE THE DEVELOPMENT OF STRONG AND MUTUALLY BENEFICIAL RELATIONSHIPS BETWEEN AUSTRALIA AND CHINA

While much is being done to address the growing relationship between Australia and China at the political (generally trade-related) level, much more needs to be addressed at the government level in fostering and enriching the social and cultural considerations, not to mention a shared awareness of business practices between Australia and China.

By western standards, China is a complex, difficult and challenging market. Relationships are an integral part to forging relationships and communication processes are entrenched in deep-seated cultural practices.

China's education, induction and integration into a global economy will depend heavily on its trading partners who address the social and cultural considerations that China's citizens must overcome in its transition into a global economy. Relationships built on platforms of education, exchange programs, tourism insights and an eagerness to learn from and of each other will do much to offset some of the impediments to developing strong and mutually beneficial relationships between Australia and China.

The agricultural sector can learn as much from China as China can learn from Australia. Initiatives such as the research programs outlined earlier, whilst in the overall scheme of agricultural productivity might be seen as a threat to Australian agriculture, could also, through the strength of relationships forged, and a shared vision to improve global food production, do much to enhance the burgeoning relationships in agriculture between Australia and China. Interestingly, however, while China has gained from insights into Australian agricultural production (eg carrot and other vegetable production, SARS and Avian bird flu treatment etc), much more must be done at the Commonwealth government level to harness

and capture some of the major opportunities in China's agricultural program funded by the multilateral banks (to which Australia is a contributor). Present indications are that no recognition is made by Chinese authorities of Australia's research contributions in agriculture when it comes to evaluating commercial consultancy inputs into multilaterally funded agricultural programs in China.

13. CHINA'S RELATIONSHIPS IN EAST ASIA, INCLUDING IN PARTICULAR, THE KOREAN PENINSULA AND JAPAN

Insights into the Japanese and Korean manufacturing sectors reflect that rather than be threatened by China's capacity to replicate products manufactured by the North Asian manufacturing giants, these companies, are in fact, using China's cheap labour intensive capacity to boost their own production levels in automotive, IT, textile and other labour intensive manufacturing processes while retaining core intelligence and overall management strategies in-house. Australia's capacity as an agricultural producer must also be evaluated in its potential to integrate and capitalise on China's strengths in cheap, labour intensive sectors.

In the food sector, for example, vertically integrated manufacturing processes will do much to address some of the food opportunities in both Chinese and western type foods. It is a widely accepted theory among the Asian communities in Asia, that Asian food produced using Australian ingredients is often a much tastier product. Food is also a great socialiser in its capacity to merge communities and build relationships.

14. THE STRATEGIC CONSEQUENCES OF A CHINA-ASEAN FREE TRADE AGREEMENT

It has already been illustrated in an earlier section of this paper that there has been an exponential growth spurt in China's agri-food and agricultural exports to the some of the major ASEAN countries, in particular, Thailand, Malaysia, Indonesia and to some extent the Philippines. Interestingly, Singapore, although also a price-sensitive market, does not feature strongly for China's agri-food exports.

A reduction of ASEAN tariffs across the agri-food sector is inevitable as a consequence of a China-ASEAN Free Trade Agreement. Branded Australian agri-food products, however, will continue to achieve market acceptance and price sensitivities might well be addressed through an integration of manufacturing processes which rely on Australian high-value input. An example of this is a Western Australian flower export company, now using the Australian base to value-add to off-shore tissue cultured plant material marketed under an Australian brand name for the more sophisticated markets or under the local manufacturing label for price-sensitive markets. Peters and Brown use similar production chains to increase market share in China through branch offices in China.

15. CHINA'S EXPANDED ACTIVITIES ACROSS THE SOUTH WEST PACIFIC

The availability of South Pacific markets to Western Australia has always been constrained by prohibitive transport costs. Seen in this light, China's expansion into the agri-food

opportunities in the South Pacific markets would not be a major threat to Western Australian agri-food exports.

16. CONCLUSION

Aside from China being Western Australia's second largest market in the agri-food sector, its growing economic and global power makes it critical that Western Australian agri-food companies become strategically aligned to China's agri-food sector. However, in terms of global markets, China is also an expensive market to penetrate and a challenging, complex and frustrating market to address. More strategically aligned market support and incentives need to be evaluated for companies seeking to establish a market presence. For a calculated approach to this strategic alignment to eventuate, much more than the presently available on the ground market intelligence and collaborative, mutually beneficial networks provided within each of the major industry sectors has to be implemented. Not only will this calculated strategic alliance assist the China market itself to grow, it will also provide a multiplying, longer-term effect in harnessing and capturing China's trade networks. Also, if a free trade agreement is successfully negotiated, it will provide Most Favoured Nation status for the Australian agri-food sector with as many of China's other Free Trade Agreement alliances developed in time to come.

The challenge for Australia's free trade agreement negotiators lies, in recognising, not just China's formidable potential but also Australia's inherent strengths as a regionally based developed nation strategically aligned to add to China's global ambitions as a major trading partner.

Australia and Western Australia: Rural exports to China

Appendix 1

	2000/01	2001/02	2002/03	2003/04	2000/01	2001/02	2002/03	2003/04
	Aust	Aust	Aust	Aust	WA	WA	WA	WA
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Wheat	14 514	12 512	9 654	168 486	5 026	12 027	8 882	165 494
Barley	198 549	195 284	90 168	24 883	46 281	21 877	90 168	24 883
Oats		799	6 691	2 701		785	6 683	2 701
Malt	105	515	560	137			13	
Other cereal products	2 663	5 247	4 307	4 673	207	1 167	132	1 664
Canola	107 942	141 070	24 802	11 263	49 082	48 128		236
Other oilseeds	1 421	1 162	1 175	1 638	2	37		361
Lupins		1				1		
Other grain legumes	789	221	142	133	7	9		
Lucerne and pasture products	1 087	2 472	5 190	3 990	43	256	664	422
Sugar cane	27 477	8 311	2 208	1 779	10	14	12	71
Vegetables	1 538	6 217	3 304	1 238		27		19
Fruit	6 868	5 457	4 938	3 713	9		1 220	
Floriculture	1 600	3 171	2 863	1 406	1 051	1 923	147	111
Wines	2 242	2 653	3 684	7 073	10	103	164	352
Other crops	39 435	41 115	74 639	211 349		128	19	243
Live cattle	2 270	10 039	31 708	116 912			360	6 495
Live sheep	818	152	5 265	1 729		127	1 200	
Other live animals	9 368	2 717	4 810	5 477	100	6	900	
Beef/veal	6 860	8 364	10 267	12 359	38		240	502
Lamb	4 792	11 976	9 524	15 174	245	1 633	982	2 306
Mutton	680	1 356	3 592	2 140		499	82	169
Other edible meat/offal	62 418	71 935	73 047	85 061	13 955	14 283	12 802	11 360
Leather, skins and hides	198 395	183 944	180 148	215 372	12 663	6 648	8 059	11 062
Animal fats and oils	73 467	74 073	80 225	120 475	2 724	1 097	2 214	2 925
Wool	1 201 963	1 322 375	1 308 287	1 067 812	213 223	240 831	260 800	256 875
Dairy products	66 240	96 435	81 943	75 058	2 406	1 752	2 009	1 841
Other animal products	10 338	8 337	6 057	11 009	332	362	12	67
Marine products	51 024	73 078	75 280	69 623	7 162	15 382	33 275	41 228
Total	2 094 862	2 290 987	2 104 478	2 242 664	354 576	369 099	431 039	531 384