



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 – amendments to submission**

I refer to the Western Australian submission (number 45) to the Senate Foreign Affairs, Defence and Trade References Committee's inquiry into Australia's relations with China.

Since this submission was made, the Western Australian Department of Agriculture has updated its statistics on grain exports and made a few changes to its section of the submission.

Attached is the revised section on agriculture. The changes that have been made (pages 29, 32, 33, 38 and 45) are highlighted.

If you have any queries about this, 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](mailto:rzyoung@dpc.wa.gov.au).

Yours sincerely

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

21 June 2005

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# 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. Over the three years from 2001-02 to 2003-04, 98.6 per cent of Australian wheat export sales to China came from Western Australia.
3. Western Australia was also responsible for all of the nation's exports of oats (estimated value \$3 million) and an important exporter of barley (estimated value \$25 million) in 2003-04. Over the three years from 2001-02 to 2003-04, 98.8 per cent of Australian oat and 14.5 per cent of Australian barley export sales to China came from Western Australia.
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 variable over the past three years due to variability in seasons, Western Australia still remains an important player for both these commodities with the 2003-04 export income valued at an estimated \$24,883,000 and \$2,701,000 respectively.

	2001/2002	2002/2003	2003/04
Barley	1,380,550	1,229,649	775,358
Oats	2,437	16,710	8,206
Wheat	44,190	36,056	749,954

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.

##### **Lupins**

For World Trade Organization members the current tariff rate for lupins into China is 9 per cent. This tariff restricts the exports of lupins from Western Australia into China. In fact, to date, only a very small amount of lupins has been exported to China from this State.

##### **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 receivables 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 Shangdon 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 an important** 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	362 749	185 978	46 281	21 877	90 168	24 883
Oats		799	6 687	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
<b>Total</b>	<b>2 094 862</b>	<b>2 290 987</b>	<b>2 377 056</b>	<b>2 403 759</b>	<b>354 576</b>	<b>369 099</b>	<b>431 039</b>	<b>531 384</b>