

# **Victorian Government Submission to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Australia's relationship with China**

**March 2005**

## **1. Introduction and key points**

The Victorian Government has close and important ties with China. Victoria's sister state relationship with Jiangsu Province was established in 1979, and Melbourne has a sister city relationship with Tianjin (established in 1980, this was the first such relationship between an Australian city and a city in the People's Republic of China). Since the establishment of these ties, many significant exchanges, events and partnerships have taken place in the areas of cultural, educational and business cooperation.

China, including Hong Kong, is currently Victoria's largest export market and second largest import market, and the Victorian Government facilitates increasing investment and export activity through its Victorian Government Business Offices (VGBOs) in Shanghai, Nanjing and Hong Kong. Victoria also has important links to China through tourism and education. In 2003/04, Victoria was the destination of 46% of all Chinese visitors to Australia, and Chinese students represent the highest number of international student enrolments in Victoria.

This submission focuses on Australia's, and in particular Victoria's, economic relationship with China, addressing Part A of the Terms of Reference. In summary, the submission highlights the following points:

- ❖ The Victorian Government anticipates significant opportunities for both Victoria and Australia as a result of China's economic development and increasing global integration over the past decade, and these opportunities will continue in the medium- to long-term;
- ❖ Victoria's exports to China have grown significantly in recent years;
- ❖ An Australia-China Free Trade Agreement (FTA) would most likely have a significant impact on the Victorian economy. As such, the Victorian Government wishes to consider the outcomes of the Federal Government's Joint Feasibility Study into an Australia-China FTA before we establish a position on such an FTA;
- ❖ There are a significant number of tariff and non-tariff barriers in regard to trade with China. Non-tariff barriers which could be addressed as part of an FTA include State/Provincial government regulations, standards and technical regulations, quarantine regulations and customs procedures, and mutual recognition of qualifications;

- ❖ The Victorian Government and Austrade are working together to grow the number of exporters and increase the value of exports to China. Given the complexity of the China market, State and Federal Government export assistance is vital in giving new exporters the tools and the confidence to establish sustainable commercial partnerships; and
- ❖ Significant opportunities exist to strengthen and deepen commercial links between China and Victoria in the key export sectors of ETMs, research, design, science and technology based industries, professional services, construction, education and tourism. The Victorian Government has in place a number of programs to capitalise on these opportunities, including the Trade Fairs and Missions program.

## **2. Economic developments in China over the last decade and their implication for Australia and the East Asian region**

*The Victorian Government anticipates significant opportunities for both Victoria and Australia as a result of China's economic development and increasing global integration over the past decade, and these opportunities will continue in the medium- to long-term.*

The Victorian Government's commitment to capitalising on the potential opportunities available to industry as a result of China's economic growth is demonstrated by the development of *The China Strategy – the Victorian Government's Statement for Trade, Investment and other Activities*.

The China Strategy is being developed in recognition of:

- China's rapid economic growth and development;
- China's increasing industrial sophistication and competitiveness;
- China's increasing influence in the global economy and the Asia-Pacific region;
- a possible FTA between Australia and China; and
- the importance of Victoria's existing relationship with China.

The China Strategy aims to foster better trade and investment relationships between Victoria and China through improving links with the private sector and better coordinating activities related to China across the whole of Victorian Government.

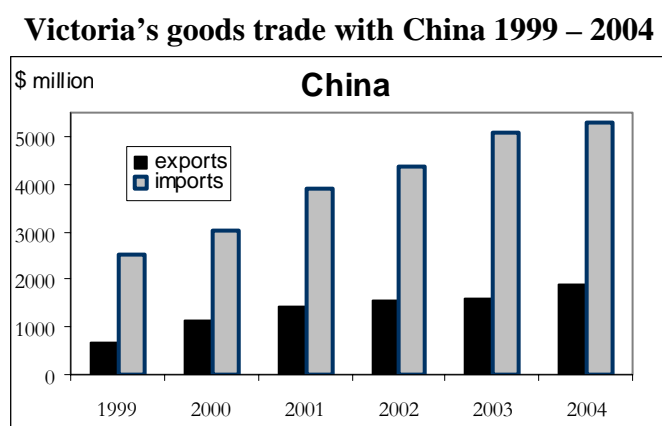
More specifically, the China Strategy will aim, on an ongoing basis, to:

- constantly better the Victorian Government's understanding of cultural, political and economic trends, opportunities and challenges in China;
- improve links with the private sector;
- co-ordinate Government and Ministerial activities relating to China;
- identify upcoming priorities and opportunities in China.

### 3. Recent trends in trade

*Victoria's exports to China have grown significantly in recent years, although Victoria continues to maintain a trade deficit with China.*

In 2003/04, Victoria's goods trade with China was comprised of \$5.27 billion in imports and \$1.88 billion in exports. Today, Victoria's main goods exports to China are wool, petroleum, live animals, aluminum, leather, dairy products, various metals, and photographic and cinematographic supplies. Victoria's main imports from China are manufactures such as textile based materials including clothing, toys, games and sporting goods, footwear, furniture, and electrical machinery and apparatus. Victoria's goods trade with China over the past six years is displayed in the chart below.



Source: ABS

China is also a key export market for Victoria's tourism and education sectors. It is Victoria's fourth largest, and the fastest growing, source of international visitors. There were 111,000 Chinese visitors to Victoria in the year ending September 2004 and Chinese visitors spent over 3.5 million visitor nights in Victoria, an increase of 131% over the previous year.

China is also currently the fastest growing of the major markets for international students in Victoria. In January 2005, Chinese students accounted for 45% of international school student enrolments and 21% of international higher education student enrolments in Victoria.

### 4. The Australia-China Trade and Economic Framework and the possibility of an Australia-China Free Trade Agreement (FTA)

*An Australia-China FTA would most likely have a significant impact on the Victorian economy. As such, the Victorian Government wishes to consider the outcomes of the Federal Government's Joint Feasibility Study into an Australia-China FTA before we establish a position on such an FTA.*

The Victorian Government provided a submission to the Department of Foreign Affairs and Trade on the Australia-China FTA Joint Feasibility Study in June 2004 and understands that the results of the study will be released in the first half of this

year. The Victorian Government is highly supportive of the undertaking of a Joint Feasibility Study and wishes to consider the outcomes of the Federal Government's Joint Feasibility Study before it establishes a position on an Australia-China FTA. As highlighted above, an Australia-China FTA would most likely have a significant impact on the Victorian economy because China is an important trading partner for Victoria, so it is important to examine the feasibility of an Australia-China FTA.

The Victorian Government's submission highlighted that the Feasibility Study needs to consider and report on the broad implications of an FTA with China, including environment impacts, employment impacts (with particular regard to the impact on Australia's manufacturing industry) and the impacts at a State and Territory level.

Prior to the negotiation of an Australia-China FTA, it is also critical that the Federal Government define the grounds on which it will assess China's market economy status, and the impacts of recognising China as a market economy on the application of Australia's anti-dumping legislation. Recognition of China as a market economy is a precondition to an FTA with China, but this would also have a practical impact on the application of Australia's anti-dumping legislation. Ensuring effective anti-dumping measures is an important issue for Victoria, given our large manufacturing base. The Victorian Government welcomes any increase in the transparency and effectiveness of Australia's anti-dumping regime and urges the Federal Government to ensure that Australian firms are able to fairly compete against products from any country before granting China market economy status.

Other issues that need to be properly assessed prior to the negotiation of an Australia-China FTA include:

- barriers to trade at the State/Provincial level, including local content and industry development policies;
- Chinese labour and environmental standards and their enforcement compared with Australia's;
- the need for clear guidelines on China's standards and technical regulations;
- protection of intellectual property;
- quarantine regulations and customs procedures;
- rules of origin and the need for consistency under FTAs; and
- mutual recognition of qualifications.

Potential opportunities for Victoria as a result of an FTA with China lie primarily in the sectors of elaborately transformed manufactures (ETMs), automotive, dairy, financial services, education and tourism. However, given the strength of China's manufacturing industry, Victoria's manufacturing sector faces considerable competition from China, both domestically and in export markets. The Federal Government should consider transitional assistance, in the form of adjustment mechanisms, to manufacturing industries such as textiles, clothing and footwear (TCF), which face job losses in the coming years as a result of the effect of tariff reductions via the implementation of an Australia-China FTA. These pressures on industry are cumulative, as any impact of an FTA with China are in addition to the impacts of other FTAs (for example, with the US and Thailand).

Finally, it is noted that comprehensive FTAs may complement and provide momentum to wider multilateral trade objectives. However, the Victorian

Government believes that the Commonwealth Government should continue to keep the World Trade Organisation (WTO) Doha Development Round of trade negotiations at the forefront of Australia's trade policy agenda.

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

*There are a significant number of tariff and non-tariff barriers in regard to trade with China. Non-tariff barriers which could be addressed as part of an FTA include State/Provincial government regulations, standards and technical regulations, quarantine regulations and customs procedures, and mutual recognition of qualifications.*

Australia faces relatively high tariff barriers on many products exported to China, including automotive vehicles and wool in particular, as well as dairy and meat products, fruit and nuts, electric machinery and equipment, furniture, and photographic and cinematic supplies. There are also barriers in the form of quotas on sugar and various cereals and grains, including wheat.

A number of non-tariff barriers exist in regard to trade with China. The Victorian Government would like to see these barriers addressed as part of an Australia-China FTA, including specifically:

1. State/Provincial Government Regulations - Chinese Provincial Governments have a high degree of autonomy in law making, and the power to control and limit trade within their borders. This can hinder trade as it is often the case that approval from both the Central and the specific Provincial Government is required to export goods;
2. Standards and technical regulations - the Victorian Government is concerned that there are not clear and consistent guidelines on China's standards and technical regulations, and the timeliness of granting approvals. The transparency of information on China's standards and technical regulations needs to be addressed, at both a central and provincial level, to reduce barriers to trade;
3. Quarantine regulations and customs procedures - consultation has highlighted that China's quarantine regulations have prevented the export of certain Victorian products, such as seafood, citrus fruits and cherries. While some protocols are currently being developed to enable the export of some fruits to China, it is important that the transparency of China's quarantine restrictions is increased. In addition, feedback from industry has highlighted that China's inspection standards are often inconsistent with international standards, leading to difficulties in gaining customs clearance. Closer alignment with international standards would improve opportunities for Victorian and Australian companies to trade with China;
4. Mutual recognition of qualifications - in China, a number of professions face difficulties in obtaining recognition of their Australian or other international

qualifications. For example, foreign lawyers find it difficult to obtain a licence or practise in China.

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

*The Victorian Government and Austrade are increasingly working closer together to grow the number of exporters and increase the value of exports to China. Given the complexity of the China market, State and Federal Government export assistance is vital in giving new exporters the tools and the confidence to establish sustainable commercial partnerships.*

Australia's largest resource companies, including Victorian based BHP Billiton, have a long and established presence in China, and are increasingly benefiting from the greater demand for minerals and rising commodity prices. The major financial institutions and Telstra also have a strong presence in China. They are already benefiting from the implementation of China's WTO commitments, and are expected to benefit further from the proposed FTA.

Export opportunities exist for Victorian companies in several sectors, including: automotive, building and construction, education and tourism services, ICT, biotechnology and healthcare, food, professional and technical services, and environmental technology and sustainable development skills. With Victorian Government support, a number of high-profile Victorian architecture and urban design firms have already had significant success doing business in China.

As mentioned in Section 1, the Victorian Government operates three VGBOs in China: located in Hong Kong, Nanjing, and Shanghai. A key element of the Victorian Government's *Opening Doors to Export Plan* is the Access China program. Access China operates from our Hong Kong and Shanghai VGBOs. This program has been introduced to help Victorian exporters reduce the cost, time and risk associated with identifying export opportunities or establishing export operations in the Greater China region. Access China offers the complimentary use of office facilities and export-related assistance, including market research, cultural training, and agent identification.

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

*Significant opportunities exist to strengthen and deepen commercial links between China and Victoria in the key export sectors of ETMs, research, design, science and technology based industries, professional services, construction, education and tourism. The Victorian Government has in place a number of programs to capitalise on these opportunities, including the Trade Fairs and Missions program.*

More specifically, opportunities for strengthening and deepening commercial links will most likely to exist in the following sectors:

- environmental management and technology;

- biotechnology, medical and other health industries;
- managed funds and professional services (legal/accounting);
- housing market (construction and housing appliances);
- financial services (as China develops its capital markets); and
- various advanced services (including architecture, economic consulting, design and urban planning).

The Olympic Games, to be held in Beijing in 2008, will require expertise in infrastructure, hospitality, project management, and information technology systems. Considering Victoria's strengths in these sectors and Commonwealth Games experience, this is another unique export opportunity.

Other considerations in regard to strengthening and deepening commercial links with China in key export sectors include:

- the ability to capitalise on China's emerging capabilities in knowledge based sectors and industries;
- opportunities in key investment areas, especially given China's increasing role as a source of outward investment; and
- scope to enhance scientific, technical exchange (including migration, especially given the large number of science, engineering and technical (SET) graduates graduating from China's institutes of higher learning.

In addition to the Access China program and the VGBO representation in China as highlighted in Section 6, other Victorian Government initiatives that serve to strengthen our commercial links include our Trade Fairs and Missions program, comprising both outbound and inbound missions, and the work of our Special Trade Envoy to North Asia.