



中华人民共和国驻澳大利亚大使馆  
Embassy of the People's Republic of China in Australia



# **A Rising China and the Flourishing China-Australia Relations**

Submission

By

**The Embassy of the People's Republic of China in Australia**

To the Senate

Foreign Affairs, Defence and Trade References Committee

In relation to the inquiry into

Australia's Relations with China

June 2005

# **1.The rapid development of China's Economy**

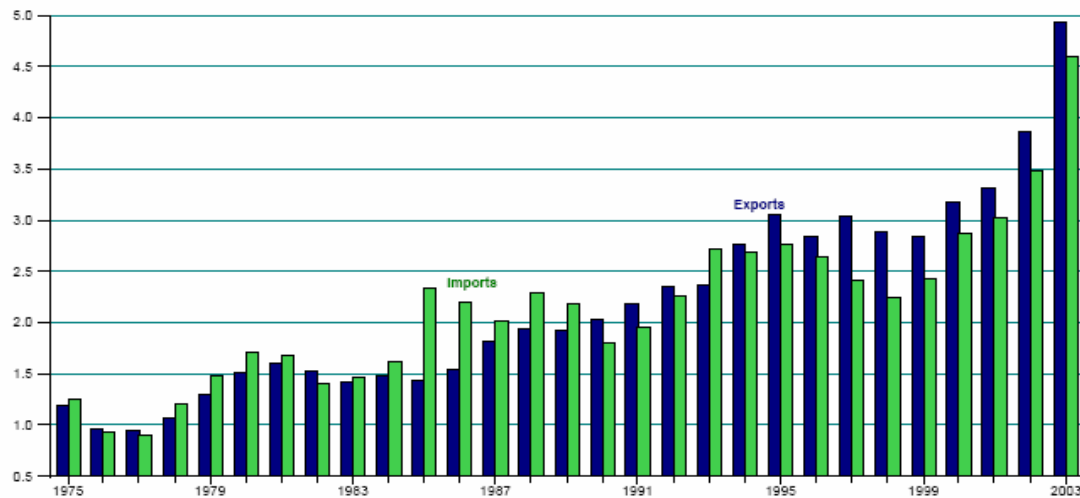
## **1.1 Tremendous achievements**

Since the implementation of the “reform and opening-up” policy in 1978, China's economy has been undergoing a rapid and healthy development. Over the past 27 years, China's annual GDP growth has averaged 9.4 per cent, more than doubled that of the world as well as more than two folds that of the developed nations over the same period. In 2004, China's GDP reached USD1650billion, an increase of 9.5 per cent over 2003.

The GDP per capita in China exceeded USD1000 in 2003. It further grew to USD1,200 in 2004, which is more than 6 times of that of 1979. According to the laws of economic and social development, when the GDP per capita in a nation makes a breakthrough over USD1,000, it will touch off the upgrade of consumption patterns in domestic society, which, in turn, will bring about the upgrade of industrial structure. China's economy has entered a new round of accelerating driven by the significant transformation from investment-orientation to consumption-orientation.

In 2004, China was world No. 3 trading power. The foreign trade volume reached USD1100 billion, a rise of 35.7 per cent over the previous year, making up 6 per cent of world trade total. Import totaled USD561.38 billion while export reached USD593.5 billion. Figures from WTO indicate that while it only took China 16 years for its international trade total to rise from USD100 billion to USD1000 billion. It took the US 20 years and German 26 years. China's economy has now closely integrated with the world economy as its foreign trade dependency is about 70 per cent. .

**Chart 1: The share of China's imports & exports in world trade**



Sources: OECD, CEIC

China's accumulative foreign reserve reached USD609.9 billion by the end of 2004, ranked world second after Japan. Sufficient foreign reserve has not only strengthened China's capacity to fence off the external financial risks but also reduced Chinese enterprises' costs to raise capital outside China, laying a solid foundation for further completing the system of Renminbi exchange rate. By the end of 2004, the outstanding foreign debt totaled USD228.596 billion, 13.8 per cent of GDP.

In 2004, China has drawn paid-in FDI of USD60.63 billion and contracted FDI of USD153.48 billion, ranked world second only after the USA. By the end of 2004, the actual accumulative FDI in China totaled USD562.1 billion and FDI reserve was over USD210 billion. At present, more than 450 of World Top 500 companies have investment and business in China. There are over 700 R&D centers set up in China by foreign investment. Among those, more than 30 are moving their regional headquarters to Mainland China. According to the report *The MNCs Investment Trends in China* by the Department of Commerce in China, a survey shows that more than 61 percent of MNCs in China have intention to continuously increase its R&D investment in China and 46 percent of which are inclined to set up R&D center through exclusive investment.

## 1.2 Macroeconomic management

Since the first quarter of 2003, there have been signs of overheating economy in China. The major indicators were:

- The strained supply and demand relations in the grain sector;
- Inflated investments in fixed assets;
- Oversupply of currency and credits on the market;
- Shortages of coal, electricity, petroleum and transport.

Since April 2004, Chinese government has taken a series of measures of macro-management including:

- Adopting a moderately tight currency policy. The reserve rate against deposit and benchmark rate of deposit and lending for financial institutions has been raised to 1.5 per cent and 0.27 per cent respectively
- Actively adjusting fiscal policy. Treasury-bond project funds were reduced by RMB30 billion than 2003.
- Strengthening the industrial policy guidance. The capital proportion has been required to increase in the fixed assets investment projects in fields of steel, electrolytic aluminum, cement and property development.
- Leveraging the regulating role of pricing. The systems of minimum purchasing price for grains and different pricing scheme for peak and off-peak electricity supply have been adopted.
- Reviewing all the undergoing and intended projects and put them in order.
- Clearing up and rectifying the land market by strictly controlling land use
- Supporting the weak sectors in the economic development with focus on the project construction in fields of agriculture. coal, electricity, petroleum and transport.

The economy progress throughout 2004 has manifested the gradual effect of macroeconomic management. The momentum of over-fast growth in fixed assets was initially checked. There has been evident drop on the growth of fixed assets investment in the whole society. Currency supply and lending growth has slowed down. In 2004, the balance of broad money supply M2 was RMB25300 billion, 14.6 percent higher than 2003. However, it was a 5 per cent drop in

growth rate compared with the end of 2003. The increase on CPT tended to stabilize. The accumulative annual CPI has seen an increase of 3.9 percent, a 2.7 percent rise compared with last year. The land market has witnessed significant progress in term of rectification and improvements. Grain output has reversed the trend of drop over 5 consecutive years since 1999.

At present, the overall economy condition is China is good without significant risks of overheating or “hard landing”. The Chinese government will continue adopting steady fiscal and currency policies to control investment scales in fixed assets. Other tax, financial and industrial polices conducive to the expansion of consumption are also under implementation. These measures are aimed at maintaining the essential stability of overall price level and ensuring a continuously steady and reasonably fast growth of economy.

### **1.3 Contribution to the world**

The development of China’s economy has increasingly played an important role to the development of world economy, in particular the economies of those regions surrounding China. According to the estimate of Asian Development Bank, although China’s GDP and foreign trade volume only respectively made up 4 percent and 6 percent of the total of world economy and trade, China’s rate of contribution to the growth of world economy and trade has reached 15 percent and 12 per cent respectively. In September 2004, in its publication *Trade and Development Report of 2004*, the UN Trade and Development Conference pointed out that China has already become another important engine of world economy apart from the United States.

China’s consumption of a wide range of products has already been at the forefront in the world. China is now the world’s third largest import market and Asia’s largest import market. In 2004, China imported USD369.5 billion worth of merchandises from other Asian countries and regions, 35.4 percent more than last year, comprising nearly 50 per cent of the export total in Asia. China’s trade deficit with these regions amounted to USD74 billion. Almost all the export growth of the Philippines and Taiwan and nearly half of the export growth of

Japan, Malaysia and Korea were attributed to the expansion of China market.

**Chart 2: World ranking of China's consumption of major merchandises  
( Year 2004 )**

	Merchandise	Consumption	Percentage in the world
No.1	Grain	382 million tons	20%
	Meat	63 million tons	33%
	Coal	1870 million tons	30%
	Iron ore	400 million tons	30%
	Cement	820 million tons	40%
	Mobile phone user	340 million households (by end-2004)	22%
	Fixed line phone user	310 million households (by end-2004)	26%
No.2	Crude petroleum	290 million tons	7%
	Aluminum oxide*	11.88 million tons	25%
	PC	16million pieces (annual sales)	9%
	Internet user	94 million households (by end-2004)	10%
No.3	Car*	4.45 millions (annual sales)	7.5%
	Gold*	201.1 tons	6.2%

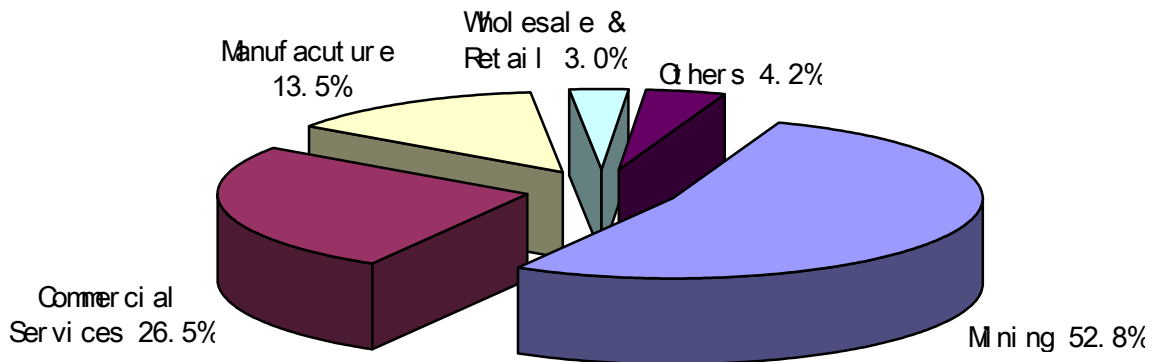
**Sources: 2004 China's National Economy and Social Development Statistics Report by China's Bureau of Statistics, China's Association of Iron and Steel, China's Association of Gold, Website of China's Ministry of Information Industries. Items with asterisk (\*) are 2003 figures**

Presently China's outputs in more than 50 product categories have ranked first in the world, including grain, meat, cotton, fruit, fertilizer, iron and steel, cement, chemical fiber, textile, program-controlled telephone, mobile phone, colour TV, air conditioner, washing machine, refrigerator and DVD. Quality products made in China available at competitive prices have played a important role in inhibiting the hidden danger of global inflation.

So far among over USD500 billion FDI invested in China, 70 per cent have been centralized in manufacture. Processing and assembling trade constitutes over 50 percent of China's foreign trade total. China's absorption of labor-intensive industries has objectively given the impetus to the industrial upgrade in the economically more developed nations and areas. According to estimate of the China's Ministry of Commerce, since 1990, foreign enterprises have transferred from China over USD200 billion profits derived from their investment in China

China's foreign investment capacity has grown considerably over the recent years. According to the latest statistics from China's Ministry of Commerce, in 2004, China's FDI in non-financial sector amounted to USD3.62 billion, a 27 per cent rise over the same period in 2003. There were 823 enterprises investing outside China after assessment, approval and registration of China's Ministry of Commerce, 62.5 per cent more than 2003. The accumulative total of China's direct investment in foreign countries approached around USD37 billion by the end of 2004.

**Chart 3 : 2004 the Industrial Proportion of China's Foreign Investment**



Sources: China's Ministry of Commerce

#### 1.4 Greater extent of opening-up

China has voluntarily reduced its tariff levels for five times since 1992.

China has been actively carrying out its commitments since its WTO accession in 2001. The world has seen in China the drop of the general tariff level from 15.3 per cent in 2001 to 10.4 per cent at the end of 2004 and the cancellation of a majority of the non-tariff measures. In terms of locations, shares and numbers, China has taken steps to cancel the restrictions in more than 90 fields including banking, insurance, telecommunication, wholesale and retail, securities, rail and road, tourism, architecture, audio and video and education to facilitate foreign investment's access to China market.

Starting from 1 January 2005, China's general tariff level has further reduced to 9.9 per cent, involving more than 900 categories of tax items. The average tariff rate of agricultural products was reduced from 15.6 per cent to 15.3 per cent, while industrial products from 9.5 per cent to 9 per cent. Among them, average tariff rate of aquatic products dropped to 10.5 per cent, timber and paper products 4.6 per cent, textiles and clothing 11.4 per cent, chemical products 6.9 per cent, transport vehicles 13.3 per cent, machinery products 8 per cent and electrical products 9.1 per cent.

Since it began FTA negotiation with ASEAN, China has successively started FTA negotiation with North African Tariff Alliance, Gulf Cooperation Commission, Chili and New Zealand. So far China's FTA negotiation has involved 23 countries including 10 ASEAN countries. In addition, China is also conducting preliminary feasibility study into FTA with some countries and areas such as South Korea. China actively supports the progress of world trade liberalization featuring the Doha?-round negotiation and is playing an constructive role in facilitating a multilateral agreement on framework themed around Doha-round global trade negotiation.

China's active reform of the exchange rate of Renminbi and relevant financial systems has been steadily under way since 1994. It is aimed at making the exchange rate of Reminbi to stay at a relatively reasonable and balanced level and realizing the full free convertibility of Renminbi, in the meantime forming a more flexible and resilient mechanism of Renminbi exchange rate that is in line with the market demand. In light of this, Chinese government has adopted three key measures:



First, speeding up the financial restructuring and public floating of the domestic commercial banks so that they are able to better adapt to a more flexible exchange rate mechanism in the future;

Second, reducing unnecessary restriction on foreign exchange so that the demand and supply relationships in the market can be better reflected in a greater scope;

Third, improving the domestic foreign exchange market to enable financial institutions and enterprises to adapt to the environment and products of foreign exchange markets.

The reform of Renminbi exchange rate is a complicated and progressive task that requires the consideration of macroeconomic stability and the responsibility for the neighboring countries and the world. Therefore, in light of the economic development level, progress of the economy and international balance condition, Chinese government will, according to its own pace, explore and complete the shaping mechanism of Renminbi exchange rate on the basis of deepening the financial reform, Next, while adhering to the prerequisite of effectively preventing risks, China will take further steps to selectively loosen up the restrictions of cross-border capital trading activities, regulate the management of capital inflow and orderly guide the capital outflow, which in turn will facilitate shaping up a scientific and manageable two-way capital flowing mechanism and earlier realization of the convertibility of Renminbi capital item.

## **1.5. Market Economy**

The market economy has preliminarily come into shape in China after twenty-five years of reform. According to prevailing international standards, China's marketization has reached about 70 per cent. The foundation role played by the market mechanism in the allocation of resources has significantly enhanced. The proportion of commodity prices determined by the market has respectively accounted for 95.8 per cent of the total value of social commodities, 92.5 per cent of the total purchase value of agricultural products and by-products and 87.4 per cent of total sales of means of products. The pattern of coexistence of diverse systems of ownership has preliminarily come into being. The proportion of non-state owned

economy in GDP has risen from 54 per cent in 1992 to 63 per cent in 2003. State-owned enterprises have undergone considerable marketization. The reform and restructuring of monopolized industries have yielded some phased positive results. There have been evident changes in the means of macroeconomic management. Chinese government no longer directly interferes the economic activities initiated by the enterprises themselves, instead, they mainly leverage the economic and legal means such as tax, interest rate, pricing and investment policies to macro-manage and realize the transformation from command economy to market economy.

In March 2004, China altered its Constitution to clearly state that “the legal private property of a citizen shall be inviolable” and “in accordance with the legislation, the state shall protect the citizen’s rights of private property and inheritance.” From early 1992 to date, the National People’s Congress of China and its Standing Committee have passed more than 440 legislations, interpretations and law-related decisions, over half of which concerning the economic fields regulating the major market performance and management of market orders.

China’s achievement in building market economy has been acknowledged by more and more nations. Thirty-seven countries have already acknowledged China’s full market economy status by the end of 2004.

## **2. China’s role in the regional and international security affairs**

### **2.1 Peace and development**

With its constant growth, China has played a greater role in the regional and international security affairs. Such a role has always been in line with the national strength and the development goal of

China as well as the common interest of international community without posing threats to other countries. The policy of Chinese government is to emerge as a peaceful, cooperative and responsible nation at the international stage and become an important part of international efforts to maintain world peace and promote the global development.

China is big developing country. Despite China's tremendous economic achievements, with a population of 1.3 billion, the GDP per capita is still only one twenty-fifth of the United States and Australia, ranked below No. 140 in the world and the economy total only accounted 4 percent of the world. China still sees inside itself the substantial imbalance in development and existence of various issues. China's development and rise is going to be a long and arduous journey. China has no material basis and subjective intention of seeking hegemony and expansion.

China pursues a peaceful diplomatic policy of maintaining independence and keeping the initiative. The thinking of "peace is the most valuable", "seeking harmony despite the differences" and "maintaining peace and harmony with diverse neighboring nations" has been rooted in the Chinese political philosophy and traditional culture that constantly exerted a great influence over the contemporary Chinese diplomacy. In the majority of time in history, China used to be one of the most powerful countries in the world. However, traditionally the basic way for Chinese to associate with the outside world has been through trade rather than war. In the early 1980s, Mr. Deng Xiaoping, the general architect of China's "reform and opening-up" made a critically new judgment on the international situation, pointing out that peace and development are the dominant theme of our times. Since then, in terms of China's diplomacy, the approach of drawing a line on ideology has been cast away and a central task of assisting in the domestic economy development as well as the essential objective of building a peaceful and cooperative surrounding and international environment have been defined.

China upholds the line of peace and development and pursues a defensive national defense policy. *The National Defense of China in 2004* published by the Press Office of China's State Council points

out that China's basic goals and tasks in maintaining national security are:

- To stop separation and promote reunification, guard against and resist aggression, and defend national sovereignty, territorial integrity and maritime rights and interests.
- To safeguard the interests of national development, promote economic and social development in an all-round, coordinated and sustainable way and steadily increase the overall national strength.
- To modernize China's national defense in line with both the national conditions of China and the trend of military development in the world by adhering to the policy of coordinating military and economic development, and improve the operational capabilities of self-defense under the conditions of informationalization.
- To safeguard the political, economic and cultural rights and interests of the Chinese people, crack down on criminal activities of all sorts and maintain public order and social stability.
- To pursue an independent foreign policy of peace and adhere to the new security concept featuring mutual trust, mutual benefit, equality and coordination with a view to securing a long-term and favorable international and surrounding environment.

China's annual defense expenditure totaled RMB170.778 billion and RMB190.787 billion in 2002 and 2003 respectively. The budget for annual defense expenditure in 2004 was RMB211.701 billion, less than 2 percent of the GDP. In 2003, China's defense expenditure was only 5.69 per cent of that of the US, 56.78 per cent of Japan, 37.07 per cent of the UK and 75.94 per cent of France.

As the only superpower in today's world, the US is playing an important role in both fields of world economy and security. While welcoming the US in playing an active role in the peace, stability and development of the Asia Pacific region, China also hopes that the US respects the security interests and concerns of the countries in the region. In China-US relations, there is no aspect of "one-rise-means—

another-fall” competition for seeking hegemony. Actually both the US and China have numerous common interests and have already begun and will continue the dialogues and cooperation in many fields including anti-terror, anti-proliferation, dealing with regional hot-spot issues as well as promoting the regional economic development. China understands that US has historically related military alliances with some countries in the region and respects the policy choice by the relevant countries due to the consideration of self-interests, however, China does not agree with the involvement of such alignment in the regional security issues outside the self-defense needs of the relevant countries.

## **2.2. New security concept**

The postwar world has seen the significant trend of globalization. China’s links with the world is increasingly closer with evident intertwining interests with diverse nations. Incidents such as 911, SARS, the Indian Ocean Tsunami suggest that on the increase are those non-traditional security factors including terrorism, prevailing diseases and natural calamities featuring the interweaving with the traditional security issues and cross-nation characteristics. The cooperation with international community is indispensable to the solution to China’s security concern.

Since mid 1990s, China has been vigorously promoting a new security concept with mutual trust, mutual benefit, equality and coordination at its core, advocating the settlement of dispute through dialogues and cooperation.

- Mutual trust means that all countries should transcend differences in ideology and social system, discard the mentality of Cold War and power politics and refrain from mutual suspicion and hostility. They should maintain frequent dialogue and mutual briefings on each other's security and defense policies and major operations.
- Mutual benefit means that all countries should meet the objective needs of social development in the era of globalization, respect each other's security interests and create conditions for others'

security while ensuring their own security interests with a view to achieving common security.

- Equality means that all countries, big or small, are equal members of the international community and should respect each other, treat each other as equals, refrain from interfering in other countries' internal affairs and promote the democratization of the international relations.
- Coordination means that all countries should seek peaceful settlement of their disputes through negotiation and carry out wide-ranging and deep-going cooperation on security issues of mutual concern so as to remove any potential dangers and prevent the outbreak of wars and conflicts.

In accordance with the principles and thinking of the new security concept, China has played a constructive role in the regional and global security over the past decade, with conspicuous contribution to the peace and development of the world.

China is a growing big nation with its present influence mainly in the surrounding areas. In 2002, the Sixteenth National Representatives Conference of the Chinese Communist Party has decided on the foreign policy committed to “building a good-neighborly relationships and partnerships with neighbors.” In October 2003, during his attendance at ASEAN and China, Japan and ROK (10+3) Leaders Summit in Bali, Indonesia, Premier Wen Jiabao further put forward the diplomatic guidelines for dealing with surrounding areas with a focus on “long term stability, good neighborliness and comprehensive cooperation to achieve mutual prosperity”.

The land border of China is 22.8 thousand kilometers in length. The sea border is 19.8 thousand kilometers. China has 15 land neighbors and 9 sea neighbors. Based on the principles of mutual consultation, mutual understanding and compromise and peaceful settlement on an equal footing, China has delimited the boundary line covering 98 per cent of total land borders with the majority of neighboring countries. In 2000, China signed delimiting agreement with Vietnam in relation to Northern Bay. In 2001, *Declaration on the Conduct of Parties on the South China Sea* was signed between China and

ASEAN Nations, which affirms the principles of seeking a peaceful settlement through negotiation and actively developing maritime cooperation.

China has been making constructive efforts to safeguard the peace and stability in the Korean Peninsular. When the North Korea Nuclear Issue surfaced, China appealed for Nuclear-free Peninsular and took a clear-cut stand against the appearance of nuclear weapons on the Peninsular. While calling for peaceful solution through negotiation, China also hopes that the relevant parties can also address the reasonable security concern of North Korea. In order to facilitate a peaceful settlement of North Korea nuclear issue, China has played an active role in mediation by holding three rounds of Six-party Talks and three conferences of Working Group for Six-party Talks. At the moment, China is making new efforts to restart the Six-party Talks.

Faced with the challenges in relation to non-traditional security issues, the Chinese government has actively shouldered international responsibility. During the breakout of SARS and Birds Flu epidemic in 2003 and 2004, based on the responsible spirits of frankness and sincerity, trust and cooperation, China and ASEAN nations have developed effective epidemic prevention and quarantine cooperation and established the appropriate mechanisms. China's foreign relief record was reset when China threw in significant amount of human, material and financial resources in international relief efforts for the Indian Ocean Tsunami calamity. The Chinese government offered over RMB500 million worth of direct aid, ranked No. 1 among the developing countries and at present over 70 per cent has already been in place. Non-government sectors contributed funds of over RMB700 million. In addition, the Chinese government and the Red Cross of China sent four medical teams and one DNA identification team to help in the disaster areas.

One of the key components of China's foreign diplomatic policy is to develop friendly relations with South Pacific nations on the basis of the five principles of peaceful co-existence. So far there are eight South Pacific countries which have already established formal diplomatic relations with China, namely, Papua New Guinea, Fiji, Cook Islands, Micronesia, Nauru, Solomon Islands, Tonga and

Vanuatu. In 2004, China's trade with South Pacific countries and areas reached USD623 million, a rise of 25 per cent compared to 2003. China is endeavoring to make contribution to the economic growth and political stability of South Pacific regions through commerce, trade and investment. The important projects include mining of Ramu Nickel Project with Papua New Guinea and electricity cooperation with Tonga. China has also granted Fiji, Vanuatu, Tonga and Cook Islands approved tourist destination status for Chinese citizens and joined South Pacific Tourism Organization in 2004.

China's major concern in the South Pacific region is the Taiwan issue. One-China principle is the common understanding of the international community. However, Taiwan authorities wantonly push for "Dollar Diplomacy" and the so-called "countries with diplomatic relations" in the region. By hook or by crook they try to squeeze a position in regional organizations including Forum of Pacific Inlands Countries, Forum Parliament Assembly and South Pacific Tourism Organization. These activities were detrimental to the stability and development of the South Pacific region.



**Chart 4: Overview of China's participation in UN peacekeeping operations**

UN Peacekeeping task area	Period	Number of peacekeeping troopers		Number of military observers		Number of peacekeeping policemen	
		Current	Accumulative total	Current	Accumulative total	Current	Accumulative total
UNTSO	1990 till present			5	75		
UNIKOM	1991. 4-2003.10				164		
MINURSO	1991.9 till present			19	252		
UNTAC	1991.12-1993.9		800		97		
ONUMOZ	1993.6-1994.12				20		
UNOMIL	1993.11-19979				33		
UNSMIA	1998.5-2000.1				2		
UNOMSIL	1998.8 till present			3	36		
UNMISSET	2000.1 till present					16	200
UNMEE	2000.10 till present			7	28		
UNMIBH	2001.1-2002.1						20
MONUC	2001.4 till present	218	654	12	44		
UNAMA	2003.1 till present					1	2
UNMIL	2003.10 till present	558	1116	14	26	25	30
UNOCI	2004.3 till present			3	5		
UNMIK	2004.4 till present					19	19
MINUSTAH	2004.5 till present					133	133
ONUB	2004.6 till present			3	3		
<b>TOTAL</b>		<b>776</b>	<b>2570</b>	<b>66</b>	<b>785</b>	<b>194</b>	<b>404</b>

Sources: *China's National Defense in 2004*, the Press Office of the State Council of PRC

### 2.3. Peaceful Reunification

Taiwan is an inalienable part of China. Since Dong Han Dynasty more than 2000 years ago, the mainland's administration of the island had never been ceased. In 1624, Taiwan was reduced to a colony after forcibly occupied by Dutch colonists. In 1661, Taiwan was recovered by Zheng Chenggong, a national hero of Ming Dynasty and his troop. In 1895, after the defeat in a war against Japan, the then Government of Qing Dynasty was forced to sign an unequal treaty and ceded Taiwan to Japan. In 1945, Japan was defeated in World War II. According to *Cairo Declaration* and *Potsdam Proclamation*, Japan had to return to China the seized territories including Taiwan. In 1972, UN passed the resolution recognizing the Government of the People's Republic of China is the sole legal Government of China. Therefore, from a legal perspective, the question of Taiwan was already resolved in last century.

Since 1949, although both sides across Taiwan Strait have not been reunified, the reality that the mainland and Taiwan belong to one China has never changed. This is the status quo of cross-Strait relations, which is not only the stance of the mainland, but also reflected in the existing laws, rules and documents of Taiwan. However, in 1999, Taiwan leader Li Deng-hui spread the view that "the mainland and Taiwan are two countries". Since 2000, Taiwan authorities under Chen Shui-bian have recklessly challenged the status quo that both sides of the Straits belong to one and the same China, and markedly accelerate the "Taiwan Independence" activities designed to split China. Incessantly trumpeting their secessionist claim of "one country on one side", they use "referendum" to engage in the secessionist activities aimed at "Taiwan Independence", incite hostility among the people on the island toward the mainland, and purchase large amounts of offensive weapons and equipment. They are still waiting for the opportune moment to engineer a major "Taiwan Independence" incident through the so-called "constitutional reform". The secessionist activities of the "Taiwan Independence" forces have increasingly become the biggest immediate threat to China's sovereignty and territorial integrity as well as peace and stability on both sides of the Taiwan Straits and the Asia-Pacific region as a whole.

Taiwan question involves the core interest as well the sovereignty and territorial integrity of China. It is also a question connected with the national feelings of each and every Chinese people. Upholding the “One-China” principle is the cornerstone in developing the cross-Straits relations and realizing the peaceful reunification of China. The Chinese people and the Chinese government are resolutely against “Taiwan Independence” and there will not be an iota of hesitation, ambiguity and concession on this significant principle issue. As long as there is a glimpse of hope, China will do our utmost to seek the peaceful settlement of Taiwan issue and realize the peaceful reunification of the motherland, which are in the fundamental interests of the compatriots on both sides of the Straits. Taiwan Compatriots are our blood brothers and there are no other people keener than us hoping to settle Taiwan issue through peaceful means.

Over the many years, the Chinese government has been actively promoting the people-to-people links and economic and cultural exchanges across the Straits. From 1995 to 2004, visits of Taiwanese to mainland totaled about 26.769 million whereas visits of mainland residents to Taiwan were less than 1million. The accumulative indirect trade between both sides of the Straits reached USD344.865 billion, led by mainland’s export of USD56.295 billion and import of USD288.57 billion which gave Taiwan favorable balance of USD232.275 billion. Mainland is Taiwan’s largest export market and source of surplus.

According to statistics from Taiwan, in 2004 export to mainland and Hong Kong accounted for 36.7 per cent of Taiwan’s total export and 20.2 per cent of its GDP. Taiwan’s trade dependability on mainland reached 18 per cent and export dependability was 25.9 per cent. In terms of Taiwanese investment in mainland, from 1995 to 2004, the accumulative approved Taiwanese investment projects in mainland totaled 37186 with contracted amount of USD55.72 billion and actual paid-in investment of USD31.178 billion. In the meantime, there has been some progress in relation to “three linkages”(direct posting, shipping and air linkages).

On 14 March 2005, the National People’s Congress of the People’s Republic of China passed the Anti-secession law with 2896 votes for

and 1 abstention. The Law implements China's fundamental policies of peaceful reunification and "one country, two systems" and lays a legal foundation to the Chinese government's policy of striving for peaceful settlement of Taiwanese issue over the past two decades. It has given full expression to our consistent position and proposition of utmost efforts and maximum sincerity for the prospect of peaceful reunification. Anti-secession law made provisions for following aspects:

- Stipulate the principles and policy for settlement of Taiwan issue
- Encourage and enhance the people-to-people links and economic and cultural exchanges across the Straits
- Promote "three direct linkages" across the Straits
- Protect the just rights and interests of Taiwanese compatriots
- Provide that any issues can be put under consultation and negotiation on the basis of "One-China" principle.

Meanwhile, the Law demonstrates the common will and strong resolve of the entire Chinese people to safeguard China's sovereignty and territorial integrity while never allowing the "Taiwan independence" forces to make Taiwan secede from China under any name or by any means. The Anti-secession Law is the legislation that promotes the development of cross-Straits relations and peaceful reunification, aimed to maintain China's sovereignty and territorial integrity, oppose and curb any secessionist activities as well as maintain peace and stability in the Taiwan Straits.

## **Anti-Secession Law**

(Adopted at the Third Session of the Tenth National People's Congress on March 14, 2005)

Article 1 This Law is formulated, in accordance with the Constitution, for the purpose of opposing and checking Taiwan's secession from China by secessionists in the name of "Taiwan independence", promoting peaceful national reunification, maintaining peace and stability in the Taiwan Straits, preserving China's sovereignty and territorial integrity, and safeguarding the fundamental interests of the Chinese nation.

Article 2 There is only one China in the world. Both the mainland and Taiwan belong to one China. China's sovereignty and territorial integrity brook no division. Safeguarding China's sovereignty and territorial integrity is the common obligation of all Chinese people, the Taiwan compatriots included.

Taiwan is part of China. The state shall never allow the "Taiwan independence" secessionist forces to make Taiwan secede from China under any name or by any means.

Article 3 The Taiwan question is one that is left over from China's civil war of the late 1940s.

Solving the Taiwan question and achieving national reunification is China's internal affair, which subjects to no interference by any outside forces.

Article 4 Accomplishing the great task of reunifying the motherland is the sacred duty of all Chinese people, the Taiwan compatriots included.

Article 5 Upholding the principle of one China is the basis of peaceful reunification of the country.

To reunify the country through peaceful means best serves the fundamental interests of the compatriots on both sides of the Taiwan Straits. The state shall do its utmost with maximum sincerity to achieve a peaceful reunification.

After the country is reunified peacefully, Taiwan may practice systems different from those on the mainland and enjoy a high degree of autonomy.

Article 6 The state shall take the following measures to maintain peace and stability in the Taiwan Straits and promote cross-Straits relations:

- (1) to encourage and facilitate personnel exchanges across the Straits for greater mutual understanding and mutual trust;
- (2) to encourage and facilitate economic exchanges and cooperation, realize direct links of trade, mail and air and shipping services, and bring about closer economic ties between the two sides of the Straits to their mutual benefit;
- (3) to encourage and facilitate cross-Straits exchanges in education, science, technology, culture, health and sports, and work together to carry forward the proud Chinese cultural traditions;
- (4) to encourage and facilitate cross-Straits cooperation in combating crimes; and

(5) to encourage and facilitate other activities that are conducive to peace and stability in the Taiwan Straits and stronger cross-Straits relations.

The state protects the rights and interests of the Taiwan compatriots in accordance with law.

Article 7 The state stands for the achievement of peaceful reunification through consultations and negotiations on an equal footing between the two sides of the Taiwan Straits. These consultations and negotiations may be conducted in steps and phases and with flexible and varied modalities.

The two sides of the Taiwan Straits may consult and negotiate on the following matters:

- (1) officially ending the state of hostility between the two sides;
- (2) mapping out the development of cross-Straits relations;
- (3) steps and arrangements for peaceful national reunification;
- (4) the political status of the Taiwan authorities;
- (5) the Taiwan region's room of international operation that is compatible with its status; and
- (6) other matters concerning the achievement of peaceful national reunification.

Article 8 In the event that the "Taiwan independence" secessionist forces should act under any name or by any means to cause the fact of Taiwan's secession from China, or that major incidents entailing Taiwan's secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity.

The State Council and the Central Military Commission shall decide on and execute the non-peaceful means and other necessary measures as provided for in the preceding paragraph and shall promptly report to the Standing Committee of the National People's Congress.

Article 9 In the event of employing and executing non-peaceful means and other necessary measures as provided for in this Law, the state shall exert its utmost to protect the lives, property and other legitimate rights and interests of Taiwan civilians and foreign nationals in Taiwan, and to minimize losses. At the same time, the state shall protect the rights and interests of the Taiwan compatriots in other parts of China in accordance with law.

Article 10 This Law shall come into force on the day of its promulgation.

### 3. The flourishing China-Australia relations,

#### 3.1. China's policy towards Australia

Chinese people have all along cherished amicable feelings about Australian people. As early as the mid of nineteenth century, there were already a lot of Chinese people who had sailed far across the ocean to settle down in Australia. They lived harmoniously with the local people, contributing their proud share to Australia's economy, society and its thriving pluralistic culture..

The People's Republic of China and the Federation of Australian established formal diplomatic relation on 21 December 1972. It was solemnly stated in the joint communiqué upon the establishment of diplomatic relations: **“The two governments agree to develop diplomatic relations, friendship and co-operation between the two countries on the basis of the principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence.”**

The President of China, Hu Jintao made a successful visit to Australia in October 2003. Both parties reached consensus on shape a **“relationship of all-round cooperation that features a high degree of mutual trust, long-term friendship and mutual benefits, a relationship that makes two peoples both winners.”**

On 24 October, in his speech titled *Jointly Create a Bright Future for All-round Cooperative Relationship between China and Australia* to the Federal Parliament of Australia President Hu Jintao pointed out that **“the bilateral ties have stood the test of time and international vicissitudes, and made steady headway over the past three decades since China and Australia established diplomatic relations.** To consolidate and develop its all-round cooperation with Australia is a key component of China's external relations. We have always viewed our friendly ties with Australia from a strategic and long-term perspective. To cultivate deeper and all-round cooperation between the two countries is the common aspiration of the two governments and peoples”.

President Hu's successful visit has opened a new chapter in China-Australia relations and pushed the bilateral ties into a new era of accelerating and all-round development.

In November 2004, President Hu Jintao and Premier Wen Jiabao respectively held meetings with Prime Minister John Howard on the APEC Conference in Chile and "10+3" Conference in Laos. They exchanged their views on bilateral ties and the regional and international issues of mutual interest. President Hu Jintao has proposed four measures to further enhance China-Australia relations:

- First, both sides should continue to maintain the momentum of exchanges of high-level visits.
- Second, both sides should strengthen mutual political trust and understand and support each other on issues involving significant and core interests of each other.
- Third, both sides should deepen economic and trade cooperation and expand collaboration in energy resources and high and new tech.
- Fourth, both sides should strengthen coordination and cooperation in international and regional organizations and enhance consultation and dialogue in significant international and regional issues.

Premier Wen Jiabao pointed out, "The development of China-Australia relations has kept a good momentum. China and Australia are two countries of different social systems. The healthy development of China-Australia relations suggests that it is completely possible for two countries of different social systems to develop a friendly relationship."

Mutual respect for each other's interest and concerns over key issues is the basis for constant development of friendly and cooperative bilateral ties between China and Australia. Taiwan issue involves China's core interest. It is clearly stated in the communiqué signed when the diplomatic relations was established in 1972:



**“The Australian Government recognizes the Government of the People’s Republic of China as the sole legal Government of China, acknowledging the position of the Chinese Government that Taiwan is a province of the People’s Republic of China”**

Australia Government has adhered to the One-China policy. Its clear-cut attitude against Taiwan Independence is valuable support to the course of China’s peaceful reunification and is conducive to the peace and stability in the region. Chinese Government appreciates such position and expects Australia to persist in it.

### **3.2. Economic cooperation**

China and Australia are important partners in economic cooperation. According to Chinese customs, the trade volume between the two countries reached USD20.39 billion in 2004, a rise of 50.3 per cent compared to 2003 that is only second to Canada among China’s major trading partners. Compared to 2003, China’s export to Australia grew by 41 per cent amounting to USD8.84 billion while China imported USD11.55 billion worth of goods and services from Australia, an increase of 58.2 per cent. .

China is now Australia’s 3<sup>rd</sup> largest trading partner and 2<sup>nd</sup> largest export market. Australia is China’s 9<sup>th</sup> largest trading partner. The bilateral trade volume will break through USD50 billion as long as the annual growth rate of 30 per cent is maintained.

The fast growth of bilateral trade is largely attributed to the fact that the two countries enjoy high complementarities economically. Top of the list of Australia’s export to China are Iron ore, aluminum oxide, wool, crude petroleum, coal, aluminum, manganese ore, wheat, barley, copper ore, mechanical and electrical products. China’s major exports to Australia include mechanical and electrical products, IT products, clothing, textile, footwear, toy and furniture. Merchandises of high complementarities accounted for about 80 per cent of the bilateral trade total.

**Chart 6 : China-Australia Major Imports & Exports**  
( 2003/04 Financial Year )

	<b>Australia's Exports to China</b>	<b>Value ( AUD 100 million )</b>	<b>Growth%</b>	<b>Australia's Imports from China</b>	<b>Value (AUD 100 million)</b>	<b>Growth%</b>
<b>No.1</b>	<b>Iron ore</b>	<b>18.94</b>	<b>11.7</b>	<b>Clothing</b>	<b>24.19</b>	<b>-2</b>
<b>No.2</b>	<b>wood</b>	<b>10.66</b>	<b>-18.5</b>	<b>Computer</b>	<b>14.04</b>	<b>41.7</b>
<b>No.3</b>	<b>Crude Petroleum</b>	<b>6.7</b>	<b>27.1</b>	<b>Toys and Sports equipment</b>	<b>9.74</b>	<b>9.1</b>
<b>No.4</b>	<b>Coal</b>	<b>3.25</b>	<b>51.2</b>	<b>ICT</b>	<b>7.22</b>	<b>46.4</b>
<b>No.5</b>	<b>Aluminum</b>	<b>2.76</b>	<b>29.6</b>	<b>Furniture</b>	<b>5.62</b>	<b>23</b>

Sources: Composition of Trade Australia 2003/2004 by DFAT Australia

However, the China-Australia trade volume still only makes up less than 2 per cent of China's total foreign trade volume and less than 10 per cent of Australia's total. There are still great potential in the growth of mutual economic cooperation.

Energy and mineral resources are dominant fields of cooperation in China-Australia economic relations. China is relatively rich in the total quantities of energy and mineral resources. However, the share per capital is only 58 per cent of that of world average, ranked world No. 53. Along with the progress in the industrialization, the structural problems in China's resources have loomed large. Staple mineral resource and energy are of short supply, the foreign dependency on crude petroleum, iron ore, aluminum oxide, nickel has exceeded 40 per cent. In addition to fully and reasonably making use of domestic resources, Chinese government has encouraged the vigorous participation in various forms of international resources cooperation including signing long-term supply contract, foreign investment and joint exploitation

## Chart 7 : China-Australia Bilateral Trade over the Years

USD 100 million

Year	Total Trade Volume	Growth%	Exports to Australia	Growth %	Import from Australia	Growth %
1972	0.86	—	0.47	—	0.39	—
1973	2.16	151.16	0.82	74.47	1.34	243.59
1974	4.76	120.37	1.12	36.58	3.64	171.64
1975	4.73	-0.6	0.7	-37.5	4.03	10.71
1976	4.15	-12.26	0.89	27.14	3.26	-19.11
1977	6.76	62.89	1.01	13.48	5.75	76.38
1978	8.32	72.92	1.17	15.84	7.15	24.35
1979	11.41	37.14	1.56	33.33	9.85	37.76
1980	12.73	11.57	2.23	42.95	10.5	6.6
1981	9.01	-29.22	2.25	0.99	6.76	-35.62
1982	11.21	24.41	2.06	-8.44	9.15	35.36
1983	7.59	-32.29	1.8	-12.62	5.79	-36.72
1984	11.83	55.86	2.29	27.22	9.54	64.77
1985	12.59	6.42	1.82	-20.52	10.77	12.89
1986	16.17	28.43	2.10	15.38	14.07	30.64
1987	16.18	0.62	2.97	41.43	13.21	-6.11
1988	14.69	-9.21	3.61	21.55	11.08	-16.12
1989	18.94	28.93	4.23	17.17	14.71	32.76
1990	18.09	-4.48	4.55	7.56	13.54	-7.95
1991	21.00	16.08	5.44	19.56	15.56	14.92
1992	23.30	10.95	6.6	21.32	16.7	7.33
1993	30.04	28.92	10.6	60.6	19.44	16.41
1994	39.40	31.16	14.88	40.38	24.52	26.13
1995	42.10	6.85	16.3	9.54	25.8	5.22
1996	51.00	21.14	16.7	2.45	34.3	32.94
1997	53.00	3.92	20.5	22.75	32.5	-5.25
1998	50.30	-5.09	23.4	14.15	26.9	-17.23
1999	63.11	25.5	27.04	14.3	36.07	34.5
2000	84.50	34.1	34.3	26.8	50.2	39.2
2001	89.97	6.5	35.7	4.1	54.26	8
2002	104.36	16	45.86	28.5	58.5	7.8
2003	135.6	30	62.6	36.5	73	24.8
2004	203.9	50.3	88.4	41	115.5	58.2

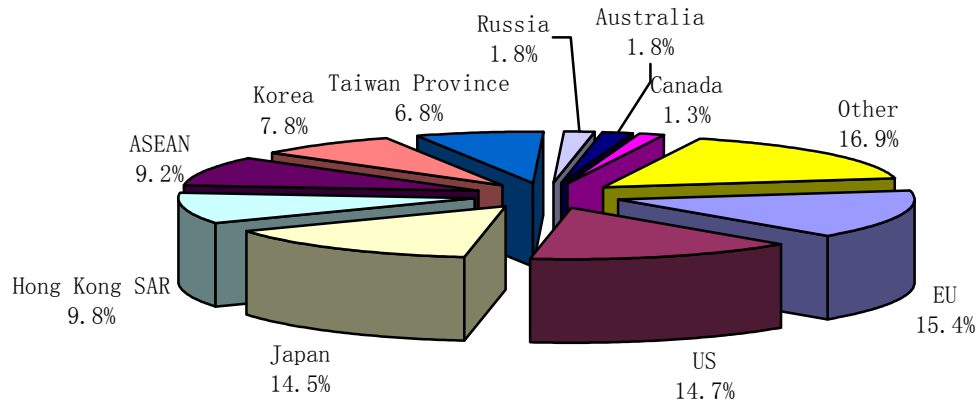
Sources: China's Customs Statistics

Australia is rich in energy and mineral resources reserve. It has sound legal and commercial systems and stable social and economic condition. The transit time from China to Australia by sea is only 9 days. Therefore, Australia becomes an ideal partner in China's implementation of its overseas energy and mineral resources strategy.

The cooperation between China and Australia has been to mutual benefits that would make the two countries both winners. In 2003, China has imported from Australia energy and mineral products amounting to USD3.82 billion, constituting 52.3 per cent of China's import total from Australia. According to Australian Bureau of Statistics, China is No. 1 importer of Australia iron ore, No. 2 of other mineral ores excluding iron, copper and aluminum, No. 3 of copper ore, crude petroleum, nickel and No.4 of copper and No. 5 of aluminum. The official start of the LNG project in Guangdong Province in 2006 will make Australia well on its way to become China's largest sources of LNG.

So far Chinese companies have invested in more than 20 Australia's major resources projects with agreed invested amount of about AUD4 billion. In 2004, Bao-Steel Eastern Range Iron mine, the joint venture between Bao-Steel and Rio Tinto went into production. Four Chinese steel mills led by Wuhan Iron and Steel signed agreements with BHP Billiton in mining Wheelarra Iron Mine. Shandong Yanzhou Mineral Group successfully acquired Southfield Coal Mine in NSW. In terms of investment amount Australia has become China's No. 4 foreign investment destination excluding Cayman Islands and British Virgin Islands, Numerous Australian mineral companies have also invested one after another participating in the mining of nickel, copper and gold in China.

**Chart 8: Percentage of China's Top 10 Trading Partners in China's Foreign Trade Total**



Source: Ministry of Commerce, China

Although agriculture and husbandry only accounts for 3 per cent of Australia's GDP, Australia is world's leader in terms of output and export volume of agrifood such as wheat, barley, cotton, wool, beef and mutton and dairy products. With the improvement in the people's quality of life, China's consumption demands for these products are on the increase. There are also greater room for further strengthening the cooperation in the field of agriculture and husbandry. China is now Australia's No. 3 export market of agrifood and Australia has become China's leading sources of wool, raw sheep skin, animal fat, livestock, grain, dairy products and wine.

According to Chinese customs, in 2004, China's import of agrifood from Australia amounted to USD2.437 billion, about 20 per cent of China's total import from Australia. With China's wheat import of 1.786 million ton that has increased by about 200 times that of 2003, Australia has become China's largest wheat supplier. The imports of barley and cotton have also increased by more than 100 per cent and 300 per cent. In addition, at a time when Australia's overall wool export has dropped more than 20 per cent in a overall dull global market in 2004, China actually imported 159 thousand tons of wool from Australia, a rise of 57.6 per cent compared to 2003 with total value exceeding USD900 million. Australia wool has taken up more than 80 per cent market share in China's wool import market. Australia is also China's largest supplier of breeding stock. China

has imported a large number of milk cows, breeding sheep and embryos of calf and sheep. In 2004, China imported more than 70 thousand milk cows from Australia, 68.6 per cent more than 2003, making up over 70 per cent of China's total import of milk cows.

China and Australia have also achieved remarkable success in exchanges and cooperation in the fields such as agricultural technologies, breeding stock raising, marketing of agricultural products, food production, safety and management issues. Through such cooperation, China has drawn on the Australia's experience in the agricultural development. The introduction of advanced Australia's expertise in agricultural technology and research has contributed to the enhancement of China's overall agricultural development level. Australia has also benefited from the agricultural cooperation in particular agricultural trade between the two countries. In future, China will further increase the import of grain with high-protein content from Australia and push forward the technological cooperation and trade in relation to beef cow, meat sheep and milk cow. The trend of introducing Australian fine breed of cattle will also continue. China is looking forward to further drawing on Australia's experience in the field of breeding know-how and development and utilization of grassland resources. In the meantime, there are also opportunities for strengthening the technological exchanges of animal health information and animal epidemic prevention as well as developing the cooperation in setting up non-stipulated animal quarantine zones.

Both China and Australia are technological powers. There are great potential of collaboration with either country has its own evident advantages in science and research. Since the two countries signed the Intergovernmental Technology Cooperation Agreement in May 1980, the exchanges between the technological personnel have been on the increase and the scopes of cooperation have been continuously expanding. The Ministry of Technology of China and Australia Ministry for Education, Science and Training has held 5 China-Australia Technological Cooperation Joint Committee conferences. They have determined on over 70 official cooperation projects in fields covering agriculture, nuclear technology, metallurgy, geology, meteorology, space, telecommunication, environment, material, biology, pharmaceutical and health, traditional Chinese

medicine and fundamental science. On the 5<sup>th</sup> meeting held last year, both sides decided that apart from the scheduled conference held once every three years, they were going to have an annual meeting in order to catch up with world updated technology and meet the needs of the rapid development in the scientific and technological cooperation between the two countries. In 1999, the two countries have jointly set up a special cooperative fund aimed to commonly enhance the scientific and technological levels. Recently there has been significant progress in terms of cooperation between the two countries in a wide range of fields such as R&D of SARS vaccine, building high-level biological safety laboratory, ICT, technology industrialization and the Olympic games. The China-Australia Technology Cooperation Information Network will also be launched soon. Also well under way is the active mutual discussion about setting up a “Technology Park” in Australia, aimed at attracting Chinese enterprises’ investment and facilitating the industrialization of the R&D outcomes on the spot.

The opening scope in the services sector in China has been constantly expanding following China’s accession to WTO, which offered important opportunities for Australia’s No.1 industry-tertiary industry. Australian companies in fields of finance, insurance, education, tourism, legal consultation, architectural services, transport have continuously making headway in China market. The figure from DFAT indicates that Australia’s service exports to China grew to AUD1.27 billion in 2004, 25 per cent higher than previous year, making 3.7 per cent of Australia’s total services export. China has already become Australia’s No. 7 services export market.

Australian financial institutions including major banks have accelerated their speed at entering China market. At present, four leading commercial banks of Australia have all set up their branches or offices in China engaged in business ranging from insurance, fund management to property investment. Last year, Commonwealth Bank bought in 11 per cent share of Jinan Commercial Bank, one of the top 10 City Commercial Banks in China laying a good foundation for both sides to develop cooperation in retail banking. ANZ bank is currently undergoing the share buy-in discussion with Shanghai Agricultural Credit Union following the establishment of partnership in 2003. Other leading financial institutions such as Macquarie Bank,

AMP are also vigorously seeking opportunities in banking, insurance and pension sectors in China.

**Chart 9: China's Ranking in Australia's Major Exports  
( 2003/04 Financial Year )**

<b>Ranking</b>	<b>Export item</b>	<b>Value ( AUD 100 million )</b>	<b>percentage ( % )</b>
<b>No.1</b>	Wool	10.66	42.8
	Iron ore	24.54	47.1
	Paint	1.45	25
	Animal fat and grease	1.2	48
	Scrap iron	0.76	25.5
	Non-iron scrap metals	2.02	55
<b>No.2</b>	Live cattle	1.24	15.1
	Non-processed leather	1.76	27.2
	Cotton	1.86	18.9
	Other ores (excl. iron, copper, aluminum)	2.38	18
	Internal-combustion engine?	0.78	14.6
	Special machinery	0.66	13.2
	Cooling and heating equipment	0.14	6.7
	Mechanical controlling equipment	0.29	13
<b>No.3</b>	Copper ore	2.1	17
	Crude petroleum	6.7	14.4
	Leather products	0.39	8.6
	Paper and cardboard	0.51	8.9
	Nickel	0.83	17.3
	Circuit and electronic equipment	0.23	6.5
<b>No.4</b>	Fish (fresh and frozen )	0.05	1.4
	Shelled seafood	0.62	7.8
	Copper	1.22	9.5
	Measuring and controlling equipment	0.39	5.9
<b>No.5</b>	Inorganic chemicals	0.18	5.8
	Medicine and drugs	0.14	5.2
	Aluminum	2.76	7.3
	Non-iron basic metals	0.1	4.6
	Civil engineering equipment	0.2	6.8

Sources: Australia DFAT



NB: Item with asterisk (\*) is 2004 figure. In 2003/04 financial year, Australia's iron ore export to China amounted to AUD1.894 billion, 11.7 per cent higher than the previous year. China is the second largest export market of Australia's iron ore.

China is by far Australia largest source of foreign students. According to Australia's embassy in China and DIMIA, The number of mainland Chinese student enrolments was about 50,000 in 2004, accounting for 42 per cent in the total increase of foreign students. China topped the list among all the countries with granted student visas reached 17,000. The total of Chinese students studying in Australia totaled about 100,000 if those from Taiwan, Hong Kong and Macau were taken into account. Australia CIE forecasts that the number of mainland Chinese students studying in Australia will grow to about 120,000 by 2020, a rise over 15 per cent, bringing AUD2.4 billion income to Australia. In October 2003, the two government signed *Agreement on Mutually Recognition of Higher Education Diploma and Degree Certificate* that broaden the prospect for growing Australia's education export to China. China's education market will bring greater benefits to Australia in line with the trend that many Australian universities are setting up campus or forming partnership with universities in China.

China is Australia's fastest-growing overseas tourist market. According to China's Bureau of Tourism, in 2004, 251,200 Chinese traveled to Australia, more than six times the number of 1995, comprising 9 per cent of the outbound Chinese travelers and 5 per cent of overseas visitors to Australia. Figures from Australian Bureau of Tourism shows that in 2004, the average spending of a Chinese visitor was AUD2200 with an average stay of 10 days, far exceeding those of an average Japanese visitor. It is forecasted that Chinese visitor numbers could rise to 1.4 million by 2012 at a growth rate between 15 per cent and 30 per cent, making China Australia's largest source of overseas visitors.

**Chart 10 : Comparison of China-Australia Service Competitiveness Index**

	2000	2001	2002	2003
Australia	1.19	1.07	1.06	1.02
China	0.50	0.49	0.49	0.76

Sources : OECD

### **3.4 FTA progress**

Australia-China Trade and Economic Framework was signed during the President of China, Hu Jintao's visit to Australia in October 2003. Both parties agreed that "by means of all-round economic and trade cooperation, both parties will cooperate to achieve balanced and comprehensive trade and investment facilitation and liberalization" and "will jointly undertake a feasibility study into a possible bilateral Free Trade Agreement (FTA) negotiation". Australia also "recognizing China's tremendous achievements in establishing a market economy" and "will not apply Sections 15 and 16 of the Protocol of Accession of the People's Republic of China to the WTO and Paragraph 242 of the WTO report of the Working party on the Accession of China during the course of the study". Both parties have also reached consensus that "a joint decision by the two Parties to negotiate an FTA" will "only follow Australia's formal recognition of China's full market economy status".

The Working Group of FTA Feasibility Study has since held six meetings thereafter. Governments and relevant academic and research institutions in both nations have jointly worked on drafting the Report of FTA Feasibility Study. In March 2005, during his visit to China, Minister for Trade Mr. Vaile and Mr. Bo Xilai, China's Minister of Commerce reached common understanding in relation to the content of the Report of FTA Feasibility Study. The consensus is that "under a possible FTA negotiation, products across all sectors would be negotiable, involving liberalization and facilitation of goods and services, and the issue of investment flows would also be addressed, with a view to achieving a balanced outcome through a single undertaking."

The establishment of FTA is of great importance to the development of China-Australia relations. In view of the strong complementarities between the two nations, FTA shall be able to achieve win-win outcome to mutual benefits. According to the Report of FTA Feasibility Study, if the Free Trade Zone is established in 2006, the annual growth of GDP in both nations will increased by 0.04 per cent

over the next ten years thereafter. In addition, Australia's export to China will gain an extra growth of 14.8 per cent while China's export to Australia an extra 7.3 per cent.

**Chart11:Trade and Economic Framework between Australia and the People's Republic of China**

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

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

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

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

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

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

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

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

Have arrived at the following understandings:

### **-Paragraph 1-**

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

### **-Paragraph 2-**

The Parties will take steps to promote strategic cooperation in key sectors with outstanding potential, inter alia, energy and mining; textiles, clothing and footwear; agriculture; mechanical and electronic products; tourism; education; inspection and quarantine; customs cooperation; environmental protection; investment; information and communications technology; biotechnology; public health; food safety; and intellectual property rights. The Parties will facilitate mutual business travel and the activities of business associations. They also will participate jointly in China's Central and Western development initiatives. The cooperation in the above-mentioned areas and related initiatives will assist firms of both countries to identify commercial opportunities and strengthen bilateral trade and investment. See Annex I for details on sectoral strategies.

### **-Paragraph 3-**

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

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

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

**-Paragraph 4-**

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

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

**-Paragraph 5-**

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

**-Paragraph 6-**

The Parties recognise that all national government measures which impact on bilateral trade and investment should be carried out in a reasonable, objective and transparent manner. The Parties will afford adequate opportunity for consultations to

exchange information on issues raised by the other country with respect to such matters.

**-Paragraph 7-**

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

**-Paragraph 8-**

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

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

**-Paragraph 9-**

The Parties will establish a Joint Committee on Trade and Investment under the framework of the Australia-China Joint Ministerial Economic Commission to review progress in

implementing this Framework, and to report to the Ministers of both countries.

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

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

**-Paragraph 10-**

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

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

SIGNED at Canberra 24 of October 2003.

For the Government of Australia  
Mark Vaile, Minister for Trade

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