



# reform agenda needs stronger drive

**e**conomic issues barely registered in Australian current affairs during the first weeks of 2002. Headlines and air time were, understandably, grabbed by who knew what and when about children not being thrown overboard, what Peter Hollingworth did and ought to have done about child abuse in his diocese, and whether Steve Waugh should have been dropped as captain of Australian's one day cricket team.

A lot of Australians may not have noticed that the world economy is going through one of its worst downturns in nearly three decades, with many of our trading partners in deep recession.

Part of the reason for this general nonchalance is that our own economy has – so far – sailed through this global turbulence relatively unscathed.

Carried by its own cyclical upswing from the trough of the 2000-01 slowdown, along with some added momentum from loose fiscal policy in the lead-up to last year's election, there is every reason to hope that the strength of domestic activity will persist until international growth picks up again later in the year.

Rather than taking this good fortune for granted as the natural economic condition of the lucky country, policy makers should be thinking very carefully about how it came about, and what is necessary to sustain and consolidate it.

For even as Australia's economic resilience provides further evidence of the benefits of past reforms instituted by both Labor and Coalition administrations, neither side of politics seems keen to promote debate about economic policy issues in a systematic and considered manner.

Of course, specific economic policy issues are addressed, as they must be, when the need arises.

## I N S I D E

### Group Training - The Quiet Achiever.

The Australian National Training Authority is conducting a National Review of Group Training. The review is examining the current regulatory, operational and funding requirements of Group Training Organisations and what changes to these arrangements are required to ensure the most effective operations for the future. Group Training has been reviewed a number of times in recent years with no real outcome. This represents the best opportunity to progress this important initiative with relevant Federal and State/Territory Ministers scheduled to consider findings in May 2002. **PAGE 7**

**China and the WTO.** China's membership of the WTO brings one of the world's fastest growing economies into the rules-based multilateral-trading system after an absence of more than half a century. It also holds out the potential for consolidating and carrying forward China's domestic economic liberalisation agenda which will create new trade opportunities for Australian exporters. **PAGE 10**

This year's review of the Trade Practices Act will test the government's commitment to free enterprise.

The 2002-03 Budget in a couple of month's time will strain the government's commitment to prudent fiscal management as it struggles to manage the effects of spending blow-outs – some deliberate and some unavoidable – on its bottom line.

But governments should do more than reacting to issues as and when they arise. They should have a coherent and consistent program for economic management; and they should be prepared to uphold, explain and justify that approach to the wider community.

Neither the Government nor the Opposition is promoting such a program at present.

For the Labor Party, this might seem understandable. It is seeking to restructure its policy platform in the wake of its election loss.

In the process, it would do well to remember that the economic strength carrying Australia through the global downturn – and which may have helped to carry the Coalition into office last November – is in part a result of policies implemented under past Labor Governments.

The Hawke-Keating Governments laid a foundation of reform that helped to create the modern, competitive and flexible economy serving Australia so well today. The dismantling of tariff protectionism, the implementation of National Competition Policy and financial

market deregulation, among many others, were Labor reform initiatives contributing to the competitiveness and flexibility of today's economy.

The Coalition should have less need for soul-searching.

It expanded the reform agenda into areas where Labor had feared to tread – notably indirect tax reform and industrial relations reform – and redressed a key economic policy failing of its Labor predecessors by repairing the budget deficit.

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The Coalition won the 1998 election on a record of fiscal stringency and a platform of promised tax reform. It won the 2001 election against an Opposition which believed, mistakenly, that electoral antipathy to the GST would help to force a change of government.

Its election victories came at a time when the strength and durability of Australia's economic expansion was in marked contrast both to the experience of most other developed economies, and to Australia's own record of the 1970s and 1980s.

The benefits of reform have seldom been more evident, and party room voices counselling against it in the name of political expediency have seldom seemed

less plausible. This is, after all, the beginning not the end of the electoral cycle.

In this context, the absence of clear and consistent Government advocacy of reform is both disappointing and puzzling.

It is true that both the Coalition's election promises and the Governor General's speech at the opening of Parliament signalled that further reforms are on the Government's agenda. The Government has not turned its back on reform.

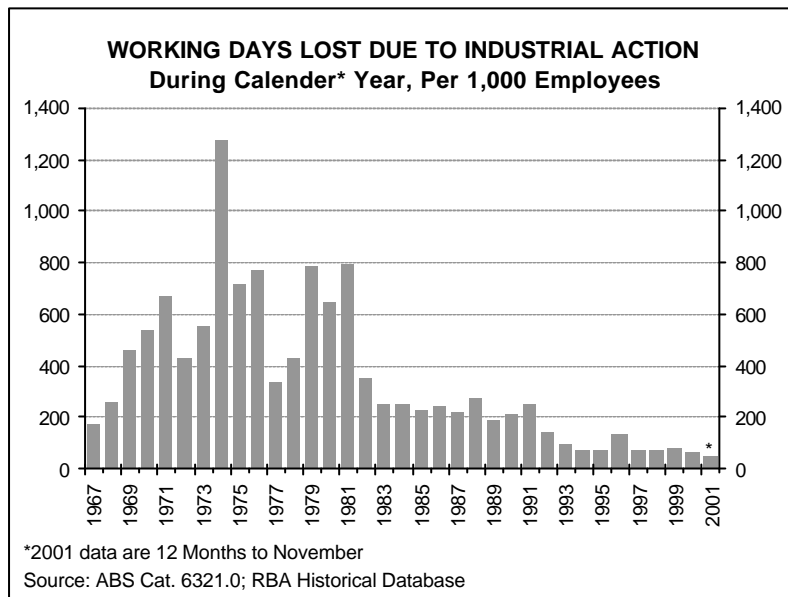
But it appears low on the agenda, and the Government shows little of the enthusiasm for explaining and promoting its ideas which accompanied its most important and beneficial reforms of recent years – in industrial relations, taxation, and fiscal management.

It is not as though nothing remains to be done. The following review of some key ACCI policies shows how many important policy items remain to be addressed.

## INDUSTRIAL RELATIONS

The State and Commonwealth industrial relations reforms of the past decade have contributed to major changes in productivity and workplace harmony that would have seemed utterly unattainable 25 years ago. Working days lost to industrial disputes are at their lowest levels ever.

Productivity growth has underpinned expansion of the economy and increases in real wages. Employment has reached record levels, and unemployment has fallen.



ACCI believes the greatest improvements in economic performance and efficiency will come through removing impediments. However government has a role in facilitating adjustment processes in response to technological and policy changes, and correcting underlying market failures, particularly where benefits accrue to the wider community as well as individual enterprises.

Key objectives from ACCI's industry policy platform include:

Further reforms are proposed, but these represent incremental improvements at best on the industrial relations framework already in place.

ACCI believes that broader industrial relations reforms are needed to build on the improvements already achieved. These should include:

- The promotion of freedom of choice for employers and employees in their workplace arrangements
- The active promotion and encouragement of the use of enterprise agreements, individual agreements and other options including internal regulation agreements
- A reduction in the influence of awards and tribunals
- The promotion of enterprise development, productivity and efficiency
- The encouragement of participative management approaches

- The encouragement of performance based remuneration.

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**INDUSTRY POLICY**

Australia needs a comprehensive industry policy encompassing reform and growth through cooperation.

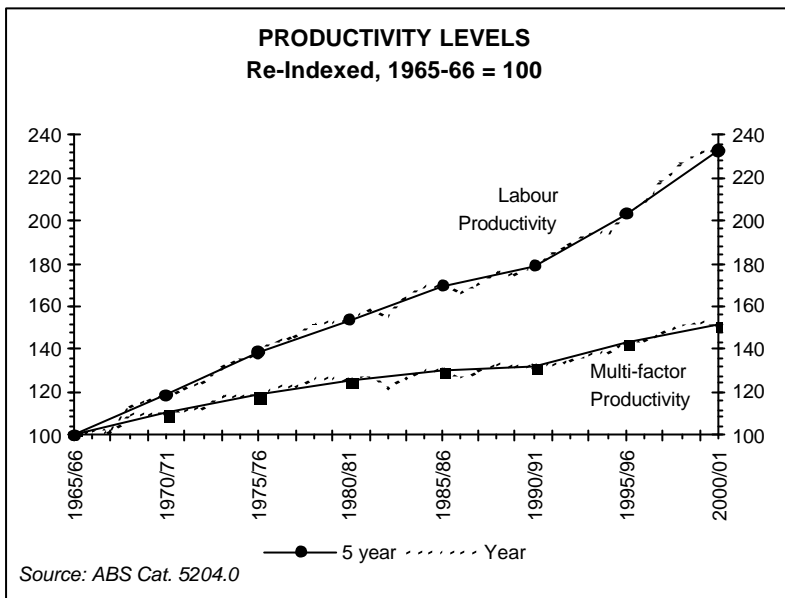
Business seeks an environment in which industry and enterprises can assist themselves, in which firms can increase their investments and growth, and become more competitive, efficient, and export-oriented. Markets will work well through the provision of a stable macroeconomic environment, an appropriate microeconomic environment based on minimising impediments to the effective operation of market forces, and the provision of an adequate, high-quality and efficient economic infrastructure system.

- a more coordinated approach to government involvement in industry affairs
- comprehensive microeconomic reform
- realistic assessment of competitive characteristics of firms and sectors
- contestability and continuous evaluation of programs
- consistent criteria and principles should underpin all areas of government expenditure and taxation concessions including those relating to industry.

**POPULATION AND IMMIGRATION**

While community debate focuses on the issue of asylum seekers and refugee policy, Australia's lack of an underlying population strategy tends to be overlooked – although the population summit held in Melbourne in late February has helped to raise the issue's profile.

Business believes that Australia needs a population policy, but not one aimed at simplistic targeting



sceptics' who doubt that any detrimental effect exists – Australian industry recognises that it is prudent to take cost effective action now, to facilitate adjustment in the economy and to insulate as best as possible against future impacts.

Business has already adopted a range of voluntary cooperative programs such as the Greenhouse Challenge, to monitor emissions and identify actions that will improve energy efficiency and reduce carbon intensity.

of ill-defined and unattainable population targets, or intrusive attempts to dictate Australians' lifestyles. Child raising and internal migration are properly the sole and unfettered prerogative of the individual.

Population policy is not, nor should it ever become, simply a numbers game. Rather, Australian population policy must be a comprehensive statement bringing together the many threads that make up this key policy domain.

What is needed is a broad population policy framework that embraces education and training, transport, employment and labour relations, and regional development policies, to name just a few.

ACCI's overarching population policy objectives are to encourage the Australian Government to produce on a regular basis explicit, integrated and transparent statements on population policy.

While not endorsing a deterministic approach to population policy, commerce and industry would generally prefer a nation with a growing, rather than

a declining, resident population, and believes that Australia would benefit from a stable annual migration intake at levels rather higher than the average of recent years. It advocates

- a non-discriminatory immigration policy, which does not take into account characteristics such as race, religion or ethnic origin
- a stable and predictable net migration intake set over a rolling five year period, with minimal variation
- an annual net migration intake set at a minimum of 0.67 per cent of the Australian resident population.

CLIMATE CHANGE

The international community has grappled for several years with the potential for negative climate change impacts due to increasing atmospheric carbon dioxide from human activities.

Although the extent and effect of human activity on the world's climate are still far from clear – and there remain 'greenhouse

The community needs to understand that climate change adjustments will have economic impacts that will impose costs, and that sensible greenhouse policies will achieve the greatest environmental benefit for the least economic cost. This requires a market based approach focused on promoting efficiency and ensuring that policies are only implemented when their benefits can be shown to exceed their costs.

Climate change is a global issue and requires a global response. While Australia should be prepared to share in the costs of adjustment and adaptation, our efforts will count for little if there are not universal efforts, including from developing nations, to address this issue.

TRADE AND GLOBALISATION

Australia's commercial and economic interests, and those of the world economy, are best served by a free and liberal system of global trade, capital, investment and information flows.

At the same time, our commercial and economic prospects are critically dependent on broader

and deeper involvement in global affairs, with business and government working cooperatively, where appropriate, to advance our national interests.

The policy horizon of trade and international affairs is necessarily broad, embracing trade, investment and information exchanges, foreign and strategic policy, transport and migration.

Australia's longer-term economic interests are best served by our wider and deeper integration into the world economy. The world, not one region, economy or part thereof, is Australia's market place. Business must, and will, pursue international trade, commerce and investment opportunities wherever they can be found.

Artificial barriers to global trade and investment, including tariffs, quotas and increasingly non-tariff trade barriers, have to be identified and then substantially wound-back, if not eliminated, with clear and strong resolve.

This objective can best be achieved, and should be pursued primarily, through multilateral frameworks and mechanisms such as the World Trade Organisation, although bilateral and regional mechanisms that will deliver our trade liberalisation objectives should not be precluded.

**FISCAL POLICY**

One of the key achievements of the Coalition government elected in 1996 was the repair of the chronic budget deficits that developed in the early 1990s. The process took political courage and some tough decisions to restrain the growth of government spending – along with a steady rise in the tax effort – but

the effort was rewarded with a return to surpluses in 1997-98 and steady improvement in the underlying cash balance in the subsequent two years.

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That good work seems in peril of unwinding.

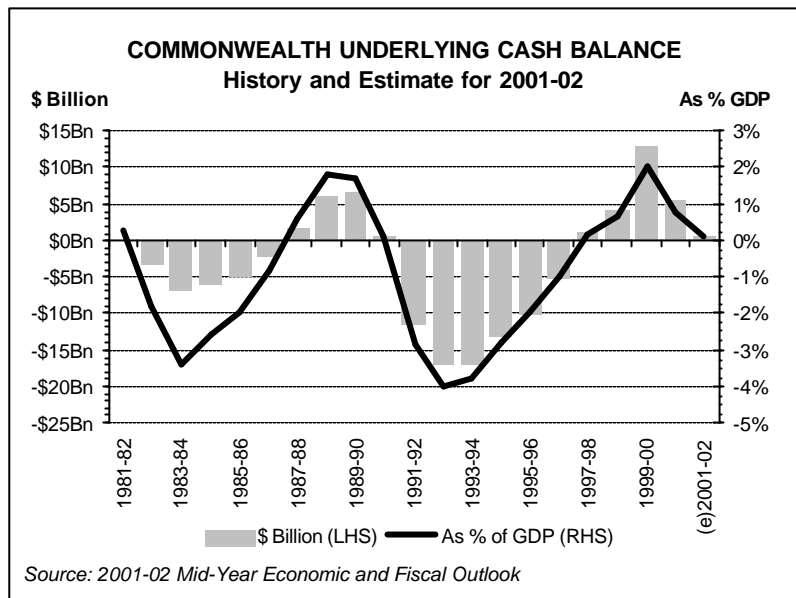
The Budget cash surplus has shrunk to negligible levels in recent years. On an accruals basis, the budget is in deficit.

In part this was caused by demands beyond the Government's capacity to anticipate or avoid, such as Australia's involvement in East Timor and Afghanistan, or the cost of implementing the Government's policies on asylum seekers.

But it also reflects policy decisions

that have successively eroded the budget bottom line, with decisions over the months leading up to last year's election almost all tending to reduce rather than enhance the budget balance. These included:

- the \$7,000 boost to the subsidy for first time purchasers of new homes
- discontinuation of the indexation of fuel excise
- the innovation statement
- easier tax reporting and remittance processes
- \$1.7 billion over 4 years for welfare reforms
- \$1.5 billion for "acknowledging older Australians" including a higher income tax threshold and a once-off \$300 payment to aged pension recipients
- assistance for agriculture and the regions including enhanced quarantine protection, rural and regional telecommunications services, and funding for roads, universities and nurses.



There should be no misunderstanding about the crucial importance of maintaining the budget in surplus. The business community will provide the Government with no leeway on this most fundamental of all macroeconomic principles. While it is possible that a deficit may occur as a result of unforeseen circumstances during the course of the year, a government should not budget for a deficit. In particular, there is no justification for a return to deficits given the ongoing strength of Australia's economy in the face of global recession, and the record tax collections now being extracted from the Australian community.

## CONCLUSIONS

These key planks of ACCI's policy platform cover very diverse subjects, principles and programs, but they share a unifying vision connecting them as a coherent whole.

That unifying theme is to generate sustained and sustainable improvements in Australians' standard of living through the implementation of policies that promote and foster free enterprise.

## THE FUTURE WELFARE OF AUSTRALIANS DEPENDS ON THE QUALITY OF DECISIONS MADE NOW

Neither the government nor the opposition is promoting a consistent and purposeful program for Australia's economy, and the result is the public economic policy vacuum we now inhabit.

Improvised and reactive responses to economic issues will place political expediency ahead of good policy to the ultimate detriment of the whole community in the long run.

In recent years both Labor and the Coalition have gained enough experience of good (and bad) policy making to provide ample case studies of role models to imitate and mistakes to avoid.

Good ideas and good examples must be combined to create comprehensive, coherent and well thought-out economic policy frameworks. This requires that political leaders focus on policies to shape Australia's future, as well as policies that respond to the demands of the present.

The future welfare of Australians depends on the quality of decisions made now, just as our current economic strength owes much to the courageous and intelligent policy decisions of reforming governments of the past.

## HIGHER TARIFFS ON STEEL - SETTING A VERY BAD EXAMPLE

The decision by the US administration to raise tariffs on steel imports is a bad decision and goes well beyond the issues of more or less foreign sales of steel into the United States. It may appease populist sentiment to resort to protectionism but the US and world economies will suffer as a result. Furthermore, this increase in tariffs sets a precedent.

What this increase in tariffs on steel has done is set a precedent that will live well beyond whatever present circumstances have led the US to take the decision it did. It will be remembered on every occasion by those who want to see increased protection in domestic markets. What's sauce for the goose, it will be said, is sauce for the gander.

A move towards higher protection has the potential to comprehensively undermine international economic recovery and growth. It will create structural impediments to efficient resource use and drive economies back towards self-sufficiency in particular products. If we see retaliatory increases in protection and a reversal of the globalised trading arrangements that have become the norm, it will have been a very black day for us all.

# group training - the quiet achiever

**T**he Australian National Training Authority (ANTA) is conducting a National Review of Group Training. The review is examining the current regulatory, operational and funding requirements of Group Training Organisations (GTOs) and what changes to these arrangements are required to ensure the most effective operations for the future. Group Training has been reviewed a number of times in recent years with no real outcome. This represents the best opportunity to progress this important initiative with relevant Federal and State/Territory Ministers scheduled to consider findings in May 2002.

ACCI supports group training as an integral component of entry level employment or skills development options for employers. GTOs are a key component in the overall policy platform in relation to New Apprenticeships. Since the introduction of group training arrangements in the 1970s, GTOs have played an integral role in implementing entry level training policy in Australia. As the apprenticeship and traineeship system has grown to over 300,000 and the occupations participating in the system have diversified, GTOs have also grown in size, quantity and diversity of service capabilities.

Group training arrangements enable employers to bring a New Apprentice into their business on an 'as needs' basis. The New Apprentice is employed by the GTO and is placed with a 'host employer'. As the employer, the GTO takes on the responsibility of paying, indenturing, supporting their employee and ensuring the New Apprentice receives the appropriate training (both on and off the job). The 'host employer' is responsible for paying the GTO wages and monitoring the New Apprentice's on the job training. These arrangements are often compared to labour hire

arrangements, the primary difference being that GTOs only employ New Apprentices. The distinctions are becoming less clear as labour hire companies employ New Apprentices and organisations undertaking group training arrangements diversify into other services.

There are currently 181 GTOs operating across Australia employing an average of 250 apprentices and trainees.<sup>1</sup> Around 38,000 New Apprentices were employed in 2000 by GTOs or around 14% of the total number. GTOs operate as industry specific, regionalised, state/territory based and national organisations. They also participate in other business activities related to apprenticeships and traineeships such as New Apprenticeships Centres (NAC), Registered Training Organisations (RTO), general labour hire, job network providers and business enterprise centres. In fact, over two thirds undertake other activity. This diversity of product offering and market positioning, ensures that employers, regardless of size, location, industry or training delivery experience can gain access to the New Apprenticeship system.

There are other policy initiatives to which group training has made a significant positive contribution.

NCVER research has found that completions of apprentices and trainees employed by GTOs have grown higher than among apprentices and trainees generally. This may be attributed to close monitoring and support given to apprentices and trainees throughout their employment and training program, the high quality of work placements, exposure to a variety of work tasks which is achieved through the rotation capacity of GTOs and/or flexibility in placing New Apprentices with other employers if difficulties arise in hosting arrangements.

GTOs provide flexibility in a constantly changing and often uncertain labour market. As has been widely acknowledged, the Australian workforce is shifting from full-time working arrangements to casual contract and part-time arrangements. Consequently, some employers are reluctant to commit to the 3 or 4 year timeframe requirement for apprentices and the 12 month timeframe requirement for trainees. Group training provides an alternative for these employers. Recently released NCVER research 'Group Training apprenticeships and traineeships in Australia' reveals that the proportion of contracts over 3 years duration is almost 10% higher for group

<sup>1</sup> NCVER 'Group Training Companies in Australia - Telephone Survey' November 2001.

training than for all apprentices and trainees. Also, group training has the highest proportion of long-term contracts of all major employer types.

This diversity and flexibility of group training arrangements emphasises the need for flexible arrangements by State and Territory and Federal Governments and GTOs must be responsive to employer needs rather than often competing interests of governments and other intermediaries. In order for growth in the group training system to continue, GTOs must be able to operate as competitive business entities, which can develop sustainable markets and provide these necessary services to employers.

**REGULATION FOR 'QUALITY'S SAKE'**

As an employer, all GTOs must comply with the range of relevant State and Federal legislation such as industrial relations, occupational health and safety and superannuation. This is the case with every employer in Australia. If a business employs a New Apprentice, there is additional legislation imposed by the States and Territories which must be adhered to. These requirements are outlined in the Training Contract signed by the employer and New Apprentice.

The existing additional regulatory arrangements for GTOs vary considerably from State to State with all GTOs being required to go through additional hoops prior to operating at all, either from legislation or the State refusing to register agreements (which has the same effect), to voluntary codes of practice. Often these requirements

have been introduced in order to ensure 'quality' training arrangements, as a risk management strategy to prevent the company from going out of business or to 'control' the number of organisations delivering services in a particular market. There are a vast array of regulatory requirements.

Ultimately the final determinant of the quality of service provided by a group training organisation is the host employer and their willingness to use a particular organisation's services and group training arrangements over direct employment.

Group training organisations are not responsible for the delivery of training – Registered Training Organisations are and monitored by the relevant State Training Organisations through a nationally agreed framework. GTOs assist host employers in meeting the training requirements as set out under the Training Agreement.

It would appear that some jurisdictions are using arguments to justify control of a diverse business service activity.

No amount of monitoring by a government agency can guarantee the financial viability or operation of an enterprise.

This additional regulation has also created a vast and complex array of administrative procedures and reporting requirements. These need to be met by the GTO from their existing resources.

In essence, GTOs are just like any other employer. Accordingly, they should be able to operate like any other business and comply with the same legislation as any other employer.

**ROLE OF GOVERNMENTS**

The diversity of GTOs is also reflected in the way they operate. Some GTOs operate as community based, not-for-profit organisations governed by a board of directors, others are fully commercialised business entities. Some have affiliations with larger organisations, such as industry associations or training companies, while others are totally independent.

One of the major differences between GTOs is in the Government funding they access. There are currently two funding schemes which are available to assist in group training operations. They are Joint Policy funding and Group Training New Apprenticeship Targeted Initiatives Program. Each of these funding schemes has different characteristics.

The joint policy funding is distributed annually and is based on achievement of a specific number of apprentices and trainees. This funding is administered by States and Territories.

The Group Training New Apprenticeships Targeted Initiatives Program is based on achievement of growth forecasts in targeted areas. It is 'outcomes' based and is administered by the Commonwealth.

Some GTOs access some or all of this funding, while other GTOs rely solely on the profit margins in placement fees and the employer incentives available to GTOs.

Employer Incentives are different to funding which is linked to outcomes, processes or infrastructure. Incentives are

available to encourage employers to participate in the New Apprenticeship system. Commonwealth incentives are available to all employers involved in New Apprenticeships. Essentially, GTOs do not receive completion payments for higher level qualifications (including trade apprenticeships) but do get a special incentive for traineeships. This has caused concern with many GTOs. ACCI and members consider that GTOs should receive the same incentives as other employers. This would simplify the arrangements and remove some distortions.

An examination of all relevant Government funding is required to ensure an open and transparent market for GTOs and growth in this sector. There is significant support for funding programs which encourage and reward the attraction and development of new markets, provide clear direction of project outcomes and reward growth and sound business performance. ACCI has developed three general principles to government purchasing. They are as follows:

- Government should maximise the efficiency and effectiveness of its spending on goods and services;
- there should be open competition, ie unrestricted, universal access and the procurement process itself should be transparent; and
- purchasing decisions should be made on the basis of value for money, incorporating price, quality and program life.

ACCI believes that these principles should be applied to the funding arrangements for GTOs. Our position is that both Joint Policy funding as well as the Targeted Initiatives funding should be pooled and be made available to GTOs via an open tender process. The tender process would be administered jointly by State/Territory and Federal Governments and should identify specific outcomes from the funding in terms of projects and deliverables on the projects. The outcomes should be from within the following priority areas:

- skill needs (eg emerging industries, skill shortages, higher level skills, traditional trades, emerging and restructuring industries)
- disadvantaged groups (eg indigenous, non-traditional, disabilities, out-of-trades, NESB); and
- rural and remote (as published by an individual STA).

GTOs should be able to tender for funding in all or some of these priority areas.

An annual process of priority setting should be established to identify on a national basis, specific areas to be targeted under these priorities. It is essential for industry to take a lead role in this process to ensure the targeted areas will meet industry needs.

In order to be eligible for Government funding, ACCI accepts the need for an agreed national process which allows governments to determine the capacity of the

organisation to deliver and meet expected outcomes under contract. These would need to be supported by appropriate monitoring arrangements, if these arrangements are established it should be recognised nationally and be one agreed set of standards applying across the country. There should be no need for supplementary State processes for additional requirements.

The implementation of these new tender arrangements nationally, will encourage new entrants to the group training market. Therefore it will be necessary to examine the total resourcing supplied to this area.

In conclusion, ACCI advocates:

- open and transparent tender processes for purchase of group training activity for appropriate target areas agreed by industry;
- treatment of group training as any other business service industry category by government agencies with relevant regulation applying, including training requirements;
- that Commonwealth incentive arrangements apply to GTOs as well as other businesses;
- mutual recognition across States and Territories to operate; and
- an appropriate national framework established in order for GTOs to access Government funding, as they consider appropriate to meet their desired servicing arrangements.

# china and the wto



China's membership of the World Trade Organisation brings one of the world's fastest growing economies into the rules-based multilateral-trading system after an absence of more than half a century. It also holds out the potential for consolidating and carrying forward China's domestic economic liberalisation agenda, both of which will create new trade opportunities for Australian exporters.

As Australian Trade Minister Mark Vaile quite correctly observed: "China's membership of the WTO will be good for Australia, good for China, good for the region, and good for the rules-based multilateral trading system."

Without doubt, China's accession to the WTO will deliver a number of substantial domestic economic, legal and political benefits.

On the economic front, these will include further cementing the foundations for, and adding momentum to, the domestic reform process, especially the continued expanding role for the private sector in the Chinese economy.

The magnitude of these reforms should not be underestimated, involving continued reductions in the size of massive government ministries and the huge task of overhauling the 60,000 state-owned enterprises most of which operate on a Marxist central planning model.

On the legal front, it should also add momentum for the development of the rule of law within China, and the progressive winding back of the 'rule of the Party', both of which will be necessary for dealing with the problem of corruption which has the potential to undermine China's longer term commercial and economic prospects.

## AUSTRALIA-CHINA TRADE

China has been, and is likely to continue to be, one of Australia's

fastest growing and most important trading partners.

On the manufactures front, China is Australia's fifth most important export destination, accounting for just over 5 per cent of our export income from such products, and our third most important source of such imports (with a share of our 7 per cent).

These imports mainly take the form of clothing (around one-fifth of our manufactured imports from China), toys and games, footwear, televisions and radios, and computer equipment.

While the trade in services is somewhat less substantial, China is still an important trading partner in this fast-growing stream of international trade and commerce. According to official figures, bilateral trade in services topped \$A 1.2 billion in 1999, with China accounting for just over 2 per cent of our exports of services in that year.

## THE ECONOMIC DIVIDENDS

China's accession to the WTO is likely to have substantial, positive economic benefits for China, for Australia and for the world trading system, according to a range of economic studies undertaken over the past few years.

A study by the Australian Department of Foreign Affairs and Trade (DFAT) released in 1997 predicted China's accession to the

WTO would add around 4.6 per cent to China's, and almost 2 per cent to Australia's, national output by 2020.

Other studies tell a similar story. One by the World Bank forecast China's membership of the WTO would see its share of world exports more than treble (to almost 7 per cent) in the first decade after accession, with its share of global imports jumping by a factor of 5 (to some 6.5 per cent) over the same period.

Research by private sector financial institutions also points to China's membership of the WTO reinforcing its already strong position as a destination in Asia for foreign direct investment, where it already captures around 80 per cent of such inward flows. Economists predict China could take-in as much as \$A 90 billion annually in foreign direct investment by 2005, more than double the \$A 40 billion last year.

## CHALLENGES FOR CHINA

Membership of the WTO will not be without its challenges for China, many of which were recognised by its political leadership during the 15 year-long period of accession negotiations (lasting from 1986 to 2001).

(The duration of the accession process reflected the need for China to negotiate both individually and collectively with WTO members, the stops-starts associated with international diplomacy and the intervention of non-trade issues,

such as human rights, from time-to-time in some of the negotiation processes.)

Such challenges will revolve particularly around the short-term strains of adjustment for what have traditionally been cosseted rural and highly protected industrial sectors.

A study by the United States' International Trade Commission (ITC) has warned China can expect some short term pressures in the early part of this decade as import growth outstrips export growth as a consequence of the reduction of existing trade barriers.

Adjustment pressures are likely to be particularly acute in inefficient and uncompetitive state-owned enterprises, resulting in bankruptcies and unemployment in many of these lumbering behemoths.

Industries likely to be hard-hit include those in the highly-protected agricultural, telecoms and banking sectors, most notably automobiles, steel, industrial machinery and petrochemicals.

Estimates from the International Monetary Fund suggest such structural adjustment could shave around one-third of one per cent from China's growth rate in the short term, although these losses will be more than made-up in the longer term.

**CHINA'S TRADE REFORMS**

Under the terms and conditions of the various multilateral and bilateral agreements reached with pre-existing WTO members, China will be required to undertake a range of trade liberalisation reforms.

These reforms can be broadly clustered into two main categories: firstly, what might be regarded as generic reforms to their wider trade regime; and, secondly, more specific reforms to individual tradeable commodities, goods and services.

Amongst the most important of the generic reforms will be the adoption of WTO rules, amending domestic trade laws and regulations to conform with international norms, and increased transparency in trade documentation (an important trade facilitation issue, the absence of which can be a significant non-tariff barrier to trade).

Other prominent generic reforms include the phase-out over three years of restrictions on trading rights for most goods, the ending of export subsidies, reform of customs charging and processing arrangements, bringing product standards and testing arrangements into conformity with WTO requirements, and the uniform administration of trade laws and regulations across China.

More specific, sectoral reforms will include reductions in tariffs, and commitments not to raise tariffs, across commodities and manufactures, and improved access arrangements for services.

For manufactures, tariffs on average will fall from around 17 per cent to just over 9 per cent by 2005. Tariffs on automobiles and auto-parts will fall dramatically from between 80 and 100 per cent now to 25 per cent by 2006. Other industrial products will see complete elimination of all quotas by 2006, while tariffs on information technology equipment will be progressively phased-out.

Liberalisation of the services sector will include lifting to 49 per cent the permitted share of foreign ownership of Chinese information technology and telecoms companies.

**OPPORTUNITIES FOR AUSTRALIA**

Australian exporters can expect a number of market access benefits from China's membership of the WTO.

In the agricultural area, Chinese tariffs will come down substantially on a number of key commodities over the next two years (beef: down from 45 per cent to 20 per cent; seafood, down from 35 per cent to 15 per cent; horticulture, down from 40 per cent to 15 per cent; and wine, down from 65 per cent to 14 per cent). At the same time, quota reforms can be expected to benefit Australian exporters of canola oil, wheat, rice, cotton, wool and sugar.

Market access commitments will also benefit Australian exporters of manufactures, especially those involved in alumina (where tariffs will fall from 18 per cent to 8 per cent), certain specialised chemicals (such as titanium dioxide, where tariffs will be halved to around 7 per cent), and medical equipment (down from 11 to 15 per cent to between 4 and 7 per cent).

In the services area, China has undertaken to substantially deregulate the conditions for entry and scope of operations for foreign businesses, including sectors of particular interest to Australia such as banking, insurance, telecoms, education, and legal and other professional services.

Opportunities are likely to be found in the provision of telecoms

infrastructures and related facilities, especially in China's lesser developed central and western provinces, in electronic commerce and in professional services such as the law and accountancy, where Australian firms are seen to be well-placed to compete for the additional practicing licences which are expected to become available.

### THE RULE OF LAW

China's membership of the WTO also involves accepting the rule of international trade law, through the important Dispute Settlement Mechanism (DSM) that enforces the rights of WTO member nations.

While China is generally seen as having a solid reputation for honouring its commitments under international agreements, domestically the rule of the Chinese Communist Party has supplanted

the rule of law since the 1949 revolution. Accession to the WTO will hopefully help advance the rule of law in China.

Undoubtedly China will experience a number of major challenges meeting its obligations as a member of the rules-based global trading system, some of which will result in strains and tensions with some of its trading partners.

However, such matters should be dealt with positively and constructively between China and the other country(s) concerned, eschewing recourse to the legalised DSM – at least, until China has bedded down its new commitments.

### TAIWAN'S ACCESSION

While attracting less attention, Taiwan has also finally joined the rules-based global trading system

(for international diplomatic and political reasons, Taiwan was not permitted to join the WTO before China).

Key features of Taiwan's package of liberalisation commitments made as part of its accession negotiations include tariff reductions averaging around 40 per cent on products of interest to Australian exporters, as well as undertakings to remove discriminatory import quotas and reduce non-tariff barriers.

The Taiwanese have also promised to liberalise their domestic services sector, most notably for professional, financial and telecoms services, which are expected to create new trade opportunities worth hundreds of millions of dollars for Australian services exporters.

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