



Big Rewards in Trade Agreement with China - Opinion Piece

by

ACCI Chief Executive Peter Hendy

Australian Financial Review

28th October 2003

Australia's current trade negotiations could place us in a unique position and be the envy of our trading competitors as the only country with bold and comprehensive free-trade agreements with China and the United States.

It would be a twin triumph to have agreements with the current economic giant and the coming one.

Australia is forging ahead with negotiations for an FTA with the US. The Australian government should push with hard resolve for a full-blown FTA with China. Such an agreement would have major economic, trade and foreign relations benefits for Australia.

On the trade and economic front, an FTA with China would provide Australian manufacturers, services exporters, farmers and investors, with access to one of the largest and most dynamic markets in the world economy.

Actions speak louder than words. Along with our FTAs with Singapore and Thailand, negotiation with China demonstrate that the claims of those who say that Australia is an outsider and not effectively engaged in the Asian region are wrong.

Indeed, few know that Australia is one of only a handful of countries in the world with formal recognition by China as an officially designated tourist destination a tangible form of Australia's special standing with the Middle Kingdom.

While reaching an agreement will not be without its challenges, the commercial and economic dividends are likely to be massive.

As with similar exercises in the past, the proposed scoping study to be undertaken by officials from Australia and China should include sound econometric estimates of these likely gains.

China has come a long way over the past 25 years since the then Chinese leader, Deng Xiaoping, launched his program of "capitalism with Chinese characteristics" replacing the failed central planning model with market economics.

China's accession to membership of the World Trade Organisation in December 2001 was another bold step by the Middle Kingdom, and one that will help cement domestic reforms and improve its foreign trade and investment performance.

While China's trade barriers are trending down under its WTO obligations, it still has some way to go and this distance is an indication of the commercial and trade gains available to Australia from a bilateral FTA.

The Australian government reports China's (unweighted) average tariff is still around 12 per cent, while for industrial products it is just under 11 per cent and for agricultural products it is more than 17 per cent.

Getting these trade barriers to zero, either immediately or on a faster track than would be the case under China's WTO commitments, would give Australian exporters of services and manufacturers very real competitive advantages.

The Trade and Economic Framework Agreement, adopted by the Australian and Chinese governments last week, should provide a useful platform for the broader FTA negotiations.

Other useful sources of information would, of course, include the database on trade barriers around the world maintained by the Market Access Taskforce within the Department of Foreign Affairs and Trade, and the experiences of the great many Australian firms already on the ground in China.

An important priority for Australian negotiators of an FTA with China must be more liberal access to China's services sector.

While much was achieved during the WTO accession negotiations, further improvements should be pursued in areas such as business and financial services, education and training, information and communication technology, legal and transport services (especially distribution services to China's massive manufacturing sector).

As with the other FTAs that Australia has concluded with New Zealand, Singapore and most recently Thailand, and prospectively with the United States an agreement with China must be bold and comprehensive.

It must also cover substantially all trade between the two countries, a requirement imposed upon Australia and China as members of the WTO. And, the third test of the adequacy, or otherwise, of an ACFTA must be that it is "WTO-plus".

Quite simply, it must deliver trade liberalisation outcomes for Australia and China beyond those that would have come from ordinary negotiations within the mainstream of the WTO system.

Absent these three tests bold and comprehensive; covering substantially all trade; and WTO-plus; any final agreement will be window-dressing. Of great assistance in the FTA negotiations will be the substantial degree of complementary trade between the two countries, which is fairly typical of the Australia-North East Asia trade profile over the past 50 years.



That is, Australia's competitive advantages as an exporter of agricultural and mineral commodities (evident in the massive liquefied natural gas contract), and potentially in services, match those of China as a manufacturing powerhouse.

In this regard, the Australian Chamber of Commerce and Industry is planning to undertake a major econometric modelling project over the coming year, looking at the trade competitiveness and complementarity between Australia and China.

Where we have done these projects in the past, for example for Japan, Latin America and the Middle East, such modelling has provided a fascinating insight into potential opportunities for Australian exporters.

Two-way trade between China and Australia is estimated to have reached \$21 billion per year. An FTA will greatly expand that to the benefit of all Australians.