

SPEECH

Key issues for an FTA

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Thank you for inviting me to speak today on what is an important issue for Australian business and the Australian economy.

Free Trade Agreements are occupying a more important place on the trade policy agenda at the moment - and they are certainly topical issues in the media and increasingly so.

Australia has of course successfully negotiated agreements with Singapore, Thailand and the US.

On the latter, we are eagerly awaiting Parliamentary approval of the legislation necessary to bring the Australian-US FTA into effect.

While Australia now has a practised record in the negotiation of such agreements, no two FTAs are the same.

Each presents its own challenges, each requires different choices, and at times compromises, and ultimately each needs to be assessed in terms of the benefits it will bring to Australia and Australian businesses, workers and consumers.

If the Government's of Australia and China agree to pursue an FTA it will prove to be the most challenging for Australia given the size and current structure of the Chinese economy, its rapid development and progress in the development of its institutional framework.

A well structured agreement with the world's fastest growing economy has the potential to deliver important long-term benefits for Australia. It is something the BCA wishes to support.

What I would like to do today, as an introduction to the more comprehensive presentations and discussions that will follow over the next day and a half, is touch on three themes:

- why should we be pursuing deeper economic integration with China;

- why might this take the form of an FTA or some other type of formal bilateral agreement; and
- what should we be looking for in an agreement in terms of the broad principles and the key elements.

And then conclude with some more general observations and thoughts.

Why should Australia be pursuing deeper economic integration with China?

Others in sessions to follow will look more closely at trade and economic relations between China and Australia, but let me simply note the following:

- Chinese imports and exports have been growing at an even faster pace than Chinese GDP, which in itself has been remarkable.

The result is that China is now the third largest trading economy in the world¹;

- China is the third largest importer in the world – imports dominated by raw materials for energy and infrastructure, areas in which Australia has a clear competitive advantage.

That is to say that there is considerable present complementarity in the structures of our economies; and

- China has become an increasingly important source of demand for goods and services for other Asian economies - which are of course also among Australia's major trading partners.

So far China's growth in exports and increasing penetration in global markets has not been any more remarkable than that of Japan from the mid-1950s to the early 1980s or Korea from 1960 to the mid-1990s.²

But the sheer size of China's economy and population, and significant development potential suggest that the growth that has been seen over the last 25 years or so has a long way to go.

That is an exciting prospect, but also a challenge for businesses around the world.

Consequently, the Australian Government and Australian businesses should do what they can to ensure that Australia is as well placed as possible to benefit from these potential opportunities and to manage well the challenges posed.

That brings me to the next issue at hand – why should we consider negotiating an FTA as a way of improving our engagement with China?

First a caveat, that there is no substitute for a well developed WTO agreement.

¹ WTO

² Rumbaugh and Blancher (2004), "China: International Trade and WTO Accession", *IMF Working Paper* WP/04/36

Maybe it, in other words the Doha Round, will deliver major advances of trade liberalisation, but there needs to be a Plan 'B' in case it does not.

That must be the encouragement of regional and bilateral agreements with as much consistency between them as can be negotiated.

Now, in terms of an FTA with China, my view is that Australian businesses can benefit from:

- reductions in trade barriers in China;
- increased freedom to operate in the services sector of the economy
 - Australia is now about 70 per cent plus services sector, and given the competitiveness of our resources sector and its low gross level of employment, it is on the services sector that Australia's negotiations will need to concentrate;
- the easier movement of people;
- greater freedom to invest in China; and
- reductions in, and greater transparency of domestic regulations and laws, which limit market access, the ability to effectively compete and operate, and investment opportunities.

In short, an FTA with China could provide a formal and comprehensive framework for further market liberalisation beyond and deeper than that agreed to by China in its WTO accession.

Critics of bi-lateral agreements argue that they compromise the potential of multi-lateral trade discussions such as the WTO.

My strong view is that it is a compelling national interest that both avenues should be pursued, because each complements the objectives of the other and we cannot afford to be frozen out of the benefits if one were to fail and have no fall back in a very competitive international trading environment.

An FTA could support further reform in the Chinese economy more generally. That is an FTA could help sustain the momentum for China to further reform its domestic regulatory and legal framework.

Finally, it is important to recognise that an FTA is an obvious political signal of the strength of the relationship between the two countries.

Given China's growing economic and strategic importance globally, there may, therefore, be strong incentives for the Government of the day to reach such an agreement, almost irrespective of the benefits for business and the broader economy.

This takes me to the question of what we should be looking for in an FTA – the key principles and elements of such a possible agreement.

In general, any agreement between China and Australia should aim to:

- support China's full transition to a market economy and the development of appropriate legal and regulatory frameworks to achieve this;
- support China's full and ongoing participation in the WTO;
- secure commitments and obligations that are bound in international law and subject to compulsory processes of dispute settlement; and
- comprehensively address:
 - all barriers to trade in goods and services;
 - broader issues related to investment, the business environment for foreign businesses operating in China; and
 - government intervention in business to the extent it impacts foreign business operations.

In practice this means that any FTA with China will need to address:

- Existing trade barriers, duties, tariffs and royalty charges etc
- Limits on market access – particularly in the services sector
- Investment policies and approval procedures
- Customs procedures
- Internal regulations, competition policies, and corporate governance
- Harmonisation of standards
- Movement of people
- Government procurement
- Taxation policies
- Safeguards and dispute resolution

To put some life around these issues, let me recount some of the experiences and comments of BCA Members that underline the complexity of addressing these issues.

In doing so, I am not intending to ignore the already positive and deep engagement and economic links we already have with China.

But the issues raised by BCA Members point to issues that will need to be addressed by an FTA.

- Members have found that the approval policies for investment lack transparency, are inconsistent and discriminatory.
- Special permits are in some cases granted to local service providers, while foreign competitors face lengthy approval process with no clear standard ruling applied.
- Different ports in China use different product definitions, which complicates clearance procedures and increases clearance times and costs.
- Difficulties with profit repatriation related to tax treatment, foreign exchange restrictions and documentation are frequently cited as an area of concern.

I could go on, but I think these observations highlight the depth and breadth of issues that will need to be dealt with one way or another in any agreement.

No doubt there is a significant shopping list of issues our friends from China would like to raise about Australia in response.

A successful FTA, which will obtain the necessary public support to see it come to fruition, will need to be based on a clear and wide understanding of the implications of this issue.

I know trade experts might find the focus on market economy frustrating, given that in practice its significance or application is quite narrow.

However, it could become something of a lightning rod for broader concerns surrounding an FTA with China.

Many in business and the community will have concerns if they believe that Australia is negotiating the detail of an FTA on the premise that China is a full market economy.

They will be concerned if they believe we are negotiating on the basis that China has the full complement of legal and regulatory frameworks required to underpin a market economy, or indeed comparable to our own.

There will need to be as much transparency and open public debate as possible around this issue and any FTA negotiations.

Our Government and negotiators will need to be sensitive to likely community apprehensions about an FTA with China.

Let me conclude where I began.

Negotiations on and FTA with China will present new and significant challenges for Australia.

Business and the wider community need to be pragmatic and realistic about what can be achieved and over what timeframe.

So too does Government.

Ultimately it must be the strength of the tangible benefits that will flow to Australian businesses and the economy that determines whether an agreement is finalised between China and Australia and the nature of that agreement.

Either way – whether we decide to enter into an FTA with China or not – the decision will be of historic importance for Australia, there is simply no denying that.

The BCA, to repeat myself, is a keen supporting of the scoping study and benefits that could flow from an FTA with full satisfaction of the mutual self interest of both countries.

Thank you and I wish you well with your discussions and deliberations.

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