

China-Australia FTA Could Create Opportunities to Bilateral Economic Cooperation

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Ladies and gentlemen,

Good morning! Thanks so much for host's kind invitation to participate in the China-Australia International Capital Forum 2015.

I am Hongcai Xu, Director of the Economic Research Department at China Center for International Economic Exchanges. Today I would like to share my views with you with regards to China-Australia free trade agreement (FTA), which could create lots of opportunities to bilateral economic cooperation.

After nearly 10 years of difficult negotiations, two countries are very close to reaching an agreement. We view signing the China-Australia FTA a milestone in the process of China-Australia economic cooperation, towards eliminating tariffs and non-tariff barriers in bilateral trade in goods. It will have important implications for further deepening the China-Australia economic cooperation.

I would like to take this opportunity to share some of my views below.

The first point I would like to make is that China-Australia economic cooperation has established a solid foundation.

Firstly, China's continued solid economic growth lays a foundation for China-Australia economic cooperation. China has a population of 1.3 billion people, implying huge demand for Australian products and services. The China-Australian cooperation will be strengthened in the process of industrialization, informatization, urbanization and agricultural modernization in China. China's economy is continuing to grow rapidly among major economies. Over the next decade, China's economy is likely to maintain a medium to high growth rate. China's nominal GDP in the first quarter of 2015 reached at 14.07 trillion yuan, or growing at 7.0% year on year. Meanwhile, China's employment situation and overall inflation remained stable. The momentum of the new economic growth engine has been strengthening. I am confident to achieve GDP growth at 7% in 2015.

Secondly, in recent years China-Australia economic cooperation has been deepening. The scale of bilateral trade has been expanding. China has also increased its investments in Australia, especially in the field of energy and resource sectors. Basically, China has maintained the status of “five largest” in Australia: Australia's largest trade partner, Australia's largest export destination, Australia's largest import destination, Australia's largest service trade export destination, and Australia's largest tourist income source! In 2014, the trade volume between China and Australia reached \$128.17 billion, accounting for 27.34% of total foreign trade in Australia. Australia's exports to China reached \$81.4 billion in 2014, and Australia's imports from China were \$46.77 billion. Australia is China's seventh largest trading partner.

Thirdly, Chinese and Australian economies are highly complementary to each other. From the perspective of international trade, Australia has abundant natural resources and agricultural products, while China has comparative advantages in manufactured goods. China has great demand for Australian natural resources, as well as farm and pasture products such as milk and alcohol. China mainly exports mechanical and electrical products, textiles, furniture products, and toys, which together account for more than 60% of China's export to Australia. China also exports metal products and chemical products such as plastic and rubber to Australia. On the other hand, Minerals account for vast majority of Australia's exports to China, followed by textiles and raw materials. It is easy to figure out that China does not compete with Australia in international trade. On contrast, we are pretty complementary in trade structure.

The second point I would like to discuss is that the China-Australia FTA will create lots of opportunities to both sides.

First of all, there is a demonstration effect. Signing China-Australia FTA will pave the way for expanding bilateral trade, and deepening mutually beneficial economic cooperation between two countries. It will enable the Chinese enterprises to stand on a new level in the arena of international trade. Australia is the largest one in terms of economic size. I believe that China-Australia FTA will certainly set a good example for the on-going FTA negotiations China is working with other developed countries.

The second is to promote the development of business activities between two countries. Australia and China will deepen cooperation in the fields such as trade, investment, energy and mineral resources, agriculture,

infrastructure construction, finance, education, new energy, ocean and polar region, climate change and tourism. China-Australia FTA will completely change the existing bilateral trade, promote economic growth of two nations, and create a more stable and fair investment and trade environment, towards achieving a win-win situation.

The third is to promote the cooperation between China and Australia in the fields of the new energy, high-tech, financial services etc. In the field of traditional energy resources, China's demand to base metals has remained stable. Husbandry has become a new luminescent spot in mutually beneficial cooperation. In recent years, the Australian exports to China have grown rapidly for meat, wheat, and cotton. Thousands of Australian ordinary farmers benefited from it. All ordinary urban and rural residents in Australia benefit from it. In the next few years, Australian dairy farmers will enter Chinese infant formula milk powder market freely. In addition, there will be no tariff for alcohol products, horticultural products, seafood, coal and other products. Australia benefits a lot from China's economic development.

Besides, the service industries, including finance, tourism, and education, are also cooperating in good momentum with bright prospects. The central banks of China and Australia have decided to link RMB directly to the Australian dollar, which makes the companies and people from both countries easier to use both currencies. China welcomes Australian companies and banks to increase the use of RMB, and continues to promote the development of offshore RMB market in Sydney.

The fourth is to promote the trade facilitation and investment liberalization. Australia will simplify the approval procedure for China's

state-owned investors, which will attract more Chinese investments into Australia in the fields of agriculture, finance, tourism, infrastructure construction and mining. Visa application also becomes cheaper and easier, which encourages more people from both countries to travel, work and study in other countries. With the growing flows of tourists and students from China, Australia's tourism and service sectors will benefit as well. At the same time, the registration process for banks, insurance companies, fund managers and legal services, construction and engineering companies will be simplified.

The fifth is to promote China-Australian bilateral openness. Australia will reduce tariffs imposed on all Chinese products to zero, and China will implement the same for most of Australian products. The tariffs for Australian exports to China will be removed in two years, including bauxite, coking coal, steam coal and other energy and resource products. On the other hand, within 4 years, the Australian milk is expected to enter the Chinese market without tariff barriers. In addition, tariffs for products from Australia to China including alcohol products, horticultural products, coal, and seafood will be cut to zero by 2019, which accounts to 93% of the total Australian exports to China.

The sixth is to increase Australian competitive advantage in the fields of agriculture, resources, energy, manufacturing exports, services, investment, etc. According to successful stories from China-New Zealand FTA, China-Australia free trade zone will enable the trade of agricultural products between two countries more convenient, and offer consumers more options. If the tariff is cut in two years for the Australian exports to China including bauxite, coking coal, steam coal, energy and resources, China's

demand to these raw materials will increase. Similarly, with a big demand for coal or iron ore, the tariff exemption or reduction for these products will increase the shipping business between two nations.

Finally, I would like to give some suggestions for promoting the China-Australia economic cooperation.

The first is to deepen trade cooperation through the maritime silk road. China has traditionally comparative advantages in textiles, garments, light industry, crafts, mechanical and electrical products. Such industries are favored by consumers in Australia due to reasonable prices and excellent quality. On the other hand, China's imports from Australia mainly focus on husbandry and minerals such as wool, iron ore, grain, aluminum, coal, etc. China intends to expand into new areas of trade. In recent years, Australian high-speed cruise, fiber optic cable, communications equipment and other products have entered Chinese market. Finance, insurance, communications, legal consulting, tourism and other service trade have grown rapidly. The “Belt and Road” Initiative, especially the maritime silk road, strongly advocated by Chinese government could be an effective channel.

The second is to strengthen investment cooperation. Although there have been some achievements in investment cooperation between two countries, investment cooperation is still at its early stage compared with the rapid development of trade in goods between two countries. The China-Australia comprehensive pragmatic investment cooperation is in line with our common interests.

The third is to expand financial cooperation. On March 22, 2012, the People's Bank of China and the Reserve Bank of Australia signed the

bilateral currency swap agreement in Beijing, aimed at strengthening the bilateral financial cooperation, promoting trade and investment between two countries, and jointly maintaining the regional financial stability. The swap size is 200 billion RMB / 30 billion Australian dollars, valid for 3 years. The both authorities have agreed to renew the swap agreement. This cooperation will benefit enterprises to reduce transaction costs.

The fourth is to expand cooperation between think-tanks in the two countries. In today's world, there is an irreversible trend of economic globalization and regional economic integration. Think-tanks in two nations should broaden bilateral communication channels and enhance mutual understanding, cooperation and exchanges, jointly conduct research into economic, social, and environmental issues, and then make recommendations to two governments and enterprises.

Ladies and Gentlemen, today, China has launched a new round of economic reform towards deepening open-up to the outside world. China is speeding up the transformation of its economic growth model, strengthening economic quality, improving the efficiency towards sustainable development. China's comprehensive reforms will create great opportunities for bilateral economic cooperation. I believe that the economic complementarity and interdependence between two countries will continue to remain strong. China-Australia trade and economic cooperation will have a brighter future!

Thank you for your attention!