AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY

# Riding the Chinese Dragon:

## Opportunities and Challenges for Australia and the World

Position Paper

August 2005

LEADING AUSTRALIAN BUSINESS

# FOREWORD

The Australian Chamber of Commerce and Industry welcomes the announcement by the Australian and the Chinese Governments of the launch of negotiations toward a bilateral free trade agreement.

The two Governments must pursue a bold and comprehensive Agreement, with the broadest sectoral coverage and the highest degree of liberalisation.

The FTA must build on the substantial trade complementarities, and potential, which exist between Australia and China.

Modeling work undertaken by ACCI shows Australian exporters have generally realised the strong complementarity between Australian exports and Chinese imports. That is, for a given export profile, Australian exporters are doing relatively better in the Chinese marketplace than in other export markets.

If realised, an Australia - China FTA would place Australia in a unique position - having FTAs with two of the world's major economic powerhouses - China and the United States of America.

China has come a long way over the past 25 years since the Chinese leader Deng Xiaoping launched in 1978 his program of 'capitalism with Chinese characteristics' - that is, replacing the failed central planning model with market economics.

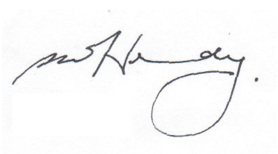
According to the Australian Department of Foreign Affairs and Trade 2003 monograph China's Industrial Rise: East Asia's Challenge, "China's economy could surpass Japan's by 2030."

They say that "over the next few decades, if China reforms stay on track its economy could expand until it approaches the size of Germany in 2010 and rivals Japan by 2030." They are sixth today.

However, as we point out in this Position Paper, there are a number of major challenges confronting the Chinese economy - such as weakness in its financial system, imbalances in its industrial structures, shortages of energy and its exchange rate policies - which have profound implications for China, for Australia and for the world economy.

If these challenges can be overcome, China will bear out the foresight of former French Emperor Napoleon Bonaparte when he observed, almost two centuries ago, "Let China sleep, for when she awakes she will shake the world."

I wish to thank Dr Brent Davis and Jennifer Jay for the preparation of this document.



Peter Hendy
Chief Executive

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# ACCI
# LEADING AUSTRALIAN BUSINESS

## OUR ROLE

ACCI is the peak council of Australian business associations. Our motto is Leading Australian Business.

ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry. Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people and over 280,000 enterprises employing less than 20 people. It is estimated that they collectively employ over 4 million people.

That makes ACCI the largest and most representative business organisation in Australia.

The role of ACCI is to represent the interests of business at a national level as well as internationally.

Through its network of businesses, each ACCI member organisation identifies the concerns of its members and plans united action.

In this way, business policies are developed and strategies for change are implemented.

ACCI operates at a national and international level, making sure the concerns of business are represented to government at the federal level and to the community at large.

## OUR APPROACH

ACCI takes a leadership role in representing the views of business to governments, parliaments and policy makers.

ACCI's objective is to ensure legislation or proposed policy approached at a national level address the needs of Australian businesses, whether they are one of the top 100 Australian companies or a small sole trader.

## OUR ACTIVITIES

Our activities include:

- representation and advocacy to governments, parliaments and policy makers both domestically and internationally;
- business representation on a range of statutory and business boards, committees and other fora;
- research and policy development on national and international business issues;
- business surveys;
- information products and services for members;
- providing a conduit for disseminating government sourced information and funding to members.

## OUR OPERATIONS

ACCI's operations are governed by Articles of Association administered by a General Council comprising representatives of all our member organisations.

The General Council is the 'parliament' of the Chamber and meets three times during the year to set policy and future directions. The Board is elected by the membership annually and oversees administration, broad policy strategy and policy implementation.

Members of the Board are industry leaders with expertise in a wide range of business activities who have collectively created a powerful base of knowledge and experience for ACCI.

Supporting General Council and the Board are a number of committees that undertake policy research and make recommendations on policy approaches. Policy expertise within ACCI's committees is drawn from ACCI's members as well as business leaders and executive staff from large companies and small to medium sized businesses.

## MAJOR PUBLICATIONS

A range of publications is available from ACCI, with details of our activities and policies. They include:

- The ACCI Review, a monthly analysis of major policy issues affecting the Australian economy and business;
- Issue papers commenting on business' views of contemporary policy issues;
- The Policies of the Australian Chamber of Commerce and Industry – the annual bound compendium of ACCI's policy platforms;
- The ACCI-Westpac Survey of Industrial Trends which is the longest continuous running private sector survey in Australia. It is a leading barometer of economic activity and the most important survey of manufacturing industry in Australia;
- The ACIL Tasman-ACCI Survey of Investor Confidence which gives an analysis of the direction of investment by business in Australia;
- St.George-ACCI Business Expectations Survey – Australia's largest private sector survey of business expectations, which aggregates twelve separate surveys by all the state and territory chambers of commerce and industry and a number of industry associations;
- The St.George-ACCI Small Business Survey which is a survey of small business derived from the St.George-ACCI Business Expectations Survey data;
- Taxation reports and discussion papers, including the ACCI Taxation Reform Blueprint: A Strategy for the Australian Taxation System 2004-2014;
- Workplace relations reports and discussion papers, including the ACCI Modern Workplace: Modern Future 2002-2010 Policy Blueprint;
- Occupational health and safety guides and updates, including the National OH&S Strategy and the ACCI Modern Workplace: Safer Workplace 2005-2015 Policy Blueprint;
- Education and training reports and discussion papers;

- Trade briefs for trade related policy and activities; and
- The ACCI Annual Report providing a comprehensive summary of major activities and achievements for the previous year.

Copies of most of these publications are available on our web site at www.acci.asn.au.

# EXECUTIVE SUMMARY

China has come a long way in terms of its engagement in international trade, commerce and investment since launching its domestic liberalisation and reform program a little over a quarter of a century ago.

It is already, and likely to remain, the single greatest source of growth in the world economy, surpassing the United States in that role last year. Household disposable incomes in China have increased by a spectacular 310 per cent over the past 10 years, while the number of Chinese living in poverty has fallen by more than 300 million people since the reform process began, the largest anti-poverty program ever in human history.

An important milestone in China's economic liberalisation and reform program was its entry into the World Trade Organisation in 2001, motivated by the realisation it needed additional external impetus to overcome domestic hurdles to reform and enhanced defences for its international trade interests.

Key trade initiatives undertaken by China at the time included: the abolition of formal trade plans; the decentralisation of the conduct of trade away from central government agencies; the slashing of tariffs; and, exchange rate reform. It also made substantive commitments in areas such as agriculture, manufactures, services and transparency which should deliver meaningful dividends for China, its trading partners and the world economy.

While the Chinese economy has experienced stellar performance - growing by almost 10 per cent annually, in real terms, over the past two or so decades - its capacity to sustain such outcomes in the future is being challenged by a number of important risks.

Prominent amongst these risks are: the weakness of its banking system; ensuring sustainability in fiscal policy; imbalances in its industrial structures; shortages of energy; rural poverty; and, future settings for exchange rate policy. These policy challenges also represent opportunities, and risks, for China, for Australia and for the world economy.

Nevertheless, Australian exporters have generally performed well in accessing and realising commercial opportunities in the Chinese market over the past decade or so.

On the one hand, Australian exporters have generally realised the strong complementarity between Australian exports and Chinese imports. For a given export profile, Australian exporters are doing relatively better in the Chinese marketplace than in other export markets.

Further strengthening and deepening this commercial relationship should be an important objective for governments and business in both countries. In this regard, Australian commerce and industry is supportive in principle of negotiations between the Australian and Chinese Governments toward a bold and comprehensive FTA, where the outcomes and net dividends are in our national commercial and economic interest.

Any FTA needs to deal effectively with a range of important trade related issues, including: tariffs; quotas; protection of intellectual property rights; rules of origin; investment; recognition of professional and skilled qualifications; import licensing; customs procedures; quarantine laws and policies; and, dumping regulations.

# OPPORTUNITIES AND CHALLENGES

## INTRODUCTION

Less than 30 years ago, China began one of the greatest reform programs in modern history: to move away from failed Marxist central planning, and the erratic policies of the Mao years, and to toward becoming a market economy. The challenge was great, and the distance to travel was far, but few would cavil that China has come a long way in a comparatively short time.

China still has a long way to go to catch-up to the other high performing economies of north-east Asia: China's national output per capita is currently less than one-third of that of South Korea, and one-fifth that of Japan.[1] Such gaps should be regarded as indicative of China's longer term potential.

The world economy has significant interests in China's continued progress towards becoming an export oriented market economy. As one observer[2] astutely noted: "*China's catch-up in income and its integration into the world economy could be the single biggest driver of global growth over coming decades*."

Some of China's major trading partners, especially those in East Asia as well as Australia, will come to find themselves more closely linked to, if not dependent upon, its economic cycles.[3]

That is, whilst Australia and the nations of East Asia can expect to benefit from China's high economic growth rates, we are also relatively more exposed to any downturns in the Chinese economy – hence Australia's intrinsic interests in the momentum, path and stable progress of China's economic liberalisation program and policy settings.

## CHINA AND AUSTRALIA

Australia and China have a long history of contact, extending back further than the waves of Chinese migration to the then Australian colonies during the 1850s.

China's President Hu Jintao observed in an address to the Australian Parliament in October 2003: "*Back in the 1420s, the expeditionary fleets of China's Ming dynasty reached Australian shores*." several centuries before European discovery and settlement.

The two countries have traditionally enjoyed strong and positive commercial, trade and foreign policy relations; Australia was one of the first western nations to re-engage with China when we re-established diplomatic relations in the early 1970s.

On the trade front, Australia is seen by China as a close and reliable supplier of quality commodity (agriculture and resources) inputs for its fast-moving industrial development, and is widely accepted as a good partner for foreign education of Chinese nationals and a safe destination for Chinese tourists.

Australian business and governments have also offered constructive advice on commercial and industrial development strategies, economic policy reform and sequencing issues, and share many common agendas in the World Trade Organisation.

Importantly, on the foreign policy front, Australians are welcomed in China as being without "*the political baggage that comes with the Americans and the Europeans*"[4] which serves to enhance our access and influence on Chinese commercial and economic policy-making.

Indeed, China's key foreign and trade policy challenges for the foreseeable future will be guaranteeing its access to key commodity (agricultural, and mineral and energy) supplies to meet its fast-paced industrialisation,[5] and through this maintain its high rates of economic growth which in turn are necessary to create at least 100 million new jobs annually, and through this help maintain social and political stability.

## CHINA AND WORLD TRADE

China has come a long way in terms of its engagement in international trade, commerce and investment since launching its domestic liberalisation and reform program in 1978.[6] A few figures tell a big story:[7]

- China accounted for 13 per cent of world output in 2004 (up by 2 per centage points in just 4 years), dwarfing France, Italy and the United Kingdom;[8]
- China is already, and likely to remain, the single greatest source of growth in the world economy, surpassing the United States in that role in 2004;[9]

- China's exports to the world have increased from $US 10 billion in 1978, to some $US 278 billion in 2000, making it the 6th largest trading nation in the world (compared to 30th in the late 1970s);

- its trade-to-GDP ratio10 surged from 10 per cent to almost 40 per cent over the same period;[11]

- inward foreign direct investment amounted to $US 60 billion in 2004, secondly only to the United States of America,[12] and has absorbed more than $US 500 billion in FDI since launching its reform program in 1978;[13]

- real economic growth averaged 9.7 per cent annually between 1990 and 2003, with per capita incomes doubling over the same period;[14]

- China accounted for less than 2 per cent of world exports in 1990, a figure which increased (trebled) to 6 per cent in 2003. The figures for China's share of world imports were 1.5 per cent and 5.7 per cent, respectively (an almost fourfold increase);[15]

- household disposable incomes in China have increased by a spectacular 310 per cent over the past 10 years;[16] and,

- the number of Chinese living in poverty has fallen by more than 300 million people since the reform process began, the largest anti-poverty program ever in human history.[17]

While such indicators of China's economic and trade performance are impressive (and indicate how far China has come in a relatively short period of time – a mere quarter of a century), continued rapid economic and trade growth is critical to its political and social stability, and economic future: the primary objective for Chinese policy makers is to ensure such performances are sustained over a long period.

At the same time, China has been the victim of much mis/dis-information on its trade patterns, in particular the popular misconception that it is 'flooding the world with cheap exports'. While its share of world trade has grown substantially in recent years, reliable statistics indicate China is experiencing a trade balance, rather than the overwhelming trade surplus inferred by some 'Sino-phobes'.

China's exports in 2004 are expected to total around $US 570 billion (an increase of 30 per cent on the preceding year), while its imports are likely to amount to around $US 550 billion (a jump of 33 per cent), pointing to a merchandise trade surplus of $US 20 billion (or a small, 1.3 per cent of GDP).[18]

Looked at another way, China is one of the most open, and trade-engaged nations in the world: total trade (exports and imports) are expected to total some 70 per cent of its GDP in 2004, well ahead of the 30 per cent or less for Japan and the United States, individually. Similarly, its stock of foreign direct investment is expected to equal around 36 per cent of its GDP; for Japan, the figure is a mere 2 per cent of GDP.[19]

## CHINA AND THE WORLD TRADE ORGANISATION

An important milestone in China's economic liberalisation and reform program was its re-entry into the World Trade Organisation[20] in 2001, motivated by the realisation it needed additional external impetus to overcome domestic hurdles to reform and enhanced defences for its international trade interests.

Key trade initiatives undertaken by China at the time included: the abolition of formal trade plans; the decentralisation of the conduct of trade (away from central government agencies); the slashing of tariffs (down from an average of 56 per cent in 1982, to less than 10 per cent in 2005); the unification of its then dual exchange rate (in 1994); and, the removal of foreign exchange controls for current account transactions (in 1996).

China also made a number of important trade liberalisation commitments in several key sectors. For example:

- on agriculture, China undertook to bind all agricultural tariffs, and reduce them from an average of around 32 per cent to 17 per cent, eliminate all export subsidies and move rapidly to replace quotas with transparent tariffs;

- on industrial products, China committed to phase out quantitative restrictions, and cut average tariffs from 25 per cent to 9 per cent by 2005;

- on services, which was previously largely closed to international competition, China has undertaken to relax or remove restrictions on licensing, geographic location, and equity participation, as well as opening financial services, telecoms and distribution to foreign service providers; and,

- on transparency, China has promised to apply trade policy uniformly across the country, eliminate prohibited subsidies (especially those conferred on state-owned enterprises) and require state trading companies to operate in a commercial manner.

The concessions, however, were not all one way; China received a number of important commitments from other WTO members by virtue of its WTO membership.[21]

The most significant of these was the (mandatory) granting by all other WTO members (and most particularly, the United States of America) of permanent Most Favoured Nation trading status,[22] which has gone a long way toward reducing uncertainties in that important bilateral trade relationship.

Economic research points[23] toward substantial economic gains for China and the world economy from China's membership of the rules-based multilateral trading system.

These gains are expected to include: a boost in merchandise trade of up to $US 30 billion annually for China, and almost twice that amount for the world economy; an increase in China's national output by as much as 10 per cent; and, a gain for China's services sector of potentially $US 12 billion a year.

However, China's accession to the WTO is likely to impose some structural adjustment pressures upon key sectors, most notably its state-owned enterprises (which are lumbering behemoths, a legacy of Marxist central planning) and broad-scale agriculture (which is losing comparative advantage to producers from Australia and Canada).[24]

Additional WTO-related challenges confronting China will include: further dismantling of its remaining central planning institutions; ensuring new policies are consistent with WTO agreements; revising existing policies similarly; and, imposing laws and policies uniformly across the nation. And, most importantly, broadening and deepening the commitment and practice of the rule of law.

Other important domestic reform challenges for China, necessary to ensure it fully realises the economic dividends of WTO membership include: economic openness; meritocracy in business and government; adequate infrastructure; decisive action on corruption; strong financial institutions; and, astute macroeconomic management.[25]

China's accession to the WTO, and its consequent necessary structural adjustments, will also impact on its trading competitors and partners, not least of which will be added pressure to engage in 'reform competition' – that is, ensuring their own domestic and trade reform agendas are sufficient to maintain their own competitiveness with a resurgent China.[26]

## CHINA AND THE WORLD ECONOMY

China's movement toward being a market economy, and its rapid economic growth and industrialisation, hold out a number of substantial benefits for the world economy, and other developing nations. These benefits include the capacity for greater specialisation and improved terms of trade.

China's renewed presence within the world economy can be expected to lift global productivity by promoting greater specialisation in production, and through that international trade.

As is already becoming evident, China with its massive labour pool (a key source of comparative advantage) can be expected to specialise in relatively low-skilled, labour intensive manufacturing, with developed nations moving to concentrate on higher skilled areas of manufacturing, as well as services.

While some existing jobs may be lost amongst low-skilled, low-valued added producers in developed countries, new jobs will be created in higher skilled manufacturing and in services as China recycles its income from exports on imports from developed countries.

China, by its sheer size as an importer of commodities and an exporter of basic manufactures, will have a profound impact on the world economy through its capacity to influence relative prices (and the so-called terms of trade: the prices of exports relative to the prices of imports).

Indeed, China is already putting substantial downward pressure on the prices of labour intensive manufactures, which has the flow-on effect of making these products cheaper for (and thus raising the real incomes of) consumers in developed countries.

(According to Morgan Stanley, an international financial institution, Chinese exports of consumer goods, such as shoes, toys and household goods have saved American (mainly low and middle income) households more than $US 100 billion since China launched its domestic reform program in the late 1970s.)[27]

Conversely, the prices of capital and labour skilled manufactures, and of services, are likely to increase, which can be expected to benefit developed countries such as Australia, as will China's seemingly voracious demand for commodities.

## RISKS FOR THE CHINESE ECONOMY

While the Chinese economy has experienced stellar performance – growing by almost 10 per cent annually, in real terms, over the past two or so decades – its capacity to sustain such outcomes in the future is being challenged by a number of important risks.

Prominent amongst these risks are: the weakness of the banking system; ensuring sustainability in fiscal policy; imbalances in its industrial structures; shortages of energy; rural poverty; and future settings for exchange rate policy. The policy challenges also represent opportunities, and risks, for Australia.

A key priority for Chinese policy-makers must be reform of its banking and financial[28] system, in particular the very high level of non-performing loans owed by state-owned enterprises.[29] Potential policy responses will need to include recapitalisation of banks[30] and/or allowing greater foreign ownership of existing Chinese banks.

Time pressures for such decisive policy actions include the underlying weaknesses in the financial system (and the consequences for China's commercial and economic performance) and the prospective entry of foreign banks into the Chinese financial sector following the entry into force in late 2006 of China's commitments on the liberalisation of the trade in services given as a part of its WTO accession.

In short, unless the Chinese banks are substantially restructured – especially unburdened of the bad debts of, and the requirement to provide capital on non-commercial bases to, state-owned enterprises – they will become at best uncompetitive with, or more likely fail when confronted by, foreign bank competitors.

An essential reform must be the reorientation of lending policies and practices of China's banks, in particular toward commercial lending criteria including the risks and viability of specific loan applications and related projects, rather than bureaucratic and/or politically directed lending.[31]

Ensuring medium to longer sustainability in fiscal policy (especially on the outlays side of the public financial balance sheet) will become increasingly important.

While China's fiscal deficit (at around 3 per cent of GDP) and its public sector debt (at around 25 per cent of GDP) are regarded by international financial institutions as sustainable[32] there are several potentially significant fiscal risks.

These risks include: the balance sheet weaknesses in the state-owned banks, which may require recapitalisation from public funds; the unfunded obligations of the state pension system (compounded by demographic changes in China's population); and growing pressures for public spending on education and health.

Another important risk for China's sustained economic development and growth are existing, and obstinate, structural imbalances within its manufacturing sector, especially heavy industry and state-owned industry sectors.

Prominent difficulties include inefficient, but still influential, state-owned enterprises, and an indigenous private sector burdened by government policies and regulations that have the effect of undermining their viability and their competitiveness against state-owned enterprises and also foreign firms.

Chinese managers, especially those in state-owned enterprises, reportedly[33] generally: attach greater priority to developing and maintaining privileged relations with bureaucratic and political officials: engage in little networking across state-owned enterprises (let alone the private sector or foreign markets); and are overly-reliant on imported foreign technologies, with their firms undertaking little research and development which will create home-grown technologies.

China's industry policy also appears to promote a (perverse) form of domestic industry protectionism – of Chinese state-owned enterprises against Chinese private sector entrepreneurs, not against foreign investors or sourced products (as with conventional trade protectionism), discouraging research and development, and innovation in key industries.

Amongst the firms most affected by this domestic protectionism are pharmaceuticals, electrical machinery, electronic goods and transport equipment, as well as those generally located around technology hubs such as Shanghai. As a result, sales of new products account for about 10 per cent of sales revenue for Chinese firms, compared to between 35 and 40 per cent for industrial firms from

OECD countries.[34]

Another important risk are serious energy shortages, with China's energy demand already outstripping domestic energy supply capacity, despite substantial increases in supply in recent years; China's power generation capacity almost doubled in just eight years – from 200 giggawats in 1995, to 390 giggawats in 2003.[35]

China added some 45 giggawats of power generating capacity to its network in 2004 – the equivalent of Australia's total annual power output – with a similar expansion in capacity planned for 2005.[36] But, even this increase is not sufficient: two-thirds of China's provinces still experience power shortages.[37]

This energy demand-supply imbalance has been reflected in: a redirection of energy supplies away from households to industry; unstable power supplies causing industry to operate at less than full capacity, despite bulging order books;[38] higher international oil prices (helping to drive prices above $US 50 a barrel in the latter part of 2004);[39] and a number of existing and potential contracts with key trading partners to supply liquefied natural gas.[40]

Such pressures are only likely to intensify in coming years. By one estimate, as China's energy consumption per capita converges on that of South Korea (as it is expected to do within the next 20 years), its total energy demand would quadruple[41] (with flow-on effects to world commodity and energy prices, and trading patterns).

While such energy pressures are a risk for China (in terms of its capacity to sustain its economic growth rate), they provide opportunities for Australia as a major energy supplier with a well-earned reputation for reliability.[42]

The urban-rural income divide, and in particular poverty and under-development in rural areas and western provinces, presents one of the most substantial challenges to China's economic and social stability, and potentially political reform. Fully 40 per cent of the Chinese population now lives in cities, around double the figure of just 20 years ago.[43]

While much of the media and popular attention has focused on the dazzling performances of the major eastern cities and coastal provinces, the economic spillovers have not extended very far west or from the urban to the rural populace.

Average rural incomes in China are currently around $US 320 per capita, well below the just over $US 1000 per capita average for urban-based Chinese. Looked at another way, the urban-to-rural income ratio has widened from 1.8 times in the mid 1980s to 3 times in the early 2000's. Even more telling, the incomes of rural households in China fell by 42 per cent in absolute terms in the three years to 2003.[44]

Rural China remains burdened by sluggish income growth, excessive taxes and charges (often imposed capriciously by corruption local/party officials), and heavily indebted, inefficient and overstaffed local governments (which have been further burdened by a transfer of social expenditure responsibilities, without commensurate sources of revenue). And, while the poorer/western provinces have gained from the inflow of foreign direct investment, such flows have generally favoured the wealthier eastern/coastal provinces.[45]

Not surprisingly, this situation has stimulated one of the largest mass migrations in modern human history. China already has 166 cities with a population of more than 1 million people (Australia has just five), and the Chinese Government expects a massive 300 million people to move from rural to urban areas in the next 15 years (ie before 2020).[46] Looked at another way, that is the equivalent of relocating the entire Australian population each and every year for the next 15 years.

An allied risk (especially for social stability, and essential foundation stone of economic reform and progress) is the massive pool of unemployed, currently estimated to be around 8 per cent of China's labour force – to which can be added a staggering 150 million[47] rural underemployed - giving China the largest pool of surplus labour in the world.[48]

At the same time, more than 61 million employees of state-owned enterprises have been laid-off over the past six years,[49] while better forecasts suggest even with real economic growth rates of more than 8 per cent annually, China's unemployment pool will continue to rise over the coming 2 to 3 years.[50]

Even if China is able to sustain its recent high economic growth rates (around 9 per cent per annum, in real terms), it may take as long as 20 years for China to absorb this labour surplus[51] (without any new entrants into the labour force).

Policy options for addressing this (enormous) pool of surplus labour include encouraging private sector development, promoting a more market-oriented labour market, reducing barriers to labour mobility (for example, by liberalising the household registration system), and improving skills (particularly amongst the rural un-/under-employed, where there are higher levels of illiteracy).

## THE EXCHANGE RATE ISSUE

A major economic policy challenge for the Chinese Government is exchange rate policy. While China's trade account is roughly in balance (imports approximating exports, in value), its financial account is in substantial surplus, reflecting very large inflows of foreign direct investment (recently, as high as $US 60 billion a year)[52] and speculative money, betting on potential changes to exchange rate policies and levels.

China would benefit from greater flexibility in its exchange rate. As we argue that a fully floating exchange rate is the best policy position for Australia we think that in the medium term it should also be the objective of Chinese policy makers. The challenge, however, is one of timing and policy: what to do; when to do it; and, what would be the transitional path from the current level of the exchange rate to the new level.

China's decision in late July 2005 to abandon its fixed exchange rate to the United States dollar, and to move to a 'crawling peg' against a broader basket of currencies is a step in the right direction, with further incremental steps likely to close the gap between the still-regulated and the market-determined values of the renimbi.

Substantive changes to the renminbi's value on world currency markets, can be expected to have a profound longer-term impact on the world economy, and its major trading partners and competitors.

Few appear to realise, for example, China is the third largest holder of United States Government debt, and the largest source of financing for the (burgeoning) United States fiscal and trade deficits.

As one prominent commentator on the Chinese economy observed: "*In fact, it would not be an exaggeration to suggest that the financial underpinning of the Bush Administration's economic and foreign policies is the ownership by east Asian central banks of vast quantities of US government debt.*"[53]

Indeed, in the late 1990s, China was widely praised for maintaining the renminbi-United States dollar exchange rate during and in the aftermath of the Asian financial turmoil, when it was in China's competitive interests to allow a downward movement in the value of its currency on foreign exchange markets.

Had China allowed its currency to depreciate on global currency markets during that period to maintain international price competitiveness for its manufactured exports, the medium to longer term dynamic implications could have been profound – potentially triggering further downward movements in other Asian currencies and destablisation to those and related economies.

More recently, as The Economist magazine pointed out[54] when referring to the implication of China moving from pegging the renminbi to the United States dollar, to doing so against a basket of currencies:

"*One result would be China reducing future purchases of American government bonds. Yields (read: interest rates)[55] on these would rise. This would, indeed, help to reduce America's trade deficit, but in a much more painful way than those who call for yuan revaluation may have in mind. The year of the rooster may yet deliver a wake-up call, but to America rather than to China.*"

Better analyses[56] indicate a substantial appreciation (equal to 10 per centage points) in the renminbi would have very little impact beyond the immediate (short) term on China's current account balance (ie the levels of exports and imports), reflecting the weak impact of the currency shift on China's domestic savings and investment balance.

Similarly, it would have only a very short-term impact on China's inflation rate and short term interest rates (both of which would return to 'normal' fairly quickly), although it would have a positive effect even in the short to medium term on domestic consumption, investment and economic growth.

Given the broader domestic and international challenges – economic, legal, political and social – China should continue with its careful and gradual approach to exchange rate reform. That is, accepting the broad objective of exchange rate flexibility, with the timing of policy movements being dependent on the capacity of the Chinese economy to make the necessary structural adjustments and market-based responses.

Taken as a whole, this would suggest policy priority be given to reforming and reinforcing the financial system[57] and public finances,[58] strengthening the rule of law (including decisive action on corruption in public administration) and dealing with the rural-to-urban migration[59] and related unemployment problems,[60] ahead of sharp[61] changes to exchange rate policy which impose painful shocks on the Chinese economy.

Private sector economists have estimated a 5 per cent appreciation of the value of the renminbi would come at the cost of $US 25 billion in China's foreign exchange reserves (which is equivalent to the annual increase in national government revenue), while a 10 per cent revaluation could see the closure of 50,000 firms and the loss of 1 million jobs in the traded goods (exports and import-replacement) sector.[62] It would also have potentially severe adverse impact on China's weak banking and financial sector.[63]

While China would ultimately benefit from a fully floating exchange rate, there are a number of testing transitional issues such as resolution of the challenges outlined in this paper, which will determine the optimal timing for such an important move. However, in our view, those transitional issues should not be used as a bar to not move to this policy position.

## THE AUSTRALIA – CHINA TRADE RELATIONSHIP

Australian exporters have generally performed well in accessing and realising commercial opportunities in the Chinese market over the past decade or so (for which reliable and comparable trade statistics are available).

On the one hand, Australian exporters have generally realised the strong complementarity between Australian exports and Chinese imports. For a given export profile, Australian exporters are doing relatively better in the Chinese marketplace than in other export markets.

Similarly, our exporters appear to be taking advantage of good market matches (trade complementarities), with Australian exporters selling what Chinese importers want to buy (or Chinese importers buying what Australian exporters want to sell).

However, Australian exporters do not have the Chinese market to themselves, and are often subject to rigorous competition from our major trade competitors in the commodities and merchandise trade games.

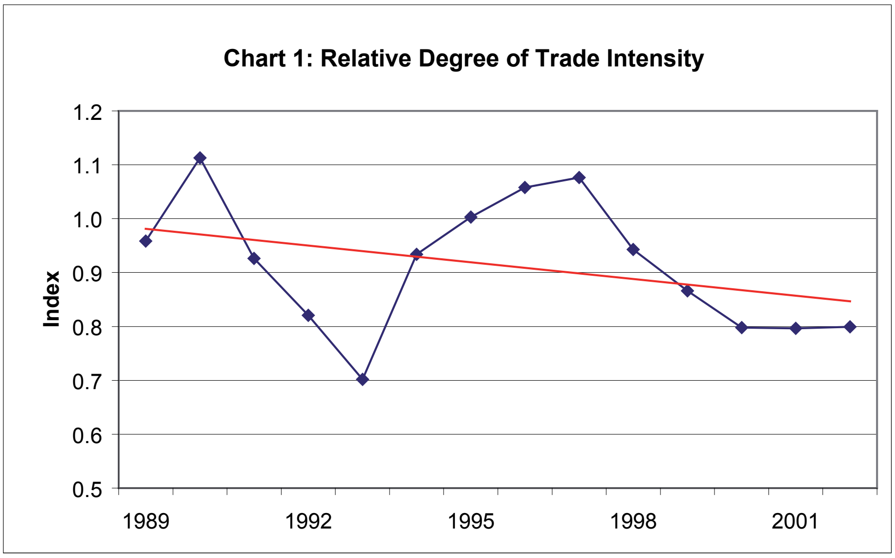
Indeed, there are indications while Australia has good trade complementarities with China, we are being 'out-competed' by some of our trade competitors in the Chinese market; while we are doing well, others are doing better.

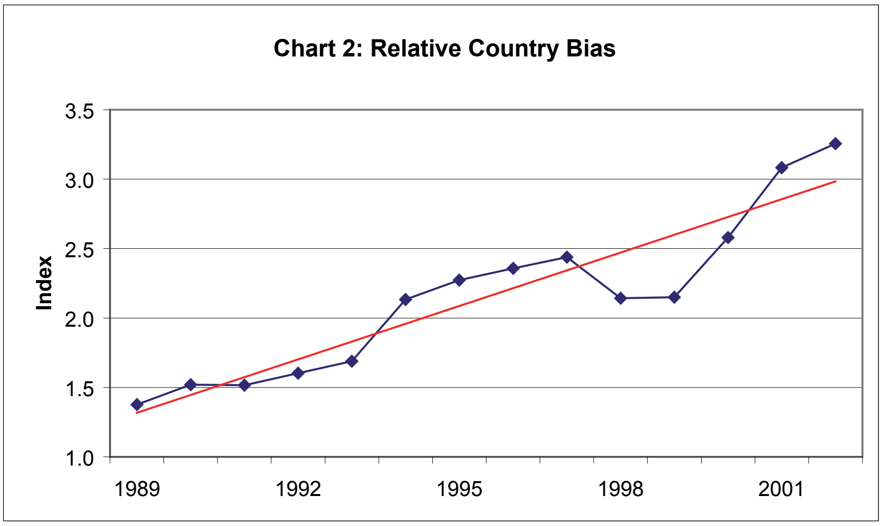
The Chamber has adapted several innovative measures to assess the Australia – China relationship: the Relative Degree of Trade Intensity; the Relative Country Bias; and, the Relative Degree Of Trade Complementarity.

## Relative Degree of Trade Intensity

The Relative Degree of Trade Intensity (RDTI) is a measure of Australia's relative share of China's import market. Importantly, it implicitly benchmarks Australia's export performance in China, against those of our trade competitors.

In quantitative terms, the RDTI is the share of Australian exports destined for China, compared with that country's importance as a global import market. An index number for the RDTI of 1.0 indicates Australia is doing relatively better than its trade competitors in the Chinese market; an






index number below 1.0 suggests our trade competitors are outperforming us in the Chinese market.

Chart 1 points to a 'roller-coaster' in Australia's relative trade intensity in the Chinese market, and in particular our performance relative to our trade competitors, since the late 1980s.

After declining by around 36 per cent between 1989 and 1993, the RDTI rose by around the same amount in the following four years to 1997, before declining again (by some 27 per cent) in the five years to 2003.

In the more recent years (since 1997), Australia appears to have been out-performed by our major trade competitors in the Chinese market place.

Across the 1989-2002 period as a whole, Australia's RDTI (our market share performance relative to our trade competitors) has declined by just over 1 per cent per annum in trend terms.

## Relative Country Bias

The Relative Country Bias (RCB) of Australian exports to China measures how well actual Australian exports to China realise Australian export potential in China, as indicated by the complementarity of Australian exports and Chinese imports.

In quantitative terms, it is a weighted average of Australian market shares in China across a range of products and sectors to a similarly weighted average of Australia's global market shares.

An index number for the RCB of more than 1.0 indicates Australian exporters are performing relatively better in the Chinese markets, for a given export profile, than they are in other export markets for a similar profile; an index number of less than 1.0 suggests a relatively inferior performance in the Chinese market, compared to other export markets.

Chart 2 shows a generally strong upward growth pattern in Australia's RCB with China, suggesting our exporters are doing relatively better in penetrating the Chinese market than they are doing in other export markets.

While the Chart shows a short-term dip in the upward movement in the RCB after 1997, this may well be a (temporary) legacy of the so-called 'Asian financial turmoil'. Nevertheless, Australia's RCB with China resumed its strong growth after 1999, with a compound average growth rate of 12.8 per cent per annum over the 1989-2002 period.

## Relative Degree of Trade Complementarity

The Relative Degree of Trade Complementarity (RDTC) is, in effect, a measure of market match between the Australian and the Chinese economies; are we selling what they want to buy.

The RDTC compares the composition of Australian exports with the composition of China's imports, and measures Australian patterns of comparative advantage in export products/sectors to the shares of each product/sector in China's total imports.

An index number for the RDTC of more than 1.0 indicates a good market match (Australia is selling what China wants to buy; or they are buying what we want to sell); an index number below 1.0 points to the converse.

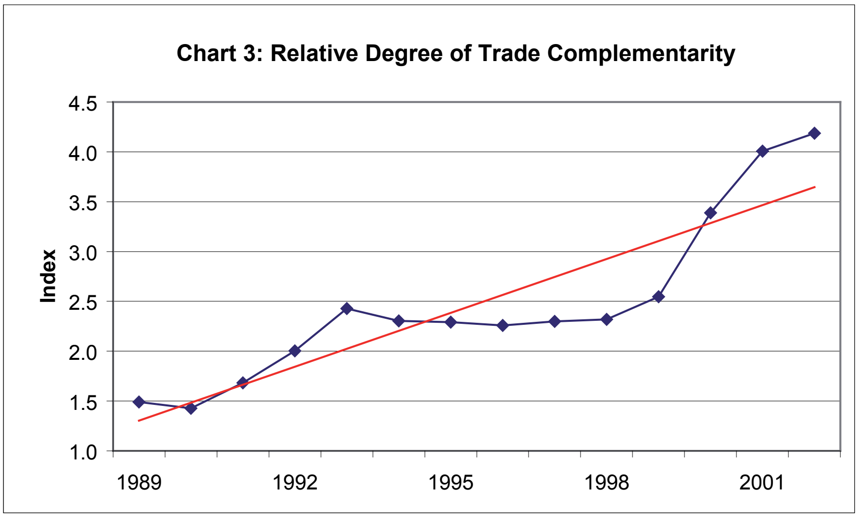



Chart 3 clearly shows a strong market match between Australia and China: we are selling what they want to buy; they are buying what we can sell.

The market match is also generally strengthening. After growing at a healthy rate in the late 1980s and into the early 1990s, the RDTC more or less plateaued between 1993 and 1999, before 'taking off' from 2000 to 2002 (the latest available figures).

Looked at over the 1989-2002 period as a whole, Australia's RDTC (degree of market match) grew by a robust 18 per cent per annum in trend terms.

## OPPORTUNITY SECTORS FOR AUSTRALIA

Domestic economic growth strategies and liberalisation, and accession to the WTO have created a range of opportunities for Australian exporters and firms looking to establish a presence in China. These opportunities range across agriculture and agribusiness, minerals and energy, manufacturing and infrastructure, and services.

Opportunities in the agriculture and agribusiness sector for Australian exporters reflect several underlying trends in the Chinese economy, such as reductions in tariffs and quotas flowing from China's entry to the WTO, and expanded competition and reduced government intervention in domestic agricultural markets.

Domestic rationalisation of agricultural production practices in China should also benefit Australian rural exporters, as Chinese farmers focus on their competitive strengths (in labour intensive agriculture), thus expanding markets for broad acre farming and livestock production where Australia has a comparative advantage.

Australian agribusiness exporters are likely to be well-placed to offer agricultural equipment, consultancy services and technologies to Chinese rural producers, while relaxation of foreign investment rules should open opportunities for foreign food processors.

Rapid industrialisation, and economic growth and liberalisation has, and will continue, to underpin strong demand for Australian mineral and energy exports, as will China's massive infrastructure needs and expansion of its minerals processing industry.

China is already Australia's third largest export market for resource commodities, after Japan and South Korea, importing some $4.4 billion in mineral and energy exports from us in 2001 (more than half of our exports to China in that year alone).

Rationalisation of the Chinese resources sector is likely to see the closure of uncompetitive extractive firms and industries, and the expansion of minerals processing, pointing to strong growth in demand for commodities such as iron and copper ores, alumina and liquefied natural gas, all of which Australia is well placed to provide.

Foreign investment in China, beyond that from Australia, is likely to favour the minerals processing, over the resources extraction, component of China's broader minerals sector, which in turn will favour Australian minerals and energy exports.

China's entry to the WTO is likely to have a profound impact on its domestic manufacturing sector, and in turn its manufactured exports to major markets in Europe and North America especially of lower and middle value-added/sophisticated products.

Reductions in China's manufactured tariffs regime, as required by the terms of its admission to the WTO, is expected to improve the productivity of domestic producers and product quality, and facilitate a move up the quality scale especially in areas such as textiles and clothing. This is expected to create opportunities for Australian suppliers of related manufactured inputs.

Australian manufacturers (and service suppliers) are likely to see continued substantial opportunities in the remediation and development of China's currently inadequate infrastructure system, the inefficiency and gaps in which is undermining the competitiveness of manufacturing industry in particular.

Limitations on foreign participation in major infrastructure sectors, such as airports and seaports, will be eased with China's entry into the WTO.

Tight restrictions on foreign service providers are also likely to be eased following WTO accession, with China being obligated to progressively liberalise services sectors such as finance, education, tourism, telecommunications, and environmental and professional services – all areas where Australia has export competency.

The willingness of many Australian manufacturers and service providers to enter the Chinese market, however, has been tempered by their concerns over what they regard as poor intellectual property protection and rights in China.

While China has made some progress since its accession to the WTO on intellectual property issues, international business still sees a need for further concrete action by the Chinese government.

## AN AUSTRALIA-CHINA FTA

Earlier this year, Australian Prime Minister John Howard and Chinese Premier Wen Jiabao agreed that the two countries would commence negotiations on an FTA.

However, the next step - negotiating a high quality, bold and comprehensive Agreement - holds out both challenges and opportunities.

Commerce and industry is supportive in principle of negotiations between the Australian and Chinese Governments toward a bold and comprehensive FTA, where the outcomes and net dividends are in our national commercial and economic interest.

The Australia-China Free Trade Agreement Joint Feasibility Study prepared by the Australian Department of Foreign Affairs and Trade and the Chinese Ministry of Commerce found there are likely to be major benefits from concluding a comprehensive FTA:

The report observed: "*In aggregate terms, the [economic] modelling indicates that the annual average real GDP growth rate for both countries could increase by around 0.4 per cent over the period 2005-2015 – in present value terms.*"

"*This growth rate would mean that an FTA could boost Australia's and China's real GDP in the order of US$18 billion (A$24.4 billion) and US$64 billion (RMB529.7 billion) respectively over the period 2006-2015. The modelling suggests that an FTA covering goods, services and investment could boost total bilateral trade by US$5.4 billion in 2015.*"

Any FTA needs to deal effectively with a range of important trade related issues, including: tariffs; quotas; protection of intellectual property rights; rules of origin; investment; recognition of professional and skilled qualifications; import licensing; customs procedures; quarantine laws and policies; and dumping regulations.

Tariffs are an obvious issue for an FTA where Australia would clearly expect to benefit. Australia's average applied tariff rate is a low 3.5 per cent, with over 85 per cent of Australian tariff rates varying between zero and 5 per cent. However, in China's case the average tariff level stands at 9.9 per cent, suggesting considerable room for reductions – even down to zero, as the term 'free' in FTA implies.

It will be crucial for Australia to win a good deal in respect of the treatment of intellectual property.

Just about every Australian company that has done business in China has a 'war story' about pirated intellectual property which often involve situations where production processes moved to China have shortly afterwards been subjected to copying '100 kms down the road'.

Australian business does recognise China has made improvements in dealing with abuses of foreign intellectual property, especially following the spur of accession to the WTO. However, the advice from ACCI's membership is that the issue remains chronic and must be a priority for the FTA negotiations.

Priorities include gaining decisive outcomes on: product piracy and counterfeiting at the wholesale and retail levels, which are wide spread due to inadequate penalties;

uncoordinated enforcement amongst local, provincial and national authorities; and lack of transparency in China's administrative and criminal enforcement system.

Beyond intellectual property protection are the inadequacies in the Chinese system in enforcing contracts, which relates to cultural differences between our two countries.

In Australia, in common with other 'western' countries, we value highly the written detail of contracts, while China for many years has operated under a culture of more fluid business 'understandings'.

Australian business needs to be assured the Chinese respect for written agreements and their enforceability is strengthened, and Chinese tribunals arbitrating on contracts are fully independent and impartial.

While it may be difficult to secure satisfactory results given many of the underlying issues relate to the operation of the broader Chinese legal system pressure for reform must be applied through the negotiation process.

At the very least, satisfactory dispute settlement procedures to help Australian firms to fast track binding and enforceable remedies in China may need to be designed.

Australia will also need to pursue as a matter of priority in the negotiations the breaking down of barriers to investment by Australian companies, such as various rules requiring the need for local Chinese partners with majority ownership of projects.

Probably the most significant long-term benefit of the Australia – United States FTA will be the benefits to future investment flows between the two countries. We expect the same will be the case for the Australia - China relationship.

Further, when Australian companies establish operations in China they face restrictions on their ability to recruit professional staff, including the lack of Chinese recognition of overseas gained professional qualifications. Appropriate mutual recognition of qualifications, as occurred in the Australia – US FTA negotiations, will be very important.

Rules of Origin (ROOs) are always a critical area of negotiations in bilateral trade agreements. Australia has had recent experience in negotiating various ROOs in its agreements with Singapore, Thailand and the United States, and these will feature prominently in the Australia – China negotiations.

Australia negotiators will need to ensure, to the maximum extent possible, consistent ROOs with these already negotiated agreements. A proliferation of different ROOs between FTAs can increasingly become a red tape burden to the business community, and a barrier to international trade.

The FTA negotiations will need to address discriminatory taxation arrangements against foreign companies, which still occur in China, as will restrictions on financial dealings and loan arrangements for foreign companies operating in the Middle Kingdom.

The overwhelming predominance of state owned enterprises in the Chinese economy heightens the possibility of favouritism for such entities at the expense of foreign competitors. The negotiations will need to ensure that adequate institutional arrangements are in place to give comfort to Australian companies that such abuses will be strictly handled.

An issue of concern for many Australian manufacturing firms in the FTA negotiating process has been China's request to Australia to be considered a market economy under international trade laws.

China regards Australia's recognition of them as a market economy as an essential pre-condition for the FTA negotiations. In short, no recognition of market economy status, then no FTA.

As such, the question becomes whether an Australia – China FTA is in our national interest. A priori, the answer is probably yes.

Taken as a whole, commerce and industry supports China's recognition as a market economy, as part of negotiations for a bold and comprehensive FTA with China, where we get a better deal in return.

Treating China as a market economy will not impact adversely on the integrity of Australia's anti-dumping regime nor will it undermine our anti-dumping rights under WTO agreements. In short, and contrary to the claims of some alarmists, Australian business will continue to have the same level of protection against allegedly dumped product from China.

Such an approach, focusing on outcomes that advance our national economic and trade interests, reflects the continuity of our long-standing trade strategy in bilateral, regional and multilateral fora.

Similarly, we must also recognise the trade policies and strategies of our major trading competitors – those able, eager and willing to compete with Australia in exporting into China.

As one business leader with deep exposure to the China market correctly observed:[64] "What we do not provide, more eager developing nations will provide."

For Australia the opportunities for our mining and agricultural sectors from a comprehensive agreement are large. Australian minerals face average Chinese tariffs of around 11.8 per cent. These will of course need to be the subject of negotiations.

There are also various non-tariff barriers such as import licences on iron ore and other commodities. There is tight control on non-Chinese access to exploration permits and mining rights which should be on the negotiating table.

Our mining companies are particularly concerned about protecting their intellectual property rights and the various restrictions on foreign direct investment and on their ability to provide mining technology services in the Chinese market.

The agricultural sector must be a significant element of any Agreement.

As noted above, even under the WTO accession obligations, Chinese tariff levels for agricultural products will still be a high 17 per cent. These levels should preferably be reduced to zero for Australian products.

However, the matters for negotiation will not be just about tariff barriers but also non-tariff barriers including quotas and eliminating, or at least reducing, non-science based quarantine restrictions.

The issue of human rights and the negotiation of the FTA has been raised by social activist groups concerned about civil liberties. The ACCI has always maintained the view that these issues, while of fundamental importance, are not the matter for trade negotiations.

The Australia China Human Rights Dialogue are held annually between the Australian and Chinese Governments, and this is the appropriate forum in which to raise, and seek substantive outcomes on, these issues.

The the negotiations for an Australia – China FTA are likely to be protracted and be conducted over several years – potentially as much as three to five years. We do not expect a quick result, along the lines of the fast-moving (two-year) timetable for the Australia - US Free Trade Agreement.

There was a remarkable alignment of planets in the political firmament of the two countries in that case, not least being almost simultaneous national elections in Australia and the US that allowed the acceleration of that timetable.

If realised, an Australia – China FTA would place Australia in a unique, and for many countries the highly envied, position – having FTA's with two of the world's major economic powerhouses – China and the United States of America. An opportunity that we cannot allow to go wanting.

## SUMMARY AND CONCLUSION

Without doubt, China has come a long way since it embarked on its bold program of economic and industrial reform in the late 1970s. Economic growth has averaged more than 9 per cent per annum for much of the 1980s and 1990s, and more than 300 million people have been lifted out of poverty – the largest anti-poverty program in human history.

China is already, and is likely to remain, the single greatest source of growth in the world economy, having surpassed the United States of America in that role in 2004. At the same time, its industrialisation is having a profound impact on global production and trade.

Between 2000 and 2003, China accounted for ALL of the world's growth in demand for aluminium, copper and steel; in 2004, it accounted for 40 per cent of all personal computers manufactured in the world that year, 50 per cent of all digital cameras, and 60 per cent of all microwaves, photocopiers and DVD players produced in the world.

However, China faces a number of important challenges which are critical to its sustained and stable economic and industrial development. These challenges include: the weakness of the banking system; ensuring sustainability in fiscal policy; imbalances in its industrial structures; shortages of energy; rural poverty; and future settings for exchange rate policy.

At the same time, China is also meeting the challenges of adjusting to its obligations as a new member of the World Trade Organisation, which also bring with it greater certainty of access to key export markets and the opportunity to embed the rule of law within that country.

China is also exploring with Australia, amongst others, potential closer economic and trade relationships; with Australia, a potential free trade agreement.

Commerce and industry is supportive in principle of negotiations between the Australian and Chinese Governments toward a bold and comprehensive FTA, where the outcomes and net dividends are in our national commercial and economic interest.

## ATTACHMENT[65]

Some facts about China:

- China has to create a net 10 million new jobs every year just to hold its unemployment rate steady (at 8 per cent of the labour force);[66]

- China imported no soyabeans in 1990; in 2004, its imports of soyabeans accounted for almost 33 per cent of world trade therein;[67]

- in 1990, China accounted for 7 per cent of world imports of cotton; by 2004, the figure had increased to 25 per cent;[68]

- in 1995, China accounted for 5 per cent of world imports of steel; by 2004, it was 10 per cent;[69]

- in 1990, China accounted for 0.5 per cent (half of one per cent) of world imports of oil; by 2004, it was 3.4 per cent (a near sevenfold increase);[70]

- in 2000 – 2003, China accounted for all of the world's growth in demand for aluminium, copper and steel;[71]

- in 2004, China produced 40 per cent of all personal computers manufactured in the world that year;[72]

- in the same year, China manufactured 50 per cent of all digital cameras, and 60 per cent of all microwaves, photocopiers and DVD players produced in the world; and,

- just one city (Wenzhou) produces 600 million shoes, 750 million pairs of sunglasses, 40 million electric razors, 8 billion pens and 500 million metal cigarette lighters (in the latter case, 90 per cent of world supply) annually.[73]

## END NOTES

1 Woodall (2004) at 6
2 Woodall (2004) at 4
3 For good discussions of China's trade linkages with East Asia, and with Australia, see: Antikiewicz and Whalley (2004); Hale (2004a); and, Smith et al (2005)
4 Callick (2004)
5 For a good discussion of China's foreign and trade policies and strategies for ensuring reliability of supply of commodities essential to its industrialization, see Hale (2004a)
6 See Cerra and Saxena (2002) for a good general discussion of China's trade policies since it began its liberalisation program in the late 1970s.
7 See also Attachment 1 for additional information
8 Krueger (2005)
9 Armitage (2005)
10 Also known as 'trade intensity'
11 Adhikari and Yang (2002)
12 Ryan (2005)
13 A figure 10 times that of Japan in the 55 years to 2000, or about twice the time: Gilboy (2004)
14 Krueger (2005)
15 Krueger (2005)
16 Callick (2004)
17 Griswold (2004)
18 Ryan (2005)
19 Ryan (2005)
20 Having withdrawn from its predecessor, the General Agreement on Tariffs and Trade, in 1950
21 See Ianchovichina and Martin (2003) for a good discussion, including the results of some econometric modeling, of the impact of China's accession to the WTO on some of its major trading partners.
22 In effect, a commitment of non-discriminatory treatment. Previously, US granted of MFN to China on an annual basis, usually in a highly politically charged environment.
23 Reported in Adhikari and Yang (2002)
24 The average area of agricultural land per rural labourer in China is less than 0.3 hectares, compared to 1.1 hectares in Japan and 52 hectares in the United States: Armitage 2005a.
25 McKibbin and Woo (2003)
26 For an interesting analysis of the policy responses required of China's major trading competitors in South East Asia (Indonesia, Malaysia, the Philippines and Thailand) see McKibbin and Woo (2003)
27 Cited in Gilboy (2004). We are not aware of any similar estimates for Australian consumers
28 Including insurance, both general and life

29 Around 40 per cent of all loans in the Chinese banking system are seen as non-performing: Armitage, 2005

30 The Chinese Government used $US 45 billion of foreign exchange holdings in 2002 to recapitalize two of the four major state owned banks: McKibbin and Stoeckel (2003)

31 Prasad (2004)

32 Prasad (2004)

33 Gilboy (2004)

34 Gilboy (2004)

35 Schneider (2004) at 304

36 Armitrage (2005); Ryan (2005a)

37 Armitage (2005)

38 Schneider (2004) at 304

39 Crosby (2004); In 2003, China became the second largest consumer of oil in the world, after the United States of America: Schneider (2004) at 301

40 China already has one contract to buy $A 25 billion worth of liquefied natural gas from Australia, with negotiations underway for at least one more contract of similar value. For an more expansive discussion of these issues see Schneider (2004) at 303

41 Woodall (2004) at 12

42 See Schneider (2004) for a useful discussion of these opportunities

43 Garnaut (2004)

44 Gilboy and Heginbotham (2004)

45 Dayal-Gulati and Husain (2002)

46 Gilboy and Heginbotham (2004)

47 Prasad (2004)

48 See Brooks and Tao (2003) for a good general overview of China's labour market performance, policies and prospects.

49 Garnaut (2004)

50 Prasad (2004); see also Brooks and Tao (2003) for comparable forecasts

51 Woodall (2004) at 6

52 McKibbin and Stoeckel (2003); Ryan (2005)

53 Hale (2004a) at 145, estimating 90 per cent of their $US 2.1 trillion foreign reserve holdings are invested in US government securities. Any diminution of demand by these central banks for US government debt issue would place upward pressure on US, and thus international, interest rates

54 The Economist (2005)

55 ACCI interpretation

56 McKibbin and Stoeckel (2003)

57 For example, the extensive bad debt problem in state owned financial institutions

58 For example, the absence of a social safety net for an ageing population

59 An estimated 300 million people are expected to move from rural to urban China over the coming 30 years (Hale: 2004), while he income gap between China's rural and urban populace has been acknowledged by official Chinese sources to be as wide as 300 per cent: Callick (2004).

60 For example, as inefficient state owned enterprises close, either as a result of market forces or the withdrawal of governmental supports, such as subsidized bank loans.

61 The Chinese currency is estimated to be undervalued by between 15 per cent (Goldstein and Lardy: 2004) and 30 per cent (Ryan, 2005), suggesting any dramatic move, for example to a 'free float', could see sharp movements in the value of the renminbi on global foreign exchange markets. However, the view the renminbi is undervalued has reportedly been challenged by the International Monetary Fund: Ryan (2005a)

62 Ryan (2005a)

63 Australia has leading edge regulatory institutions within its financial sector which could be utilized in formulating stronger regulatory frameworks within China

64 Smith (2004) at 6

65 See also Hale and Hale (2003), and Hale (2004a) for more statistics on China's economic magnitudes and performances

66 Armitrage (2005)

67 Krueger (2005)

68 Krueger (2005)

69 Krueger (2005)

70 Krueger (2005)

71 McKibbin and Stoeckel (2003)

72 Woodall (2004) at 4

73 Ryan (2005)

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### Agribusiness Employers' Federation
GPO Box 2883
ADELAIDE SA 5001
Telephone: 08 8212 0585
Facsimile: 08 8212 0311
Email: aef@aef.net.au
Website: www.aef.net.au

### Air Conditioning and Mechanical Contractors' Association
30 Cromwell Street
BURWOOD VIC 3125
Telephone: 03 9888 8266
Facsimile: 03 9888 8459
Email: deynon@amca.com.au
Website: www.amca.com.au/vic

### Association of Consulting Engineers Australia (The)
75 Miller Street
NORTH SYDNEY NSW 2060
Telephone: 02 9922 4711
Facsimile: 02 9957 2484
Email: acea@acea.com.au
Website: www.acea.com.au

### Australian Beverages Council Ltd
Suite 4, Level 1
6-8 Crewe Place
ROSEBERRY NSW 2018
Telephone: 02 9662 2844
Facsimile: 02 9662 2899
Email: info@australianbeverages.org
Website: www. australianbeverages.org

### Australian Entertainment Industry Association
Level 1
15-17 Queen Street
MELBOURNE VIC 3000
Telephone: 03 9614 1111
Facsimile: 03 9614 1166
Email: aeia@aeia.org.au
Website: www.aeia.org.au

### Australian Hotels Association
Level 1, Commerce House
24 Brisbane Avenue
BARTON ACT 2600
Telephone: 02 6273 4007
Facsimile: 02 6273 4011
Email: aha@aha.org.au
Website: www.aha.org.au

### Australian International Airlines Operations Group
c/- QANTAS Airways
QANTAS Centre
QCA4, 203 Coward Street
MASCOT NSW 2020
Telephone: 02 9691 3636

### Australian Made Campaign Limited
486 Albert Street
EAST MELBOURNE VIC 3002
Telephone: 03 8662 5390
Facsimile: 03 8662 5201
Email: ausmade@australianmade.com.au
Website: www.australianmade.com.au

### Australian Mines and Metals Association
Level 10
607 Bourke Street
MELBOURNE VIC 3000
Telephone: 03 9614 4777
Facsimile: 03 9614 3970
Email: vicamma@amma.org.au
Website: www.amma.org.au

### Australian Paint Manufacturers' Federation Inc
Suite 1201, Level 12
275 Alfred Street
NORTH SYDNEY NSW 2060
Telephone: 02 9922 3955
Facsimile: 02 9929 9743
Email: office@apmf.asn.au
Website: www.apmf.asn.au

### Australian Retailers' Association Victoria
Level 2
104 Franklin Street
MELBOURNE VIC 3000
Telephone: 03 9321 5000
Facsimile: 03 9321 5001
Email: vivienne.atkinson@vic.ara.com.au
Website: www.ara.com.au

### Housing Industry Association
79 Constitution Avenue
CANBERRA ACT 2612
Telephone: 02 6249 6366
Facsimile: 02 6257 5658
Email: enquiry@hia.asn.au
Website: www.buildingonline.com.au

### Insurance Council of Australia
Level 3
56 Pitt Street
SYDNEY NSW 2000
Telephone: 02 9253 5100
Facsimile: 02 9253 5111
Email: ica@ica.com.au
Website: www.ica.com.au

### Investment and Financial Services Association Ltd
Level 24
44 Market Street
SYDNEY NSW 2000
Telephone: 02 9299 3022
Facsimile: 02 9299 3198
Email: ifsa@ifsa.com.au
Website: www.ifsa.com.au

### Master Builders Australia Inc.
16 Bentham Street
YARRALUMLA ACT 2600
Telephone: 02 6202 8888
Facsimile: 02 6202 8877
Email: enquiries@masterbuilders.com.au
Website: www.masterbuilders.com.au

### Master Plumbers' and Mechanical Services Association Australia (The)
525 King Street
WEST MELBOURNE VIC 3003
Telephone: 03 9329 9622
Facsimile: 03 9329 5060
Email: info@mpmsaa.org.au
Website: www.plumber.com.au

### National Electrical and Communications Association
Level 3
100 Dorcas Street
SOUTH MELBOURNE VIC 3205
Telephone: 03 9645 5566
Facsimile: 03 9645 5577
Email: necanat@neca.asn.au
Website: www.neca.asn.au

### National Retail Association Ltd
PO Box 91
FORTITUDE VALLEY QLD 4006
Telephone: 07 3251 3000
Facsimile: 07 3251 3030
Email: info@nationalretailassociation.com.au
Website: www.nationalretailassociation.com.au

### NSW Farmers Industrial Association
Level 10
255 Elizabeth Street
SYDNEY NSW 2000
Telephone: 02 8251 1700
Facsimile: 02 8251 1750
Email: industrial@nswfarmers.org.au
Website: www.iressentials.com

### Oil Industry Industrial Association
c/- Shell Australia
GPO Box 872K
MELBOURNE VIC 3001
Telephone: 03 9666 5444
Facsimile: 03 9666 5008

### Pharmacy Guild of Australia
PO Box 7036
CANBERRA BC ACT 2610
Telephone: 02 6270 1888
Facsimile: 02 6270 1800
Email: guild.nat@guild.org.au
Website: www.guild.org.au

### Plastics and Chemicals Industries Association Inc

Level 2
263 Mary Street
RICHMOND VIC 3121
Telephone: 03 9429 0670
Facsimile: 03 9429 0690
Email: info@pacia.org.au
Website: www.pacia.org.au

### Printing Industries Association of Australia

25 South Parade
AUBURN NSW 2144
Telephone: 02 8789 7300
Facsimile: 02 8789 7387
Email: info@printnet.com.au
Website: www.printnet.com.au

### Restaurant & Catering Australia

Suite 32
401 Pacific Highway
ARTARMON NSW 2604
Telephone: 02 9966 0055
Facsimile: 02 9966 9915
Email: restncat@restaurantcater.asn.au
Website: www.restaurantcater.asn.au

### Standards Australia Limited

286 Sussex Street
SYDNEY NSW 2000
Telephone: 1300 65 46 46
Facsimile: 1300 65 49 49
Email: mail@standards.org.au
Website: www.standards.org.au

### Victorian Automobile Chamber of Commerce

7th Floor
464 St Kilda Road
MELBOURNE VIC 3000
Telephone: 03 9829 1111
Facsimile: 03 9820 3401
Email: vacc@vacc.asn.au
Website: www.vacc.motor.net.au