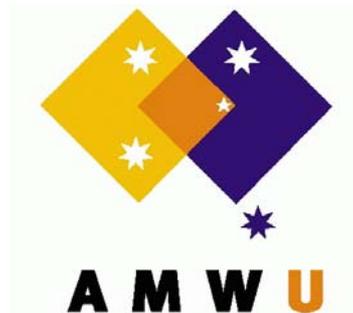


AUSTRALIAN MANUFACTURING WORKERS' UNION



**SUBMISSION TO THE
DEPARTMENT OF FOREIGN AFFAIRS AND TRADE
CONCERNING A POSSIBLE CHINA-AUSTRALIA FREE TRADE
AGREEMENT**

JUNE 2005

Introduction

1. The Australian Manufacturing Workers' Union (AMWU) welcomes the opportunity to make submissions to the Department of Foreign Affairs and Trade (the Department) on issues relevant to the negotiation of a free trade agreement (FTA) between Australia and China.
2. The full name of the AMWU is the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union. The AMWU represents approximately 140,000 workers in a broad range of sectors and occupations within Australia's manufacturing industry.
3. As Australia's largest representative of manufacturing workers, the AMWU has a strong interest in how Australia's economic and trade relationship with China impacts upon the employment of manufacturing workers.
4. Fundamentally, it is the AMWU's view that trade between Australia and China should be conducted on fair trade principles. Fair trade is trade that is underpinned by a respect for core labour standards and protection for the environment. Fair trade respects the rights of workers and the community to decent work and decent living conditions.
5. The AMWU does not consider that Australia's current trade relationship with China, nor that being proposed in an Australia – China free trade agreement, is capable of being described as being conducted on fair trade principles.
6. This submission identifies a number of the AMWU's specific concerns with the Australia – China trade relationship and the proposed Australia – China free trade agreement. These concerns include:
 - The large and growing trade deficit with China, including the composition of the trade deficit, its implications for the Australian economy and the consequential need for a co-ordinated national industry policy to ensure the future of manufacturing in Australia.
 - The likely economic effects of an Australia – China free trade agreement.
 - The question of dumping and market economy status.
 - Violations of workers' rights in China.
 - The question of dumping in the context of Chinese occupational health and safety standards and the environment.
 - Australia's continued pursuance of bilateral and regional preferential trade agreements.
 - The need for more open public consultation, independent social and economic analysis and parliamentary scrutiny of proposed free trade agreements.
7. On the basis of the concerns identified in this submission, the AMWU opposes the Australian government entering a free trade agreement with China.

Recommendations

8. The AMWU urges the following:
 - 8.1 That Australian governments at both a State and Federal level take action to improve Australia's trade performance, including a commitment to a co-ordinated strategy to ensure the future of the Australian manufacturing industry in a competitive global economy in which China plays a dominant role.
 - 8.2 That Australia not enter into a free trade agreement with China.
 - 8.3 That notwithstanding the decision to grant China market economy status, that the Government take all remaining available steps to ensure that the Australian manufacturing industry receives legitimate protection from a strong anti-dumping mechanism to prevent unfair competition damaging Australian industry.
 - 8.4 That Australia work through the International Labour Organisation and other international bodies to improve the observance of core labour standards for Chinese workers.
 - 8.5 That the Australian Government call for the release of those workers who are in prison in China for seeking to exercise their internationally recognised core labour rights. In particular, that the Australian government call for the immediate release of the metal workers Yao Fuxin and Xiao Yunliang.
 - 8.6 That the Australian Government abandon its strategy to negotiate bilateral free trade agreements and instead seek to reform and re-invigorate multilateral trade negotiations.
 - 8.7 That prior to embarking on the pursuit of any bilateral trading or investment agreement the Government provide funding for non-government organisations to conduct an *independent* examination and report in relation to the proposed agreement. Such a report should deliver a detailed econometric assessment of the agreement's impacts on Australia's economic well-being, identifying any structural or institutional adjustments that might be required by such an agreement, as well as an assessment of the regional, social, regulatory, cultural and environmental impacts of the agreement. The preparation of the report should include the opportunity for full community consultation.
 - 8.8 That the Government pass legislation to implement the following process for parliamentary scrutiny and endorsement of proposed trade treaties:
 - (a) Prior to making offers for further market liberalisation under any WTO Agreements, or commencing negotiations for

bilateral or regional free trade agreements, the Government shall table in both Houses of Parliament a document setting out its priorities and objectives, including comprehensive information about the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise.

- (b) These documents shall be referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade for examination by public hearing and report to the Parliament within 90 days.
- (c) Both Houses of Parliament will then consider the report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, and then vote on whether to endorse the Government's proposal or not.
- (d) Once Parliament has endorsed the proposal, negotiations may begin.
- (e) Once the negotiation process is complete, the Government shall then table in Parliament a package including the proposed treaty together with any legislation required to implement the treaty domestically.
- (f) The treaty and the implementing legislation are then voted on as a package, in an 'up or down' vote, i.e. on the basis that the package is either accepted or rejected in its entirety.
- (g) The legislation should specify the form in which the Government should present its proposal to Parliament and require the proposal to set out clearly the objectives of the treaty and the proposed timeline for negotiations.

Australia's Growing Trade Deficit With China

9. In 2003-2004 Australia had a deficit in merchandise trade with China of over \$5.427 billion. This bilateral deficit made up approximately 22% of Australia's total annual deficit in merchandise trade and was Australia's third largest deficit with any country.¹
10. The trend for increasingly large bilateral deficits with China has been growing at a high rate for a number of years. As Table 1 illustrates, between 1999-00 and 2003-04, the trade deficit with China grew on average by over 20% each year.

Table 1 Australia's Trade with China

	1999-00 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2002-03 (\$'000)	2003-04 (\$'000)	Average Annual Growth Rate 99-00 – 03-04
Total Exports	4,996,260	6,840,645	7,817,098	8,802,717	9,912,394	19.10%
Total Imports	7,515,252	9,881,113	11,274,786	13,789,108	15,339,477	19.78%
Balance on Merchandise Trade	-2,548,991	-3,040,468	-3,457,688	-4,986,390	-5,427,083	- 21.51%

Source: DFAT-Composition of Trade Australia 2003-04

11. A comparison of the 7 months ended January 2004 to the 7 months ended January 2005 shows that while exports to China grew by 22.2%, imports increased by 32.4% over the same period. Australia's trade deficit with China is therefore having a growing impact on Australia's rapidly deteriorating and unsustainable current account deficit.²
12. However, not only is the rate of growth of Australia's trade deficit with China an increasing cause for concern, so too is the composition of the trade deficit. As Table 2 shows, Australia's exports to China are overwhelmingly dominated by primary products. Of Australia's top ten exports to China, seven of them (ranks 1,2,3,4,6,8,9) are primary products. Two of the remaining exports inside the top ten (aluminium[5th] and pig iron [7th]) are simply transformed manufactures with little value added.

¹ *DFAT-Composition of Trade Australia 2003-04*. Australia's total trade deficit for 2003-2004 was \$24.1 billion. The largest trade deficit with any country was with the United States (-\$10,491 million) and second was Germany (-\$6,676 million).

² ABS 5368.0 "International Trade in Goods and Services", January 2005 (released 28 February 2005)

Table 2 Australia's Top Twenty Exports to China³

Principal Exports	1999-00 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2002-03 (\$'000)	2003-04 (\$'000)	Average Annual Growth 1999-00 – 2003 – 04 %
Iron ore	861,383	1,213,804	1,380,440	1,695,645	1,894,063	22.29
Wool	855,456	1,200,366	1,319,969	1,308,798	1,065,629	7.71
Crude petroleum	431,233	316,679	313,466	527,370	669,508	16.90
Coal	128,558	69,700	158,554	215,301	325,322	42.15
Aluminium	143,100	167,769	190,248	212,389	276,380	18.10
Other ores	51,640	132,228	92,179	76,943	238,535	79.81
Pig iron	6,645	72,197	142,707	189,526	213,984	282.47
Copper ores	124,582	317,394	236,204	184,140	210,435	30.36
Non-ferrous waste	60,917	128,506	132,511	172,910	201,853	40.32
Manuf classified by material	108,095	134,195	150,509	215,002	187,980	16.65
Cotton	9,911	26,402	27,651	58,407	185,903	125.16
Hides & Skins	82,295	182,060	156,385	131,350	175,985	31.27
Liquefied Propane	130,520	125,111	95,691	35,513	159,373	64.56
Pigments & Paints	69,567	120,903	129,366	137,108	144,764	23.09
Misc. Manuf. Articles	62,962	98,911	110,110	165,600	139,39	25.74
Crude materials	49,012	50,632	77,668	102,135	126,761	28.08
Chemicals and related products	89,636	110,536	119,352	128,692	126,278	9.31
Live animals	11,215	12,353	12,909	41,782	124,118	108.84
Copper	27,409	67,758	91,550	92,340	121,634	53.73
Animal oils & fats	67,161	74,964	75,449	80,659	120,760	17.22

Source: DFAT-Composition of Trade Australia 2003-04

13. While it is sometimes noted that Australian exports to China of elaborately transformed manufactures have enjoyed solid growth in recent years, such growth occurs off a very low base and continues to represent a relatively insignificant portion of Australia's exports to China. For example while Australia's export of combustion engines to China grew by almost 37,000% from 1999-00 to 2003-04, in 2003-04 combustion engines made up less than 0.8% of Australia's total exports to China. Similarly, and to use a perhaps less extreme example, Australia's export of electrical machines and appliances to China grew by over 341% from 1999-00 to 2003-04, however, electrical machines and appliances still made up only 0.8% of Australia's total exports to China.⁴
14. In contrast, while Australian exports to China remain overwhelmingly dominated by primary products, Australian imports from China are equally

³ Note that DFAT data reveals a very large contribution from "Confidential items" that are not included in this table.

⁴ DFAT Composition of Trade 2003-04.

dominated by manufactured goods. As shown in Table 3, the majority of Australia's top twenty imports from China are elaborately transformed manufactures (or ETMs).

Table 3 Australia's Top Twenty Imports From China

Principal Imports	1999-00 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2002-03 (\$'000)	2003-04 (\$'000)	Average Annual Growth 1999-00 – 2003 – 04 %
Computers	311,607	527,927	752,764	991,534	1,404,083	46.33
Toys, games, sporting	488,547	679,138	695,497	893,506	974,180	19.73
Other textile clothing	578,236	737,138	719,538	770,473	814,612	9.48
Telecommunications Equipment	135,364	258,496	359,704	493,174	721,747	53.39
Women's clothing	337,582	471,630	537,776	625,049	594,598	16.27
Furniture	172,899	273,188	323,474	456,901	561,731	35.15
Footwear	451,544	530,327	556,981	523,065	555,625	5.65
Computer Parts	118,514	169,443	278,744	374,881	418,606	38.41
Men's clothing	334,141	400,354	403,802	419,104	406,369	5.36
Household Equipment	224,821	281,404	278,788	330,825	401,233	16.05
Chemicals and related products	191,474	322,868	338,859	403,892	386,837	22.14
Sound and Video recorders	48,378	94,779	185,098	300,347	385,984	70.50
General industrial machinery	130,950	161,347	227,694	292,248	365,167	29.41
Other plastic articles	235,291	280,550	306,754	333,480	341,354	9.91
Non-metallic mineral manufactures	187,023	226,792	256,641	308,066	330,355	15.42
Other electrical machinery	149,340	228,307	239,575	288,960	325,484	22.77
Other textile manuf.	177,057	232,029	238,481	309,404	320,954	16.83
Travel Goods	235,132	274,490	280,138	296,749	305,617	6.93
Televisions	77,989	86,410	107,816	151,620	278,288	39.94
Manuf classified by material	96,618	116,074	166,320	222,840	268,442	29.47

Source: DFAT-Composition of Trade Australia 2003-04

15. All indications are that the importation of elaborately transformed manufactures will continue to grow strongly as the Australian manufacturing industry confronts the wave of Chinese manufactured exports that are now washing across the globe. Table 4 ranks the top twenty Chinese imports to Australia by average growth rates. Significantly, many of the top growth rates in our major imports from China are at the middle to top end of the elaborately transformed manufactures spectrum.

Table 4 Top Twenty Chinese Imports, Ranked by Growth Rates

	Average Growth 1999-00 – 2003-04	Annual Growth 2002-03 to 2003-04
Sound and Video recorders	1	4
Telecommunications Equipment	2	2
Computers	3	3
Televisions	4	1
Computer Parts	5	10
Furniture	6	6
Manuf classified by material	7	8
General industrial machinery	8	5
Other electrical machinery	9	9
Chemicals and related products	10	19
Toys, games, sporting	11	11
Other textile manuf.	12	15
Women's clothing	13	20
Household Equipment	14	7
Non-metallic mineral manufactures	15	12
Other plastic articles	16	17
Other textile clothing	17	14
Travel Goods	18	16
Footwear	19	13
Men's clothing	20	18

Source: DFAT-Composition of Trade Australia 2003-04

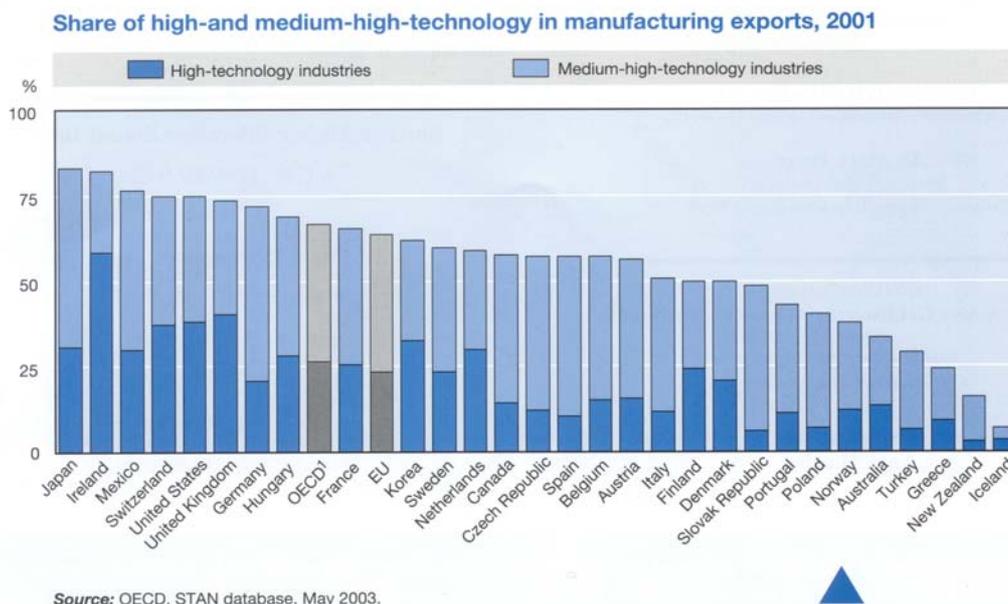
16. While China's threat to Australia's textile, clothing and footwear industry is generally acknowledged, the AMWU submits that what does not yet appear to be fully appreciated by Australia's policy makers is the extent to which Chinese manufacturing represents a significant threat to the Australia's manufacturing industries *at all levels*.

17. China's hunger for resources may indeed be a boon for some parts of the Australian economy however, the successful economies of the future will not be sustained on the exportation of resources. In the face of increasing competition from China, Australia can and must do more to encourage the growth of (strategic) high value added manufacturing. This task is made all the more urgent not only because the current resources boom will not last forever, but because at the very height of it, our current account deficit and foreign debt are blowing out to record levels.⁵
18. If Australia is to maintain a high standard of living and acceptable levels of medium to long term economic growth it is imperative that more is done to promote strategic high value added manufacturing industries.
19. Strategic high value added manufacturing industries are those industries that produce products which are skill, knowledge and innovation intensive. Such industries:
 - have strong linkages, both upstream and downstream, with other industries in the economy; and
 - are the industries that transfer leading edge technologies to the local economy, through the development of skills, organisation and management techniques which in turn spill over to the rest of the economy through labour turnover and supply chain networks.
20. Manufacturing is the only industry which can be used to create technology. A strong high value added manufacturing industry is an investment in an economy's future.
21. The opportunities for stable and sustained growth that manufacturing industries bring is the reason why most fast growing economies over the last 20 years, including China, have actively sought to maintain and grow their manufacturing industries. In contrast, over at least the last decade Australia is one of the few countries in the world who has neglected the strategic role of manufacturing. During this time there has been a precipitous decline in the export growth of our elaborately transformed manufactures. From 1984 to 1994 Australia averaged an annual growth rate of 17.7% in elaborately transformed manufactured exports – this fell to an annual average of 1.8% between 1997 and 2003.
22. Over the past two financial years, the value of elaborately transformed manufactured exports declined by 10.4% from the 2000-01 level. Over the same period, elaborately transformed manufactured imports increased by 10.6% to \$98.6 billion, resulting in a record elaborately transformed manufactured trade deficit of \$75.4 billion in 2003-04⁶.

⁵ Despite the terms of trade the best it has been for 30 years, the current account deficit for the December quarter 2004 was \$15,187 million and our foreign debt a record \$422 billion - ABS Catalogue 5302.0 Balance of Payments and International Investment Position, Australia.

⁶ Toner, P., "Lies and Statistics", *Australian Financial Review*, 21 August 2004.

23. While the Treasurer Peter Costello recognises Australia’s current account deficit as “Australia’s No. 1 economic problem”, his answer to this problem, and that of the federal government more generally, seems to be only to point to failures of Australia’s infrastructure.⁷ Improvements in infrastructure, are clearly necessary but equally clearly, are not enough.
24. In this context, it is worthwhile to consider that in 2003 prices for every plasma television Australia imported, Australia had to export in the vicinity of 150 tonnes of iron ore. If Australia is to maintain and improve its standard of living, a trade and industry policy built on the 19th and early 20th century view of Australia as an agricultural and mineral supplier for the rest of the world is clearly neither economically nor environmentally viable.
25. At a time when developing nations are building information technology industries from the ground up, Australia must do better than relying on trade and industry policies aimed at encouraging the exportation of low value added products. In terms of exporting high and medium-high technology goods the only OECD economies Australia performs better than are Turkey, Greece, New Zealand and Iceland (as the figure below illustrates). This is not a formula for a high wage – high growth economy of the future.



Source: The Knowledge Based Economy: Some Facts and Figures, B-HERT Paper No.7 February 2004

⁷ Gordon J, “Rates to Rise as deficit hits 50 years high”, *the Age*, 2 March 2005. Article can be downloaded at <http://www.theage.com.au/text/articles/2005/03/01/1109546868233.html>.

26. Australia's trade relationship with China well illustrates, and is a growing cause of, both Australia's growing trade imbalance with the rest of the world and the serious medium to long-term problems that will inevitably face the economy if urgent action is not taken to develop and grow Australia's high value added manufacturing industries.

27. The AMWU strongly urges:

That Australian governments at both a State and Federal level take immediate action to improve Australia's trade performance, including a commitment to a co-ordinated strategy to ensure the future of the Australian manufacturing industry in a competitive global economy in which China plays a dominant role.

The Likely Economic Effects Of An Australia – China Free Trade Agreement

28. The AMWU is concerned that Australia's trade imbalance with China will get worse rather than better under a free trade or preferential trade agreement with China. As Marceau *et al* have observed, liberalising trade will often have the effect of cementing existing industrial structures.⁸ In the context of an Australia - China free trade agreement it is reasonable to assume therefore that if trade barriers are reduced, Australia will supply more primary products to China and China will supply Australia with more elaborately transformed manufactures. Such a result would have significant (and negative) consequences for Australia, particularly those communities who rely on manufacturing.
29. However, it is not only economic theory that suggests the liberalisation of trade between China and Australia will have a negative effect on Australian manufacturing.
30. Unlike a number of previous trade agreements, Australia's manufacturers have been lining up to express their concerns about a free trade agreement with China.
31. The usually pro-free trade leadership of the Australian Industry Group (AIG) has expressed serious reservations concerning an Australia – China free trade agreement. AIG members are even less sanguine. A survey of AIG members last year found that only 13.2% of AIG members (and 10.1% of small members) saw a net benefit in a free trade agreement with China. AIG members were especially concerned about being protected from unfair dumping practices. More than one in four (28.4%) manufacturers reported that they were confronted with competition from Chinese product that they regarded as being priced below cost.⁹
32. In addition to the low wage cost advantage of Chinese manufacture, AIG has identified a large number of barriers that are unlikely to be dealt with in a free trade agreement with China and that produce an “unlevel playing field” including:
 - Disregard for intellectual property
 - Lack of transparency in legal and financial systems
 - Inconsistent interpretation of laws across provincial boundaries
 - Lack of transparency in the application of taxes
 - Foreign investment restrictions
 - Difficulties in repatriating profits
 - Different bureaucratic rulings within and beyond provinces

⁸ See J. Marceau, K Manly and D Sicklen, “The High Road or the Low Road? Alternatives for Australia's Future: A Report on Australia's Industrial Structure for Australian Business Foundation Limited”, August 1997.

⁹ The results of the survey are reported in “Australian Manufacturing and China: Opportunities and Challenges”, Australian Industry Group, August 2004. A copy of the publication can be found on the AIG website at www.aigroup.asn.au.

- Different customs requirements at different ports
 - Inconsistent enforcement of import duties
 - Unclear and conflicting standards across provinces
 - Development of unique technical standards
 - Conflicting quarantine controls¹⁰
33. The Federation of Automotive Products Manufacturers (FAPM) has warned the Department of Foreign Affairs and Trade that an Australia - China free trade agreement will cause production to move offshore. Specifically the FAPM said that a free trade agreement with China:
- Won't increase exports of car components.
 - Will increase imports of Chinese components and vehicles.
 - Will encourage manufacturers to move to China
 - Will tip the trade balance further in China's favour. The agreement will not be trade diversionary – it will be at the expense of Australian product.¹¹
34. The Australian Plastics and Chemicals Industries Association has also come out strongly against a free trade agreement if it means a relaxation of Australia's anti-dumping legislations or giving away anti-dumping rights in the WTO.¹²
35. Conversely, while Australian manufacturers are deeply concerned about their future viability under an Australia – China free trade agreement, for Chinese business leaders, Australian manufacturing appears to barely even register as a bump in the road. At a recent two day conference on the possible Australia – China free trade agreement conducted in Beijing it was reported that:
- ... Li Pan from the Haier home appliance group explained how Haier had doubled its market share in Australia in two years because there were not very many manufacturers there. (Heather Ridout from the Australian Industry Group, who shared the platform with Mr Li, was clearly taken aback).¹³*
36. The AMWU submits that it is critically important that the Department appreciates the full implications of Mr Li's reported comments in terms of the Australia – China economic relationship. In relative terms when measured against the Chinese manufacturing juggernaut there are indeed “not very many manufacturers” in Australia. In global terms, Australia's manufacturing

¹⁰ Ridout, H. “Australia – China FTA: Impacts on Australia's Manufacturing Industry”, presentation to the APEC Study Centre Australia – China Free Trade Agreement Conference, 12 & 13 August 2004.

¹¹ See the Federation's submission to the Australian and Chinese government's joint feasibility study into a proposed Australia – China free trade agreement. A copy of the submission can be downloaded from the Federation's webpage at <http://www.fapm.com.au>.

¹² See the Association's submission to the joint feasibility study.

¹³ Ryan C, “Chinese a long way from sold on FTA”, Australian Financial Review, March 24-28 2005, page 7.

industry operates on a small scale and occupies a relatively vulnerable position in global supply chains. However, within Australia, the survival and growth of the manufacturing sector is critical to the nation's economy. In trade debates it is all too often overlooked that Australia's manufacturing industry is the nation's second highest employer and the highest employer of full-time permanent employees. The manufacturing industry has far greater investment in research and development than any other industry in Australia and is responsible for about 45% of Australia's total investment in research and development. Even allowing for the low growth in recent years, just under 60% of Australia's total exports are from the manufacturing industry.¹⁴

37. These figures must be kept in mind when advocates of a free trade agreement with China describe the two economies are largely "complementary". China needs resources to continue to fuel its high rates of growth. Notwithstanding some inadequacies in Australia's infrastructure, Australia is generally speaking in a position to supply the Chinese economy with resources (and in fact is presently doing so even without a free trade agreement). However, as Table 5 shows, even during a resources boom, Australia's manufacturing sector is vastly more important to the Australian economy in terms of jobs and contribution to GDP than the mining, agriculture, forestry and fishing sectors combined.

¹⁴ For 2003-2004 the manufacturing industry made up 57% of Australia's exports. ABS Year Book 2005, Australian Bureau of Statistics, Canberra, ABS Catalogue 1301.0. at page 545 and 558.

Table 5 A Comparison of Industries

	Mining	Agriculture, Forestry & Fishing	Manufacturing
Employment (approx) 03-04	103,000 ¹⁵	438,400 ¹⁶	1,093,500 ¹⁷
Industry Gross Value Added, chain volume measure, at basic prices 03-04¹⁸	\$33,106 million	\$27,893 million	\$83,376 million
Research and Development Expenditure 02-03¹⁹	\$536 million	\$61.761 million ²⁰	\$2,829 million

38. An Australia – China free trade agreement that contained wins for Australia’s miners and farmers while leading to the destruction of large parts of our manufacturing industry would therefore have significant, negative consequences not only for those communities particularly reliant upon manufacturing, but for the Australian economy as a whole.
39. However, even the much spoken of possibility of wins for the mining and agricultural sectors needs to be treated with due caution. Just as the Australia – United States Free Trade Agreement ended up containing significant carve outs for the United States agricultural sector, recent reports suggest that China too will be seeking to protect its sensitive industries and in particular agriculture. For example John Garnaut in the *Sydney Morning Herald* has reported that:

¹⁵ As at November 2004 – figure taken from Australian Bureau of Statistics website – key indicators Mining industry: www.abs.gov.au.

¹⁶ This figures includes 345,700 people in agriculture and related services and 92,700 workers in forest and wood industries. Figures for Fishing were not publically available. Data taken from ABS Year Book 2005, Australian Bureau of Statistics, Canberra, ABS Catalogue 1301.0. at page 440 and 479

¹⁷ ABS Year Book 2005, Australian Bureau of Statistics, Canberra, ABS Catalogue 1301.0. at page 543.

¹⁸ ABS 5206.0 National Income, Expenditure and Product, 2 March 2005.

¹⁹ ABS 8104.0 Research and Experimental Development, Businesses, Australia, 6 September 2004.

²⁰ The figures for Mining and Manufacturing are drawn from Table 3 – Expenditure by Industry. This table does not list Agriculture, Forestry & Fishing. The figure for Agriculture, Forestry & Fishing is drawn from Table 7 – Resources devoted to R&D by socioeconomic objective.

“Long Yongtu, a veteran Chinese trade negotiator, said his country would not increase import quotas for Australian agricultural commodities because that would discriminate against the United States and further antagonise the trade relationship between those two countries.”²¹

40. While Collen Ryan reported in the *Australian Financial Review* that:

Beijing bureaucrats are no pushover. That was the message they delivered on their home turf this week. And free-trade optimists from Australia were jolted back to reality as it became clear that not all in Beijing were enamoured with a free-trade agreement with Australia.

...

Whether it was from the aptly named Ms Mu of the dairy industry who made it clear that members of her association wanted to be the ones to benefit from China’s increasing appetite for dairy products. Or Jia Yanling from Baosteel who castigated Australia’s iron-ore producers for sharply increasing their prices this year, warned of damage to long-term relationships and included veiled threats of adjustments in source of supply. Or Pan Wenbo from the Ministry of Agriculture who emphasised that the interests of China’s grain producers had to be taken into account and pointed out that Australia exported 20-times more agricultural produce to China than it imported.

...

So far Australia has succeeded in getting everything on the table for the talks. But it is going to be a tough road. Chinese reluctance in the financial services and telecommunications sectors may prove to be early stumbling blocks while agriculture is shaping up to be the biggest issue of all.

41. When it comes to increasing access for Australian farmers, in the final outcome of any negotiations, will it really be surprising if the Chinese government would rather say no to a former stock and station agent from the northern rivers of New South Wales than 900 hundred million peasant farmers?

²¹ Garnaut, J., “China signals tough stand on free trade deal”, *Sydney Morning Herald*, 2 March 2005.

AMWU Concerns Arising From The Australia-China Free Trade Agreement Joint Feasibility Study

42. The feasibility study claim that the benefits expected to accrue to Australia of a free trade agreement with China were in the vicinity \$24.4 billion (\$A).
43. The AMWU notes that this \$24.4 billion is spread over 10 years (or a 0.039% increase in GDP a year).
44. This figure is contingent on all trade barriers being removed immediately in 2006. An eventuality that will not occur, raising questions regarding the reliability of the study.
45. Two thirds of the alleged gains comes from service and investment liberalisation. Three points should be made about this:
 - Even the official economic modelling admits that the figures concerning service and investment liberalisation are very unreliable²².
 - The AMWU submits that China will not change its laws on investment and services just for a bilateral agreement with Australia.
 - Even if services and investment are liberalised, the economic modelling concludes that that there will be not a single Australian job created out of the investment liberalisation²³ and an exceedingly minor employment addition from service liberalisation²⁴.
46. The last third of the supposed gains to Australia arising from a China FTA originate in further liberalisation of merchandise trade. Over 60% of this gain is derived from selling more wool and wool tops to China²⁵. This is accompanied by a contraction in strategic manufacturing industries, most obviously in wearing apparel and the automotive industry.
47. It is the AMWU's view, supported by the official economic modelling, that this agreement will increase our specialisation in primary production at the expense of manufacturing. As explained in paragraphs 18 to 26 of this submission, manufacturing, in particular knowledge intensive manufacturing, plays a very strategic role in our economy. To sacrifice these industries in order to sell more primary goods to China is to reduce the long term potential of the Australian economy.
48. While the negative consequences of a free trade agreement to the manufacturing sector are indisputable, the AMWU expresses strong reservations regarding the accuracy of the agricultural gains accruing to Australia. These gains are based upon China liberalising its trade barriers in the primary sector. The economic modelling predicts that this will result in 180 000 Chinese farmers losing their

²² Centre for Policy Studies, Monash University, "Modelling the Potential Benefits of An Australia-China Free Trade Agreement", 2 March 2005, p.2

²³ Ibid., p.57

²⁴ Ibid., p.60

²⁵ Ibid., p.54

jobs²⁶. The modelling also predicts that 34 000 Chinese miners will also lose employment²⁷.

49. The AMWU submits that it is inconceivable that the Chinese government will allow 214 000 jobs to be eliminated. It is almost inevitable that the Chinese government will seek to 'carve-out' the agricultural sector. The AMWU has less than full confidence in the negotiating ability of the Australian Government to overcome these vested interests. The failure of the negotiators to get access to several of the heavily protected US agricultural sectors (most notably the sugar industry) during the AUSFTA negotiations supports the AMWU view.
50. The AMWU expresses strong reservations regarding the feasibility study and the economic modelling it is based upon. We submit that it grossly underestimates the negative consequences to the manufacturing sector of a free trade agreement with China. Nevertheless, even the official modelling demonstrates the paucity of gains for Australia that could arise from this agreement. Of the three areas where Australia is expected to gain from this agreement, service and investment liberalisation result in almost zero employment gains. In the other area, trade liberalisation, over 60% of the benefits accrue to the wool and wool tops industry. Over 80% of the gains come from primary production (agriculture, mining and lightly processed wool), thereby returning Australia to the farm and the quarry. Even these benefits are based upon the Chinese government not seeking to protect over 200 000 of their citizens; something that the AMWU submits is highly unlikely.
51. The AMWU is deeply concerned that an Australia – China free trade agreement will do permanent damage to Australia's manufacturing industry while providing little in the way of additional benefits to Australia's primary industries. Even if gains are achieved in some areas, this will not match the potential employment losses in some areas of manufacturing. On this basis, the AMWU urges:

That Australia not enter into a free trade agreement with China.

²⁶ Ibid., p.26

²⁷ Ibid., p.27

The Question Of Dumping And Market Economy Status

52. The AMWU understands that the Chinese government had insisted that Australia grant China market economy status prior to the commencement of any formal negotiations for a free trade agreement.
53. The AMWU has been told by the Department of Foreign Affairs and Trade that once market economy status has been granted, it will not be able to be taken away (even if negotiations for an Australia – China free trade agreement stall and are never completed).
54. The AMWU notes that on 18 April 2005 the Department of Foreign Affairs and Trade signed a memorandum of understanding granting China market economy status and that the *Customs Regulations* have subsequently been amended by the *Customs Amendment Regulations (No. 2) 2005* apparently in order to give effect to the memorandum of understanding. The AMWU is disappointed that the Australian Government has chosen to concede market economy status to China when China is patently not a market economy.

China as a Market Economy

55. Although China is undertaking large economic reforms, it is generally recognised that it will be some time before the Chinese economy can genuinely be considered to be a market economy. Neither the United States of America (the United States or the US) nor the European Union (EU) have acceded to China's request to be granted market economy status.

The United States

56. The United States Department of Commerce does not recognise China as a market economy. Under US law this allows the Department of Commerce to apply a special methodology when calculating anti-dumping duty margins which includes using “surrogate” prices from a third country. The methodology applies to all Chinese exporters to the United States unless they are able to show an absence of government control in relation to the product exported.
57. In determining whether an economy can be considered a market economy, the US Tariff Act 1930 requires the following factors to be taken into account:
 - the extent to which the currency of the foreign country is convertible into the currency of other countries;
 - the extent to which wage rates in the foreign country are determined by free bargaining between labour and management,
 - the extent to which joint ventures or other investments by firms of other foreign countries are permitted in the foreign country,

- the extent of government ownership or control of the means of production,
 - the extent of government control over the allocation of resources and over the price and output decisions of enterprises, and
 - such other factors as the administering authority considers appropriate.
58. While the US government has been unwilling to change China's status, the United States and China have set up a joint working group on China's non-market economy status and the steps necessary for China to become a market economy. Given the state of the Chinese economy, and the already large trade deficit between the United States and China, it is generally considered unlikely that the United States will change its determination of China as a non-market economy in the near future.²⁸

The European Union

59. Similarly the European Union has declined to recognise China as a market economy. In June 2004 the EU said it would grant market status if China met the following conditions:
- State influence: ensuring equal treatment of all companies by reducing state interference, which takes place either on an *ad hoc* basis or as a result of industrial policies, as well as through export and pricing restrictions on raw materials.
 - Corporate governance: increasing the level of compliance with the existing Accounting Law in order to ensure in general the usability of accounting information for the purpose of trade defence investigations.
 - Property and bankruptcy law: ensuring equal treatment of all companies in bankruptcy procedures and in respect of property and intellectual property rights.
 - Financial sector: bringing the banking sector under market rules, i.e. by removing discriminatory barriers, in order to ensure rational allocation of capital by financial institutions.
60. Although the EU would not grant market economy status, it did indicate that it was willing to identify areas in which changes take place and to monitor any progress achieved.²⁹

²⁸ See Stewart T, "China in the WTO – Year 3: A Research Report For The US – China Economic and Security Review Commission", January 2005. A copy can be downloaded on the Commission's website at http://www.uscc.gov/researchpapers/2005/05_01_21_china_inthe_wto.htm.

²⁹ See the European Union Commission website at http://europa.eu.int/comm/trade/issues/bilateral/countries/china/pr280604_en.htm

Other Nations

61. While the US and EU have not granted China market economy status, it is sometimes observed that a number of other countries have been prepared to grant such status.
62. The most often cited example in this context is New Zealand. Like Australia, the New Zealand government was required to grant such status as a prelude to commencing formal negotiations for a bilateral free trade agreement with China. However, unlike Australia, prior to granting market economy status, New Zealand had no additional protection against anti-dumping from non-market or transitional economies. The granting of market economy status therefore required no change in the New Zealand anti-dumping regime.³⁰
63. The willingness of a number of other countries to grant market economy status must also be put into context. For instance, should Australia have been influenced by the willingness of Vietnam, Myanmar, Kyrgyzstan, Georgia, Brunei, Laos, or Cambodia to grant China market economy status? The AMWU submits it is regrettable if the Australian government was so influenced. Such nations not only have a very different trade history and regulatory environment to Australia but also have a very different economic and trade relationship with China. Australia would appear to be in a far more similar position to the US and EU on this issue than that of those countries who have chosen to grant market economy status.

Australia

64. It is the AMWU's understanding that the granting of market economy status is likely to have the effect of constraining Australia's ability to use anti-dumping measures to ensure the integrity and viability of Australia's local industries.
65. This was the advice of the Australian Parliamentary Library in a research note for the Parliament in March of this year:

*In the context of Australia's anti-dumping rules, MES status for China will raise the burden of proof needed to initiate an anti-dumping investigation and result in much less dumping found against China.*³¹

66. In addition the Department would be aware that in December of last year the Australian Industry Group publicly released a legal opinion from Walker and

³⁰ In relation to the New Zealand approach to this issue see generally the New Zealand Ministry of Foreign Affairs and Trade Website at

<http://www.mft.govt.nz/foreign/regions/northasia/nzchinafta/faqs.html#top>

³¹ Priestly M., "Anti-dumping rules and the Australia – China Free Trade Agreement", Dept. Of Parliamentary Services, 14 March 2005. The research note can be downloaded at <http://www.aph.gov.au/library/pubs/rn/Index.htm>.

Gageler which suggested that granting China market economy status would lessen the ability of Australian governments to use anti-dumping measures. Despite some relatively cursory assurances to the contrary from various Department of Foreign Affairs and Trade officials, the AMWU has yet to be made aware of a satisfactory or detailed explanation of why the legal opinion from Walker and Gageler (or the Australian Parliamentary Library advice) is wrong and that granting China market economy status will not inhibit Australia's ability to impose anti-dumping provisions.

Some Specific (Unconvincing) Arguments Supporting the Granting of Market Economy Status

67. In addition to the above concerns, the AMWU also wishes to briefly deal with what the union considers to be a number of flawed arguments that are sometimes raised in relation to the issue of Australia's recognition of China as a market economy.
68. Firstly, it is regularly claimed by the Chinese government that other countries are acting in a "discriminatory" manner by not affording China market economy status. Claims of this kind must be tempered with the reality that in 2001 China *agreed* to allow other nations to act in such a way as part of China's accession to the WTO. It is therefore not unreasonable that unless there is genuine evidence of a substantial transition to a market economy, WTO nations exercise their rights pursuant to the earlier agreement.
69. In a similar vein, those favouring granting China market economy status sometimes make the point that although the United States has not granted market economy status to China, it has granted such status to a number of former communist states who arguably have not made as much progress as China towards a market economy. These former communist states include Russia, Kazakhstan, Bulgaria and Romania. Such comparisons however are misleading. For example, the export profile of Russia is very different from that of China. The Russian economy is heavily reliant upon exports of primary products, while Chinese exports are concentrated in manufactured products. The dumping of Chinese manufactured goods on the US market is overwhelmingly more likely to be a threat to United States jobs and industries than the dumping of primary resources from Russia (or goods from Kazakhstan, Bulgaria or Romania). Australia is in a similar position to the United States in this regard.
70. Finally, it is sometimes argued that removing China from the "economies in transition" (EIT) provisions of the Customs Act will have no effect on Australia's ability to use effective anti-dumping laws. As noted above, such a view is contrary to the advice provided by the Australian Parliamentary Library and that of Walker and Gageler. In addition, such a position also appears to imply that Australia's EIT regime is actually of no substantive effect (and presumably could be scrapped at any time with little or no effect on Australian industry). If so, this surely sits oddly with the intention of the EIT provisions in

the Customs Act and is an argument for a strengthening of the EIT provisions rather than a reason to remove China from them.

71. In this context, the AMWU notes that when the Customs Act was proposed to be amended by the Customs Legislation Amendment Bill (No. 2) 2002 in relation to economies in transition, the Chinese government made strong submissions opposing the proposed amendments to Senate Legal and Constitutional Committee inquiry into the bill.
72. After further consultations with the Chinese government, the Government eventually agreed to a number of amendments to the Bill. The Minister for Customs, Senator Ellison, nevertheless remarked in support of the amended bill in the Parliament on 25 November 2003:

While sensitive to its continuing treatment as an economy in transition, China's Ministry of Commerce has acknowledged that Australia has listened carefully to China's concerns and that the proposed government amendment is a significant gesture. China would like to see changes to the criteria included in regulations but has been advised that this is not possible in the short term. China has also signalled its ambition to be acknowledged as a market economy. Its accession to the WTO provides for non-market treatments to be applied for up to 15 years unless China demonstrates that market economy conditions prevail within sectors of its economy. No other major antidumping administration is yet moving to accede to these requests. Hence, these issues remain the subject of continuing discussion with China. [emphasis added]

As I said earlier, the recent trade and economic framework agreement that we signed with China was history in the making. It was an important development in our trading relationship with that country. Notwithstanding that, we had to have in place fair antidumping provisions which provided that accommodation of Australian industry and is something which is enshrined internationally in the WTO. We say that Australia does abide by its obligations. It is a shame that some other countries do not, but we do. This bill achieves a balance between encouraging continued trade with China and accommodating the interests of Australian industries, albeit that they have different views amongst themselves. I commend the amendments to the committee. [emphasis added]

73. In a media release the following day the Minister commented:

"Australia's anti-dumping practice is well-regarded internationally. This legislation allows us to deal with specific circumstances in former non-market economies within World Trade Organization rules.

"Australia has a robust approach to ensuring that claims are bona fide and its timeframes for investigations are among the shortest in the world. If measures are applied, the Government applies the lowest level of duties necessary to remedy injury caused by dumped goods"

The new legislation protects the rights of all parties to an anti dumping investigation to defend their interests. It incorporates market economy language and includes provisions for exporters in an economy in transition to request an extension of up to 30 days in which to respond to the questionnaire that seeks information on possible price controls.

"The Government remains committed to ensuring that Australian manufacturing industry benefits from a strong, WTO-compliant anti-dumping regime".³²

74. The AMWU is not satisfied that recognising China as a market economy and removing China from the consideration of the economies in transition provisions of the *Customs Act* will not lessen the legitimate protection the Australian manufacturing industry should be able to expect from "a strong, WTO – compliant anti-dumping regime".
75. The AMWU is therefore very disappointed that the Australian Government has chosen to capitulate to the Chinese Government and grant market economy status.
76. The AMWU urges:

That notwithstanding the decision to grant China market economy status, that the Government take all remaining available steps to ensure that the Australian manufacturing industry receives legitimate protection from a strong anti-dumping mechanism to prevent unfair competition damaging Australian industry.

³² The release can be downloaded at <http://www.customs.gov.au/site/page.cfm?c=3884>

Violations Of Workers' Rights In China

77. The AMWU remains deeply concerned about human rights violations in China and in particular about the failure of the Chinese government to observe and implement workers' rights.
78. It is the AMWU's position that Australia should not enter trade agreements with countries that do not guarantee that parties subject to the agreement must observe the core labour standards contained in the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work.
79. The core labour standards in the Declaration on Fundamental Principles and Rights at Work include:
- the right of workers and employers to freedom of association and the effective right to collective bargaining (conventions 87 and 98);
 - the elimination of all forms of forced or compulsory labour (conventions 29 and 105);
 - the effective abolition of child labour (conventions 138 and 182); and
 - the elimination of discrimination in respect of employment and occupation (conventions 100 and 111).
80. As the ILO states in the Declaration on Fundamental Principles and Rights at Work:
- “the guarantee of fundamental principles and rights at work is of particular significance in that it enables the persons concerned, to claim freely and on the basis of equality of opportunity, their fair share of the wealth which they have helped to generate, and to achieve fully their human potential”.*³³
81. Where workers are denied the core labour standards identified in the Declaration on Fundamental Principles and Rights at Work and are consequently unable to claim freely their fair share of wealth or to achieve fully their human potential, free trade agreements of any sort will inevitably be problematic. In the context of international trade, a failure to observe core labour standards raises the likelihood of one country maintaining and exploiting a comparative advantage on wages and conditions due in part because of a failure to observe basic human rights (the issue of comparative advantage and trade liberalisation is further discussed in the next section of this submission). While wage levels may differ across countries for a variety of economic and social reasons, exploiting a comparative advantage gained by the denial of basic human rights is simply not acceptable.

³³ The Declaration can be downloaded at http://www.ilo.org/dyn/declaris/DECLARATIONWEB.static_jump?var_language=EN&var_pagename=DECLARATIONTEXT

82. In the specific circumstances of the proposed Australia – China Free Trade Agreement, the AMWU is therefore concerned that unless the agreement contains provisions which provide core labour standard guarantees for both Australian and Chinese workers there is a significant danger that workers in both countries will be forced into competing with one another by trading off the most basic of working conditions and / or jobs.
83. In this context, it is particularly concerning that the Chinese government has currently ratified only 3 of the 8 ILO conventions containing core labour standards. The Chinese government has not ratified the:
- Forced Labour Convention, 1930 (Convention 29)
 - Abolition of Forced Labour Convention, 1957 (Convention 105)
 - Freedom of Association and Protection of the Right to Organise Convention, 1948 (Convention 148)
 - Right to Organise and Collective Bargaining Convention, 1949 (Convention 98)
 - Discrimination (Employment and Occupation) Convention, 1958. (Convention 111)
84. Moreover, it is well recognised that core labour standards in China are not only not formally protected but not adequately observed as a matter of practice. For example, the U.S. Department of State’s Country Report on Human Rights Practices 2004 recently found in relation to China that³⁴:
- Workers are not free to organize or join unions of their own choosing. The only legal workers organisations are the Communist Party controlled All-China Federation of Trade Unions (ACFTU) and its subsidiaries. Independent unions are illegal.
 - Labour activists continue to be detained and arrested.
 - The Chinese government cancelled the visas of participants who were to attend a conference on socially responsible investment. This prevented a long-planned visit by the OECD’s Trade Union Advisory Council.
 - Genuine collective bargaining does not occur. Workers have no formal means to approve or reject the outcome of contract negotiations and no right to strike or take other planned action.
 - Laws to protect workers in Special Economic Zones are not adequately enforced.
 - Prisoners are forced to work both inside gaols and in non-prison enterprises. Many of these prisoners have not had the opportunity to be tried before a judicial system.
 - There is no national minimum wage. Minimum wages at lower levels of government are subject to corruption and poorly enforced.

³⁴ U.S. Department of State, “Country Reports on Human Rights Practices – 2004: China”, February 25 2005.

- Compulsory overtime reportedly was common, often without overtime pay. There also were reports of workers being prevented from leaving factory compounds without permission
85. Not surprisingly, the denial of adequate core labour standards in China takes place in the context of a very low wage economy with poor occupational health and safety standards.
 86. There are various estimates of the wage rates for Chinese workers – all of them low by world standards. The recent research brief by the Australian Parliamentary Library relied on an estimation from the Economist magazine that the average wage rate for a worker in China was US\$0.80 per hour.³⁵
 87. At a seminar to promote offshoring to China in March of last year the China Council for the Promotion of International Trade reported that in South China, textile workers earn US\$0.60 per hour and in Shanghai, an engineer is said to be paid about US\$500 per month.³⁶
 88. Significantly, the China Council for the Promotion of International Trade claimed that companies could cut their labour costs by 80% by moving production to China.
 89. In relation to occupational health and safety, official Chinese figures show that for 2003 workplace accidents in China resulted in 17,315 deaths. For 2004 workplace accidents reportedly killed 14,595 workers. The actual deaths are likely to be considerably higher due to a failure to report incidents by enterprise owners and local officials. Approximately 40% of these deaths occur in Chinese coal mines (China accounts for around 80% of the world's mining fatalities).³⁷
 90. In addition, it has been estimated that in 2004, “[f]ewer than half of rural enterprises met national dust and poison standards. Many factories that used harmful products, such as asbestos, not only failed to protect their workers against the ill effects of such products, but also failed to inform them about the hazards.”³⁸
 91. From time to time Australian members of Parliament and other foreign visitors are taken to new export factories in China in an attempt to illustrate the progress being made in working conditions. While there are doubtlessly some worthy examples of improvement in working conditions in China, it would be naïve in the extreme to suppose that such examples were representative of the general conditions of Chinese workers or even that those workers are representative of

³⁵ Grant, R. “Offshoring Jobs: US and Australian Debates”, Parliamentary Library, 14 March 2005 at page 9. The Research Advice can be downloaded at <http://www.aph.gov.au/library/pubs/rb/2004-05/05rb12.pdf>

³⁶ A copy of the Council's presentation to the Australia Business seminar can be provided.

³⁷ See US State Department Report mentioned above. See also Davis S and Spiegel M, “Take Tough Action To End China's Mining Tragedies”, Wall Street Journal, 18 February 2005.

³⁸ Ibid.

the many other workers in the production supply chain of the particular good being made in the factory.³⁹

92. The denial of basic labour rights, low wages and unsatisfactory occupational health and safety standards in China have been well documented over a number of years. When citizens do not have the right to change their government, independent unions are illegal, occupational health and safety standards are very poor and the average worker is paid less than US\$0.80 cents an hour, it would be offensive and absurd to simply brush these facts aside for the sake of political expediency on the basis of one or two guided factory visits on a short parliamentary study tour. Regrettably, the AMWU has come to understand that this is the position of some members of Parliament.
93. The AMWU is cognisant that the Chinese government (and possibly the Australian government) is concerned that human rights and labour standards do not become an issue that detracts from the question of whether Australia and China should enter a free trade agreement. Be that as it may, we ask the Australian Government not to turn their back on human rights issues.
94. The AMWU urges:

That Australia work through the International Labour Organisation and other international bodies to improve the observance of core labour standards for Chinese workers.

95. Further, the AMWU submits that it is also appropriate that the Australian Government immediately call for the release of those workers who are in prison in China for seeking to exercise their internationally recognised rights to freedom of association in the workplace and collective bargaining.
96. In this respect the AMWU is particularly concerned about the plight of two metal workers, Yao Fuxin and Xiao Yunliang, who the AMWU understands are currently being detained despite being seriously ill. Yao Fuxin is serving a seven year sentence and Xiao Yunliang a four year sentence for their role in mass worker protests. The two labour activists were arrested after 10,000 sacked workers, mostly from the Ferro Alloy Factory, staged a mass demonstration in the northeastern city of Liaoyang, demanding payment of outstanding wages and pensions. Both men are reportedly seriously ill, yet remain imprisoned in very harsh conditions despite the best efforts of various international trade union bodies.⁴⁰

³⁹ For an insightful and practical discussion of supply chain issues in China see Lilywhite S, "Ethical Purchasing and Workers' Rights in China: Considerations for an Australia – China Free Trade Agreement", Brotherhood of St. Laurence, February 2005. A copy of the paper can be provided.

⁴⁰ Details can be found at the International Metal Workers webpage at <http://www.imfmetal.org/main/index.cfm?id=47&l=2&cid=10661>

97. The AMWU does not believe that such issues can legitimately be separated from the issue of a preferential free trade agreement with China. Should negotiations on a free trade deal commence, the AMWU will endeavour to do what it can to use the negotiation of a free trade agreement with China to highlight the injustice of Chinese workers being gaoled for doing nothing more than wanting to join an independent union or get paid the wages that are due to them.

98. The AMWU urges:

That the Australian Government call for the release of those workers who are in prison in China for seeking to exercise their internationally recognised core labour rights. In particular that the Australian government call for the immediate release of the metal workers Yao Fuxin and Xiao Yunliang.

99. The AMWU recognises that in reality, the Chinese government is highly unlikely to agree to implement and / or observe core labour standards as part of a bilateral trade agreement with Australia. Until labour standards have considerably improved in China, the AMWU therefore urges:

That Australia not enter into a free trade agreement with China.

The Question of Dumping in the Context of Environmental and OH&S Standards: Comparative Advantage, Externalities and Trade Liberalisation

100. The parlous state of the environment and occupational health and safety standards in China raises some important issues concerning the economic theories underpinning trade liberalisation.
101. The theoretical support for trade liberalisation in general, and a free trade agreement with China in particular, is based on the theory of comparative advantage. This theory is based on a number of strong assumptions including⁴¹:
- For both countries to benefit there must be ‘perfect competition’, that is a large number of buyers and sellers operating in transparent markets with full information.
 - The markets are efficient, that is, the market price reflects all the costs of production.
 - There is no unemployment in either country.⁴²
102. These assumptions clearly do not hold in the trading relationship between Australia and China. One of the most significant flaws in the context of China’s human rights and environmental record, is in the assumption that the market price of Chinese goods reflects all the costs of production.

Subsidisation of Chinese Goods via Environmental Degradation

103. There are reports every day regarding the damage inflicted upon the Chinese environment as a result of their massive industrial growth⁴³. These reports are based on scientific evaluations, as well as horrific anecdotal evidence.
104. The first truly rigorous analysis of this issue was conducted in 1998 by Smil and Yushi⁴⁴. The authors in collaboration with Professor Wang Hongchang of the Chinese Academy of Social Sciences (CASS), Professor Ning Datong of Beijing Normal University, and Mr. Xia Guang of the National Environmental Protection Agency arrived at estimates of the economic costs resulting from environmental degradation in China. Xia estimated the economic burden of environmental pollution at almost exactly 100 billion yuan, equivalent to about five percent of China's GDP. When all of the values presented by Ning are

⁴¹ Hamilton, C., “The Case for Fair Trade”, *Journal of Australian Political Economy*, No.48, June 2000, p.61

⁴² Ibid.

⁴³ See for example Wyatt, S., “The stinking secret of China's growth”, *Australian Financial Review*, 16/11/2004

⁴⁴ Smil, V. & Yushi, M., “The Economic Costs of China's Environmental Degradation”, Cambridge: American Academy of Arts and Sciences, 1998

expressed in terms of annual rates, the total economic loss resulting from conversions of natural ecosystems equals almost 40 billion yuan, roughly two percent of annual GDP. Finally, according to Wang's calculations, losses due to deforestation amount to almost 250 billion yuan a year, or some 12 percent of the country's annual GDP⁴⁵. While these estimates vary, what they do agree on is that the economic cost of China's environmental degradation are substantial.

105. These environmental costs are a negative externality of the production process. That is, they constitute a cost of the production in the Chinese economy that is paid by people other than the producers of the goods that caused the damage (see the box below for one such example).

Cancer Town

A recent report in the *Australian Financial Review* explored the impact of pollution in the Henan province. The report concentrated in the region surrounding China's largest monosodium glutamate (MSG) producer, Lianhua A Jinomoto Co. This factory has been dumping industrial waste into the rivers without any treatment for more than a decade. Tanneries, paper mills, fertilisers and raw sewage have added to the polluted ground water.

In one small village near the factory, Dong Sun Lou, every one of the 25 homes in the village contained someone who has died of cancer. The nearby town of Huangmengying has a population of 1463. In the last 8 years, 116 inhabitants of this town have died of cancer. These appalling cancer rates are attributable to environmental factors, namely the massive growth in industrial production with no effective environmental regulations.

The chief environmental officer of the nearby Shenqiu City Government is quoted as saying:

“the imbalance between economic growth and the environment is a big problem. Laws do exist but the ability to execute and enforce is very limited.”

106. In the example above a portion of the cost of production by the MSG factory is borne by the local people and is therefore not included in the price of the product.
107. There are much larger examples of the negative externalities of Chinese production. For example, across northern China, small coal mines have disturbed coal seams and created unstoppable fires. Together, these release a total amount of carbon dioxide each year equal to all the cars in the US.⁴⁶ The coal mined that leads to this pollution is used to meet the massive energy needs of the Chinese industrial boom. However, the costs of this pollution is not

⁴⁵ Ibid

⁴⁶ Watts, S., “China's appetite for coal”, ABC – Lateline, <http://www.abc.net.au/lateline/content/2005/s1324250.htm>, broadcast: 15 March 2005.

included in the price of the coal, nor the eventual price of the products manufactured with energy derived from this coal.

108. When these products are exported, they are competing against products from economies where there are adequate environmental regulations to ensure that the environmental cost of production is included in the price. If these external costs of production are not reflected in prices then China is effectively subsidising production by not imposing adequate environmental standards. This gives rise to the phenomenon known as ‘eco-dumping’⁴⁷.
109. Advocates of trade liberalisation with China ignore this issue when they promote industry protection reductions. According to the neo-classical economic arguments, protection is undesirable because it distorts prices and reduces the allocative efficiency of the economy. If protection is removed, prices fall as competition drives out the inefficient producers and supply and demand is allowed to operate effectively to set the correct price for that good or service and allocate resources within the economy.
110. However, eco-dumping is another behaviour that reduces the allocative efficiency of the economy. Allowing imports to be priced below their ‘normal’ value (i.e. the cost of production) may benefit consumers in the short term. However, it is still a distortion of the market by artificially reducing the cost of that good. That would distort market signalling and would reduce the long term welfare of the economy by distorting the allocation of resources and production in the economy.
111. Proponents of an Australia – China free trade agreement must address this issue if they are serious about freeing up trade with China. They must answer the question of “...what is the economic difference between an explicit financial subsidy and an implicit subsidy arising from the fact that some else is paying the costs. Why do internal costs count but external costs do not? The welfare effects are the same.”⁴⁸

Subsidisation of Chinese Goods via OHS neglect

112. The disturbing lack of occupational health and safety (OHS) standards in China are discussed elsewhere in this submission (see in particular the section entitled “Violation Of Workers Rights in China”). However, this section will briefly put the issue in the context of a production subsidy.
113. Occupational health and safety concerns remain serious and enforcement of OHS laws is very weak. China's rates of industrial death and lost limbs exceed any in history. Last year it is estimated that over 14,000 workers were killed in workplace accidents.
114. Coal mining is the most frequently cited example of this issue⁴⁹. It is reported that between 6,000 to 7,000 workers are killed each year in China's coal mines

⁴⁷ Hamilton, C., *ibid*, p.65

⁴⁸ *Ibid*, p.66

⁴⁹ The Economist, “Down and Dangerous”, 4 Decmeber 2004, p.29

(accounting for around 80% of the world's deaths in mines each year). Approximately 600,000 miners are reported to have black lung, a debilitating condition caused by exposure to coal dust. The figure is said to be growing by 70,000 miners a year.⁵⁰ It is estimated that for every million tonnes of coal mined, 3 miners die.⁵¹

115. If a worker is killed or injured in a workplace this constitutes a cost of production, be it in lost skills, economic potential, psychological impact on family, friends and colleagues, increases state costs (e.g. widow benefits) etc...
116. In societies with adequate OHS regulations this cost of production is internalised in many ways. For example, regulations force employers to spend money on safety, e.g. machine guards, OHS officers, training etc, hence injuries and fatalities are reduced at the cost to the employer's bottom line. If injuries do occur, the relevant authorities investigate and levy fines (and sometimes initiate criminal prosecutions) against the employer. In either case the potential cost of production is internalised.
117. If there are no OHS regulations, or no enforcement of regulations, this cost of production is borne by the wider community. Thus there is a negative externality of production. It is indisputable that China fits into this latter category. This forms another subsidy of Chinese production that constitutes dumping when exported to Australia.
118. This is not a matter of imposing so called "western values" on China. Minimum safety standard for workers is a global right. This view is supported by the International Labour Organisation. The minimisation of, and where unavoidable the internalisation of the cost of, environmental damage and workplace injuries as a result of production is something that no reputable economist can dispute.
119. The facts are these:
 - China has above average environmental damage and workplace injuries compared to most economies.
 - These are a result of the production of goods and services.
 - Therefore, they are production costs.
 - These costs are not included in the price of the goods and services.
 - Hence the prices of these products are artificially low.
 - When these goods and services are imported to Australia they are being dumped in the Australian market place.
 - Australian businesses and workers suffer and the allocative efficiency of the economy is hindered.
120. China's environmental and occupational health and safety standards raise a serious challenge to what are said to be the welfare enhancing effects of free trade agreements. Such issues must be addressed before Australia considers entering into any free trade agreement with China.

⁵⁰ See article by Associated Press, "Chinese Mines Accident Result of Ambition", 1 December 2004.

⁵¹ McDonald H, "Digging Their Own Graves", Sydney Morning Herald, 19 February 2005.

Trade Diversion and Increasing Complexity

121. While the AMWU believes the current multilateral trading system conducted under the auspices of the World Trade Organisation is in serious need of reform (particularly although not limited to the urgent need for inclusion of labour standards in trade agreements), the AMWU submits that Australia should be focusing its efforts on achieving broad multilateral trade outcomes.
122. In particular the AMWU is concerned about the growing number of bilateral and regional trade agreements. As compared to the successful negotiation of multilateral outcomes, such a trend has at least two important negative consequences for Australia:
- Firstly, the trend is leading to a multitude of conflicting rules of origin clauses with the associated complexity and costs for exporters. High transaction costs disproportionately discriminate against smaller businesses and smaller economies who have lower economies of scale.
 - Secondly, the trend raises a significant risk of trade diversion. This has been highlighted by the recent Productivity Commission evaluation of around 17 bilateral agreements.⁵²
123. The AMWU believes Australia's long term interests and the interests of Australian manufacturing in particular, are likely to be better served if the Government was to put greater effort into reforming and reinvigorating the multilateral trading system rather than pursuing a series of bilateral preferential free trade agreements such as the Australia – China free trade agreement.
124. The AMWU therefore urges:

That the Australian Government abandon its strategy to negotiate bilateral free trade agreements and instead seek to reform and re-invigorate multilateral trade negotiations.

⁵²Adams R, Dee P, Gali J and McGuire G, "The Trade and Investment Effects of Preferential Trading Arrangements - Old and New Evidence", Productivity Commission Staff Working Paper, Canberra, May 2003.

Public Consultation, Independent Social and Economic Analysis and Parliamentary Scrutiny

125. Notwithstanding the consultation process which occurred with the conduct of the Joint Feasibility Study with the Chinese government in relation to the possibility of an Australia – China free trade agreement, the AMWU does not believe the government’s current practices with respect to entering trade agreements are adequate.
126. The AMWU submits that negotiations for trade agreements should only proceed following a fully informed community discussion of the issue. This has yet to occur in relation to the Australia – China free trade agreement. Further, as the experience with the Australia – United States Free Trade Agreement shows, in the interests of openness and accountability, a mechanism needs to be established to enhance parliamentary scrutiny of free trade agreements.
127. In this respect the AMWU notes and endorses recommendation 3 of the ALP Senators’ report with respect to the inquiry of the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America:

Recommendation 3

Labor Senators recommend that the Government introduce legislation to implement the following process for parliamentary scrutiny and endorsement of proposed trade treaties:

(a) Prior to making offers for further market liberalisation under any WTO Agreements, or commencing negotiations for bilateral or regional free trade agreements, the Government shall table in both Houses of Parliament a document setting out its priorities and objectives, including comprehensive information about the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise.

(b) These documents shall be referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade for examination by public hearing and report to the Parliament within 90 days.

(c) Both Houses of Parliament will then consider the report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, and then vote on whether to endorse the Government’s proposal or not.

(d) Once Parliament has endorsed the proposal, negotiations may begin.

(e) Once the negotiation process is complete, the Government shall then table in Parliament a package including the proposed treaty together with any legislation required to implement the treaty domestically.

(f) The treaty and the implementing legislation are then voted on as a package, in an 'up or down' vote, i.e. on the basis that the package is either accepted or rejected in its entirety.

(g) The legislation should specify the form in which the Government should present its proposal to Parliament and require the proposal to set out clearly the objectives of the treaty and the proposed timeline for negotiations.

128. The AMWU also notes the fourth recommendation of the ALP senators on the inquiry:

Recommendation 4

Labor Senators recommend that Australian governments - prior to embarking on the pursuit of any bilateral trading or investment agreement - request the Productivity Commission to examine and report upon the proposed agreement. Such a report should deliver a detailed econometric assessment of its impacts on Australia's economic well-being, identifying any structural or institutional adjustments that might be required by such an agreement, as well as an assessment of the social, regulatory, cultural and environmental impacts of the agreement. A clear summary of potential costs and benefits should be included in the advice.

129. While the AMWU has strong reservations concerning the Productivity Commission's approach to trade and industry policy generally, the AMWU nevertheless strongly supports the suggestion that there is a need for a credible and *independent* assessment of the likely costs and benefits of proposed trade agreements.

130. The AMWU urges:

That prior to embarking on the pursuit of any bilateral trading or investment agreement the Government provide funding for non-government organisations to conduct an independent examination and report in relation to the proposed agreement. Such a report should deliver a detailed econometric assessment of its impacts on Australia's economic well-being, identifying any structural or institutional adjustments that might be required by such an agreement, as well as an assessment of the regional, social, regulatory, cultural and environmental impacts of the agreement. The preparation of the report should include the opportunity for full community consultation.

That the Government pass legislation to implement the following process for parliamentary scrutiny and endorsement of proposed trade treaties:

- (a) Prior to making offers for further market liberalisation under any WTO Agreements, or commencing negotiations for bilateral or regional free trade agreements, the Government shall table in both Houses of Parliament a document setting out its priorities and objectives, including comprehensive*

information about the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise.

(b) These documents shall be referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade for examination by public hearing and report to the Parliament within 90 days.

(c) Both Houses of Parliament will then consider the report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, and then vote on whether to endorse the Government's proposal or not.

(d) Once Parliament has endorsed the proposal, negotiations may begin.

(e) Once the negotiation process is complete, the Government shall then table in Parliament a package including the proposed treaty together with any legislation required to implement the treaty domestically.

(f) The treaty and the implementing legislation are then voted on as a package, in an 'up or down' vote, i.e. on the basis that the package is either accepted or rejected in its entirety.

(g) The legislation should specify the form in which the Government should present its proposal to Parliament and require the proposal to set out clearly the objectives of the treaty and the proposed timeline for negotiations.

Conclusion

131. Australia's trade relationship with China is becoming increasingly significant to Australia's economic future. In particular, the comparative advantage the Chinese economy appears to hold in manufactured products, due in large part (although not exclusively) because of the failure of the Chinese government to observe and implement basic labour and environmental standards, poses a significant challenge to:
- the future of the Australian manufacturing industry (which employs well over a million workers);
 - the reduction or stabilisation of Australia's burgeoning current account deficit; and
 - the rights, health and welfare of workers and communities in both Australia and China.
132. The AMWU believes the recognition of China as a market economy and the entering of a free trade agreement with China will contribute to, rather than solve, these significant challenges.
133. The AMWU submits that Australia's trade relationship with China, and indeed the rest of the world, should be reformed in a way that recognises both the importance of manufacturing in Australia and the importance of all workers being afforded internationally agreed labour standards.
134. The AMWU would like to thank the Department for the opportunity to make a submission in relation to the proposed free trade agreement with China. The AMWU would value any further opportunity to make submissions to the Department.