



General Review of the China-Australia Free Trade Agreement

KPMG submission

KPMG Australia, March 2026
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Executive summary

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators – and the wider community, recognising our public interest responsibility. We strive to contribute in a positive way to the debate that is shaping the Australian economy and we welcome the opportunity to contribute to the *General Review of the China–Australia Free Trade Agreement (ChAFTA)* on the tenth anniversary of its entry into force.

Various studies confirm that ChAFTA has delivered substantial benefits to Australian businesses and to Australia as a whole. More recently, however, the operating environment for Australia-China business cooperation has changed materially. Global trade is increasingly shaped by geopolitical competition, supply chain shocks, regulatory fragmentation, digitalisation, the rise of AI, climate change and episodic strain in bilateral relationships.

The case is therefore strong for both countries to negotiate a more robust ChAFTA that reflects and seeks to mitigate the effects of rising global uncertainty while incorporating newer issues. A modernised ChAFTA would not seek to expand liberalisation ambitiously, but to update the agreement so that it continues to function effectively as economic infrastructure in a period of heightened global uncertainty.

Australian businesses consistently tell us that, in this environment, their primary needs are stability, predictability and administrative clarity. While bilateral free trade agreements cannot resolve geopolitical tensions, they can materially reduce commercial risk by improving transparency, institutionalising consultation and modernising trade facilitation and regulatory cooperation.

This submission focuses on how ChAFTA could be modernised to better support Australian businesses over the next decade by:

- 1 Strengthening predictability and transparency behind the border
- 2 Upgrading trade facilitation and non-tariff barrier management
- 3 Incorporating digital trade and data disciplines aligned with current business practice
- 4 Enhancing institutional resilience, including crisis consultation mechanisms
- 5 Leveraging ChAFTA’s committees as practical problem-solving forums.

Our recommendations draw on Australia’s recent Free Trade Agreement (FTA) practice, including the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) Upgrade, the Australia–UK FTA, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and international model provisions.

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Background

About KPMG

KPMG is a global organisation of independent professional firms, providing a full range of services to organisations across a wide range of industries, governments and not-for-profit sectors. We operate in 143 countries and territories and have more than 265,000 partners and employees working in member firms around the world. In Australia, KPMG has a long tradition of professionalism and integrity combined with our dynamic approach to advising clients in a digital-driven world.

KPMG Australia's Geopolitics Hub

The Australia Geopolitics Hub leverages KPMG's multidisciplinary capabilities, local expertise and global reach and its member alliance with the Eurasia Group to provide the tools and resources that will help organisations respond effectively to the full spectrum of geopolitical uncertainty.

Our member firm alliance with the Eurasia Group brings their predictive geopolitical analysis of global interconnected risks together with KPMG's understanding of business across industry to address company business impacts with actionable plans – using robust analytics and on-the-ground insights from senior policy insiders.

Section 1:

KPMG recommendations

RECOMMENDATION 1:

KPMG recommends modernising ChAFTA to strengthen predictability and transparency behind the border, including through commitments aligned with good regulatory practice such as advanced publication of regulatory changes, clearer implementation timelines and ongoing dialogue between regulators.

RECOMMENDATION 2:

KPMG recommends upgrading ChAFTA's trade facilitation and non-tariff barrier management to focus on faster, more predictable resolution of operational issues through time-bound consultations, electronic documentation and clear escalation pathways.

RECOMMENDATION 3:

KPMG recommends incorporating modern digital trade and data disciplines into ChAFTA, aligned with current business practice, to support cross-border data flows, electronic transactions and paperless trade.

RECOMMENDATION 4:

KPMG recommends enhancing ChAFTA's institutional resilience by establishing non-binding crisis consultation and trade continuity mechanisms, including early notification, designated contact points and use of existing committees during disruptions.

RECOMMENDATION 5:

KPMG recommends leveraging ChAFTA's committees as practical problem-solving forums with clear mandates, regular reporting and structured engagement with business stakeholders.

RECOMMENDATION 6:

KPMG recommends that the review considers the inclusion of a non-binding cooperation framework on emissions reduction, consistent with both parties' existing international commitments.

RECOMMENDATION 7:

KPMG recommends the development of a work program for negotiating a more comprehensive investment chapter, as provided for in the agreement that came into force a decade ago.

Section 2:

KPMG insights

1. The changing environment for ChAFTA

When ChAFTA entered into force in 2015, the dominant trade agenda was tariff reductions and improved market access. A decade later, Australian companies operating across borders face a different risk profile, characterised by:

- Heightened global geopolitical uncertainty
- An associated breakdown in the international rules-based trading system
- Greater likelihood of policy volatility during crises or diplomatic stress
- The possibility of further global pandemics following COVID-19
- Greater supply chain vulnerability
- Rapid growth in digitally enabled trade across goods and services
- A weakening of international cooperation on carbon emission reductions.

Most of these developments have created a substantially riskier environment for businesses operating or seeking to operate abroad. In this context, the commercial value of ChAFTA increasingly lies not only in tariff outcomes, but in its capacity to function as economic infrastructure: a framework that reduces uncertainty, keeps channels open and enables early resolution of commercial difficulties.

2. What modern trade agreements can and cannot do

KPMG’s experience across multiple jurisdictions suggests a realistic framing is essential. Given the above context, this submission focuses on pragmatic, process-oriented enhancements rather than new market-access commitments.

- What FTAs cannot do:
 - Prevent geopolitical shocks, eliminate policy risk, or guarantee uninterrupted market access under all circumstances.
- What FTAs can do:
 - Codify transparent procedures
 - Reduce discretionary administration
 - Accelerate resolution of disputes and disruptions
 - Provide trusted channels for communication during periods of stress.

The latter functions are increasingly central to business value.

3. Priority areas for ChAFTA modernisation

3.1 Strengthening transparency and regulatory predictability

KPMG recommends incorporating commitments aligned with good regulatory practice, drawing on CPTPP-style provisions. These do not constrain sovereignty, but improve predictability by encouraging:

- Advanced publication of proposed regulatory changes
- Opportunities for stakeholder engagement
- Clear articulation of implementation timelines
- Ongoing dialogue between regulators.

3.2 Elimination of remaining tariffs

- Australia has already eliminated tariffs on all imports from China
- China to eliminate remaining tariffs on imports of Australian goods
- In the event of China or Australia imposing tariffs on goods imported from the other country for any reason, both countries agree to be bound by the decisions of a relevant World Trade Organization (WTO) panel.

3.3 Safeguard mechanism

- In the event of either country activating a safeguard mechanism, it should consult the other country before activating it and agree to be bound by the decisions of a relevant WTO panel.
- Noting the challenges with the WTO and safeguards, an alternative would be to strengthen procedural transparency and consultation without binding outcomes, for example:
 - Commitments to consult prior to imposing safeguards
 - Notification and explanation requirements
 - Use of WTO-consistent processes where available.

3.4 Addressing non-tariff barriers through improved processes

Non-tariff barriers remain a persistent concern for Australian goods exporters and service providers.

For many exporters, the commercial cost of non-tariff barriers lies less in their existence than in the time taken to resolve them. Rather than focusing solely on dispute resolution, ChAFTA could place greater emphasis on process-based problem solving, including:

- Time-bound consultation mechanisms for Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) issues
- Greater use of electronic certification and documentation
- Early warning notifications for changes in import requirements
- Clear escalation pathways within ChAFTA committees.

Recent upgrades to AANZFTA provide useful models, particularly in relation to expedited clearance, electronic documentation and commitments to address non-tariff measures that add unnecessary cost.

3.5 Modernising trade facilitation

Modern customs and trade facilitation provisions have become central to resilience and competitiveness.

Possible areas for enhancement include:

- Expanded pre-arrival processing and risk-based clearance
- Explicit commitments on the treatment of perishable goods
- Greater recognition of trusted trader and authorised operator schemes
- Streamlined rules of origin processes, including electronic proof.

These measures directly support supply chain resilience without engaging sensitive market-access questions.

3.6 Incorporating digital trade provisions

Digitally enabled trade is now foundational across goods, services, logistics, education, professional services and financial activities.

ChAFTA could benefit from a modern digital trade chapter, aligned with Australia’s more recent FTA practice, addressing:

- Cross-border data flows for legitimate business purposes
- Recognition of electronic contracts, signatures and authentication
- Promotion of paperless trading and e-invoicing interoperability
- Regulatory cooperation on cybersecurity and emerging technologies.

Such provisions primarily bind existing practice and provide certainty for future investment and operational decisions. These provisions could be framed flexibly, recognising each country’s domestic regulatory framework, while still providing greater certainty for routine commercial operations.

3.7 Enhancing crisis preparedness and resilience

The experience of COVID-19, geopolitical conflict and climate-related disruption has highlighted the value of *ex ante* crisis coordination mechanisms.

KPMG suggests the parties consider incorporating into ChAFTA a crisis consultation and trade continuity framework, drawing on international model provisions developed by the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP). Features could include:

- Early notification during major disruptions
- Designated contact points across agencies
- Commitments to transparency and proportionality of emergency measures
- Use of existing ChAFTA committees to coordinate responses.

To reduce potential concerns around sovereignty, these crisis consultation mechanisms would be:

- Activated through existing committees
- Non-binding
- Administrative rather than political; that is, activated through existing ChAFTA committees as officials-level mechanisms.

Such provisions need not create binding obligations but can improve communication and reduce uncertainty during crises.

3.8 Cooperation in reducing carbon emissions

Climate policy and emissions reduction are increasingly relevant to trade, investment and supply-chain decisions. China and Australia have made commitments under the Paris Agreement and both are pursuing domestic transitions in energy, industry and technology. For businesses operating across integrated regional and global supply chains, greater alignment and transparency in climate-related policy settings can reduce costs, improve planning certainty and enhance supply-chain competitiveness.

ChAFTA currently contains no provisions to support cooperation in this area. This contrasts with Australia’s more recent trade agreements, which include frameworks for cooperation on climate-related issues, information sharing and the facilitation of low-emissions trade and investment.

KPMG recommends that the review considers the inclusion of a non-binding cooperation framework on emissions reduction, consistent with both parties' existing international commitments. Such a framework could focus on practical cooperation rather than new market-access or regulatory obligations; for example, through:

- Information exchange on policies affecting low-emissions goods, services and technologies
- Cooperation to facilitate trade and investment in renewable energy and clean technologies
- Dialogue on standards, certification and measurement relevant to emissions-intensive supply chains.

Incorporating a cooperation framework of this kind would align ChAFTA with contemporary FTA practice and support business certainty, while preserving policy flexibility for both parties.

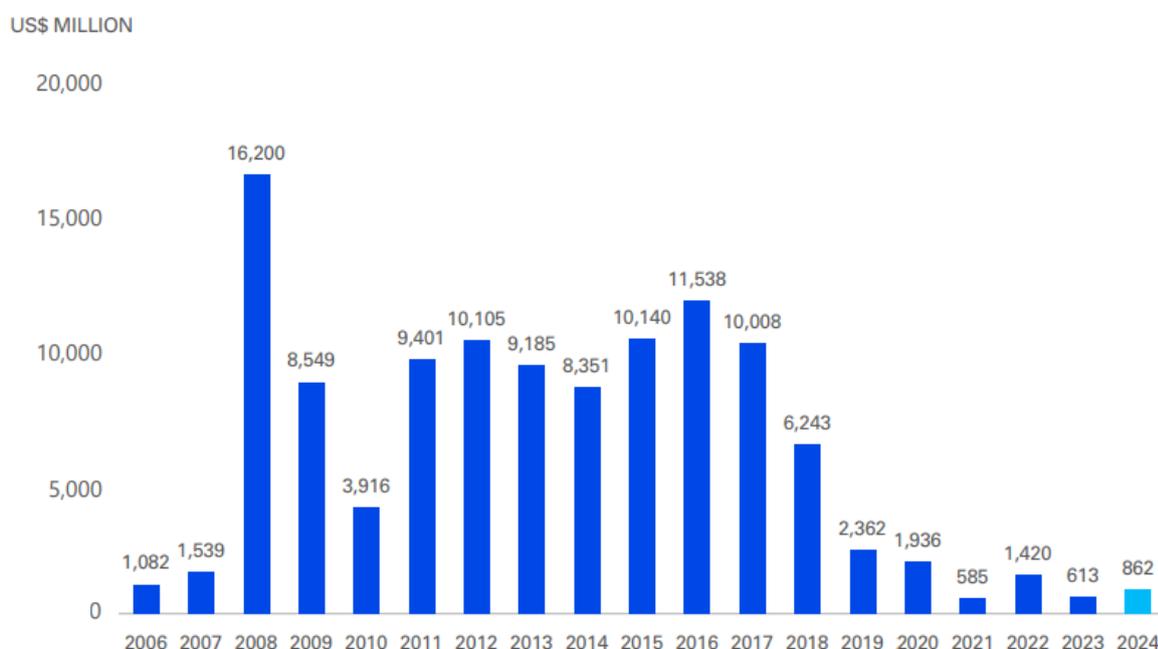
3.9 Investment facilitation

ChAFTA has a chapter dedicated to investment. It provides basic commitments on the treatment of investors and investments and sets up a forward work program for negotiating a more comprehensive investment chapter.

Over the decade since ChAFTA has been in force, annual Chinese investment in Australia has fallen sharply after peaking in 2016. See Chart 1. While some of this reduction can be attributed to the end of the mining boom and to the onset of COVID-19 restrictions, it remains at very low levels.

Concerns have been expressed by prospective Chinese investors about a lack of transparency in Foreign Investment Review Board decisions to reject investment applications. In the context of the review of ChAFTA, it would be timely to develop a work program for negotiating a more comprehensive investment chapter, as provided for in the agreement that came into force a decade ago.

Chart 1: Chinese outbound direct investment (ODI) into Australia by value 2006-2024



Source: KPMG/The University of Sydney Database; *Demystifying Chinese investment in Australia*, March 2025.

4. The role of ChAFTA’s institutional architecture

ChAFTA’s committees and working groups are one of its under-utilised strengths.

International experience suggests that effective FTAs increasingly function through committees, rather than through formal disputes. To that end, KPMG recommends:

- Clear mandates for committees to resolve operational issues
- Regular reporting on issues raised and resolved
- Greater engagement with business stakeholders
- Flexibility to adopt implementing decisions or guidelines without treaty amendment.

This approach reinforces ChAFTA as a living framework, capable of adaptation over time.

5. Business outcomes: where ChAFTA can add the most value

From a business perspective, ChAFTA modernisation should aim to deliver:

- Fewer surprises
- Faster issue resolution
- Clearer administrative rules
- Confidence that dialogue will continue during periods of strain.

These outcomes support investment, diversification and long-term commercial engagement in an uncertain environment.

6. Conclusion

ChAFTA has been a successful agreement. Its next phase should focus less on headline liberalisation and more on operational resilience and predictability.

By modernising its trade facilitation, regulatory cooperation, digital trade and institutional mechanisms, ChAFTA can continue to provide tangible value for Australian businesses navigating an increasingly complex global environment.

KPMG stands ready to support DFAT in further analysis or consultation associated with the General Review.



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