

Don't risk being too hasty with China FTA

Opinion

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Business is becoming very wary of talk of a last minute rush to seal a Free Trade Agreement with China.

Important benefits can be generated both for Australia and for China by putting in place a well-designed FTA. However, many businesses fear the risks inherent in hastily agreed agreements and in particular concluding one with China by the end of this year. Manufacturers are especially wary that a quick deal could come at a cost to them and the broader economy.

If FTAs are well designed they can help deepen commercial relationships and boost trade and investment to the mutual benefit of the partners. It is worth putting the time and effort into getting these agreements right and extending the benefits as widely as possible.

In this era with little or no progress with preferred multilateral agreements, Australia is placing a good deal of attention in our bilateral and regional trade agreements on our outbound trade in mineral products, agricultural goods and, more recently, services.

While giving these areas this attention is sensible, many Australian businesses rightly feel that the local manufacturing sector gets insufficient attention including in relation to its opportunities as an exporter.

Associated with this are concerns that much more significant concessions are made to our trading partners – in the form of gradual tariff reductions for example – than we seek on our side of the deals.

In part these issues arise because of the more dispersed and heterogeneous nature of the domestic manufacturing sector – compared with mining and agriculture - which makes it much more difficult for our domestic negotiators to get a feel for the range of interests at play. In part also it goes to the lower levels of engagement with domestic producers in the Australian approach to trade negotiations relative to the approaches taken, for example, by the US, Korea and most definitely China.

Whatever the reasons, it is usual once the details of FTAs are made available, for local manufacturers to find themselves facing significant and frequently immediate detriments and very little by way of compensating benefits. Too often local producers are left scrambling to make up lost ground.

This is in stark contrast to the often considerable concessions to our partners' producers such as extended periods for the phase-down of tariffs on agricultural products.

In addition to these general risks, there is little confidence that a quickly agreed FTA with China will adequately deal with the vast range of non-tariff barriers and

preferences at work in China. Australian businesses compete directly or indirectly with the powerful state owned enterprises that still play a major role in the Chinese economy. China gives state owned enterprises and other Chinese businesses preferences in local and export markets, hidden subsidies, transport and energy cost advantages and financial support.

There are also concerns that an FTA with China could, directly or indirectly, weaken our WTO-compliant dumping and countervailing duty arrangements.

Australia's manufacturers want an FTA that requires Chinese enterprises to compete on fair and non-discriminatory terms. They want transparency in Chinese regulations and requirements. They want provisions covering the full variety of advantages afforded to Chinese exporters.

The Joint Australia-China Government Feasibility Study was carried out in 2004. A lot happens in ten years. In particular the assumptions in the 2004 Study have been completely derailed. Neither the global financial crisis nor its aftermath was foreseen. Neither was the prolonged period of Australian dollar strength. And Chinese economic policy did not move as quickly away from state control as it promised to in early 2000.

Several things are needed to ensure an Australia-China FTA delivers to its full potential. We should have a sober and independent re-examination of the economy-wide and sectoral impacts of an agreement. Our negotiators need to become much more active and open in building their understanding of the Australian impacts of proposals. They need to ensure that non-tariff barriers are fully taken into account. And they need to be as insistent as their counterparts on provisions – such as orderly tariff phase-downs – that give businesses adequate opportunity to adjust.

No doubt it will be argued that we need to finalise this agreement as soon as possible to secure some largely undisputed sectoral benefits. However, this misses the point that FTAs need to be considered in their entirety. There is a very high risk that we are heading towards an Australia-China FTA where the full impacts are not properly understood.

The Australian Industry Group does want to see an Australia-China FTA: but not just any FTA. The fuller benefits that we could achieve would be well worth the little extra time needed to secure them.