

# 中澳智库年度经济对话

## Australia-China Annual Think Tank Economic Dialogue

### Conference report



**June 18 2017**  
**Grand Hotel Beijing,**  
**China**

# Contents

About the organisers .....	3
Program .....	5
Dialogue participants (Australian delegation) .....	7
Discussion papers .....	15
<i>Topic 1: Evaluation of the China-Australia FTA and the potential upgrade of bilateral trade institutions</i> .....	15
Discussion paper 1 by Ange Ou and James Laurenceson .....	16
Discussion paper 2 by Craig Emerson.....	17
Discussion paper 3 by Richard Colbeck .....	20
<i>Topic 2: The foreign capital entry and negative list system, and promoting the sustainable development of investment relations between China and Australia</i> .....	23
Discussion paper 1 by Hans Hendrichske and Wei Li .....	24
Discussion paper 2 by David Uren.....	36
<i>Topic 3: The One Belt One Road Initiative, Australia’s development strategies, and promoting the sustainable development of the Asia-Pacific economy</i> .....	39
Discussion paper 1 by James Laurenceson, Simone van Nieuwenhuizen and Elena Collinson.....	40
Discussion paper 2 by Saul Eslake.....	41
Contact.....	48

# About the organisers

## Australia-China Relations Institute (ACRI)

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships had been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 850 million more middle class Chinese than today.

In 2014, the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. The Australia-China Relations Institute, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.

The Australia-China Relations Institute is building an energetic platform that offers:

- a rich calendar of events;
- a flow of fact sheets and briefings;
- sponsorship of visits to Australia by overseas policymakers and experts;
- research papers from academics;
- public analysis in the media from the Director, Deputy Director and other staff;
- collaboration with think tanks and universities in Australia and around the world;
- and
- polling of Australian and Chinese public opinion.

## **Chinese Academy of International Trade and Economic Cooperation (CAITEC)**

The Chinese Academy of International Trade and Economic Cooperation (CAITEC) is an inter-disciplinary and multifunctional institution of social science research and a consultative body directly under the Ministry of Commerce (MOFCOM) of China. Its undertakings cover research, information consultancy, publishing, education and training.

CAITEC traces back to August 1948 when the Chinese Institute for International Economics was established in Hong Kong. After the founding of the People's Republic of China in 1949, the institute moved to Guangzhou and relocated in Beijing in 1952. The present CAITEC is a consolidation based on the two rounds of institutional integration in 1997 and 2002. Over the past six decades, CAITEC had played a remarkable role in China's economic and trade development research and had been highly recognized both at home and abroad.

CAITEC has a qualified research and consultant team. More than 120 of its staff have got master's degrees or above, and over 30 of its researchers have been awarded the special government allowances of the State Council for their outstanding academic achievements. Dozens of its staff are now working at the economic and commercial counsellor's offices of the Chinese embassies or consulates and international organizations.

CAITEC has developed connections with a wide range of research and educational institutions, businesses and non-governmental intermediary agencies.

Aiming to be among the top at home and well-known in the world in economic research, CAITEC had endeavoured to strengthen its research team through innovation over the past years. It is now regarded as one of the most influential think tanks in economic and trade research in China, with a competent research team and numerous achievements.

Covering an area of more than 20,000 square meters, CAITEC is located next to the Ditan (or the Temple of Earth) Park, and has a garden-like compound and a well-equipped lecture hall with a seating capacity of 300. It has a library of over 100,000 volumes and 1,000 periodicals. The library covers 2,000 square meters of floor space.

# Program

9:00-10:00	<p><b>Opening ceremony</b></p> <p><b>Moderator:</b> Qu Weixi, Vice President, Chinese Academy of International Trade and Economic Cooperation (CAITEC) , China</p>
	<p><b>Welcome Remarks:</b></p> <ul style="list-style-type: none"> <li>➤ Qian Keming, Vice Minister, Ministry of Commerce, China</li> <li>➤ Philip Ruddock, Chairman of Advisory Board, Australia-China Relations Institute</li> <li>➤ Gu Xueming, President, Chinese Academy of International Trade and Economic Cooperation, China</li> <li>➤ Bob Carr, Director, Australia-China Relations Institute</li> </ul>
10:00-10:40	Break
10:40-12:30	<p><b>Topic 1: Evaluation of China-Australia FTA and the potential upgrade of bilateral trade institutions</b></p>
10:40-11:50	<p><b>Moderator:</b> Bob Carr, Director, Australia-China Relations Institute</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>➤ James Laurenceson, Deputy Director, Australia-China Relations Institute</li> <li>➤ Zhao Jinping, Director General, Department of Foreign Economics, Development Research Centre of the State Council</li> <li>➤ Craig Emerson, former Minister for Trade and Competitiveness</li> <li>➤ Lin Guijun, Vice President, University of International Business and Economics</li> <li>➤ Richard Colbeck, former Minister for Tourism and International Education</li> <li>➤ Zhou Mi, Director, Institute of Americas and Oceania, CAITEC</li> </ul>
11:50-12:30	Discussion
12:30-14:00	Lunch
14:00-15:30	<p><b>Topic 2: The foreign capital entry and negative list system, and promoting the sustainable development of investment relations between China and Australia</b></p>
14:00-15:00	<p><b>Moderator:</b> Li Wei, Director, Institute of American and Oceania Studies, Chinese Academy of International Trade and Economic Cooperation (CAITEC)</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>➤ Zhang Jijing, President, CITIC Pacific Limited</li> <li>➤ Yang Danhui, Director, Department of Resource and Environment, Institute of Industrial Economics (IIE), Chinese Academy of Social Sciences (CASS)</li> </ul>

	<ul style="list-style-type: none"> <li>➤ Hans Hendrichske, Professor of Chinese Business and Management; Wei Li, Lecturer, University of Sydney Business School</li> <li>➤ Zhao Longyue, Leading expert, Guangdong University of Foreign Studies</li> <li>➤ David Uren, Economics Editor, <i>The Australian</i></li> </ul>
15:00-15:30	Discussion
15:30-16:00	Break
16:00-17:30	<b>Topic 3: The One Belt One Road Initiative, Australia's development strategies, and promoting the sustainable development of the Asia-Pacific economy</b>
16:00-17:00	<p><b>Moderator:</b> Elizabeth Peak, Minister Counsellor (Economic), Australian Embassy, Beijing</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>➤ James Laurenceson, Deputy Director, Australia-China Relations Institute</li> <li>➤ Zhang Guohua, Chief Economist, Shanghai Municipal Commission of Commerce</li> <li>➤ He Chuantian, Vice President, Guangdong University of Foreign Studies</li> <li>➤ Saul Eslake, Vice-Chancellor's Fellow, University of Tasmania, former Chief Economist of ANZ</li> <li>➤ Zhang Jianping, Director, Institute of West Asia and Africa Studies, Chinese Academy of International Trade and Economic Cooperation.</li> </ul>
17:00-17:30	Discussion
17:30-18:00	<p><b>Summary speeches:</b></p> <ul style="list-style-type: none"> <li>➤ Bob Carr, Director, Australia-China Relations Institute</li> <li>➤ Gu Xueming, President, Chinese Academy of International Trade and Economic Cooperation</li> </ul>



# Dialogue participants (Australian delegation)

## **Professor the Hon. Bob Carr, Director, Australia-China Relations Institute**

Professor the Honourable Bob Carr is the Director of the Australia-China Relations Institute (ACRI) at the University of Technology Sydney (UTS), the only Australian think tank devoted to illuminating the Australia-China relationship. He is a Professor in International Relations.

Professor Carr is a former Foreign Minister of Australia (2012-2013). He is also the longest continuously serving Premier in New South Wales history (1995-2005). His administration pioneered private provision of public infrastructure, lifted public works spending to a record high, increased school literacy standards and declared 350 new national parks.



He is an Honorary Professor at Beijing Foreign Studies University. He is a recipient of the RSIS Distinguished Visiting Fellowship from Nanyang Technological University and the Fulbright Distinguished Fellow Award Scholarship for service to US-Australia relations. He has served as Honorary Scholar of the Australian American Leadership Dialogue.

He is the author of *Thoughtlines* (Viking, 2002), *What Australia Means to Me* (Penguin, 2003), *My Reading Life* (Penguin, 2008) and *Diary of a Foreign Minister* (NewSouth Publishing, 2014).

## **The Hon. Richard Colbeck, former Minister for Tourism and International Education**

Richard Colbeck served as a Senator for Tasmania in the Australian Parliament from 2002 until 2016.

During his time in Parliament, Mr Colbeck held various portfolio responsibilities, most notably as the Minister for Tourism and International Education and the Minister Assisting the Minister for Trade and Investment, with terms as Parliamentary Secretary in the Agriculture and Finance portfolios.



He is currently Principal of his own Consultancy, Chair of Industry Group - Responsible Wagering Australia, and a Director of Agri-nomics Australia Pty Ltd.

Prior to his time in Parliament, Mr Colbeck worked in the construction industry for more than two decades, including operating his own business. He has also previously served as President of the Devonport Chamber of Commerce, Director of the Tasmanian Chamber of Commerce and Industry.

### **Patrick D’Arcy, Beijing representative, Reserve Bank of Australia**

Patrick D’Arcy is the Reserve Bank of Australia’s representative in China and is attached to the Australian Embassy in Beijing. Prior to taking up this position he was Head of the Asian Economies Research Unit and was responsible for directing the Bank’s research and analysis of Chinese economic developments, including contributing to regular briefings for the Board and Bank’s publications.



He has worked at the bank since 2000, and has held a variety of analytical positions in Economic Group, Financial Markets Group and Financial System Group. He holds a BEc(Hons) from Macquarie University and MSc from the London School of Economics.

### **The Hon. Dr Craig Emerson, Managing Director of Craig Emerson Economics Pty Ltd**

Dr Craig Emerson is an eminent economist with 35 years’ experience in public policy, politics and public service. He is Managing Director of Craig Emerson Economics Pty Ltd, providing professional services to governments and the business community. He is an Adjunct Professor at Victoria University’s College of Business and a columnist with *The Australian Financial Review*. He is also President of the Australia China Business Council NSW Branch.



Dr Emerson was Australia’s Minister for Trade and Competitiveness in the Gillard Government. He was also Minister for Tertiary Education, Skills, Science and Research and Minister Assisting the Prime Minister on Asian Century Policy.

In 2012, Dr Emerson revived the stalled negotiations between Australia and China for a free trade agreement, contributing to its successful conclusion in 2015. He was also instrumental in gaining bipartisan support for the China-Australia Free Trade Agreement.

Dr Emerson has a PhD in Economics from the Australian National University.



## **Saul Eslake, Vice-Chancellor's Fellow, University of Tasmania**

Saul Eslake worked as an economist in the Australian financial markets for more than 25 years, including as Chief Economist at the ANZ Bank from 1995 to 2009, and as Chief Economist (Australia & New Zealand) for Bank of America Merrill Lynch from 2011 until June 2015.

In July 2015 Saul started up his own economics consultancy business, based in Hobart, and since April 2016 has also had a part-time position as a Vice-Chancellor's Fellow at the University of Tasmania.

Saul is a non-executive director of Hydro Tasmania, an energy business owned by the Tasmanian Government, and of Housing Choices Australia, a not-for-profit affordable housing provider; and Chair of Ten Days on the Island, Tasmania's biennial multi-arts festival.

Saul has a first class honours degree in Economics from the University of Tasmania, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. In December 2012 he was awarded an Honorary Doctor of Laws degree by the University of Tasmania.

Saul and his wife Linda Arenella have two adopted children from China.



## **Professor Hans Hendrichske, Professor of Chinese Business and Management, University of Sydney**

Hans Hendrichske is professor of Chinese business and management at the University of Sydney Business School. He leads the School's Australia China Business Network and chairs the Business and Economics Cluster of the University's China Studies Centre.

Educated at universities in Germany, Taiwan and Japan, he did his postgraduate research at the Contemporary China Institute at the School of Oriental and African Studies, University of London.

He lived in China from 1979 working for the diplomatic service and in the finance industry. In his academic career he was director of the Centre for Chinese Political Economy at Macquarie University, head of school at UNSW and director of the University of Sydney Confucius Institute.



As an institutional economist he works on business institutions and emerging local entrepreneurship in China and has conducted hundreds of interviews with private entrepreneurs and local officials. Together with Barbara Krug, he co-edited *China's Economy in the 21st Century: Enterprise and Business Behaviour*.

Professor Hendrischke leads a strategic research cooperation with KPMG which publishes annual reports on Chinese outbound direct investment in Australia and thought leadership reports on Australia China business relations. He co-authored the 2014 Australia China Trade Report for the Australia China Business Council.

### **Professor James Laurenceson, Deputy Director, Australia-China Relations Institute**

Professor James Laurenceson is Deputy Director of the Australia-China Relations Institute at UTS.

He has previously held appointments at the University of Queensland (Australia), Shandong University (China) and Shimonoseki City University (Japan). He was President of the Chinese Economics Society of Australia from 2012-2014.

His academic research has been published in leading scholarly journals including *China Economic Review* and *China Economic Journal*.

Professor Laurenceson also provides regular commentary on contemporary developments in China's economy and the Australia-China economic relationship. His opinion pieces have appeared in *Australian Financial Review*, *The Australian*, *Sydney Morning Herald*, *South China Morning Post*, amongst many others.



### **Dr Wei Li, Lecturer, University of Sydney Business School**

Wei Li has worked as a researcher on water conservation and renewable energy for the World Bank, the Chinese Ministry of Environmental Protection and Renmin University of China.

She joined the University of Sydney China Studies Centre and Business School in 2011 and held the Australian-Chinese Chamber of Commerce and Industries research fellowship before being appointed to a lectureship in International Business.

She is a core member of the KPMG/Business School research team and leads the Chinese outbound investors'



survey project. She co-developed the KPMG/University of Sydney database on Chinese outbound direct investment in Australia.

Her research interests are the globalisation of Chinese enterprises and sustainable development. She is particularly interested in the transformation of state owned and private enterprises and the role of the state as promoter of international business activity. She is currently involved in research projects on enterprise finance, woman entrepreneurship and the internationalisation of the renewable energy sector.

She has published articles on green innovation and solar energy, environmental impact assessment, governance of water resources, small and medium enterprise finance, and Chinese investment in Australia.

**Michael McGregor, Policy Officer, China Economic and Trade Section,  
Department of Foreign Affairs and Trade**

Michael McGregor is a Policy Officer in the China Economic and Trade Section at the Department of Foreign Affairs and Trade (DFAT) in Canberra. Michael's work focuses on trade, investment and Australia-China bilateral economic issues. Within DFAT he has worked on a variety of trade, investment, multilateral and regional issues.



Prior to joining DFAT Michael worked in Beijing at the Peking University Australian Studies Centre as Research Coordinator. In this role Michael worked for the BHP Billiton Chair of Australian Studies, Professor David Walker between 2013 and 2015, facilitating academic and cultural exchange between Australia and China, conducting research on Australia-China relations, managing the internship program and assisting in coordinating the annual FASIC conference. He also studied Chinese at Renmin University in 2013 and 2014.

Between 2011 and 2013 Michael worked as a Policy Analyst at the Queensland Chamber of Commerce, focusing predominately on fiscal and monetary policy and state-federal regulatory reform agendas. Michael holds a Master of International Relations (East Asian Studies) and a Bachelor of Management from Griffith University.

## **Leo Mian Liu, Vice President, Global Partnerships and Director, UTS International**

Mr Leo Mian Liu was appointed Vice President, Global Partnerships in December 2016. Mr Liu also continues concurrently in his role as Director, UTS International to which he was appointed in October 2014.

Mr Liu is accountable for driving global business development initiatives at UTS, strategic development and management of the UTS International office and oversight of various international operations including student recruitment, policy and compliance, marketing & communications, student mobility, strategic institutional partnerships, pathway programs as well as UTS offshore offices etc.



Mr Liu has been a member of the Management Committee of the Australia-China Relations Institute (ACRI) since May 2014.

Mr Liu has also served as Chief Executive of UTS Global Pty Ltd since October 2012. He was Director, International Engagement at UTS from June 2009, and Business Development Director, China at the University of Newcastle, Australia from March 2007 to June 2009. Before joining the higher education sector, Mr. Liu had over 10 years of experience as a diplomat with the Chinese Foreign Affairs Ministry.

Mr Liu holds a Master of Arts Degree in International Relations from the University of New South Wales and a Bachelor of Arts Degree in English Literature and Linguistics from Beijing Foreign Studies University.

## **Elizabeth Peak, Minister-Counsellor (Economic), Australian Embassy, Beijing**

Ms Peak is a senior career officer at the Department of Foreign Affairs and Trade (DFAT). She is currently Minister-Counsellor (Economic) at Australia's embassy in Beijing, China with responsibility for trade, investment, climate and energy issues.

Ms Peak has previously held the role of Assistant Secretary South-East Asia Services and Investment Branch where she led services, investment and e-commerce in the Regional Comprehensive Economic Partnership negotiations and was deputy chief negotiator of the Australia-Indonesia Closer Economic Partnership Agreement and the Malaysia-Australia Free Trade Agreement. From 2010-11 Ms Peak was legal counsel for negotiations towards Australia's free trade agreements with China, Korea and Japan.





Ms Peak has represented Australia in the United Nations on climate change extensively, including as Director of the inaugural Office of International Climate Law in 2008-09. Ms Peak has served overseas as Counsellor in Ottawa from 2006-08. Ms Peak was a lawyer at Freehills and Dwyer Durack from 1999-2004.

She holds an Executive Masters of Business Administration from Kellogg-HKUST, Masters of Law (International Law) from the Australian National University and a Bachelor of Laws (Hons) and Bachelor of Arts from the University of Queensland.

### **The Hon. Philip Ruddock, Chairman of the Advisory Board, Australia-China Relations Institute**

Philip Maxwell Ruddock is an Australian politician who was a Liberal Member of the House of Representatives from 1973 to 2016. First elected in a 1973 by-election, by the time of his retirement he was the last parliamentary survivor of the Whitlam and Fraser Governments. He was both the Father of the House and the Father of the Parliament from 1998 until his retirement. He is the second longest serving parliamentarian in the history of the Australian Parliament.



Ruddock served continuously in federal ministry and cabinet during the Howard Government, as Minister for Immigration and Multicultural Affairs from 1996 to 2003, and then Attorney-General from 2003 to 2007. He also served as Minister for Indigenous Affairs and Minister Assisting the Prime Minister for Reconciliation.

In February 2016 Ruddock announced his retirement from politics and was appointed Australia's Special Envoy for Human Rights.

### **David Uren, Economics Editor, *The Australian***

David Uren is *The Australian's* Economics Editor and has been leading the paper's Canberra economic coverage since 2004. His career in journalism includes nine years as the editor of *Business Review Weekly*, and periods editing the Asian business magazines, *Asiabanking* and *Asia Inc*, as well as policy publications for the Business Council of Australia, Accenture and the Centre for Corporate Public Affairs.



He is author of the recent book on Australia's attitudes to foreign investment, *Takeover* (2015), as well as *The Kingdom and the Quarry* (2012) about Australia's



relationship with China, *Shitstorm* (2010) (jointly written with Lenore Taylor) exploring the Rudd government's management of the global financial crisis and *The Transparent Corporation* (2003) on corporate disclosure.

# Discussion papers

## Topic 1: Evaluation of the China-Australia FTA and the potential upgrade of bilateral trade institutions

### Aims:

- To discuss the progress made since the implementation of the China-Australia FTA and to discuss the achievements of China-Australia FTA policies.
- To explore the opportunities and bottlenecks in the development of the China-Australia FTA, to promote the orderly free flow of international and domestic elements, to improve the efficient allocation of resources and to deepen market integration.
- To explore the potential upgrade of China-Australia FTA, to promote China-Australia economic and trade relations to a higher level.

### Moderator:

Bob Carr, Director, Australia-China Relations Institute

### Speakers:

- James Laurenceson, Deputy Director, Australia-China Relations Institute
- Zhao Jinping, Director General, Department of Foreign Economics, Development Research Centre of the State Council
- Craig Emerson, former Minister for Trade and Competitiveness
- Lin Guijun, Vice President, University of International Business and Economics
- Richard Colbeck, former Minister for Tourism and International Education
- Zhou Mi, Director, Institute of Americas and Oceania, CAITEC

### Discussion paper authors:

1. Ange Ou, Visiting Research Student, Australia-China Relations Institute, University of Technology Sydney; James Laurenceson, Deputy Director, Australia-China Relations Institute
2. Craig Emerson, former Minister for Trade and Competitiveness
3. Richard Colbeck, former Minister for Tourism and International Education

## **Discussion paper 1: Grading the China-Australia Free Trade Agreement**

*By Ange Ou, Visiting Research Student, Australia-China Relations Institute, University of Technology Sydney; and James Laurenceson, Deputy Director, Australia-China Relations Institute, University of Technology Sydney*

Paper attached.

# ACRI RESEARCH

AUSTRALIA-CHINA RELATIONS INSTITUTE 澳大利亚-中国关系研究院

## Grading the China-Australia Free Trade Agreement

Ange Ou and James Laurenceson  
June 2017

### Abstract

This paper aims to grade the China-Australia Free Trade Agreement (ChAFTA) by placing its trade liberalisation commitments in a comparative perspective. Specifically, ChAFTA is benchmarked against Australia's other major bilateral free trade agreements (FTAs) with the US (AUSFTA), Japan (JAEPFA) and Korea (KAFTA). Key findings include:

1. Prior to ChAFTA being enacted at the end of 2015, Australia's agricultural exports to China faced average tariff rates that were three times higher than to the US. Australia's FTA with the US came into force in 2005.
2. Australia also recently completed FTAs with Japan and Korea, in January 2015 and December 2014, respectively. In all three cases, Australian exporters gain significant advantages over their competitors.
3. Tariffs on Australia's agricultural exports are removed at a faster pace in ChAFTA than in JAEPFA and KAFTA.
4. By 2019 the simple average tariff rate on Australia's agricultural exports to China will be lower than to the US, Japan and Korea.
5. Upon full implementation, ChAFTA contains a higher proportion of agricultural product lines that are tariff-free for Australia's exports than AUSFTA, JAEPFA and KAFTA.
6. Amongst Australia's 'big four' bilateral FTAs, ChAFTA contains the lowest proportion of agricultural product lines that were excluded from offering concessions.

*The authors would like to thank Elena Collinson and Simone van Nieuwenhuizen for comments received on an earlier version of this paper.*

*Data sources used in this paper are referenced throughout. A stand-alone copy of the full data set in Excel format is available from the authors upon request.*

## 1. Introduction

In a 12 month period between December 2014 and December 2015, Australia clinched free trade agreements (FTAs) with Korea (KAFTA, enacted December 12 2014), Japan (JAEPA, enacted January 15 2015) and China (ChAFTA, enacted December 20 2015). A decade earlier, Australia had sealed an FTA with the US (AUSFTA, enacted January 1 2005). The combination means that Australia now has FTAs with its four biggest overseas customers. As many observers have noted however, FTAs are not Free Trade Agreements, as such, but rather *Freer* Trade Agreements. In each of Australia's bilateral FTAs, some product lines have been excluded from the concessions agreed to by both countries. Commitments to reduce trade barriers such as tariffs for many product lines were also to be phased in gradually rather than eliminated overnight. Further, even upon full implementation, tariffs for some product lines will remain, albeit often at a reduced level.

This raises questions around the quality of the respective agreements. Prior to the recently completed round of FTAs, which country had the highest tariff wall against Australian exports? How quickly are tariffs reduced in ChAFTA compared with JAEPA and KAFTA? And after the commitments contained in Australia's FTAs are full implemented, how significant will residual tariffs be in China compared with other major export markets? To shed light on these questions, this research benchmarks ChAFTA against AUSFTA, JAEPA and KAFTA.

## 2. The starting point

Using World Trade Organization (WTO) data, Table 1 shows the tariff rates that Australian exporters faced in 2014 on the eve of the trifecta of Northeast Asian FTAs being enacted. By that time the tariff reduction measures contained in AUSFTA had already been fully implemented. The tariff rates in Table 1 are expressed in terms of a simple average and also on a trade-weighted basis, and cover agricultural and non-agricultural products. What is immediately clear is that in trade-weighted terms, tariffs on Australia's non-agricultural exports such as mining and energy output are negligible. The same, however, cannot be said for agricultural goods. Australian agricultural exports faced the lowest tariff barriers in the US. Meanwhile, tariffs in both simple average and trade-weighted terms were roughly three times higher in China. They were greater again in Japan and around nine times higher in Korea.

**Table 1. Simple average and trade-weighted (in brackets) tariffs facing Australian exports in 2014**

	US	China	Japan	Korea
Agricultural products	5.1 (6.8)	15.3 (18.5)	25.2 (21.7)	49.3 (49.8)
Non-agricultural products	N/A	8.7 (0.1)	2.5 (0.1)	6.6 (0.8)

**Source:** World Trade Organization (2016).

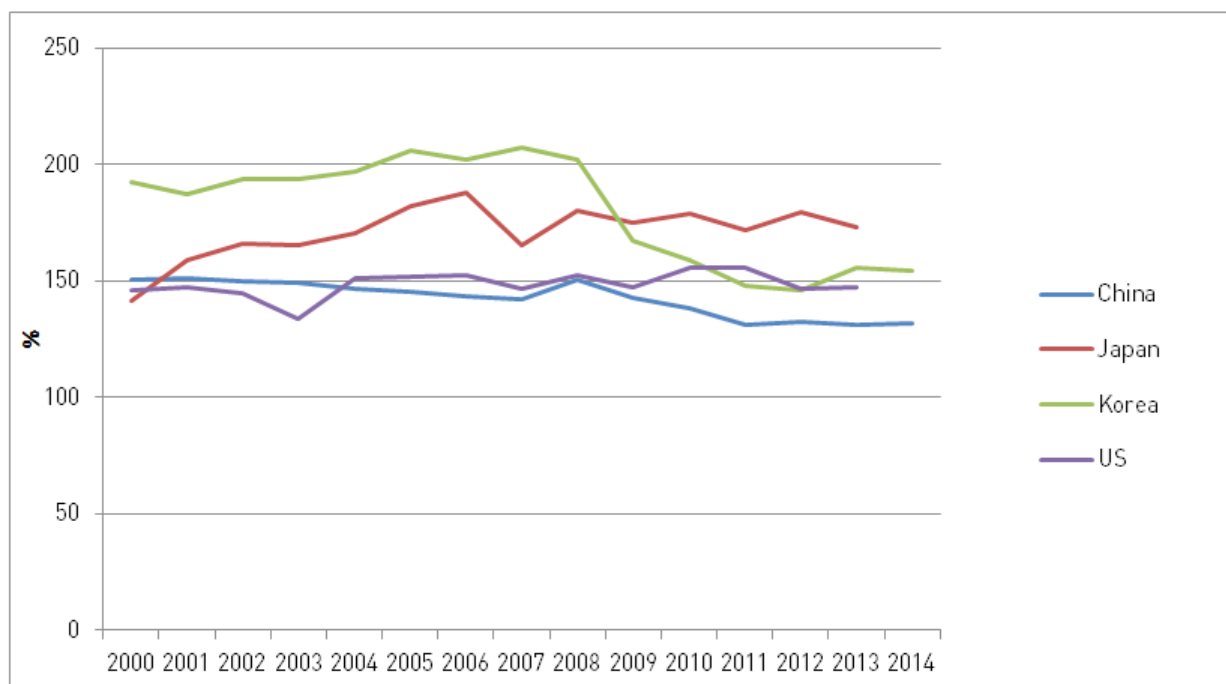
**Note:** The data source only lists tariffs faced in the top five export destinations. The US has never been a top five destination for non-agricultural products and hence data is not available for this cell. The Korean figure for agricultural products is from 2012. It was not a top five destination in 2013 and 2014, the latter being the latest available year.

In addition to tariffs, trade in agricultural goods is also affected by a host of other barriers that take non-tariff form, such as phytosanitary conditions and quarantine regulations, as well as transportation costs that are elevated by the need to, for example, refrigerate some goods. The United Nations Economic and Social Commission for Asia and the Pacific and the World Bank maintain a database that provides estimates of 'total trade costs', which aims to capture both tariffs and these other trade costs. The database covers agricultural goods, manufactured goods and goods in aggregate. It also permits bilateral country comparisons, although it does not specify whether trade costs are chiefly associated with one country or the other. Nonetheless, if Australia is used as the reference country for all comparisons, then variations in trade costs across countries would presumably reflect differences in these foreign markets.



Figure 1 presents total trade costs associated with trade in agricultural goods between Australia and the US, China, Japan and Korea since 2000. Several observations stand out. First, when total trade costs rather than just tariffs are considered, China, not the US, emerges as the Australian partner where trade costs are lowest. In significant part this likely reflects higher transportation costs to the US rather than the US erecting higher non-tariff barriers against Australian exporters. Second, for all countries total trade costs are much greater than tariff costs. Recall from Table 1 that agricultural tariffs in Korea were the most significant at close to 50 percent. But total trade costs between Australia and all four countries start at 132 percent with respect to China and go up to 172 percent for Japan. Third, there is no clear trend in total trade costs. Since 2000 they have fallen by around 20 percentage points in the case of China but increased by 30 percentage points in the case of Japan.

**Figure 1. Total trade costs between Australia and selected countries, agricultural goods**



**Source:** United Nations Economic and Social Commission for Asia and the Pacific and World Bank (2016).

**Note:** The latest available data for China and Korea is 2014. For the US and Japan it is 2013.

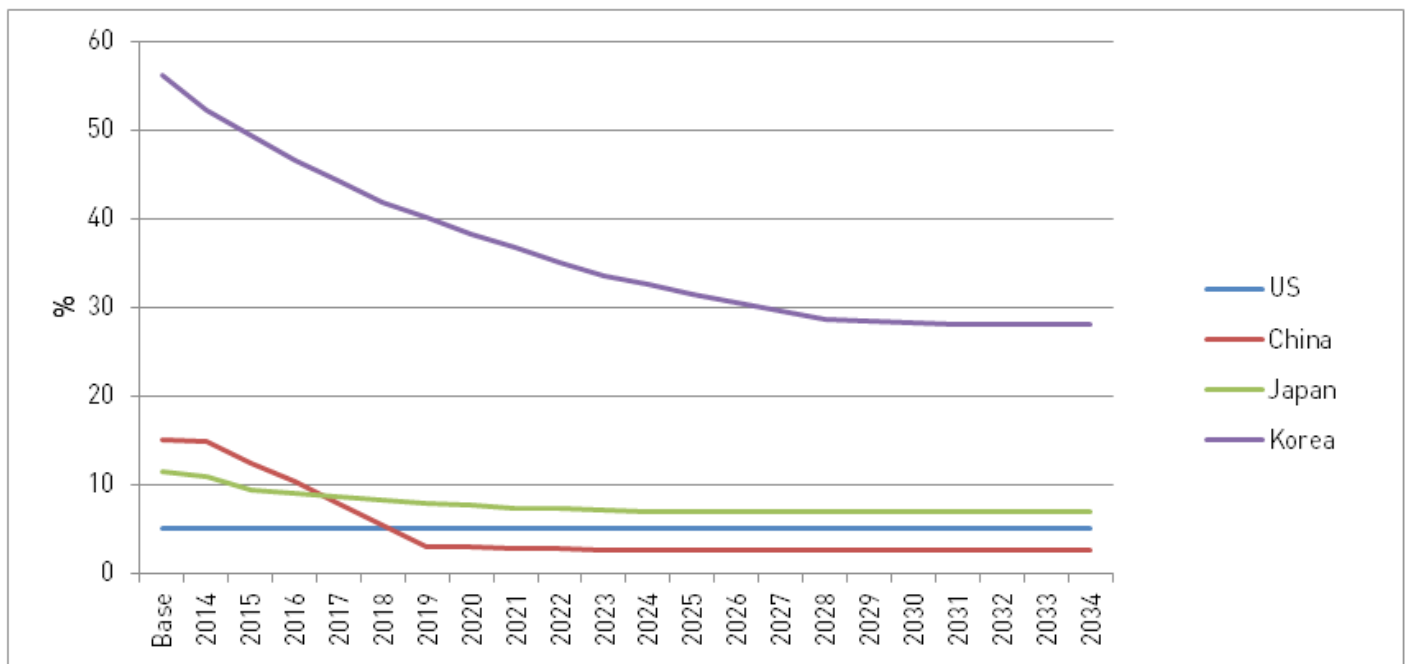
### 3. Trajectory and landing point

In contrast to recent multilateral trade agreements like the Trans-Pacific Partnership (TPP), Australia’s bilateral deals with the US, China, Japan and Korea are traditional in the sense that they focus on reducing tariffs and, to a lesser extent, non-tariff barriers such as quotas, while they largely leave so-called ‘behind the border’ trade barriers untouched. For this reason, in this section we seek to compare and contrast the scale and speed of tariff reductions proposed in ChAFTA, AUSFTA, JAEPA and KAFTA.

The analysis is confined to agricultural goods since this is where tariffs in each of these foreign markets are overwhelmingly applied, as shown in the previous section. The product lines comprising agricultural goods are defined by the WTO with reference to the 2012 Harmonized System nomenclature (WTO, 2016, p. 32). The base period is 2013 and the analysis stretches out to 2034, the year in which the last of the tariff commitments contained in JAEPA will be implemented.

The results are presented in Figure 2. Given that the commitments in AUSFTA had already been implemented before the base period, the simple average tariff rate facing Australia’s agricultural exports to the US is taken to be its current value of 5.1 percent (Table 1). The simple average tariff rates for China, Japan and Korea are calculated based on the tariff schedules in ChAFTA, JAEPA and KAFTA. For China and Korea the estimated base values align with those presented in Table 1. In the case of Japan, however, Table 1 claims a starting average tariff of 25.2 percent, whereas the calculation in Figure 2 based on the JAEPA tariff schedule is just 11.6 percent. The reasons for the difference are not clear but suffice to say that readers should be aware that Figure 2 may understate the starting point of Japan’s tariffs barriers. This possible anomaly aside, several findings are noteworthy. First, in all three Northeast Asian FTAs, Australian exporters gain significant advantages over their competitors. For example, the starting average tariff to China is around 15 percent. This will continue to be the scale of the barrier that other countries will face unless they too negotiate free trade agreements with China. Meanwhile, the average tariff facing Australian exporters to China falls to just three percent by 2019. Second, tariff reductions in ChAFTA are phased in rapidly compared with JAEPA and KAFTA. Further, while Figure 2 shows that tariffs applied by the US have historically been lower than those applied by China, this will no longer be the case from 2019. By 2023 Australian agricultural exports to China will face average tariff rates just half the level to the US. Third, Korea has committed to the largest tariff reductions over the implementation period, around 28 percentage points. But this needs to be balanced by a significant proportion of these reductions coming later in the deal and also by the fact that tariffs in Korea started the transition at a much higher level. Tariffs will remain much higher in Korea than elsewhere even after all KAFTA commitments have been implemented.

**Figure 2. Simple average tariff rates faced by Australian agriculture exports**



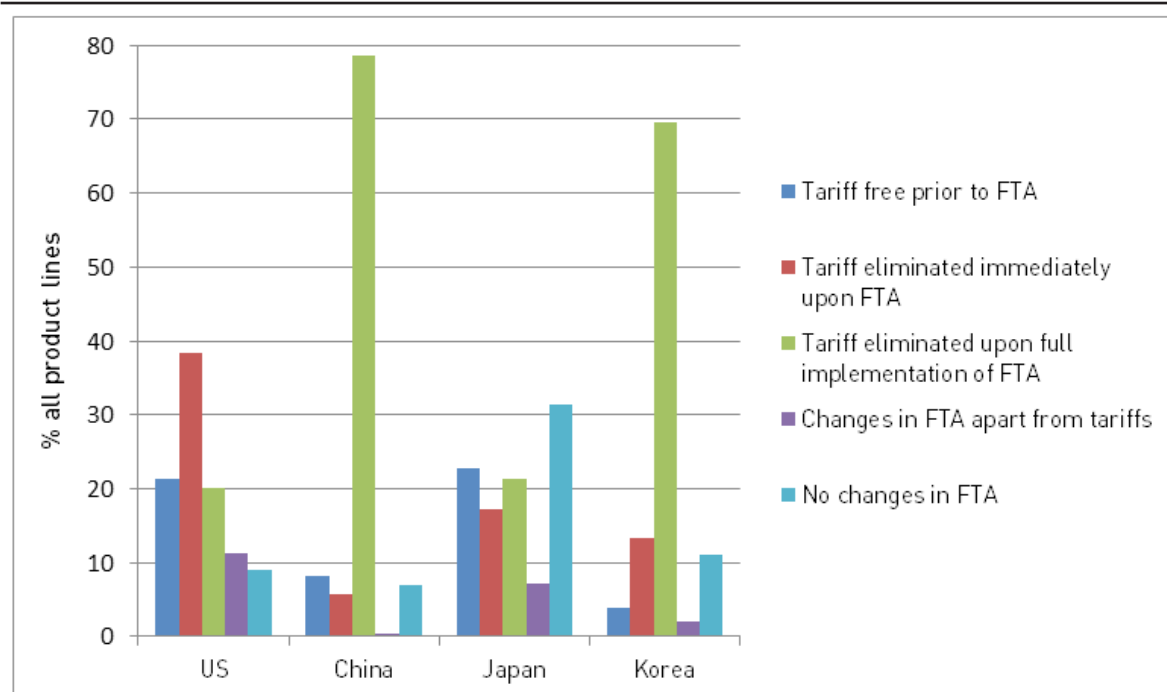
**Source:** US - see Table 1; China - Department of Foreign Affairs and Trade (2016a); Japan - Department of Foreign Affairs and Trade (2016b); Korea - Department of Foreign Affairs and Trade (2016c).

Aside from average tariff rates, another way to compare the various agreements is in terms of the number of product lines that are affected by commitments contained in FTAs. Commitments can be categorised according to how significant the changes are. In this paper we assign five classifications:

1. Product lines already tariff-free prior to the enactment of an FTA;
2. Product lines for which tariffs are eliminated immediately upon an FTA entering into force;
3. Product lines for which tariffs are eliminated upon full FTA implementation;
4. Product lines for which an FTA contains liberalisation of non-tariff form, such as the inclusion and / or expansion of a country-specific quota; and
5. Product lines excluded from commitments in an FTA.

Figure 3 shows the proportion of total agricultural product lines affected by these different categories of FTA commitments. The key findings are as follows. First, China and Korea had the lowest proportion of product lines that were already tariff-free prior to FTAs being enacted, at eight and four percent, respectively. This compares with 21 percent and 23 percent in the US and Japan, respectively. Second, China and Korea also lagged behind the US and Japan in terms of the number of product lines that were made tariff-free immediately after FTAs came into force. For example, the day after JAEPA was enacted, another 16 percent of product lines were made tariff-free. This compares with 5.4 percent and 13 percent in ChAFTA and KAFTA, respectively. Third, following full implementation, the number of tariff-free Chinese product lines rises dramatically. The proportion of Chinese product lines made tariff-free during the implementation phase is 79 percent. This will take the total proportion of tariff-free Chinese product lines to 92.3 percent. This compares with 87 percent for KAFTA, 80 percent for AUSFTA and 60 percent for JAEPA. Finally, China also records the lowest proportion of product lines excluded from FTA commitments. Only seven percent of product lines fall into this category under ChAFTA, compared with nine percent, 28.3 percent and 11 percent in AUSFTA, JAEPA and KAFTA, respectively.

**Figure 3. Proportion of agricultural product lines affected by FTA**



Source: See figure 2.

## 4. Conclusion

No bilateral trade deal is perfect but some are better than others. Australia's FTAs are largely traditional agreements that aim to reduce or eliminate tariffs and quotas on traded goods, particularly agricultural goods. This facilitates a comparison of the quality of FTAs according to how extensively and how quickly these trade barriers are removed. The analysis in this paper reveals that upon full implementation, ChAFTA will produce superior outcomes for Australian agricultural exports relative to JAEPA and KAFTA. Further, ChAFTA will also outperform AUSFTA on several metrics, such as the average tariff rate levied on Australian agricultural exports, as well as the proportion of agricultural product lines that were left out of FTA commitments.

Despite ChAFTA's strengths, there remain numerous obstacles to increased trade between Australia and China. In the 2016 Australian International Business Survey (Export Council of Australia, 2016) 78 percent of Australian companies with exposure to the Chinese market said that it was more difficult to do business in China than Australia, compared with only 10 percent who said it was easier. This cannot simply be attributed to differences in language and culture: only 49 percent of Australian companies said that Japan was more difficult to do business in. Barriers that exist behind the border have proven particularly challenging for Australian agricultural exporters to China (Zonca, 2016). Drysdale and Zhang (2016) argue that a common-sense approach would be to use ChAFTA as a platform for embarking on a more ambitious program of deepening economic engagement between the two countries. Specific opportunities include upgrading the bilateral investment treaty that Australia and China signed in 1988, as well as establishing working groups to home in on the behind-the-border trade barriers that prevent the gains from trade being maximised across sectors.

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# About ACRI

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 850 million more middle class Chinese than today.

In 2014 the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.

# About the authors



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Originally from Hainan, China, Ange came to Brisbane when she was 15 years old. She is currently in her final year of a Bachelor of Laws/Arts at the University of Queensland (UQ) with majors in International Relations and Economics.

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His academic research has been published in leading scholarly journals including *China Economic Review* and *China Economic Journal*.

## **Discussion paper 2: Evaluation of the China-Australia FTA and the potential upgrade of bilateral trade institutions**

*By Craig Emerson, former Minister for Trade and Competitiveness*

### **Background to ChAFTA**

Following ten years of negotiations, the China-Australia Free Trade Agreement (ChAFTA) entered into force in December 2015.

After I was appointed Trade Minister in 2010, I inquired about the progress of negotiations. I was told that although 15 rounds of negotiations had been completed and the legal text of the agreement was becoming voluminous, little of substance had been agreed.

At that time, almost every conceivable trade, investment and workforce issue was on the table. Realising that nothing would be decided until everything was decided, and that everything would never be decided, I took a different approach. Instead of trying to build the whole house and furnish it, perhaps it would be better, I thought, to lay firm foundations with a modest house and add further extensions to the structure over time.

The Chinese side accepted this new approach and more modest negotiations began. The new Chinese leadership – President Xi Jinping and Premier Li Keqiang – expressed support for this approach in meetings with Prime Minister Julia Gillard, Foreign Minister Bob Carr, and me during our visit to China in March 2013.

To their great credit, then-new Australian Trade Minister Andrew Robb and his Chinese counterpart, Commerce Minister Gao Hucheng, went on to negotiate the provisions that would be included in this foundational agreement. President Xi Jinping and Prime Minister Tony Abbott witnessed the signing of ChAFTA in June 2015.

### **Content of the foundational agreement**

ChAFTA utilises what is known as a ‘positive list’ approach. That is, it only covers trade and investment issues that are specifically included in the agreement. If an issue is not listed in the text, then it is not part of the agreement. Under the positive list approach, nothing is on the negotiating table unless the two sides agree to put it there.

This approach contrasts with the more ambitious negative list approach, which covers everything other than that which is explicitly listed as being excluded. Under the negative list approach, everything is on the negotiating table unless the two sides agree to take it off.

The positive list approach is consistent with the idea of building basic foundations and a modest house first. ChAFTA’s coverage starts modestly and can be expanded through future negotiations. To give some examples, the current agreement states that tariffs on

Australian beef, dairy, wine, fruit, pork, sheep meat, seafood and some grains will be phased out over time, but not those on sugar, wheat, rice or manufactured goods. Increased market access will be provided for legal, education, telecommunication, financial, tourism and healthcare services. Australian firms are permitted to operate wholly owned subsidiaries in tourism and establish profit-making aged-care institutions throughout China, but Australian-owned hospitals can be established in only four Chinese provinces and three cities. In education, the only firm Chinese commitment is to list some 77 Australian providers on a government website.<sup>1</sup>

Under the agreement, private Chinese investment in Australia is to be facilitated but all investments by state-owned enterprises (SOEs) will continue to be screened by the Foreign Investment Review Board (FIRB). During negotiations, sugar was reportedly excluded from the list of tariff reductions by China after Australia refused to agree to Chinese requests concerning the treatment of their SOEs.<sup>2</sup>

### **A work in progress**

ChAFTA provides for the prospect of future negotiations on various topics, such as developing a comprehensive investment chapter and China moving towards a negative list approach to Australian services. As summarised by Heng Wang, Associate Professor at the University of New South Wales:

The ChAFTA is a work-in-progress type FTA...It is plain that the negotiations will involve complicated legal and political issues, since most of the easy jobs have been done (Wang 2017, pp. 19, 22).

### **Implementing the agreed provisions**

Before moving on to negotiating new provisions, the priority should be ensuring that the existing agreements work effectively. Early feedback from businesses points to practical problems. Some examples are set out below.

**Certificates of origin and electronic commerce:** Chinese customs officials have failed to accept electronic transfer of documents from Australia, irrespective of Chapter 12 in ChAFTA, thereby delaying the approval process. Despite Article 4.13, which permits the acceptance of electronic copies of documents, this has not been the experience for Australian businesses; photocopied forms have been rejected by Chinese customs officials. Australian businesses have been required to use express couriers to send the documents to China as a consequence. Nevertheless, customs officials are still rejecting these physical forms on the basis that they are not deemed as originals.

**Payment of duties:** Chinese customers are having to pay customs duties in order to claim air-freighted imported products because the Australian paperwork has been

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<sup>1</sup> See Wilson (2015).

<sup>2</sup> See Wilson (2015).

rejected by customs officials. The cost of these duties can be claimed back by Chinese importers within one year, but the Chinese customs officials are not informing importers of this option.

**Rules of origin:** Confusion over rules of origin has led to businesses needing to seek additional advice from consultants.

## Recommendations

ChAFTA is a foundational agreement that will be built upon over time. It contains provisions setting out the timing of the new building phases. In the meantime, a concerted effort should be made by both sides to smooth over the practical difficulties being encountered by Chinese and Australian businesses seeking to take advantage of the agreement. One option is to establish a steering committee of senior officials who would oversee various working groups tasked with streamlining the paperwork requirements of ChAFTA and any other implementation difficulties.

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### **Discussion paper 3: Evaluation of the China-Australia FTA and the potential upgrade of bilateral trade institutions**

*By Richard Colbeck, former Minister for Tourism and International Education*

ChAFTA, the China-Australia Free Trade agreement, represents one of the most significant advances in trade between our two countries in many decades.

It is of course the most comprehensive trade agreement that China has negotiated with a developed economy.

From an Australian perspective, given China is our largest trading partner, the agreement provides a comparative advantage for suppliers of goods and services over those of competing nations who are all eager to trade into one of the world's largest and growing economies.

ChAFTA, while providing the core framework for trade in goods and services, including specifically tariff rates and customs requirements, does not mean automatic entry for specific products, commodities or services. There remain other technical market access issues to be negotiated over and above those core tariff and customs requirements.

For goods and services that have been traded for some time between China and Australia and already have those technical market access issues negotiated and resolved, there have been some notable success stories in market growth since the signing of ChAFTA.

Commodities that have been the foundation of the trading relationship for decades continue to perform well in the market.

Iron ore and coal increased trade in dollar terms in 2016 over the previous year, up 12 percent and 22.9 percent respectively, and LNG continued to drive Australia's rise in the global energy market growing 113.8 percent over the same period.

In Food and Agriculture, however, while there have been a few spectacular stars, growth rates have been constrained by two things: supply and technical market access.

The spectacular growth of food and agricultural products in the market over the last 5 years to December 2016 of close to 250 percent largely comes off the back of gaining technical market access.

Beef, Citrus, Dairy, Table Grapes, Apples, Mangoes, Nectarines, and Dried Fruit have all gained their foothold through the approval of technical market access protocols and subsequently improved their respective market situations through Australia's strong reputation for the supply of quality, safe food products and the competitive market advantage achieved from the changes in tariffs following the ratification of ChAFTA.



The genuine value to both China and Australia of ChAFTA should never be understated in its importance, however it doesn't mean much to a producer supplying a product without technical market access, as they are not able to take advantage of the benefits of the market.

For example, the granting of technical market access protocols in horticulture remains highly transactional between our countries via 4+4 negotiations with single approval bilaterally, making for slow progress in opening the market for new products.

For other products, labelling requirements, testing and certification, harmonisation of standards and working with international Standards all inhibit or slow access to the market.

A clear demonstration of where the signing of ChAFTA has had a marked impact on the trade relationship when combined with subsequent market access reforms is in the services sector, particularly Education and Tourism.

An international education is a life forming experience for any student and one of the most important country-to-country relationship development mechanisms. Australia has been a global leader in accepting international students for many decades and with a recognised high quality education system in a safe and welcoming country is the destination of choice for many students globally.

The listing of 68 Australian private higher education institutions on a key Chinese ministry web site has contributed to the 15.3 percent growth in the number of Chinese students studying in Australia in 2016, continuing the strong growth that sees china as the number one source of international students in Australia.

Likewise, the opportunity for Australian institutions to offer educational services in China has seen several institutions developing and offering both vocational and tertiary courses in many locations across China.

In 2016, there were approximately 4700 Australian students taking advantage of an educational opportunity in China and China was the number one choice for students leaving Australia on a New Colombo plan scholarship.

Perhaps the most graphic example of how aligning reforms of market access and ChAFTA has made a significant difference has been in tourism.

The decision by China to renegotiate Air Service Agreements with Australia on the back of signing ChAFTA, providing access to 'secondary' airports, opening new air routes and introducing new airlines to the China-Australia market has had a marked impact on perhaps the most important interaction between our countries, people-to-people contact.

Tourist arrivals from China grew to over one million in 2016 and continue to grow to be now the largest source of visitors to Australia, increasing by 70 percent over the last three years.

The liberalisation of aviation has not only resulted in growth in passenger numbers.

It has also facilitated the growth in trade in goods between our countries, with an increase in air freight from Australia to China of 82.4 percent in 2016 over the previous year.

It is of note that during the recent visit to Australia of Premier Li Keqiang, agreement was signed to commence the review of the services and investment elements of ChAFTA along with a review of the Investment Facilitation Arrangement Memorandum of Understanding (MOU).

Perhaps more importantly, the visit also saw agreement to progress other facilitators, freeing the growth in trade including:

- Agreement to commence discussions to update the Australia-China tax treaty;
- Signing of an MOU between IP Australia and the State Intellectual Property Office of the People's Republic of China on Intellectual Property Cooperation; and
- Signing of an MOU between Australia's Department of Education and Training and China's Department of Education on Cooperation on Vocational training.

In the area of food and agriculture important progress was made during the visit with the signing of an agreement on meat exports which will see China recognise all Australian eligible meat exporters in what is an important step in recognition between the two countries of respective certification systems and removal of non-tariff barriers to trade.

It is significant to recognise that Australia is the only country to have this market access.

The signing of a joint statement on enhancing Inspection and Quarantine cooperation and an MOU between Australia's Department of Agriculture and Water Resources and China's Food and Drug Administration on cooperation on food safety also indicates important progress towards the resolution of technical market access issues.

It is clearly these areas of the trading relationship that require the continued direction of resources so that the trade in goods and services between our countries can continue to grow.

## Topic 2: The foreign capital entry and negative list system, and promoting the sustainable development of investment relations between China and Australia

### Aims:

- To provide an update of China's moves towards a negative list and investment agreements with the US and EU.
- To discuss the new measures of foreign capital merger & acquisition management issued by the Foreign Investment Review Board (FIRB).
- To discuss how to promote investment facilitation between Australia and China.

### Moderator:

Li Wei, Director, Institute of American and Oceania Studies, Chinese Academy of International Trade and Economic Cooperation (CAITEC)

### Speakers:

- Zhang Jijing, President, CITIC Pacific Limited
- Yang Danhui, Director, Department of Resource and Environment, Institute of Industrial Economics (IIE), Chinese Academy of Social Sciences (CASS)
- Hans Hendrichske, Professor of Chinese Business and Management; Wei Li, Lecturer, University of Sydney Business School
- Zhao Longyue, Leading expert, Guangdong University of Foreign Studies
- David Uren, Economics Editor, *The Australian*

### Discussion paper authors:

1. Hans Hendrichske, Professor of Chinese Business and Management; Wei Li, Lecturer, University of Sydney Business School
2. David Uren, Economics Editor, *The Australian*

## **Discussion paper 1: The sustainability of Chinese direct investment in Australia**

*By Hans Hendrichske, Professor of Chinese Business and Management; and Wei Li, Lecturer, University of Sydney Business School*

Currently Australian media are engaged in a public debate about the volume and nature of some recent Chinese Outbound Direct Investment (ODI) projects in Australia. A number of high profile cross-border acquisitions have raised new questions about the role and regulation of foreign investment in Australia and the need to reform existing procedures for security reasons. This debate was long in the making and is necessary to create a public consensus and alleviate concern in Australia and China.

On the Australian side, there is a gap between popular views in the media, business opinions and security concerns. On the Chinese side, there are concerns about practical issues, such as the regulatory restrictions on state-owned investors, access to the Australian labour market, and more general concerns about Australian commitment to long-term strategic cooperation, for example, by joining the Belt and Road Initiative (BRI).

These different concerns are easily hijacked by political interests and presented as general political problems, whereas the underlying practical issues could be resolved through communication and better mutual awareness of problems and constraints.

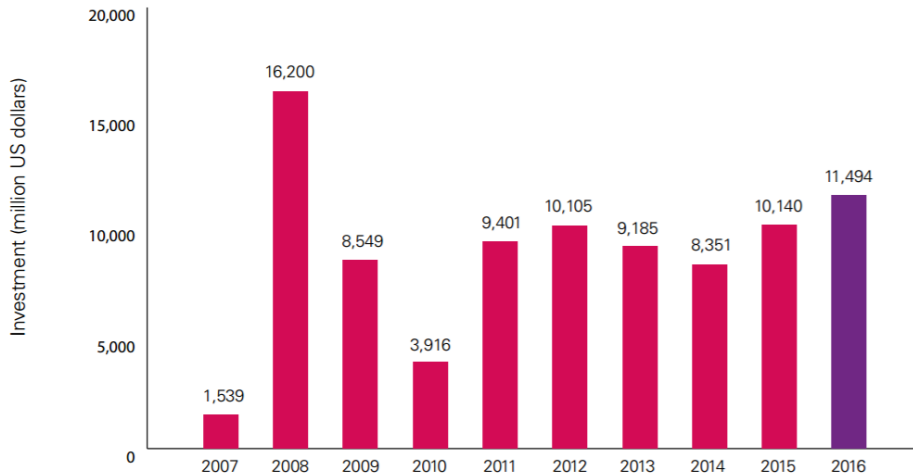
Drawing on our analysis of Chinese investment flows into Australia during the past decade and our observations of evolving trends, this discussion paper argues that regulatory responses are only part of the solution. More importantly, business concerns should dominate the debate and politicisation avoided as far as possible in order to create a predictable business environment for both foreign investors and their Australian partners.

We take the view here that perceptions matter as much as economic substance and that the sustainability of Australia China investment relations is best served by addressing perceptions and focussing on mutual business interests and avoiding the investment process to become politicised.

### **Chinese Outbound Direct Investment (ODI) in Australia since 2007**

Chinese investment in Australia has increased steadily over the last 10 years, from USD 1.5 billion in 2007 to USD 11.5 billion in 2016 (KPMG and USYD, 2017). Australia retains its position as the second largest recipient of Chinese ODI with close to USD 90 billion of accumulated new investment since 2007 compared to a volume of over USD 100 billion in the United States.

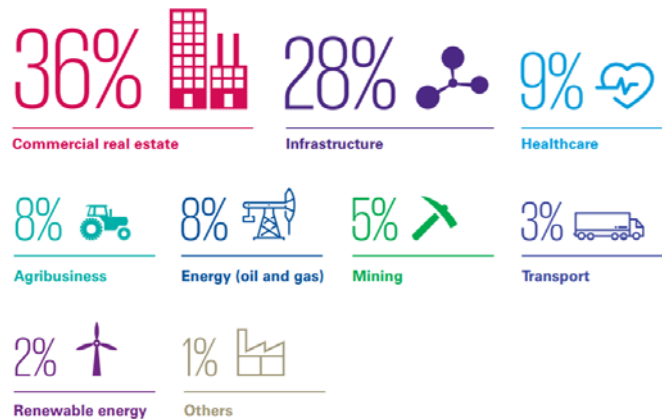
## Chinese investment in Australia 2007-2016



Source: KPMG/University of Sydney database  
 Note: Annual figures are adjusted as information is updated

The fluctuation in investment volume between 2012 and 2015 marks the transition from mining investment to the ‘New Normal’ of Chinese investment in new industries such as commercial real estate, infrastructure, services and agriculture. In 2016, 36 percent of Chinese direct investment concentrated in commercial real estate, infrastructure (28 percent), healthcare (9 percent), agribusiness (8 percent) and energy (8 percent).

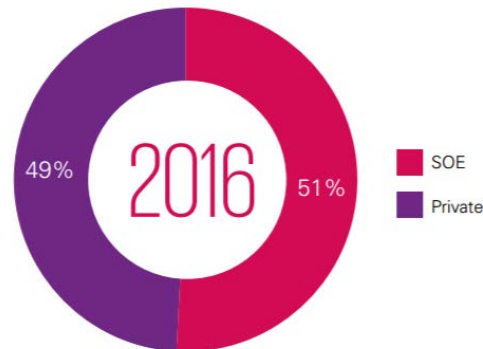
## Chinese investment in Australia 2016 by industry



Source: KPMG/University of Sydney database

These investments are increasingly conducted by private enterprises. In 2016, private investors signed 78 deals with a total value of AUD 7.6 billion, slight lower than the value of AUD 7.8 billion achieved by Chinese state-owned investors. Private investors are most active in the commercial real estate, agribusiness and healthcare sectors which dominated in 2016. The major state-owned enterprise (SOE) investment in 2016 was in commercial real estate by China Investment Corporation.

## Chinese investment in Australia 2016 by ownership (by volume)



These figures demonstrate the economic interdependence between Australia and China. Australia's mining investment boom was driven by China's reliance on Australian mineral resources. China's transition to a more consumer oriented society now creates demand that supports Australia's reorientation towards agribusiness and services exports by building new supply chains and expanding and consolidating cooperation in services that range from commercial real estate to health and education.

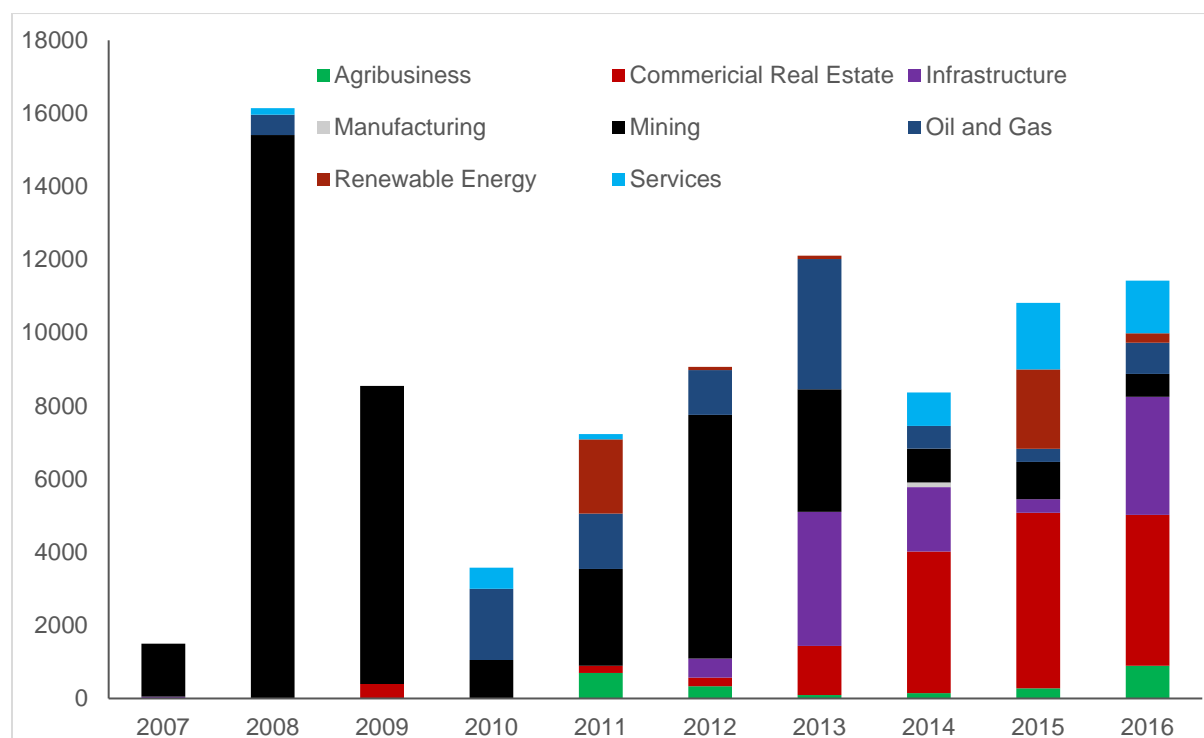
In international comparison with other major investment destinations of Chinese ODI, Australia in 2016 has fallen behind the United States and Europe. Chinese 2016 investment in Australia grew by 11 percent, while Chinese ODI in the United States grew by 200 percent and in the European Union by 77 percent.

### Target industries

From 2014 Chinese investment in Australia changed focus away from mining and resources to real estate, infrastructure and export related industries in goods and services.



## Chinese ODI in Australia by industry 2007 – 2016 (AUD million)



The target industries of Chinese investment in Australia can be segmented into four major areas which differ in market orientation and degree of globalisation and therefore also in how they contribute to Australia's domestic economy.

1. Investment in strategic resources for the Chinese market: Mining, fossil energy, oil and gas.
2. Investment in global strategic assets: infrastructure and renewable energy.
3. Investment in assets for the Australian market: Commercial real estate.
4. Investment in Australia's export industries for globalisation: Manufacturing, agribusiness and services.

## Chinese ODI by strategic and market segments

<b>Predominant market orientation</b>	3. Commercial real estate, including in hospitality, office space.	4. Agribusiness, health, manufacturing, services
<b>Predominant strategic orientation</b>	1. Mining, extractive industries, iron ore, coal, oil and gas	2. Infrastructure, renewable energy
	<b>Local focus</b>	<b>Global focus</b>

Segment 1 comprises strategic assets for off-take of resources from Australia to China or other markets. Mining and extractive industries have helped sustain the mining investment boom over the first decade of the century and made Australia the largest recipient of Chinese investment for nearly a decade. Since 2013 investment in this segment has seen a steep decline as there is sufficient capacity to meet the demand for resources exports which continue to account for over 60 percent of Australian exports to China. However, new Chinese investment in the mining sector is now of minor relevance for the domestic economy.

Segment 2 comprises infrastructure and renewable energy assets as a growth area for Chinese investment driven by rent seeking or strategic acquisition of global infrastructure assets. China is aspiring to a global role in infrastructure markets as part of the government-supported BRI. Infrastructure investment has a strong economic rationale for China building Global Value Chains and will continue to grow. The importance of this sector for the domestic economy is rising as large domestic infrastructure projects as well as the integration of Australia into global supply chains require funding. Growth in this sector increases Australia's international competitiveness.

At the same time, foreign investment in infrastructure poses a potential threat to national security as disruption of infrastructure could harm economic and social interests. The Australian Federal Government has recently established a Critical Infrastructure Centre (CIC) that will have a role in the approval process of foreign direct investment. It is too early to tell how the CIC will balance security and commercial concerns and what role it will play in the FIRB approval process.

Segment 3 comprises investment that seeks profits in the Australian domestic market, mainly in commercial real estate. Chinese investment in this segment relies on the positive evaluation of the long-term prospects of the Australian economy by Chinese investors and is buoyed by the ongoing Chinese tourist boom. Investment in commercial

real estate development adds to housing supply and helps alleviate the housing affordability crisis. Residential real estate purchase is not included in our statistics of commercial investment and does not have a direct effect on the competitiveness of the Australian economy.

Segment 4 comprises investment in the provision of goods and services destined for the Chinese domestic and global markets. This is the most important segment for future growth because it enhances Australia’s international competitiveness. While this segment attracts the lowest level of investment, it has the highest growth potential. Chinese investment in this sector primarily aims at extending supply chains from Australia to Chinese consumers or producers. Australia has natural advantages in agribusiness, but other developed economies in North America, Europe and Asia compete with Australia for Chinese investment. Investment in this segment integrates Australian exports in global value chains and enhances the scope and sophistication of Australian export industries. This sector is most crucial for Australia’s transition from a resources exporter to a services exporter.

The following charts illustrate Australia’s relative strengths and weaknesses in directing Chinese investment into future oriented industries, in particular in segment 4 and segment 2. The graphs show that Australia has successfully managed the transition from mining and resources towards a consumer and infrastructure investment orientation.

#### Distribution of Chinese ODI in Australia 2013

<b>Total USD 9 bn</b>	Real estate 14 %	Agribusiness, services 1 %
<b>Growth in 2013 (10 %)</b>	Mining, energy 45 %	Infrastructure 40 %

#### Distribution of Chinese ODI in Australia 2016

<b>Total USD 11 bn</b>	Real estate 36 %	Agribusiness, services 30%
<b>Growth in 2016 12 %</b>	Mining, energy 13 %	Infrastructure 30 %

#### Distribution of Chinese ODI in the United States 2016

<b>Total USD 45 bn</b>	Real estate 37 %	Agribusiness, services 49 %
<b>Growth in 2016 200 %</b>	Mining, energy 1 %	Infrastructure 13 %

<http://rhg.com/interactive/china-investment-monitor>

### Distribution of Chinese ODI in the European Union 2016 (estimated)

<b>Total USD 35 bn</b>	Real estate >10 %	Technology, services ~70 %
<b>Growth in 2016 77 %</b>	Mining, energy ~5 %	Infrastructure >15 %

[http://rhg.com/wp-content/uploads/2017/01/RHG\\_Merics\\_COFDI\\_EU\\_2016.pdf](http://rhg.com/wp-content/uploads/2017/01/RHG_Merics_COFDI_EU_2016.pdf)  
<http://www.bakermckenzie.com/en/newsroom/2017/02/chinafdi/>

The comparison between Australia, the United States and Europe shows that the growth potential for Chinese outbound investment in Australia is concentrated in Segment 4. This segment is most open to globalisation and is where Australia faces the strongest international competition. Australia is a relative latecomer in this segment which accounted for less than one percent of Chinese direct investment in 2013 but has since rapidly increased to close one third. Segment 2 and segment 4 as the two most globally oriented segments together now account for 60 percent of Chinese direct investment in Australia. Investment in segment 4 will potentially benefit from national and regional projects emanating from China's BRI.

### Australian concerns with Chinese investment

Australia has attracted foreign investment for over more than two centuries, as reflected in its persistent current-account deficit. FDI has been substantially liberalised since 1986. The Organisation for Economic Cooperation and Development (OECD) publishes an annual FDI restrictions index with values between 0 and 1 from open to closed. Australia's 2016 FDI restriction index value of 0.15 lies between United Kingdom with 0.04 and China with 0.33 (Source: OECD, <http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#>).

Currently, the Government's foreign investment framework is implemented through the Foreign Acquisitions and Takeovers Act 1975 (the Act) and the Government's foreign investment policy. The Treasurer is responsible for the foreign investment framework. Under the Act, the Treasurer reviews investment proposals on a case-by-case basis to decide if they are contrary to Australia's national interest. When making such decisions, the Treasurer relies on advice from the Foreign Investment Review Board (FIRB). FIRB will work with an applicant to ensure the national interest is protected. But, if ultimately it is determined that a proposal is contrary to the national interest, it will not be approved. Proposals may also be approved subject to conditions or undertakings.

Proposals will require review if they are in sensitive areas such as media and telecommunications, transport, defence and military related industries and activities, encryption and securities technologies and communication systems; the extraction of uranium or plutonium; and the acquisition of nuclear facilities. (The Treasury, Australia's Foreign Investment Policy, December 2015).

Overall, this defines a liberal investment policy that gives the government discretion to make decisions about individual projects. The small list of sensitive areas does not amount to a formal negative list. Its purpose is to enable discretionary space. Most investment proposals are approved. In 2015-2016, the overall number of applications approved by FIRB was 41,445, the majority from China. Of this total, only five applications were prohibited from proceeding. Four of these were in the residential real estate sector and one related to commercial real estate.

Australia's flexible system of foreign investment approvals generally fulfils its purpose of preventing public disagreement over foreign investment. However, concerns about individual projects or foreign investment in general particularly from China can easily become politicised in political discourse and public media. Politicisation opens the door for populist sentiment to enter the debate. We distinguish five types of causes of apprehension about foreign investment: personal economic impact; lack of social licence; national interest, national security and populism. Interestingly, with the exception of populist generalisations, each of these concerns relates to specific areas of investment and have to be addressed in their specific context rather than in a comprehensive and uniform policy.

#### *Personal economic impact*

This concern arises when people are threatened in their personal economic interests. The most recent example is the public perception that Chinese purchases of residential real estate are to blame for the housing affordability crisis in Australia's major metropolitan centres. Another example is the threat raised mainly by trade unions that the China Australia Free Trade Agreement (ChAFTA) could lead to the import of low-paid Chinese labour that would threaten Australian wage levels and working conditions.

These concerns can only be alleviated through careful and differentiated public information and involvement of respective interest groups, for example, by providing

public information on the limited overall scope of Chinese purchases of residential real estate purchases or farmland, or by defining skill levels and labour conditions for economically responsible labour imports.

#### *Lack of social licence*

This is a new concern in response to the foreignness of Chinese investors who lack familiarity with local institutions, such as local government procedures, legal procedures, compliance requirement and local community concerns.

This liability of foreignness can be resolved through consultation with host communicates and efforts on part of the foreign investors to integrate in local environments and cooperate with local partners and stakeholders. Chinese investors are increasingly aware of the need to acquire a social 'licence to operate'.

Addressing this concern requires better public information from government, corporate and research institutions as well as an awareness of the 'social licence' required by investors, for example in form of greater openness in employing local staff, better community integration and better communication with the domestic corporate sector.

#### *National (economic) interest*

FIRB's 'national interest test' lists formal economic reasons for the Treasurer to withhold approval of foreign investments (in addition to national security and impacts on government policies, see below). National interest was used to reject the initial applications by Chinese investors for the Kidman Group agricultural investment. The deal was only approved after conversion to a joint venture structure with majority Australian ownership. Similar concerns existed with other large deals such as Cubbie Station and John Holland which were resolved in favour of greater access to international markets. The lesson here is that national economic interest can be evoked for a bundle of reasons, including in response to political pressure and in favour of domestic investors.

#### *National security*

National security concerns are negotiated in consultation between different interests and perspectives within government. National security concerns can be straightforward, for example, when farmland is located in or near military exclusion zones. or they can be controversial.

Recent examples of controversial decisions are the Port of Darwin and Ausgrid projects which were originally treated as commercial projects and only later became politicised as matters of national security concern. These examples have shown that national security concerns can arise from domestic or international geostrategic interventions and are not necessarily predictable. Further controversies are bound to arise from China's BRI.

National security regulation has recently changed with the establishment of the Critical Infrastructure Centre under the Attorney General's Department which involves the



Attorney General’s Department in Foreign Investment Review Board decisions and has not yet established a track record.

*Populism*

Populist responses to foreign investment arise from any of the points above when investment decisions are taken up in the media and become emotionally charged. The risk with populism is that governments might be forced into actions against specific investments in order to assuage public fears, potentially against better economic judgement. For example, foreign ownership of Australian farmland has provoked populist reactions in the past which then have the potential to thwart commercially desirable deals.

Populism has to be taken seriously as a form of public resistance and requires a political response based on detailed reasoning and public information. Ad hoc regulatory restrictions of foreign investment in response to populist public concerns are not a long-term solution.

We find that opposition against foreign investment projects is generally quite specific and arises from legitimate economic and political concerns relating to specific industries. Populist concerns are exceptional in that they tend to generalise with little regard for underlying commercial realities.

	Populism	Personal economic impact	Social licence	National economic interest	National security
<b>Agriculture</b>	○		○	○	
<b>Commercial Real Estate</b>			○		
<b>Infrastructure</b>	○		○	○	○
<b>Mining, oil and gas</b>					○
<b>Renewable energy</b>					
<b>Residential Real Estate</b>	○	○			
<b>Services: healthcare, education</b>			○		

Our conclusion is that there can be no uniform regulatory response to public concerns about Chinese investment in Australia that would do justice to Australian economic interests. Chinese investment in Australia has to be seen in specific industrial and commercial contexts and requires specific responses by different government, business and community stakeholders.

*A review of Australian concerns and government and social responses*

<b>Type of concerns</b>	<b>Industry</b>	<b>Government response</b>	<b>Business and community response</b>
<b>Populist</b>	Agriculture, infrastructure, residential real estate	Land registry at State level, FIRB, ATO	Corporate, media and academic information on actual impact
<b>Personal economic impact</b>	Residential real estate	ATO registry of residential real estate purchases	Information on limited impact on housing affordability
<b>Social licence</b>	Services, healthcare, education	FIRB requirements	Better information on investors, case studies of successful localisation
<b>National economic interest</b>	Infrastructure, large land holdings, national-level firms	FIRB and government providing economic rationale.	Avoiding politicisation, highlighting community benefits and international competitive business dimension
<b>National security</b>	IT, infrastructure, power, infrastructure (i.e. Port of Darwin, Ausgrid)	FIRB, Critical Infrastructure Centre balancing strategic and commercial considerations	Strengthening government - business interaction and coordination

### **Chinese concerns with investment in Australia**

Chinese concerns revolve around regulatory and political issues, with recent FIRB rejections and the regulatory regime for state-owned enterprises topping the list.

There is a view among Chinese corporate investors that the current framework may deter applications before they reach the approval stage and that the implicit rejection rate may be significantly higher than the explicit rejection rate reported by FIRB.

Chinese concerns could be addressed by more flexible procedures for state-owned enterprises (SOEs) investing in Australia. Currently SOEs are disadvantaged against private investors who face less regulatory burden if their investment falls below various

thresholds granted through Free Trade Agreements. SOEs have a strong case as many of them are long-term repeat investors with successful commercial track records and contributions to local host economies. The opportunity to address these concerns will arise when the next revision of ChAFTA is due.

The periodic ChAFTA revisions are also opportunities to renegotiate labour issues which form part of ChAFTA and which are highly controversial in the Australian political setting.

A completely different set of Chinese concerns relates to China's expansion of regional and global supply chains for example through the Belt and Road Initiative and the Asian Infrastructure Investment Bank. These are commercial initiatives that at the same time have a strategic dimension. There is Chinese concern that the geo-strategic dimension could dominate Australian public discourse and stand in the way of Chinese infrastructure investments for example in the context of the Developing Northern Australia project for which China is a major demand factor.

Part of the problem is the Chinese tendency to present commercial projects in a politicised fashion, for example, by asking Australia to sign up to the BRI. The same projects could have been presented in a purely commercial framework as the Chinese Ministry of Commerce did in its *Research Report on China-US Economic and Trade Relations* of 25 May 2017, which gives a full business rationale for China-US cooperation in the infrastructure sector without political reference to the BRI.

In summary, Chinese concerns regarding the sustainability of China Australia investment relations can be resolved within the existing regulatory framework and by reference to business interests without the need for major regulatory changes. Adjustments to the framework and further development and expansion of cooperation will rely on cooperation between Australian and Chinese government and business stakeholders cognisant of domestic and geostrategic interests and constraints in Australia and China.

## Discussion paper 2: The foreign capital entry and negative list system

*By David Uren, Economics Editor, The Australian*

China's National Development and Reform Commission took a big step towards the liberalisation of foreign investment late last year with its draft guidelines adopting a "negative list" – identifying the sectors where foreign investment is restricted or approval is required – while opening the rest of the economy to foreign investment with notification only required. China's opening to the world through the previous three decades was managed through a positive list, with the number of sectors where foreign investment was permitted slowly expanding.

Australia operates with a form of a "negative list" – there are no sectors apart from established residential real estate where foreign investment is outright prohibited but there are a number of sectors where special restrictions apply, such as the media, telecommunications, transport, military, uranium mining, and land sales. A large slice of the food industry was added to the negative list three years ago.

Before getting into the detail of how Australia's foreign investment policy came to have the shape it does, it should be noted that there is a third way. The United Kingdom has neither a positive list nor a negative list. Foreign investment is allowed everywhere without restriction provided the business owning the British asset has at least one British resident on its board of directors.

There has been a rise in nationalism in many countries, including, as the Brexit vote shows, in the United Kingdom. There were some tensions over China's proposed massive investment in three nuclear power plants, but my understanding is that this is going ahead.

The United Kingdom is a highly internationalised country, its exports of goods and services are almost 30 percent of GDP, compared with 22 percent in China, 20 percent in Australia and only 12 percent in the United States. It is a big foreign investor globally, reflecting its colonial heritage, but it is notable that its economy delivers a high standard of living, with many British companies among the global leaders in their fields, while maintaining a completely open approach to foreign investment.

Foreign investment brings many advantages to the receiving country. First and most obviously, it brings capital that creates jobs and prosperity. It also brings new ideas and ways of working that spread through the economy. It brings competition to local business, which forces them to become more agile, innovative and efficient. Ultimately, capitalism works because it gives control of assets to those able to extract the most value from them. An open market to foreign investment, as the United Kingdom provides, delivers a high productivity economy.

Australia, in contrast to the United Kingdom, has one of the most restrictive regimes towards foreign investment among the Organisation for Economic Cooperation and Development (OECD) nations, with only three nations imposing greater difficulty.

The OECD measures the restrictiveness of foreign investment according to whether a nation places limits on equity investments, imposes a screening and approval process, limits the use of foreign workers or uses other restrictions, such as sectoral limits.

New Zealand and Iceland are both more restrictive than Australia – they are very small economies afraid that their businesses will be dominated by foreign companies. Canada also has a more restrictive regime than Australia, according to the OECD. It has always sought to protect its businesses from takeover by its larger neighbour. Canadian foreign investment policy is administered by its provinces, which fosters parochialism.

Unlike Canada, Australia's economy has operated with a current account deficit throughout its history, which means that it is dependent on an inflow of foreign capital to develop the investment opportunities that are available. Without that foreign capital, Australia's growth and prosperity would be much less.

However, the country has developed a highly regulated system of administering the flow of foreign investment. In the OECD ranking, Australia is relatively liberal in allowing foreign managerial and professional staff to work in the country. It imposes few restrictions on equity transactions.

However, the OECD assesses the Australian screening and monitoring system as more restrictive than any other countries in the world, except for New Zealand and Myanmar. The OECD says Australia's screening system is twice as difficult as China's.

There is a division of the Treasury department responsible for vetting foreign investment proposals and it reports to a separate Foreign Investment Review Board. The board provides advice to the Treasurer on whether foreign investment proposals should be approved. The foreign investment legislation says that a foreign investment may be blocked if it is "against the national interest". There is no definition – it is up to the Treasurer to decide – but the Foreign Investment Review Board (FIRB) provides advice on the issues that are considered. These include national security, competition, tax, impact on the economy, and the "character" of the investor.

Defenders of the system – it has strong support from all sides of Australian politics – note that only a very small number of foreign investment proposals have ever been blocked. Australia attracts about 3.2 percent of global foreign investment flows, which is 50 percent more than its share of global output. It attracts about 5.6 percent of the world's foreign takeovers by value. Defenders of the system also argue that it satisfies the community at large that its interests are being considered.

It is very difficult to measure the cost in terms of the foreign investment that is discouraged. Australian foreign investment authorities never get to see the proposals

that are abandoned at board level because Australia is seen as “too hard”. Red tape is like a tax and it does have an impact on behaviour.

Many Chinese businesses have experienced these difficulties. The Australian government blocked the bid by Shanghai Pengshin Group for the cattle property of S. Kidman and Co. It was a relatively small business, with a turnover of less than \$100 million, but it was the largest private property holding in the country (much of it empty desert). No economic reason was given for blocking the sale.

China’s State Grid Corporation and the Hong Kong base Cheung Kong Infrastructure were also barred from a bid for the electricity grid company, Ausgrid, because of unspecified security concerns.

Australia’s system for vetting foreign investment was the product of two, quite different political forces. On the left of the Labor Party, there has always been an anti-capitalist movement that is suspicious of global multinational companies. On the right, there is a nationalist movement that favours protecting Australian-owned business from foreign competition. The third force in Australian politics, which favours free trade and engagement with globalization, has often been a minority.

Australia’s Foreign Investment Review Board has its origins in the 1970s, at a time when the left was very strong, because of the opposition to Australia’s involvement in the Vietnam War, while the nationalism on the right was also being roused by the expansion of US business in Australia through the 1950s and 1960s. The 1970s was also a time of resource nationalism globally, with the formation of the Organisation of the Petroleum Export Countries (OPEC), and the nationalisation of US resource interests in much of Latin America.

Nationalism is again on the rise globally, as has been seen by the Brexit vote and the election of Donald Trump. In Australia, this has brought the first revision of the Foreign Acquisition and Takeovers Act since 1975, and some important new restrictions on foreign investment. The new regime gives much more authority to the Australian Tax Office to enforce compliance with the foreign investment rules, and a new system of fees has been imposed. There are new thresholds, with investment in agriculture and in the food industry becoming more difficult. Separately, the rules on foreign workers are being tightened.

The Australian economy remains very attractive to global investors, with good value assets in many sectors from resources to agriculture, tourism, financial services, infrastructure and select areas of manufacturing. But the bureaucratic barriers need to be managed carefully.

## Topic 3: The One Belt One Road Initiative, Australia's development strategies, and promoting the sustainable development of the Asia-Pacific economy

### Aims:

- To introduce the concept and progress of China's One Belt and One Road Initiative.
- To summarise the achievements of One Belt and One Road Summit.
- To discuss how Australia cooperates on and benefits from China's One Belt and One Road Initiative.

### Moderator:

Elizabeth Peak, Minister Counsellor (Economic), Australian Embassy, Beijing

### Speakers:

- James Laurenceson, Deputy Director, Australia-China Relations Institute
- Zhang Guohua, Chief Economist, Shanghai Municipal Commission of Commerce
- He Chuantian, Vice President, Guangdong University of Foreign Studies
- Saul Eslake, Vice-Chancellor's Fellow, University of Tasmania, former Chief Economist of ANZ
- Zhang Jianping, Director, Institute of West Asia and Africa Studies, Chinese Academy of International Trade and Economic Cooperation.

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2. Saul Eslake, Vice-Chancellor's Fellow, University of Tasmania, former Chief Economist of ANZ



## **Discussion paper 1: Australia's engagement with China's Belt and Road Initiative**

*By James Laurenceson, Professor and Deputy Director, Australia-China Relations Institute, University of Technology Sydney; Simone van Nieuwenhuizen, Project and Research Support Officer, Australia-China Relations Institute, University of Technology Sydney; and Elena Collinson, Senior Project and Research Officer, Australia-China Relations Institute, University of Technology Sydney.*

Paper attached.

# Decision time: Australia's engagement with China's Belt and Road Initiative



James Laurenceson  
Simone van Nieuwenhuizen  
Elena Collinson  
November 2017

## Executive Summary

The Belt and Road Initiative (BRI) was launched as a signature initiative of Chinese President Xi Jinping in 2013. China contends that the aim of the BRI is to enhance regional connectivity across five dimensions – infrastructure, policy, finance, trade and people-to-people links. The BRI was written into the charter of the Chinese Communist Party at the 19th Party Congress in Beijing in October 2017, indicating that it will remain a focal point for China's foreign policy and its international economic outreach beyond the end of Xi's second term in 2022.

The Australian government has yet to formulate a policy on BRI engagement. To date the response has been limited to the signing of a Memorandum of Understanding (MOU) with China on cooperation with Australian companies on BRI projects in third-party countries.

Australia and China are also reportedly currently considering forming a working group to further explore other types of cooperation on the BRI, although the formation of the group is still in the planning stage.

This paper critically reviews the four major points of debate on deepening Australian engagement with the BRI.

### 1. The geostrategic outcomes of the BRI

The first is that Australia should keep its distance because the BRI has the potential to promote a geostrategic outcome unfavourable to its security ally, the United States. The major driver of

geostrategic shifts in the Asia-Pacific region is China's steadily increasing economic power. Short of the US and its allies, partners and friends adopting an active China containment strategy, this trend is likely to continue, irrespective of the BRI, although the BRI may accelerate it. There is a possibility that the US will lean on Australia to sign up to alternatives to the BRI. Should Australia opt to deepen engagement with the BRI, it could – and should – also participate in other initiatives that have a clear economic justification.

## 2. The BRI in China's policymaking tradition

Another reported Australian government concern is that the BRI lacks a detailed roadmap outlining a pipeline of projects and this prevents meaningful participation in practice. However, in a Chinese policy-making tradition, at this stage the BRI is chiefly a concept, an invitation to cooperate, and has flexibility deliberately built in. This flexibility provides opportunities for creative Australian diplomacy to advance the national interest. Australian companies participating in BRI projects in third-party countries is only one way that cooperation might proceed. Australia could also use the BRI to pursue greater connectivity with China's rapidly growing economy in areas not covered by the China-Australia Free Trade Agreement (ChAFTA), subject to national interest and national security considerations. For example, Australia could seek to harness the political capital that China is staking on the BRI to upgrade the three decade-old investment treaty that exists between two countries.

## 3. The BRI's transparency and governance standards

China's mixed track record on transparency, governance and local participation on overseas investments is another reason sometimes provided for why the Australian government should not more actively engage with the BRI. Australia has a clear national interest in supporting initiatives that result in strong development outcomes, pushing for adherence to principles of transparency and the implementation of a strong governance framework. At the same time, as the BRI's main sponsor, China has financial and reputational incentives to promote the BRI's effectiveness and long-term likelihood of success. The BRI will go ahead with or without Australia. More active Australian engagement with the BRI might assist in achieving better governance and development outcomes. For example, the financial resources China is willing to commit to the BRI could be used to leverage Australian funds and project evaluation expertise in a boost for regional aid and development. And Chinese investments in Australia, whether badged as part of the BRI or not, will still need to go through Australia's rigorous foreign investment approvals regime. The Australian Treasurer retains the prerogative to reject bids they deem contrary to the national interest. The BRI does not bind Australia to China to the exclusion of an open, competitive bidding process for greenfield or brownfield investments. It may, however, act to increase Chinese interest and the value of Australian assets, and in some cases, Chinese companies may emerge as the only bidders.

## 4. The question of how the BRI benefits Australia

Limited economic benefits have also been cited as justification for hesitation on Australia's part. Australia already has extensive trade and investment ties with China and as a high-income country with a solid credit rating attracting funding at competitive interest rates is, in a general sense, not difficult. Exactly how much new money China is putting on the table for the BRI is also not clear. Yet the fact that trade with China was already booming did not stop the Australian government from actively pursuing initiatives such as ChAFTA. And some Australian regions

**do struggle to attract the investment needed to support local jobs, as the government's own Northern Development Strategy makes plain. There is also a regional dimension to Australia's national interest with many emerging economies in the Asia-Pacific unable to secure the financing needed for infrastructure upgrading. For its part, Australia's business sector has encouraged the government to take a more proactive stance on BRI engagement.**

## Introduction

In September 2013 at Kazakhstan's Nazarbayev University, Chinese President Xi Jinping for the first time outlined a vision for an overland 'Silk Road Economic Belt' connecting Central Asia and China's western provinces. One month later in an address to the Indonesian Parliament President Xi announced the development of a 'New Maritime Silk Road' spanning Southeast Asia. These two initiatives were then linked at a Chinese Communist Party Central Committee conference that same month, with President Xi delivering an address on China's diplomacy with its neighbouring countries and stating that they should cooperate to 'accelerate infrastructure connectivity, to build [the] Silk Road Economic Belt and Maritime Silk Road' (Ministry of Foreign Affairs of the People's Republic of China, 2013). The Chinese government settled on the nomenclature of the 'Belt and Road Initiative' (BRI) in 2016.

China contends that the aim of the BRI is to enhance regional connectivity across five dimensions: infrastructure, policy, finance, trade and people-to-people links (National Development and Reform Commission of the People's Republic of China, 2015). In October 2017 the BRI was written into the charter of the Chinese Communist Party at the 19th Party Congress held in Beijing; 'following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative (Xinhua, 2017a). This is a significant development as it indicates that the BRI will remain a focal point for China's foreign policy and its international outreach beyond the end of President Xi's second term in 2022 (Goh and Ruwitch, 2017).

Australia has yet to formulate a policy on BRI engagement. While Australia is not one of the 65

countries geographically located on the overland Belt and the maritime Road, this does not preclude participation. Indeed, in a speech to the Australian parliament in November 2014, President Xi formally invited Australia to participate in the BRI, stating, 'Oceania is a natural extension of the ancient maritime Silk Road and China welcomes Australia's participation in the 21st century maritime Silk Road' (Hansard, 2014).

The Australian government's response to the BRI to date has been to cautiously welcome it while reserving engagement. The Belt and Road Forum for International Cooperation (BRI Forum) in Beijing in May 2017 hosted 29 heads of state and government leaders, including seven from the ASEAN bloc to Australia's immediate north. Australia's representative, Trade Minister Steven Ciobo said (Ciobo, 2017):

Australia supports the aims of initiatives such as the Belt and Road that improve infrastructure development and increased opportunities in the Asia-Pacific region... Australian companies have significant expertise in infrastructure construction, so I will be working to identify projects for Australian businesses that address the serious infrastructure shortfalls across our region.

This was followed in September with the reported signing of a Memorandum of Understanding (MOU) with China on cooperating with Australian companies on BRI projects in third-party countries (Tillett, 2017).

Australia and China are also reportedly currently considering forming a working group to further explore other types of cooperation on the BRI. A spokesperson for the Australian Department of

Foreign Affairs and Trade (DFAT) said (Riordan, 2017a):

[The National Development Reform Commission] and DFAT officials continued these discussions on 28 September, including on how cooperation could occur in practice, such as through establishing an officials' working group to act as a clearing house for information exchange with companies.

Last year Chinese ambassador Cheng Jingye said that one outcome of the 2015 Strategic Economic Dialogue with Australia had been to establish a working group to explore synergies between the BRI and the Australian government's Northern Development Strategy (NDS) (Australia China Business Council, 2016). However, in the lead up to Chinese Premier Li Keqiang's visit earlier this year, the Australian government declined not only to sign a Memorandum of Understanding (MOU) that linked the two proposals, but even one outlining more general cooperation along the lines of those already agreed to by other regional partners, New Zealand and Singapore (Hansard, 2017). Inaction on the BRI has led the opposition Australian Labor Party's Shadow Foreign Minister Penny Wong to remark, 'We [Australia] need a policy that looks at the Belt and Road Initiative with an eye to identifying points of mutual interest and complementarity rather than reflexive negativity' (Wong, 2017). In a speech outlining the Labor Party's Asia strategy, Shadow Treasurer Chris Bowen stated that if the opposition were to win the next federal election, they would have an 'open mind as to how Australia and China can best collaborate on the Belt and Road Initiative' (Bowen, 2017).

This paper critically reviews the four major points of debate on deepening Australian engagement with the BRI.

## 1. The geostrategic outcomes of the BRI

One reason articulated for Australia's keeping its distance from the BRI is its potential to promote a geostrategic outcome unfavourable to its security

ally, the United States. To the proposition that Australia should stay away from the BRI due to strategic risks, *The Australian's* Editor-at-Large, Paul Kelly (2017a) wrote:

It is absurd to say Australia cannot be involved for strategic reasons and equally absurd to say we should blindly sign any memorandum China wants, regardless of its abuse of economic principles.

China's steadily increasing economic power is the major driver of geostrategic shifts in the Asia-Pacific. Short of the US and its allies adopting an active China containment strategy, this trend is likely to continue, irrespective of the BRI, although the BRI might accelerate it. For example, while China may now spend more on its military than the rest of Asia combined, this still only amounts to 1.9 percent of its GDP, a lower proportion spent than in Australia (2.0 percent) and the US (3.6 percent) (Laurenceson and Collinson, 2017). The US government's Department of Defence 2017 *Annual Report to Congress on Military and Security Developments Involving the People's the People's Republic of China* reported that China's defence budget grew at an average annual rate of 8.5 percent between 2007 and 2016 (US Department of Defence, 2017). But this is actually 0.5 percentage points slower than the average annual rate of GDP growth in China over the same period.

Strategic anxiety over a rising China means that Australia may find itself subject to US pressure to refrain from deepening engagement with the BRI. This was the case in 2014 when Australia was deciding whether to join the China-led Asian Infrastructure Investment Bank (AIIB) (Taylor, 2014). Australia eventually opted to become a founding member of the AIIB, while the US and Japan remain the only two major regional players still not to have signed up. Australia also experienced US pressure in the wake of the decision to allow the lease of Port of Darwin to a Chinese company. This was despite the deal having been examined and approved by Australia's defence and security agencies (Maley, 2017).

The US has thus far sent out mixed signals with respect to its own intentions with the BRI. In May President Donald Trump surprised many by sending the National Security Council's Senior Director for Asian Affairs, Matthew Pottinger, as his representative to the BRI Forum in Beijing, as part of a set of trade deals reached with China the same month. Mr Pottinger subsequently told media present that US companies and its embassy in Beijing had established an American Belt and Road Working Group (Lau, 2017). In June, a Chinese Foreign Ministry statement claimed President Trump had told Chinese State Councillor Yang Jiechi that the US was 'willing to conduct cooperation in relevant projects of the 'Belt and Road'' (Ministry of Foreign Affairs of the People's Republic of China, 2017).

But in October US Secretary of State Rex Tillerson appeared to articulate the beginnings of a new policy intended to lead a push to counter the BRI (Tillerson, 2017):

So this is not a structure that supports the future growth of these countries. We think it's important that we begin to develop some means of countering that with alternative financing measures, financing structures. And during the East Asia ministerial summit in August, we began a quiet conversation with others about what they were experiencing, what they need. And we're starting a quiet conversation in a multilateral way with how can we create alternative financing mechanisms.

Secretary Tillerson appeared to frame the proposition as zero sum (ibid., 2017):

We will not be able to compete with the kind of terms that China offers. But countries have to decide, what are they willing to pay to secure their sovereignty and their future control of their economies? And we've had those discussions with them, as well.

In the same month, US Defence Secretary Jim Mattis (Alderson Court Reporting, 2017) said:

In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road'.

Japan's Foreign Minister, Taro Kono, has also recently mooted a revival of a strategic dialogue between the US, India and Australia one aim of which the *Nikkei Asian Review* (Hayashi and Onchi, 2017) reported as 'counteracting China's expansion under its 'Belt and Road' policy'. Acting Assistant Secretary for South and Central Asian Affairs Alice Wells said the US would look at a 'working-level quadrilateral meeting in the near term' (US Department of State, 2017).

For its part, China has not suggested that participating in the BRI must be to the exclusion of other initiatives. There would, for example, be nothing preventing Australia from signing an MOU with China on BRI cooperation and another with India and Japan around their proposed Asia-Africa Growth Corridor. Having received high-level endorsement, Australian companies could then confidently proceed with involvement in both initiatives as opportunities arose. The Joint Communiqué issued by the Leaders Roundtable at the BRI Forum in Beijing in May explicitly emphasised the potential opportunities created by communicating and coordinating the BRI with 'other global, regional and national frameworks and initiatives for promoting cooperation in connectivity and sustainable development' (Xinhua, 2017b). Should Australia opt to deepen engagement with the BRI, it could – and should – also participate in other initiatives that have a clear economic justification.

Indeed, Australian Prime Minister Malcolm Turnbull recently articulated support for this proposition in a keynote address to the 2017 Asia Pacific Regional Conference (Turnbull, 2017a):

Like trade, cross-border infrastructure investment is an unambiguously good thing when it's done right. The regional demand is very clear. Now, China's Belt and Road Initiative has a role to play in meeting that demand. It's also spurring healthy competition from Japan, India, the United States and others. Australia



is not in the business of barracking for one strategic investment agenda over another. We'll judge individual investment proposals by any country on the criteria of transparency, fairness, accountability and market need. We will firmly back Australian companies seeking to engage in international infrastructure projects on that basis.

## 2. The BRI in China's policymaking tradition

Another concern is that the BRI lacks a detailed roadmap outlining a pipeline of projects and this prevents meaningful participation in practice. Unlike the NDS, for example, the BRI does not have a specific contact point, budget and application process (Riordan, 2017b). In comments following a speech at the Confucius Institute at Adelaide University in October, Frances Adamson, Secretary of DFAT, said of the Australian government's approach to the BRI (Greene, 2017):

[W]e're not dragging our feet, that's the whole point...what's there to drag your feet about. It's a proposal the Chinese have put, we've welcomed it, Steve Ciobo went to Beijing for the forum. You know a number of other countries want to jump on board, for what though? A lot of it is still being worked through.

In a Chinese policy-making tradition, at this stage the BRI is chiefly a concept, an invitation by China to cooperate, and with flexibility deliberately built in. Precisely what the BRI becomes will in significant part be defined by participating countries' engagement with it. Kerry Brown (2017) Director of the Lau China Institute at King's College, London remarks:

The question [the BRI] poses for engagement with China domestically is a simple one: What do outside countries, partners, companies and others want from China? How do they best engage with its rising consumption, services and sales market? What sort of partnerships do they want?

Similarly, Jason Young (2017a), Acting Director of the New Zealand Contemporary China Research Centre contends:

For all participating countries, but especially for advanced economies, there is a 'blank page' clause in the BRI or a reassurance that China will work together with them to develop activities in consideration of each countries' interests. BRI activities therefore flow from the bilateral negotiations following the initial signing of the MoA and require participating countries to present their own vision of how BRI should evolve.

Of course, the details of projects and how they are implemented still matter and such concerns are discussed in the following section, which covers project transparency and governance. But rather than asking whether a detailed blueprint exists at this stage, perhaps a more fundamental question is whether the BRI's focus on improving infrastructure and broader connectivity has a clear economic justification. It is well established that market failure – in particular, a divergence between private and social returns to investment – means that the private market acting alone does a poor job of financing long term infrastructure projects (Dollar, 2017). That is, a project may not be 'commercial' but could generate large social returns and be worthy of funding by government or as part of a public-private partnership. The Asian Development Bank (ADB) estimates that emerging Asian economies are in need of infrastructure investment totalling US\$1.7 trillion a year to maintain growth and alleviate poverty (Asian Development Bank, 2017). Yet in 2012, the ADB's lending for infrastructure only totalled US\$7.5 billion (Moore and Kerr, 2014).

The reality is that the funding of many large-scale infrastructure projects, particularly in developing countries, are not on what would normally be regarded as commercial terms. In September, Japan and India announced a deal for a high-speed rail connection between Ahmedabad and Mumbai. The Japanese government agreed to finance 81 percent of the project cost, to be repaid over a 50-year period, with no repayments in the



first 15 years, and at an interest rate of just 0.1 percent (Kotoky and Matsuda, 2017).

And while tariff rates in the Asia-Pacific have seen substantial reduction over the past two decades, non-tariff trade barriers such as transport costs, customs procedures, and behind-the-border trade and investment restrictions have remained stubbornly high (UN ESCAP, 2017).

In this sense, the focus of the BRI is complementary to that usually found in traditional bilateral and multilateral trade agreements. This notion was captured in remarks in June by Singapore's Deputy Prime Minister, Teo Chee Hean (Ministry of Foreign Affairs Singapore, 2017):

In its grand sweep, the overarching concept of the Belt and Road is, above all, about 'connectivity'. Going beyond the individual projects, to how they connect together in a network. Going beyond just physical linkages, to include digital and human networks too. Going beyond funding just from China's own financial resources, to leveraging on funding by multiple stakeholders. Going beyond being driven principally by China, to being fully inclusive, co-owned by partners, and supported by the people from countries all along the Belt and Road.

The BRI's flexibility and economic rationale provide opportunities for creative Australian diplomacy to advance Australia's national interest. For example, Australia could seek to use the BRI to pursue greater connectivity with China's rapidly growing economy in areas not covered by ChAFTA. One possibility might be to harness the political capital that China is staking on the BRI to upgrade the three decade-old investment treaty between the two countries.

### 3. Transparency and governance standards

Another reason given for not more actively supporting the BRI is that the Australian government should not lend its credibility, and perhaps capital, to an initiative potentially

comprised of projects suffering from poor transparency and governance standards. On the BRI, Rolland (2017) writes:

Politically motivated lending will inevitably produce 'roads to nowhere' and 'white elephants' that yield little value and may also create unmanageable debt burdens for developing countries.

Continuing her comments noted in the previous section, DFAT Secretary Adamson remarked (Greene, 2017):

[W]hat we're saying is as everyone gets enthusiastic about this let's look at the financing arrangements, let's look at the governance arrangements because we know from our neighbours in the South Pacific in particular that infrastructure projects can come with very heavy price tags and the repayment of those often loans can be absolutely crippling and that's why you'd expect Australia has an interest in governance arrangements.

Australian Foreign Minister Julie Bishop has also emphasised that Australia's national interest is best served by supporting projects that deliver strong development outcomes (Bishop, 2017).

China's track record of overseas investments raises concerns. Several projects underway before the advent of the BRI have suffered major setbacks. The US\$3.6 billion Myitsone Dam project in Myanmar is among the most prominent of these (Reuters, 2017). The experience of Tonga is also frequently cited as concerning. By 2014, Tonga owed US\$114 million to China's Export-Import Bank reflecting debts incurred on several infrastructure projects. This equated to 64 percent of Tonga's total foreign debt and 26 percent of GDP (Radio New Zealand, 2015).

At the same time, similar concerns could be cited regarding the effectiveness of credit extended by other countries from both government and commercial sources. Another example is that of Bhutan to India for three major hydropower projects: Mangdechhu, and Punatsangchhu 1 and

2. As at July 2017 these accounted for 77 percent of the country's total debt, and 87 percent of its GDP (Haidar, 2017). The cost of the Mangdechhu project has nearly doubled in the past two years of construction, and both Punatsangchhu 1 and 2 have trebled in cost and been delayed more than five years (ibid.).

As the BRI's main sponsor, China has financial and reputational incentives to take steps that promote the BRI's effectiveness and long-term likelihood of success. Critics of the AIIB also argued that it would not adhere to established global transparency and governance norms. However, Jeffrey Wilson of Murdoch University notes that China in fact compromised on many aspects of its original proposal in order to attract membership (Wilson, 2017):

[T]he early indicators all suggest that China wants to contribute a transparent and legitimate institution to the Asian economic architecture.

Similarly, Callaghan and Hubbard (2016) observe that it was in China's own interests to promote the highest transparency and governance standards possible for the AIIB:

Given that the AIIB will be under intense scrutiny and the international tolerance for missteps is likely to be low, China would be wise to tread carefully with the establishment of the bank... China would gain significantly if there is no question that the AIIB is a multilateral institution which compares more than favourably with the other MDBs [Multilateral Development Banks].

Of course, the BRI is different to the AIIB. Kaura (2017) points out:

We need to understand that OBOR [One Belt One Road] is unlike the AIIB, the NDB [New Development Bank] or the SCO [Shanghai Cooperation Organisation]. Not conceived as a multilateral project, OBOR involves a series of projects to be undertaken through bilateral agreements between China and the partner countries. There is no institutional framework

or decision-making mechanism through which participating countries are connected with one another.

But in the context of improving connectivity, bilateral initiatives could also have a useful role to play. For example, for some countries, the greatest barriers to connectivity may be inadequate or non-existent physical infrastructure. For others it might be the behind-the-border trade barriers their businesses face. The BRI allows countries to pursue engagement with China in ways that prioritise their own national interests.

And while promoting the BRI, China is also actively involved in pushing for the completion of multilateral initiatives such as the Regional Comprehensive Economic Partnership (RCEP). Yet a high quality RCEP has proven difficult with reports suggesting that Japan has lost some interest (Salna, 2017) and India has been unwilling to match the offers of liberalisation made by other countries (Dancel, 2017). Meanwhile, the Trans-Pacific Partnership (TPP), the region's other big multilateral trade liberalisation initiative, hit a major stumbling block when President Trump issued an executive order for US withdrawal on his first day in office.

The BRI will go ahead with or without Australia. Some suggest that abstaining is the only sensible approach. Rolland (2017) contends:

Foreign governments should cultivate no illusion that by participating in the BRI, they will somehow be able to shape its direction from within.

However, other regional partners such as Singapore and New Zealand have reached a different conclusion. Singapore was represented at the BRI Forum in Beijing by Lawrence Wong, the Minister for National Development. He stated, 'Singapore supports the Belt and Road, and we stand ready to work with China and other countries to help build the Belt and Road' (Koh, 2017).

New Zealand has taken the proactive approach of specifying the desired principles underpinning BRI cooperation in a formal, high-level agreement. The Memorandum of Arrangement (MoA) that New Zealand signed with China included a section on ‘cooperation principles’, in particular, ‘international good practice, market orientation and professional principles’ (Government of the People’s Republic of China and Government of New Zealand, 2017). Although an MOU or MoA is a non-binding document, it nonetheless publicly records a commitment by both parties to agreed-upon principles. Australia could consider following suit and specify the cooperation principles it valued most highly. And even more importantly, the MoA that New Zealand signed committed both countries to ‘formulate a more detailed work plan of bilateral cooperation’ within 18 months. Government officials and Track II participants are currently engaged in this process. Exactly what comes out of this process remains to be seen, but it is likely that New Zealand will use the opportunity to build on an upgraded Free Trade Agreement and pitch its expertise to coordinate and facilitate regional development projects (Young, 2017b).

Australia could take the same approach and allow creative Australian diplomacy to flesh out some specifics. For example, if Australia’s Pacific Island neighbours or developing countries in Southeast Asia are of particular interest, the financial resources China is willing to commit to the BRI could be used to leverage Australian funds and project evaluation expertise in a boost to regional aid and development. Australia and China already operate a flagship and ‘ground breaking’ bilateral aid cooperation project focused on alleviating malaria in Papua New Guinea (Bishop, 2015). This project developed following the signing of an MOU on Development Cooperation in 2013. Such cooperation could potentially be scaled up through the BRI.

Chinese investments in Australia, whether badged as part of the BRI or not, will all still need to go through the same rigorous foreign investment approvals regime. The Treasurer retains the prerogative to reject bids they deem contrary

to the national interest. The BRI does not bind Australia to China to the exclusion of an open, competitive bidding process for greenfield or brownfield investments. It may, however, act to increase Chinese interest and the value of Australian assets, and in some cases, Chinese companies may emerge as the only bidders.

#### **4. The question of how the BRI benefits Australia**

It has also been reported that Australia’s hesitation to engage with the BRI reflects that, having been briefed by the Foreign Minister, a majority of ministers in the National Security Committee of Cabinet were of the view that signing an MOU would not bring any additional tangible benefits (Kelly, 2017b). In October, when asked whether the BRI could be good for Australian jobs and whether national security concerns were legitimate, Prime Minister Turnbull said (Turnbull, 2017b):

The reality is we have a very constructive investment relationship with China. There is massive Chinese investment in Australia and considerable Australian investment in China too, I might add.

Over the past decade Australia has been second only to the US as a recipient of large-scale Chinese overseas direct investment (KPMG and the University of Sydney, 2017). Moreover, for a high-income country such as Australia with a solid credit rating, attracting funding at competitive interest rates is, in a general sense, not difficult. And while China is putting some new money on the table, exactly how much is not clear. Fitch Ratings (2017) estimates that US\$900 billion in BRI projects are already underway. However, this is juxtaposed to comments by the Director of China’s National Development and Reform Commission, He Lifeng, that China has only invested around US\$50 billion in BRI countries since 2013 (State Council of the People’s Republic of China, 2017).

Yet the fact that trade with China was already booming did not stop the Australian government from actively pursuing other policy initiatives such

as ChAFTA. And while the scale of benefits is open to question, there are several counter-arguments to be considered.

First, some Australian regions do struggle to attract the capital needed to support local development and jobs. The fact that in 2016 the Australian Government established the AU\$5 billion Northern Australia Infrastructure Facility is plain recognition of this reality.

Second, for its part the Australian business community has urged the government to take a more proactive stance (Cripps, 2017). While many Australian companies are no doubt waiting to see more details, for some the BRI is already worthy of serious consideration. Burgess (2017) reported that Australian engineering company WorleyParsons Ltd is actively seeking out 'more than US\$10 billion in contracts related to China's Belt and Road spending plan, leveraging its technical expertise from existing relationships with Chinese construction firms in Asia and Africa.' In June, BHP Chief Commercial Officer Arnoud Balhuizen told an audience in Melbourne that the BRI promises 'huge demand for resources, services and technology' and is 'an opportunity like no other' (Stringer, 2017).

Third, even if signing an MOU with China on BRI cooperation might appear a mostly symbolic gesture, the possible indirect benefits should not be discounted. For example, Australian businesses have reported that the most positive outcome of ChAFTA has not so much been the tariff reductions that made bilateral trade less costly, but rather that it served as a clear endorsement of both countries' governments to deeper engagement and this prompted Chinese companies and consumers to take a fresh look at Australia (The ACRI Podcast, 2017). The BRI is many times more significant to China than ChAFTA. As former Australian ambassador to China Geoff Raby (2017) has observed, the BRI has 'now become the organising principle and narrative for China's foreign policy'.

Fourth, there is a regional dimension to Australia's national interest. Australia was unlikely to ever

be the recipient of loans made by the ADB or the AIIB. Yet the Australian government still made the decision to join and commit capital to these initiatives, with the understanding that Australia would indirectly benefit from a region with less poverty and better infrastructure to promote trade. As this paper has discussed, many regional economies require substantial investment in infrastructure and obtaining project financing can be challenging.

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# About ACRI

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 850 million more middle class Chinese than today.

In 2014 the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.

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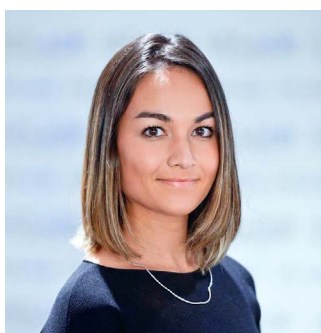


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## Discussion paper 2: The One-Belt, One-Road Initiative, Australia's development strategies, and promoting the sustainable development of the Asia-Pacific economy

### *What is the 'Belt and Road Initiative'?*

The 'One Belt, One Road' (一带一路 or *yidai yilu*) or, as it is now called, 'Belt and Road Initiative (BRI) marks a decisive departure from Deng Xiaoping's advice to "hide one's capacities and bide one's time" (韬光养晦 or *tāo guāng yǎng huì*). It is, arguably, China's most important initiative so far in shaping its engagement with its nearest neighbours, and with the Eurasian land mass – if not with the world as a whole. It is emerging as key element in President Xi Jinping's "Chinese dream" (中国梦), first enunciated in November 2012, of the "great rejuvenation of the Chinese nation" – or, to put in another way, "making China great again".

The 'Silk Road Economic Belt' was first formally announced by President Xi Jinping in a speech at Nazarbayev University in Kazakhstan on September 7 2013, in which he noted that "more than 2,100 years ago, during China's Western Han Dynasty (206 BC-AD 24), imperial envoy Zhang Qian was sent to Central Asia twice to open the door to friendly contacts between China and Central Asian countries as well as the transcontinental Silk Road linking East and West, Asia and Europe". Xi proposed that members of the Eurasian Economic Community, including China and Kazakhstan, "jointly build the 'Silk Road Economic Belt' step by step to gradually form overall regional cooperation".<sup>3</sup>

Four weeks later, in a speech to the Indonesian Parliament, President Xi Jinping recalled that "Southeast Asia has since ancient times been an important hub along the ancient Maritime Silk Road", and committed to "vigorously develop maritime partnership in a joint effort to build the Maritime Silk Road of the 21st century".<sup>4</sup>

The two proposals were then brought together at a CCP conference on 'peripheral diplomacy' (that is, relations with neighbouring countries) held in Beijing on October 23 and 24, 2013. At this conference, Xi Jinping stressed the importance of making "joint efforts with relevant countries to accelerate infrastructure connectivity, to build Silk Road economic belt and Maritime Silk Road of the 21<sup>st</sup> century".<sup>5</sup> According to Xinhua, President Xi said "China should accelerate establishment of free trade zones, with

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<sup>3</sup> Ministry of Foreign Affairs of the PRC, [President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries](#), 7<sup>th</sup> September 2013.

<sup>4</sup> ASEAN-China Centre, [Speech by Chinese President Xi Jinping to Indonesian Parliament](#), 2<sup>nd</sup> October 2013.

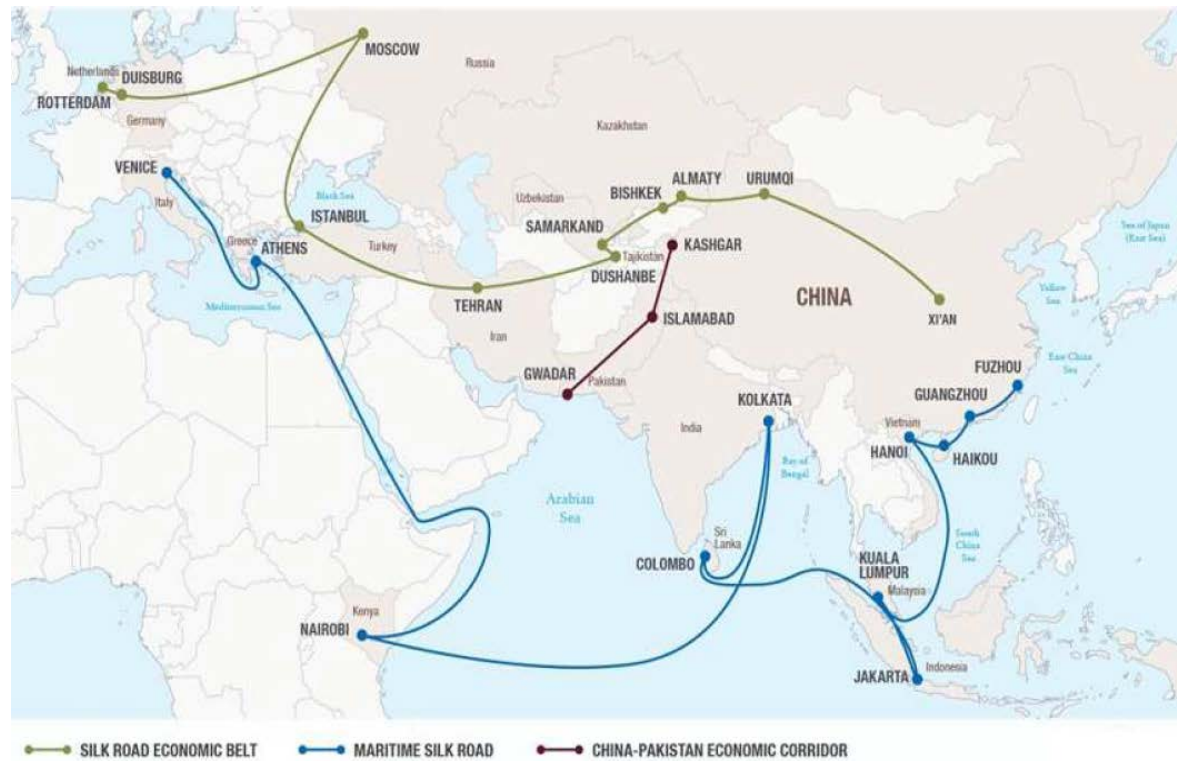
<sup>5</sup> Ministry of Foreign Affairs of the PRC, [Xi Jinping: Let the Sense of Community of Common Destiny Take Deep Root in Neighbouring Countries](#), 25<sup>th</sup> October 2013.

neighbours as the foundation stone, expand trade and investment and create a new pattern of regional economic integration”.<sup>6</sup>

The concept was formally endorsed at the Third Plenary Session of the 18<sup>th</sup> Central Committee of the CCP in November 2013. Since then, there has been an ongoing stream of announcements regarding funding for ‘Belt and Road’ projects, including from the Asia Infrastructure Investment Bank (AIIB), which was formally launched in October 2014 and commenced operations in January last year; a US\$40 billion Silk Road Fund, announced in November 2014; and substantial loan commitments from the BRICS New Development Bank, the China Development Bank, the Export-Import Bank and the China Construction Bank.

PwC have estimated that total external financing by Chinese Government agencies for ‘Belt and Road’ projects could amount to US\$1trillion over the next ten years.<sup>7</sup> More recently, the ultimate level of Chinese in ‘Belt and Road’ projects has been put at US\$4 trillion.<sup>8</sup>

Chart 1: The Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road



Source: Xinhua.

<sup>6</sup> ‘Xi Jinping: China to further friendly relations with neighbouring countries’, *Xinhua*, 26<sup>th</sup> October 2013.

<sup>7</sup> Yeroen van der Leer and Joshua Yau, *China’s new silk route - the long and winding road*, PwC Growth Markets Centre, February 2016, p. 4.

<sup>8</sup> Christopher M Campbell, ‘If you build it they will come’, *China Daily*, 5<sup>th</sup> June 2017.



Total Chinese investment in 'Belt and Road' projects since 2013 has amounted to about US\$50bn, according to He Lifeng, Director of the National Development and Reform Commission, speaking at a press conference outside the session of the 12<sup>th</sup> National People's Congress in March this year.<sup>9</sup>

BRI projects now span more than 60 countries. In his speech to the Belt and Road Forum held in Beijing last month, attended by 29 Heads of State and representatives from over 130 countries, President Xi Jinping noted that China had now signed 'co-operation agreements' with over 40 countries and carried out 'framework co-operation on production capacity' with more than 30 countries'.<sup>10</sup>

Within China, there has been a flurry of activity related to the BRI. At least 30 of China's 34 provinces now have a BRI strategy, even though only 18 of them are officially listed as 'key' to the plan.<sup>11</sup> Most major state-owned enterprises and many companies have BRI plans: US multinational GE's Vice-Chairman was quoted in the Australian press recently as saying that "very company that GE had worked with had a BRI plan" and that "One Belt One Road is more than an initiative – it is a way of life".<sup>12</sup>

There is even a Chinese pop song which portrays the 'Belt and Road' as "a new worldwide tide, mankind's beautiful quest".<sup>13</sup>

Officially, the BRI has five major goals – policy co-ordination; connectivity of facilities (in particular, transport and communications infrastructure); unimpeded trade; financial integration; and 'people-to-people bonds'.<sup>14</sup> Various commentators have suggested that the 'Belt and Road' Initiative is intended to further a number of other Chinese economic objectives and aspirations, including promoting economic development in China's western provinces, through which the 'Road' in particular passes; encouraging greater use of the renminbi in international transactions; providing alternative and more secure pathways for critical imports, including energy; providing new markets for Chinese industries afflicted by 'spare capacity'; and promoting the wider acceptance of Chinese standards in high-speed rail, airports, telecommunications and energy.<sup>15</sup>

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<sup>9</sup> ['China's investment to Belt and Road countries exceeds 50 bln USD: official'](#), *Xinhuanet*, 3<sup>rd</sup> March 2017.

<sup>10</sup> Xi Jinping, ['Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road'](#), *Xinhua*, 14<sup>th</sup> May 2017.

<sup>11</sup> Brenda Goh, ['Chinese provinces fizz with fervor for Xi's New Silk Road'](#), *Reuters*, 10<sup>th</sup> March 2017.

<sup>12</sup> Tony Boyd, ['Opportunities for business in China's One Belt One Road'](#), Chanticleer column, *Australian Financial Review*, 23<sup>rd</sup> May 2017.

<sup>13</sup> Zhou Yanhong (周艳泓), ['One Belt One Road'](#), 13<sup>th</sup> August 2015.

<sup>14</sup> National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, ['Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road'](#), 28<sup>th</sup> March 2015.

<sup>15</sup> See, for example, Christopher K Johnson, ['President Xi Jinping's "Belt and Road Initiative"'](#), Center for Strategic and International Studies, Washington DC, 28<sup>th</sup> March 2016, pp. 17-19; Bank of China, 'RMB to become "One Belt One Road" mainstream currency' ([人民币成“一带一路”主流货币](#)), 20<sup>th</sup> June 2016;



There is also almost certainly a geo-strategic dimension to the BRI<sup>16</sup> - just as there was to the roads built across Europe by the Roman Empire, the construction of the Suez and Panama Canals, and the Trans-Siberian railway, all of which had purposes beyond promoting trade and 'people-to-people' bonds. This is emphatically not a criticism of the BRI: but the fact that this dimension has been widely perceived is, inevitably, a consideration in how other countries, including Australia, will assess and respond to the Initiative.

### *What does the 'Belt and Road Initiative' mean for Australia?*

As is readily apparent from any of the maps depicting the 'Belt and Road', Australia isn't on it. Nonetheless, as President Xi Jinping said in his address to the Australian Parliament in November 2014, "Oceania is a natural extension of the ancient maritime Silk Road, and China welcomes Australia's participation in the 21st century maritime Silk Road".<sup>17</sup>

The BRI is thus of considerable potential interest to Australia, from a number of perspectives, including opportunities for Australian businesses arising from infrastructure and other projects in countries which are formally on the 'Belt' or the 'Road', and Chinese involvement in infrastructure projects in Australia which may complement various aspects of the 'Belt and Road' initiative.

Australian firms have considerable expertise in areas such as the design, construction, financing, and management of infrastructure projects and operations for which there are likely to be profitable opportunities arising from 'Belt and Road' projects in Asia and Europe. Education and training in the skills required for these areas may be another area of opportunities for Australian institutions and businesses.<sup>18</sup>

Opportunities for Australian firms to participate in BRI-related projects in China itself should in some cases be enhanced by the market-opening provisions of the China-Australia Free Trade Agreement (ChAFTA). However, both within China and especially in other 'Belt and Road' countries where Australian firms do not have any significant established presence, opportunities for Australian firms are more likely to be enhanced by more formal collaboration with Chinese firms.

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Peter Cai, [Understanding China's Belt and Road Initiative](#), The Lowy Institute for International Policy, Sydney, 22<sup>nd</sup> March 2017, pp. 6-16; and Huw Mackay, [One-Belt One-Road initiative: episode one](#), *Prospects*, BHP Billiton, Melbourne, 27<sup>th</sup> March 2017.

<sup>16</sup> See, for example, Jane Golley, David Murphy and Michael Wesley, 'The Geonomics of One-Belt-One-Road', in [China: Wealth and Power](#), Australian National University, Canberra, 7-8<sup>th</sup> April 2016; Geoff Wade, [China's 'One Belt, One Road' initiative](#), Parliamentary Library Briefing Book, Parliament of Australia, Canberra, 2016; and Hans Hendrichske and Wei Li, *The sustainability of Chinese direct investment in Australia*, Paper presented to the Australia-China Economic Dialogue, June 2017.

<sup>17</sup> Commonwealth of Australia, House of Representatives, [Address by the President of the People's Republic of China](#), *Hansard*, 17<sup>th</sup> November 2014, pp. 12720-12724.

<sup>18</sup> Professor Liang Haiming, as quoted by Mukund Narayanamurti, [Why business should get behind a one-belt, one-road China](#), *Blue Notes*, ANZ, 11<sup>th</sup> March 2016.

The other important dimension of the BRI from an Australian perspective is the extent to which it may incorporate infrastructure projects within Australia. Australia needs to invest a lot in infrastructure, both to make up for past under-investment, especially in urban transport, or misdirected investment, especially in energy; to capitalize on emerging new technologies; and to facilitate new opportunities for international trade, including with China.

As a capital-intensive economy with a relatively small population spread across a very large geographical area, Australia has been partially reliant on foreign capital to meet its investment requirements ever since the commencement of European settlement. What has changed over time is the origin of that capital – from Britain and other European countries until the 1960s, then from the United States and Japan, and more recently from other Asian countries, including China, and the Middle East. According to the Australian Bureau of Statistics, Chinese investment into Australia totalled AU\$87.3 billion at the end of 2016, of which almost \$42 billion was direct investment (as opposed to portfolio investment in shares and bonds).<sup>19</sup> Data compiled by KPMG and the University of Sydney puts the cumulative value of Chinese direct investment between 2007 and 2016 into Australia at US\$89bn<sup>20</sup> – equivalent to almost AU\$120 billion at current exchange rates. An increasing proportion of this investment – 28 percent in 2016 – has been in infrastructure (in particular, seaports).

Infrastructure investment raises particular political sensitivities in Australia because, although Australia has always been a predominantly capitalist economy, the provision of transport and energy infrastructure has historically been undertaken by government departments or state owned enterprises (as is also the case in China). The movement towards greater involvement of private enterprises and investors in the provision and operation of infrastructure assets, whether Australian or foreign, has not been without numerous difficulties: many Australians feel, rightly or wrongly, that the result of 'privatisation' has been higher prices and inferior standards of service, the opposite of what had been promised.<sup>21</sup> Many Australians resent the fact that investors from countries which don't permit foreigners to purchase land, businesses or other assets are nonetheless allowed to do so in Australia.<sup>22</sup> The fact that these differences in foreign investment policy may reflect different political systems, or a polar opposite balance between domestic saving and investment, does not usually persuade Australians who hold these views to a different opinion.

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<sup>19</sup> Australian Bureau of Statistics, [International Investment Position, Australia: Supplementary Statistics, 2016](#) (catalogue no. 5352.0), 10<sup>th</sup> May 2017.

<sup>20</sup> KPMG and the University of Sydney, [Demystifying Chinese Investment in Australia](#), May 2017.

<sup>21</sup> See, for example, the views of Australian Competition and Consumer Commission Chairman Rod Sims, as reported by Ben Potter, ['Why ACCC boss Rod Sims lost it with privatisation'](#), *Australian Financial Review*, 27<sup>th</sup> July 2016.

<sup>22</sup> As but one example, see Anne Taylor, ['Stop foreign ownership of our farms and public assets to protect our food security and national security'](#).

These and other sensitivities have to be borne in mind when evaluating Australia's response to the BRI – just as Australia has had to be mindful of, for example, Chinese sensitivities when pursuing greater access to Chinese markets during negotiations over ChAFTA.

In particular, Australia's response should not be influenced by fear – either of China's purposes in promoting the BRI, or 'fear of missing out' on business opportunities in China, and Chinese investment in Australia.

There would seem to be little reason for concern if Australia were to sign a 'memorandum of understanding' similar to the one agreed between China and New Zealand earlier this year.

That Memorandum provides for both sides to "respect each other's interests and major concerns to deepen mutual trust", to "maintain and enhance existing bilateral co-operation and multilateral mechanisms", and to "promote practical co-operation in areas of mutual concern".<sup>23</sup>

It provides that China and New Zealand will "carry out senior-level dialogue and promote communication" on macro policies and development strategies", including as to "how they will best support the Belt and Road Initiative in line with [their] comparative advantages"; it includes a numerical target for the value of two-way trade by 2020 and a commitment to "conduct mutually beneficial co-operation" in a number of fields, including infrastructure, agricultural technologies and clean energy; it provides for "cultural exchanges", including specifically in film and television"; and it commits both countries to "enhanced co-operation" in various multilateral fora including APEC, the AIIB and the Pacific Islands Forum". The agreement is effective for five years, and will be renewable automatically every five years thereafter, subject to three months' notice of termination by either country.

A similar understanding between Australia and China would likely be beneficial for both countries. From the standpoint of Australian businesses, it would serve to indicate that their participation in 'Belt and Road' projects has the formal endorsement of the Australian Government, and it would be a signal to Chinese businesses that participation by Australian partners in such projects is welcomed by the Chinese Government. That is likely to be helpful in pursuing business and investment opportunities.

However, more specific commitments – in particular, the designation of any specific projects in Australia as part of the 'Belt and Road' – would need to demonstrate 'win-win' characteristics that would be readily evident to both sides. They should be

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<sup>23</sup> See New Zealand Ministry of Foreign Affairs & Trade, [Memorandum of Agreement on Strengthening Co-operation on the Belt and Road Initiative between the Government of New Zealand and the Government of The People's Republic of China](#), 27<sup>th</sup> March 2017.

negotiated on a case-by-case basis, with sufficient time for the claimed benefits to be properly evaluated and any costs to be assessed.

In that context, it would probably assist in enhancing mutual understanding if Australia were to make clearer the criteria by which decisions regarding foreign investment are made – both in advance, and in explaining the reasons for particular decisions. As an Australian citizen, I am not satisfied by a mere declaration that a particular foreign investment proposal is ‘contrary to the national interest’, without at least some attempt being made to explain why – and I would imagine that foreign investors would feel much the same.

The BRI has the potential to be a major influence on the economic, political, social and cultural evolution of not just Asia, but a large part of the world, over at least the next three decades. Australia should want to be part of it – but for that to be sustainable it needs to be on terms that recognize and advance Australia’s own interests, and which resonate with the Australian people.

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