

**HD**     **Australia, China Reach Free-Trade Pact -- Update -3-**

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CANBERRA, Australia--China and Australia have reached a free-trade agreement that deepens economic ties and eases tensions between the two countries, which are already major trading partners.

The deal, which has taken the better part of a decade to complete, includes tariff arrangements that will benefit, among others, Australian farmers, winemakers and several services companies. China will face less scrutiny on investments in companies in Australia.

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The deal was signed in Canberra following a meeting of G-20 leaders in Brisbane over the weekend, and coincides with a state visit to Australia by China's President Xi Jinping. China is already Australia's biggest trading partner with two-way trade worth some 150 billion Australian dollars (US\$129 billion) last year.

A key part of the deal is a mutual opening up of financial markets that would help further internationalize China's currency. It envisages the creation of an official renminbi, or RMB, clearing bank in Sydney, which would lessen the transaction costs for Chinese and Australian investors, while aiming to give better access for investors in Australia to Chinese financial markets, including bonds and equities.

"Our relationship has reached a new and higher starting point and we should be more visionary, broad-minded and set more ambitious goals," Mr. Xi said to applause from Australian lawmakers during a speech to the nation's Parliament. "China sincerely hopes to work with other countries in the region to build a prosperous and a harmonious Asia-Pacific."

Australia won concessions that would remove tariffs on the vast bulk of goods exported to China, the country's trade minister Andrew Robb said, while China would see tariffs cut on its industrial goods exported to Australia when the agreement goes into effect in about five months.

The agreement creates an opportunity for Australia's flagging economy to diversify away from its decadelong reliance on mining--something record-low interest rates for more than a year have so far failed to accomplish. In one of China's broadest trade pacts yet with a developed nation, the agreement will grant Australia most-favored-nation trading status.

The Chinese president used the occasion also to reassure his hosts about Beijing's peaceful intentions as an emerging power. "A warlike state will eventually fail," Mr. Xi said, seeking to assuage concern, including in Canberra, over Beijing's more aggressive stance in regional disputes. "China sincerely hopes to work with other countries in the region to build a prosperous and a harmonious Asia-Pacific," he added, receiving a standing ovation from Australian lawmakers.

The free-trade deal gives private Chinese companies the same \$1 billion threshold as rival Japanese, American and South Korean firms have before potential investments come under scrutiny from Australia's foreign-investment watchdog, which Chinese firms have in the past regarded as a major hurdle to business.

Australia rejected demands from Chinese negotiators, however, for state-owned companies, to qualify for the same threshold, amid considerable sensitivity among Australian lawmakers over security and

competitive risks, particularly in areas such as information technology. Some special lower thresholds will still apply to **Chinese** investments in land and agribusiness.

Australia's beef and dairy industries were major winners in a deal that will see all tariffs removed on dairy exports within four to 11 years, while tariffs on beef would be lowered over nine years. Australian horticultural, live-animal, sheep-meat and wine exports would also receive a large boost. Resources agreements covering Australia's A\$85-**billion** commodities trade with **China** were also modified. A 3% tariff on coking-**coal** exports will be scrapped immediately, while a 6% one on thermal **coal** exports will be eliminated within two years.

"The reduction in agricultural tariffs and the greater access to the **Chinese** market will pave the way for a new Australian export story linked to services and agriculture," said Tony Cripps, chief executive of HSBC in Australia. Mike Smith, chief executive of Australia & New Zealand Banking Group Ltd., one of the country's big-four banks, was equally optimistic. "The establishment of an RMB clearing hub in Sydney is an important step that will further strengthen the economic ties between Australia and **China**, providing greater domestic liquidity as well as more flexible hedging and investment opportunities," he said.

The trade minister said Australian banks, financial-services companies, legal and engineering firms and others would get access to **Chinese** markets beyond anything envisaged in Beijing's free-trade deals with others, except for **Hong Kong** and Macau. The other big advance was in financial services, where Australian asset managers will be freer both to manage funds on behalf of **Chinese** citizens and to invest Australian assets into **China**.

--James Glynn in Sydney and Mark Magnier in Beijing contributed to this article.

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