

HD **Analysis:** China-Australia FTA signing imminent
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The drawn-out FTA is seen as a boon for agri-trade investment.

A free trade agreement (FTA) between China and Australia is expected to be signed at the upcoming G20 meeting in Brisbane later this month. The pair have been negotiating a FTA since 2005 and are in their 18th round of negotiations, according to HSBC chief economist Paul Bloxham.

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China currently serves as Australia's largest trading partner. Bilateral trade between the two was AU\$150 billion (\$130 billion) in 2013, according to Bloxham. Australia's exports to China are heavily dominated by minerals such as iron ore and coal. Given China's drop in demand for Australia's mined resources, the FTA may place particularly strong emphasis on exporting agricultural products and services.

"This is about encouraging the other parts of trade [outside of minerals exports]," Bloxham told Trade Finance. "Middle class incomes have increased in China as have dairy and meat imports. This is another range of products helping Australia diversify its trade with China."

Another focus of the pending FTA is greater support for cross-border investment flows between Australia and China. These linkages are still small. Last year only 3.4% of all foreign investment in Australia was from China (including Hong Kong) and only 3.7% of Australia's investment went in the direction of China, Bloxham said. The FTA may create potential to increase these figures by reducing Chinese government restrictions on investment.

While the finer points of the FTA are yet to be confirmed, Bloxham said the foreign investment into Australia can be through the purchase of assets such as infrastructure, bond issuances and stocks or buying corporates. China's central government is trying to integrate the Chinese financial system into the global economy, he said. Therefore its key focus is securing the supply chain in Australia. This could mean having increased access to raw materials and agri-related commodities, while energy supply into China remains a key focus. China is also focused on securing food supplies into China particularly for its growing middle class. This could lead to Chinese companies purchasing stakes in Australian agri producing corporates, Bloxham said. It could also create opportunities for China's financial houses to create a footprint in Australia.

"Rather than portfolio investment, the Chinese authorities have a strong agenda for overseas direct investment," Bloxham said.

Cross-border renminbi (RMB) trading is another area set to benefit from the FTA. Right now there has not been a high take up of RMB trading by Australian corporates doing business with China. Bloxham said this is due to the energy and mining-related trade traditionally being conducted in US dollars and approximately 80% of Australia-to-China exports stem from said sector, which is reluctant to shy away from best practices (such as US dollar trading) in commodity finance. Because the FTA will boost trade outside of energy and metal-related commodities, there should be a greater use to drive cross-border RMB trade.

China's government is making a concerted effort to internationalise its currency and there are clear benefits to trading RMB bilaterally. Chinese counterparts may offer discounts due to their increased demand for the RMB and companies will save costs on converting third party currencies such as the US dollar. Other benefits include lending, deposits and the facilitation of cross-border trade and capital flows denominated in RMB. It also presents an opportunity to provide services for other financial institutions on the ground in China and Australia.

Even without the FTA, trade between the two nations has remained strong, particularly due to metals and mining-related exports to China. Exports to China were AU\$11 billion in 2003 and increased to AU\$101 billion in 2013, according to HSBC research. Mined minerals and fuels accounted for three-quarters of Australia's exports to China. Iron ore alone comprised almost 70% of total exports. Exports outside of minerals and fuels have averaged growth of 10% year-on-year from 2003 to 2013, the report added, with agricultural goods such as food and wool dominating this space.

From Australia's perspective, the priority in this FTA is the reduction of agricultural tariffs and other barriers preventing increased exports to China. In addition, greater access for Australian financial institutions into China is on the agenda. China on the other hand, is looking to solidify its grip on supply chains and continue to internationalise its economy and currency.

Australia has already signed trade agreements with Japan and South Korea this year.

Aaron.Weinman@euromoneyplc.com

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