

HD Sino-Australian ties on the upswing

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China and Australia signed a preliminary free trade deal on Monday that will make 85 percent of all Australian exports to **China** tariff-free from the outset and raise it to 93 percent before 2019. The deal, once takes effect next year, would give Australia's service industry greater access to the **Chinese** market and its agricultural sector advantage over competitors such as the United States.

The importance of the deal can be gauged from the volume of trade between **China** and Australia, which grew from \$86 **million** in 1972 when the countries established formal ties to \$136 **billion** last year.

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China and Australia have gone from strength to strength over the past more than four decades and **China** is now Australia's largest trading partner, largest export destination and largest source of imports. And President Xi Jinping's visit to Australia has not only boosted Sino-Australian ties, but also taken it to a new high level.

China and Australia have gone through different phases in their economic partnership. First, they had the commodities' trade phase, where Australia exported "rocks and crops" (resources and agriculture) to help **China**'s industrialization and urbanization as it pulled **millions** of people out of poverty. For Australia, it was both a "**mining** boom" and a "dining boom".

Then they developed, and advanced manufacturing and professional services and foreign investment started to flow both ways. The second-and third-tier cities of **China** such as Chengdu, Chongqing and Wuhan started attracting Australian builders, architects and designers as they invested in infrastructure to meet the needs of the rapid rural-urban migration and growing middle class consumers. Now Brisbane architects like Place Design are based in Chengdu to build landscape gardens.

Now we are seeing a new phase with the development of financial services and other forms of cooperation, such as the conversion of the **Chinese** yuan to Australian dollars, a new free trade agreement (FTA) and potential Australian support for the **China**-led Asian Infrastructure Investment Bank, following in the tradition of Canberra's strong support to Beijing on major international issues since former Australian leader Edward Gough Whitlam visited **China** in 1971. Australia supported **China**'s bid to join the World Trade Organization, and has been backing it in the Asia-Pacific Economic Cooperation and G20.

But what of the future? Recently, Australia was surprised to see **China**, under pressure from domestic producers, increase the tariff on **coal** imported from Australia. While this won't derail the FTA, it has alarmed foreign observers, some of whom have urged the Australian government to leverage its support for the **China**-led Asian Infrastructure Investment Bank to get the tariff decision reversed. But it's likely the two issues will remain separate.

There are some more controversial measures such as allowing **Chinese** nationals to "**purchase**" permanent residence in Australia via real estate investment, which may provide incentive for some **Chinese** officials to invest (and thus entice corruption).

On the other hand, Australia has supported the strong anti-corruption campaign launched by the **Chinese** leadership and bolstered by the Fourth Plenary Session of the 18th Central Committee of the

Communist Party of **China**. Canberra also has vowed to cooperate with Beijing on extradition of corrupt officials. These measures are directed at strengthening mutual trust because **China** knows now that to succeed in the 21st century, the country's progress is as much about corporate governance as it is about growth.

In conclusion, these are issues Australia and **China** both have dealt with since Whitlam landed in Beijing in 1971. Indeed, Whitlam was often criticized for his lack of interest in economics, compared with his interests in foreign policy, constitutional reform, urban issues, equal pay structure, the rights of Aboriginal Australians and support for Asian immigration.

But ironically his brave call to go to **China** in 1971 (just before former US secretary of state Henry Kissinger's visit) and subsequent recognition of **China** was perhaps the most important economic decision made in Australian history in the past half century. The fruits of that historic visit are benefiting both sides, and their relationship is bound to reach new heights in the future.

The author is the J.W. Nevile fellow at the University of New South Wales Business School, Australia, and has the book Trading Places - The Airport Economist's Guide to International Business to his credit.

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