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FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

Reference: Australia's relationship with China

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SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Thursday, 16 June 2005

Members: Senator Hutchins (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Hogg, Johnston, Mackay and Ridgeway

Substitute members: Senator Ray to replace Senator Mackay for the committee's inquiry into Australia's relationship with China

Participating members: Senators Abetz, Bartlett, Boswell, Brandis, Brown, George Campbell, Carr, Chapman, Colbeck, Collins, Conroy, Coonan, Crossin, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Fifield, Forshaw, Harradine, Kirk, Knowles, Lightfoot, Ludwig, Mason, McGauran, Nettle, Payne, Ray, Santoro, Stott Despoja, Tchen and Watson

Senators in attendance: Senators Brown, Hogg, Hutchins, Sandy Macdonald, Ray and Tchen

Terms of reference for the inquiry:

To inquire into and report on:

(a) Australia's economic relationship with China with particular reference to:

- i. Economic developments in China over the last decade and their implications for Australia and the East Asian region;
- ii. Recent trends in trade between Australia and China;
- iii. The Australia-China Trade and Economic Framework and possibility of a free trade agreement with China;
- iv. Ongoing barriers and impediments to trade with China for Australian businesses;
- v. Existing strengths of Australian business in China and the scope for improvement through assistance via Commonwealth agencies and Australian Government programs;
- vi. Opportunities for strengthening and deepening commercial links with China in key export sectors;

(b) Australia's political relationship with China with particular reference to:

- i. China's emerging influence across East Asia and the South Pacific;
- ii. Opportunities for strengthening the deepening political, social and cultural links between Australia and China;
- iii. Political, social and cultural considerations that could impede the development of strong and mutually beneficial relationships between Australia and China; and

(c) Australian responses to China's emergence as a regional power with particular reference to:

- i. China's relationships in East Asia, including in particular the Korean Peninsula and Japan;
- ii. the strategic consequences of a China-ASEAN free trade agreement;
- iii. China's expanded activities across the South West Pacific.

WITNESSES

McCARTER, Ms Mary Louise, Acting Assistant Secretary, China Free Trade Agreement Task Force, Department of Foreign Affairs and Trade 1

MORTON, Ms Lydia, First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade..... 1

NEUMANN, Mr Richard James, Executive Officer, East Asia Branch, Department of Foreign Affairs and Trade..... 1

ROBINSON, Mr Jeff, Assistant Secretary, East Asia Branch, North Asia Division, Department of Foreign Affairs and Trade 1

SAXINGER, Mr Hans, Director, China Economic and Trade, North Asia Division, Department of Foreign Affairs and Trade 1

Committee met at 4.34 pm

McCARTER, Ms Mary Louise, Acting Assistant Secretary, China Free Trade Agreement Task Force, Department of Foreign Affairs and Trade

MORTON, Ms Lydia, First Assistant Secretary, North Asia Division, Department of Foreign Affairs and Trade

NEUMANN, Mr Richard James, Executive Officer, East Asia Branch, Department of Foreign Affairs and Trade

ROBINSON, Mr Jeff, Assistant Secretary, East Asia Branch, North Asia Division, Department of Foreign Affairs and Trade

SAXINGER, Mr Hans, Director, China Economic and Trade, North Asia Division, Department of Foreign Affairs and Trade

CHAIR (Senator Hutchins)—Welcome. I declare open this meeting of the Foreign Affairs, Defence and Trade References Committee. Today the committee will conduct its second public hearing into Australia's relationship with China. The terms of reference were referred to the committee on 8 December 2004. The committee called for submissions and has received over 60 submissions to date. The committee is due to report to the Senate on 15 September 2005.

Evidence given to the committee is protected by parliamentary privilege. This means that witnesses are given broad protection from action arising from what they say and that the Senate has the power to protect them from any action which disadvantages them on account of the evidence given before the committee. I remind you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. I now invite you to make a brief opening statement and then we will proceed to questions.

Ms Morton—I thank honourable senators for inviting us to this meeting to have the opportunity to discuss the China relationship with you. Before addressing the committee's terms of reference, I would like to refer you to our submission we made to the committee and to just bring you up to date with one important development in Australia's relationship with China since the department made its submission to this inquiry. As you are aware, I am sure, the Prime Minister visited China in April this year. During the visit the Prime Minister and China's Premier, Mr Wen Jiabao, jointly announced that Australia and China would begin negotiations for a free trade agreement. Since that time the first round of negotiations has taken place. The Australian government is under no illusion that these negotiations will be easy or straightforward. We are not overoptimistic. We expect that negotiations will be lengthy and we have not set any arbitrary deadlines.

We will be working for an outcome that will have significant benefits for both Australia and China. The Australia-China free trade agreement joint feasibility study that was completed prior to the announcement of the negotiation estimated that an FTA with China would boost the Australian economy by \$24.4 billion over a ten-year period. The Prime Minister and Premier

Wen agreed that negotiations would include products across all sectors, involve liberalisation of goods and services and address the issue of investment flows with a view to achieving an outcome of benefit to both countries through a single undertaking. The Prime Minister and Premier Wen also agreed that China and Australia would negotiate a free trade agreement as equal WTO trading partners. Accordingly, Australia agreed to recognise market economy status for China for WTO purposes and the two countries agreed to seek an FTA which was consistent with WTO rules.

CHAIR—Excuse me, Ms Morton, there is a division in the chamber—but we will return.

Proceedings suspended from 4.39 pm to 4.51 pm

Ms Morton—I have referred to the announcement of an FTA negotiation as a development since we put in our submission. I would now like to talk briefly about the resources that we devote to the China relationship within the Department of Foreign Affairs and Trade. Overall, the Department of Foreign Affairs and Trade devotes more resources to the China relationship than to any other bilateral relationship. Mr Robinson heads the East Asia Branch. It is the only branch which includes a geographic section in the department devoted exclusively to economic and trade issues with a single country—that is, the China Economic and Trade Section. It also includes the China Political and External Section, a section which deals with Hong Kong, Macau and Taiwan, and the Australia-China Council secretariat.

To manage the FTA negotiations with China, there is a separate task force on the FTA negotiations. Mary McCarter is a member of that and it is led by Ric Wells. That task force sits within the department's Office of Trade Negotiations. My division completed the study that informed the two governments' decision on entering into an FTA negotiation, but now that it is a negotiation it has moved over to the Office of Trade Negotiations.

In addition, we are responsible for a network of posts within East Asia. That network includes the embassy in Beijing, the consulates general in Shanghai, Hong Kong and Guangzhou, and the Australian Commerce and Industry Office in Taipei. All together, these offices have 96 Australian based staff and 458 locally engaged staff. Of these, 43 of the Australian staff and 128 of the locally engaged staff work for the Department of Foreign Affairs and Trade.

I would like now to turn to the committee's terms of reference. Firstly, I will look at Australia's economic relationship with China. China's rising economic, political and strategic influence is one of the most important factors currently shaping the region's future. China's rapid economic growth since the late 1970s has provided both motivation and opportunities for China to strengthen and expand its engagement and integration with regional and global economies.

China's increasing integration with regional economies is evident in the growing intra-industry trade in commodities and components. China has enjoyed remarkable economic success over the past decade, and real GDP grew at an annual average rate of 7.9 per cent over the past five years. At the same time, Australia's five-year economic growth rate has been 3.4 per cent, one of the strongest amongst the developed countries. With China's importance as a trading partner increasing during this period, it is clear that economic growth in China is benefiting Australians. China is now Australia's second largest export market and second largest source of imports. In 2004 two-way merchandise trade was valued at \$28.9 billion, a trebling of trade

since 1999. Over the next few years two-way trade should continue to grow at double-digit rates. Around two-thirds of the value of Australia's merchandise exports to China derives from primary commodities, including iron ore, alumina, wool, wheat, petroleum and coal. China's continued industrialisation is expected to continue demand for resources, energy and agricultural commodities.

China is also an important destination for Australian manufacturing exports. Manufactured exports have grown at around 20 per cent per year to China. Since 1998 China's exports to Australia have grown three times faster than growth in total Australian imports during this period. China's exports to Australia are increasingly higher value-added products. Trade in services is an important element, but it is more difficult to quantify. Official statistics show annual growth averaging around 14 per cent in the five years to 2003, but statistics on services trade tend to underestimate the overall value of this trade. China is a key growth driver in two of Australia's principal service exports—tourism and education. In 2004 Chinese student enrolments were 68,857, approximately 20 per cent of the total number of international students in Australia. In 2003 Chinese tourist arrivals were 176,100, and there are estimates that this number may reach one million per annum by 2012.

Two-way investment has somewhat lagged behind the growth in merchandise trade, but a recent upward trend is expected to continue, increasing bilateral economic engagement. Indeed, promoting increased services trade and two-way investment were motivations for the trade and economic framework agreement, which was signed during President Hu Jintao's visit to Australia in October 2003. During the FTA negotiations Australia will also seek to remove or minimise impediments to services trade and investment.

A key area of potential future growth in the bilateral trade and economic relationship is assisting Australian firms to take advantage of openings in China's service industries. The Australian government—through the Minister for Foreign Affairs, the Minister for Trade, Austrade and the Department of Foreign Affairs and Trade—provides strong support and advocacy for companies looking to enter the China market. A future challenge is for Australia to encourage China to invest in upstream processing in Australia, to take advantage of competitive cost structures and, in doing so, strengthen the bilateral trade and economic relationship.

I would now like to move to aspects of Australia's political relationship with China. China and Australia have very different political systems, we come from very different histories and we have different social and cultural values. In developing a political relationship with China, we are often made acutely aware of these differences. But China is important to Australia, and we seek to develop the relationship through constructive dialogue and engagement. We do not ignore our differences, but we deal with them in a constructive way.

China's growing economic, political and military influence is a key long-term challenge, not only for Australia but for the East Asian region and the South Pacific. It brings, also, significant benefits and opportunities. Australia encourages China's constructive engagement in the region. Since the development of bilateral relations in 1972, the bilateral political relationship between Australian and China has developed strongly. Both governments show their commitment to the relationship through exchanges of high-level visits, including parliamentary exchanges. People to people links are a vital strut of the relationship. The Australia-China Council also plays an

active role in promoting such links. The Chinese community in Australia plays an influential role, and high growth in education and tourism has bolstered these links.

The Australian government's approach to the relationship with China is to pursue constructive and friendly relations on the basis of mutual respect and recognition of our shared interests—and also of our differences. Central to this approach is a set of bilateral dialogues we have established to advance cooperation while managing differences. Sensitive issues which have the potential to cause difficulty include Taiwan and human rights. The Australian government's policy towards Taiwan is based on the joint communique of 21 December 1972. Under the communique, Australia recognised China as the sole legal government of China and acknowledged the position of the Chinese government that Taiwan is a province of the People's Republic of China. Our approach to human rights in China is constructive and based on dialogue rather than public confrontation. Though progress is slow, this approach is preferable to the alternative, which is no progress and public condemnation of China.

I would now like to turn to Australia's response to China's emergence as a regional power—another of your terms of reference. As China's economy grows, it becomes more deeply enmeshed in the global economy and it finds it has more in common with major economic powers. Australia welcomes China's increased regional cooperation, including with ASEAN and through ASEAN plus 3, APEC and other regional groupings. Australia has reminded China that regional structures should be open and inclusive, and Chinese leaders have told us they agree with this approach. China's leaders recognise that a stable regional security environment is essential for China's economic development.

Australia encourages China's constructive engagement in the region, such as its contribution to the six-party talks on the North Korean nuclear issue. Despite growing economic integration between China and Japan, with each being the other's largest merchandise trading partner, political ties remain strained. Australia sees the Japan-US alliance as a cornerstone of regional security. Heightened tensions or conflict across the Taiwan Strait would seriously damage the security and prosperity of the Asia-Pacific region. Australia continues to urge both sides not to engage in any unilateral moves to change the status quo and to explore new approaches to dialogue that will lead to a peaceful negotiated settlement of their differences. Australia opposes any resort to the threat or use of force to resolve cross-strait differences.

You have also asked about the strategic consequences of a China-ASEAN free trade agreement. China and ASEAN concluded some elements of a free trade agreement in trade in goods in November 2004. An agreement on a dispute settlement mechanism was also completed, but agreements on services and investments have not yet been finalised. The China-ASEAN FTA is one of a growing number of proposed or concluded bilateral and regional FTAs. As a general principle, Australia welcomes initiatives that improve regional economic growth and liberalised trade. In this respect, the China-ASEAN FTA is also one element of China's increasing engagement with the region.

The last item on your terms of reference is China's expanded activities across the south-west Pacific. China has steadily increased its level of activity in the south-west Pacific, reflecting its increased engagement across the board with the international community. Its activities can be grouped into three broad categories: diplomatic, aid and business. China has a strong diplomatic presence in the South Pacific, with more diplomats—though not more missions—than any other

country. A priority for China's six embassies is competition from Taiwan for diplomatic recognition. Taiwan also now has six embassies in the region. I should note that these figures update our submission and reflect Nauru's switch to recognising Taiwan in May this year. China and Taiwan both support their diplomatic work with high-level visits. China, like Taiwan, is increasingly active in Pacific regional diplomacy.

China has greatly increased its aid to the Pacific in recent years, with an academic study suggesting that Chinese aid could total up to \$300 million annually. Both China and Taiwan use economic assistance as a lever in their competition for diplomatic recognition. Australia opposes such chequebook diplomacy, because it works against regional countries' efforts to improve governance and political stability.

China has a strong and growing business presence in the Pacific, supported actively by its diplomatic missions. Over 3,000 Chinese state owned and private enterprises have been registered in the Pacific region, with investments of about \$800 million. Increased economic activity has been accompanied by an increase in ethnic Chinese populations in the Pacific island countries.

Australia welcomes China's constructive engagement in the South Pacific. We encourage China to increase the accountability and transparency of its aid programs. On competition between China and Taiwan, we observe that Australia has chosen to follow a one-China policy and that this has enabled us to develop a strong relationship with China and, simultaneously, to maintain unofficial relations with Taiwan, focused on economic, cultural and other people-to-people links. My colleagues and I are happy to respond to your questions.

CHAIR—I will start off the questioning, and I want to concentrate on the proposed free trade agreement. You would be aware that in Australia there is a great deal of interest in the state of labour standards in China. Does the department have a view on labour standards in China?

Ms McCarter—Yes, the government has a position that the issue of labour standards is not to be addressed in free trade agreements. It is a very important issue that we pursue more effectively through multilateral fora such as the ILO. Also, we have an established bilateral human rights dialogue between Australia and China, and the issue of labour standards is addressed in that context as well.

CHAIR—I am right, aren't I, in saying that the issue of labour standards is addressed in the US free trade agreement?

Ms McCarter—Yes, you are right. It is addressed in the US FTA, but that was at the request of the Americans. It was not our policy to do that but, as part of that agreement, we agreed in the broader context to respond to the US's wish on that occasion.

CHAIR—So it is not our view that we should include labour standards in the FTA?

Ms McCarter—No.

CHAIR—We have excluded that?

Ms McCarter—Yes.

CHAIR—I see. Are you suggesting that this would be better raised in the human rights dialogue, as one area?

Ms McCarter—As one area. As I mentioned, the ILO has a very broad spectrum of activities addressing labour standards, and China is a participant in that process, so we pursue the issue in that context.

CHAIR—So what do you address in the human rights dialogue?

Ms Morton—That question comes back to me, I think. We raise a whole range of issues in the human rights dialogue. At the last dialogue, which was held in October 2004 in Canberra, we addressed HIV-AIDS; workers' rights; the treatment of political prisoners; rights of assembly, association and expression; torture; the death penalty; re-education through labour; ethnic minorities in Tibet and Xinjiang; Falun Gong; women's rights; and North Korean border crossers.

CHAIR—So workers' rights would be under labour standards?

Ms Morton—Yes. Specifically, at the last dialogue, we encouraged China to guarantee the right to safe and healthy working conditions and fair remuneration for workers; to enforce safety standards to prevent industrial accidents such as in coalmines; to allow the formation of genuinely independent trade unions to help guarantee workers' rights—as an institutional guarantor of human rights; and to allow workers the right to peacefully advocate change and improvements and to protest against unfair working conditions.

CHAIR—In terms of a dialogue, would I be correct in assuming that the department, through our embassy and consulates, establishes that these issues—HIV, workers' rights, the treatment of political prisoners, Falun Gong—are issues in China?

Ms Morton—We do not only rely on the reporting from our embassy—it is mostly from our embassy; our consulates do some reporting, but their major role is consular and business—we draw—

CHAIR—So you would keep an eye on something like labour standards?

Ms Morton—From time to time we do come across information in-country, and we report on it as our resources permit, but we also draw on a wide range of other sources of information and reporting on these kinds of issues within China.

CHAIR—Who were the representatives of the department at that October 2004 dialogue, and who attended from China? If it is at all possible, could you answer that now; if not, please take the question on notice.

Ms Morton—I can give you that answer now. Our team was led by our Deputy Secretary, Geoff Raby, who is, if you like, my boss. He looks after the relationship with China. It included Senator Marise Payne; the Aboriginal and Torres Strait Islander Social Justice Commissioner, Mr

Tom Calma, and other representatives from HREOC; the Office of Indigenous Policy Coordination; AusAID; the Office of the Status of Women; and I think also two people from the department—one from my area and one from the International Organisations and Legal Division.

CHAIR—And were the representatives from the People’s Republic of China from similar bodies?

Ms Morton—Not corresponding bodies, because they do not actually have the same kinds of structures that we have. But the team did include representatives from a wide—and an increasing—range of bodies within China. It was led by the Assistant Foreign Minister, Shen Guofang, who is the equivalent in our system of the No. 2 in the ministry. It included officials from the United Front Work Department and the All-China Women’s Federation. The All-China Women’s Federation would be described in China as an NGO but is really within the Chinese government system, although more independent than a ministry, for example. It is a representative community body. It also included officials from the Ministry of Public Security, the Ministry of Justice, the Supreme People’s Court and the State Ethnic Affairs Commission.

CHAIR—So once the dialogue is conducted over a few days, is there any statement published—are there conclusions?

Ms Morton—The practice has been in the past—and was on this occasion—to give a press conference at the conclusion of the dialogue.

CHAIR—Regarding something like HIV-AIDS, what was the Australian position in this dialogue with China?

Ms Morton—Perhaps I should also add that a very important aspect of the human rights dialogue that we have with China is the Human Rights Technical Cooperation Program. This is an integral part of the dialogue, because under that technical cooperation program we seek to have projects which address the issues in a very concrete way. We have projects which really make it clear to the Chinese side what it is that we are talking about.

In terms of HIV-AIDS, I can speak briefly about the project that we have under way in Xinjiang. The project is in terms of looking after people who actually have HIV-AIDS, but it also addresses the social issues that are attached to HIV-AIDS. For example, we have a program within that which educates those working with people affected with HIV-AIDS in Xinjiang, to make sure that there is no community discrimination against them—measures are taken for medical reasons rather than through fear or to ostracise people with HIV-AIDS. As part of that program, we also have an education element about how to deal with HIV-AIDS in prison and an education program on how to inform vulnerable groups about HIV-AIDS education. It deals with the ostracism and discrimination aspects as well as the medical aspects of HIV-AIDS treatment.

CHAIR—What was the Chinese response to that advice? Is ‘advice’ the term to use?

Ms Morton—It is a program of cooperation.

CHAIR—Do they come back and say, ‘We’ve wandered around Kings Cross and St Kilda and you do not seem to have too good a scheme operating yourselves’?

Ms Morton—No, they are very responsive to the HIV-AIDS project in Xinjiang, which is run by AusAID. If you wanted more details—I am a bit of an amateur at this; AusAID are the real experts—I think they would tell you that the Chinese government have been very responsive to our HIV-AIDS programs within China. They have taken on board the education aspects of the programs, and they have told us that they very much appreciate the work that we have been doing on HIV-AIDS not only through the human rights program but also through our wider development and cooperation program within China.

Mr Robinson—The forthcoming human rights dialogue, which is to take place in Beijing beginning on 27 June, will include a site visit by the Australian delegation to Hunan province to examine, in one province, China’s approach to dealing with HIV-AIDS.

CHAIR—Has the Australian delegation being finalised?

Mr Robinson—I do not know because a different area of our department is pursuing that.

Ms Morton—It is certainly being led by our deputy secretary, Dr Raby, and, for example, there is a person going from my area—from NAD—but in terms of the other participants I am not sure. We would have to take that on notice.

CHAIR—Will there be a similar parliamentary representation?

Mr Robinson—It will be similar to last year. Invitations have been issued but I am not aware of the responses.

CHAIR—So, at the dialogue, you go from discussing HIV-AIDS to discussing workers’ rights?

Senator SANDY MACDONALD—That AusAID project is a joint project: can you say who the project is done with?

Ms Morton—I am sorry, I do not have that information. I would have to take it on notice, because it is actually within AusAID.

Senator SANDY MACDONALD—It would not be with another western NGO; it would be with a Chinese government or authority?

Ms Morton—It is with the Chinese government. I think it is with the Urumqi city council.

Senator SANDY MACDONALD—Is there only one project of this particular type?

Ms Morton—There is more than one HIV-AIDS program that AusAID runs in China—and I would have to get the details from them. I know there is another one in the south of China, in Yunnan, on the border with Burma and Laos.

CHAIR—So you moved from discussing HIV-AIDS to discussing workers' rights at this dialogue. What sorts of conclusions were reached? Is that where we once again were giving them advice on workers' rights and labour standards?

Ms Morton—Yes, it is not so much that conclusions are reached as it is a dialogue where we outline what we see as being a desirable state.

CHAIR—We may be preaching at them: is that it?

Ms Morton—In effect we do run that risk on occasions, yes. But often we try to take a more constructive approach, saying 'This is how we address it in Australia. This is how we ensure workers' rights,' and on their part they often respond by saying, 'This is what we are doing in China.'

CHAIR—Could you tell us what their response was on the issue of labour standards.

Ms Morton—I am sorry, I do not have that information.

Mr Robinson—We would have to check the record from the human rights dialogue, for example, from October last year.

CHAIR—Is that a published document?

Ms Morton—No, it is not. We do not publish the outcomes or the exchanges at these meetings. These are government-to-government exchanges and, while we do have a press conference at the end of them and the leaders of the delegations answer questions, we consider that keeping this dialogue on a government to government basis and not publishing the full details allows us to be more frank and to have a freer exchange than if we were doing it in a very public environment.

CHAIR—I get the impression that it may look like preaching, except on areas where it may appear to be uncontroversial. Do the Chinese just sit there and listen?

Ms Morton—They listen to us, yes. We believe the objective of the dialogue is for the Chinese side to understand what it is we are criticising in terms of the situation in China so that they can appreciate, in concrete terms, what we think is good about our system of protecting human rights in Australia and how we think they might improve or meet the criticisms that are coming from parts of the Australian population in relation to China's human rights. If you just make very broad general statements, how can each element of the Chinese government understand what it is that we are talking about? What we try to do is use very practical examples to outline this so that they understand where they might change their system.

We realistically do not expect them to suddenly leap up and say, 'That's a terrific idea; we'll implement that right away.' But we do notice that from dialogue to dialogue they will come back and talk about improvements in their systems. We are helping them, especially through the technical cooperation program, to get a practical understanding of how the general criticisms about human rights in China could be addressed in a very practical way within China.

CHAIR—You said there is a further meeting on 27 June.

Ms Morton—In China, that is right.

CHAIR—Is there already an agenda?

Ms Morton—We are still developing it but we expect it will be generally—

CHAIR—Are they the same items that you raised in October?

Ms Morton—Yes, there are those items that are the major issues between us and that we revisit every year, and we have them tell us what is happening in various parts of their system.

CHAIR—So, in a way, you do keep an eye on labour standards through the department?

Ms Morton—We seek to do that in dialogue, as well as through the ILO.

CHAIR—I am sure my colleagues will move back to the human rights dialogue, but I want to ask about the proposed FTA. Is there anything in particular you feel you would like to comment on that came as a result of the negotiations with the US on the FTA that would assist with the negotiations with China? Is there anything you would emphasise or change or do better?

Ms Morton—One of the things we are very focused on and we were successful in having as an outcome was that the negotiation needed to cover all sectors. It need to cover not only trade in goods but also services and investment and that, at the beginning of the negotiation, there would be no products or sectors that were completely taken off the table. That was a very important principle for us. For China, agriculture is a very sensitive sector. They have an enormous rural population—around 700 million people—who live off or from agriculture. Not all of those, of course, are exporting or even liable to be harmed by liberalising trade with Australia, but this is a sensitive issue for the Chinese government to manage. They have made very great strides in developing the east of the country. They have industrialised it and made it a very successful manufacturing based economy.

The middle and the west of China are still very poor. A lot of people still live in what we would define as poverty. Although many of them have been lifted from that poverty, they are still very poor. The Chinese government are very conscious of this and very focused on trying to develop the western part of the country. For them, entering into a free trade negotiation with Australia, which is identified internationally as in the forefront of agricultural liberalisation—and the convenor of the Cairns Group is agitating for global liberalisation in agricultural trade—was a big step to take on a negotiation with us in that capacity. But we were very insistent that agriculture needed to be on the table and, in the end, it is on the table, as are the sectors that are more sensitive on our side.

CHAIR—It has been reported that negotiators have warned the NFF that there could be serious obstacles on agriculture and that the government was playing down expectations on free trade. Are those reports correct?

Ms McCarter—Comments to that effect were reported in today's *Age*. I think the comment made was that the government is reconsidering how long the negotiations will take—that they will take longer than originally thought. As Ms Morton mentioned in her opening remarks, the government has from the very beginning made it clear that these negotiations are going to be complex and take a long time, and it is too early to put any date on when they might be concluded.

As Ms Morton said, there are a lot of agriculture issues that are quite complex in relation to China. With regard to China's tariffs, they have made some headway through their membership of the WTO in recent years to reduce their tariffs, but they still have a lot of tariff quotas on all their sensitive agricultural sectors. Quota administration arrangements are associated with those tariff quotas, and there are a lot of issues that we will want to look at. I think that the NFF is correct in appreciating and trying to dampen down expectations in relation to what can be achieved.

CHAIR—Are you lowering expectations as well?

Ms McCarter—No, because we have only just begun. We have done a feasibility study but that has not looked at everything in detail. There is a lot of work to be done. We are ambitious in relation to agriculture because we think that China, unlike some of our other trading partners, need substantial imports of agricultural products—for example, cotton and wool for their burgeoning textile activities, and just as their incomes rise, as we see happening, there will be a greater demand for dairy products and for meat—and Australia is well placed to meet those requirements. We think there are a lot of opportunities through the FTA to make some headway in agriculture, but there are a lot of very complex issues that we are going to have to deal with and it is going to take time.

CHAIR—Just in one area where there is this tariff quota difficulty, what particular product are you referring to?

Ms McCarter—One example is wool. There is a tariff quota on wool. Tariff quotas also apply to sugar, cotton and some grains. Quite a few of the products that we export to China involve tariff quotas. What happens with a tariff quota is that basically China has committed to a certain volume of imports of a commodity in a particular year with a very low tariff to allow the trade to flow. Anything outside that quota has a much higher tariff which really inhibits the trade. But it is for the trade that takes place within the quota that there can be difficulties with the transparency of the administration of the tariff quotas.

Senator SANDY MACDONALD—When is the tariff quota set? What time of year?

Ms McCarter—I am sorry, but I do not have the details of when it is set in the year. I do not know.

Mr Saxinger—Normally they are set in about September of each year, with implementation on 1 January of each year. They do an annual review of the quota allocations and administration at that time.

Senator SANDY MACDONALD—Do you recall whether it has been increasing over the last few years?

Mr Saxinger—It has been increasing in line with their WTO commitments, which they have now reached. I think it is 287,000 tonnes. They have reached their maximum tariff rate quota, and that is subject to review by China.

Senator SANDY MACDONALD—They have reached their WTO commitment this year?

Ms McCarter—Under a tariff quota arrangement, you do not necessarily have to import the total amount. You are not committed under the WTO to import the volume. You just have to make arrangements to facilitate that trade, and that trade can take place at a very low tariff.

Senator SANDY MACDONALD—I understand how our tariff quotas work, but I also understood you were saying that, under the WTO undertaking, that tariff quota was increased for a number of years and has now reached the WTO commitment.

Mr Saxinger—That is correct, yes.

Ms McCarter—You mean the total volume of trade? Yes, it has increased each year and it is now 287,000 tonnes.

Senator SANDY MACDONALD—So, from here on in, what sort of negotiations would that tariff quota be subject to for it to increase? Is that a government-to-government thing?

Mr Saxinger—I can probably answer that. There are two aspects. Obviously it is a global quota, and therefore it can potentially be subject to negotiation in the WTO or separately through a bilateral arrangement. Those are really the two major areas.

Senator SANDY MACDONALD—Do we attempt to do it on a bilateral basis?

Ms McCarter—Again, we are examining all aspects and we are really doing homework at the moment. We cannot say in the case of China, but in the case of our FTA with Thailand, for example, we did make arrangements. There are some commitments in that bilateral FTA in relation to dairy products that gives us a country-specific quota, a preferential arrangement.

CHAIR—Do you have a time frame in which you are looking at concluding the FTA with China?

Ms McCarter—No. As Ms Morton indicated in her introduction, we know the negotiations are going to be difficult and complex and that there is a lot of work that we have to do. We expect that it will take some time before we have a sense of how long the negotiations will run. At this point, we are not putting any time on it and we do not have a firm sense of it.

Ms Morton—As long as it takes us to get a good agreement.

Senator SANDY MACDONALD—That is the impression I got from listening to what you have said, but I just wanted to confirm it. Basically, with the FTA negotiations there is nothing

that is not on the table and, from what you have said, it really is just a question of it taking as long as it takes: is that right? Are you saying that you have not set a time limit—that, in fact, you have given yourselves a pretty open approach. Clearly, from a negotiating position you would give yourself benchmarks, but generally you have set no time limits?

Ms Morton—No. This is the first FTA negotiation China have undertaken with a major developed country. They have started one with New Zealand, but with Australia it is really across the board. These are new pastures for them. I should go back to the chair's original question, which was: what have we learnt and what are the important aspects? One was to start with everything on the table, and the second was that it is a single undertaking. In the past—with, for example, ASEAN—China have negotiated their FTA by starting off by negotiating on the issue of goods and then moving on to other issues, which are proving much more difficult to reach agreement on. What we are saying is that we will conduct all of these negotiations across all of the sectors, insurance and services, but in the final analysis it is a single undertaking. We do not make separate undertakings on individual sectors as we go along.

Senator SANDY MACDONALD—That is how we approached the US FTA.

Ms Morton—That is right, yes.

CHAIR—It has been suggested that, once the government gave China market economy status, just to get them to the table, there was no real incentive for them to pursue an FTA with us. It has been suggested that they have already got what they want. What is your response to that? Why do they need to go any further?

Ms Morton—The Chinese government is committed to a negotiation with Australia, so obviously they do think that there is something they can get out of this negotiation.

CHAIR—No matter how long it takes?

Ms Morton—No matter how long it takes. Of course, both sides have to get something out of the negotiation for there to be an agreement. We do not think that this is going to be something that solely benefits Australia. China have made their own decision, taking into account the study. They have come to their own conclusion that there would potentially be benefits to China, and it will depend on how the negotiating teams can come to an arrangement that both governments consider is in the interests of their individual countries.

CHAIR—Thank you. I have taken up a bit of time; I should see if the deputy chairman has some questions.

Senator SANDY MACDONALD—I had some questions on the FTA, but I think they have been generally covered by both of us. I did want to ask Ms Morton about the aid program that the Chinese have in the south-west Pacific. I think you mentioned that it was perhaps up to \$300 million.

Ms Morton—China does not publish figures for its official aid program, so this was an academic study.

Senator SANDY MACDONALD—I was not actually so interested in the amount, though that sounds a lot of money to me.

Ms Morton—Yes, it does.

Senator SANDY MACDONALD—Are you aware of any cooperative efforts we have with the Chinese in those aid projects in the south-west Pacific? Is cooperation possible and has it been considered?

Ms Morton—We do not have any joint programs with them. China's aid, as I understand it, is overwhelmingly bilateral. Very often if you go to these small countries, not only in the South Pacific but really anywhere in the world, you will find a big stadium, for example, which was a gift of the Chinese government. They often like to provide what we call 'concrete aid'—that is, buildings and structures. They have also been very strong in providing medical teams in smaller underdeveloped countries, and that often goes along with, for example, a hospital building.

We have a very wide-ranging dialogue with the Chinese government. Increasingly it is covering different aspects of our mutual interests. As I said in my introduction, we have identified areas in which we have interests in common in the South Pacific. In the future, there may well be scope for us to talk to them further about these issues. We have a very wide-ranging dialogue which includes a very wide range of issues.

Senator SANDY MACDONALD—I guess that it is always important to be optimistic when you look at business forecasts, particularly for the relationship with respect to the Chinese economy, but how well placed do you think that we would be, Australian businesses in particular, if there was an economic crisis or slowdown in China?

Ms Morton—That would have a significant impact, of course, China being now our second largest export market. But Australia is not putting all its eggs in one basket. Even within the North Asia Division, for example, we also assist with the relationship with Japan. We have another branch within the division that looks after Japan, South Korea and North Korea. Japan is still very much our largest market, so we develop that relationship and put a lot of effort into that as well. Korea is now our fourth largest market. We also put a lot of effort into developing and diversifying our economic relationship with Japan and South Korea. Other areas of the department look after the United States and the EU. There is a lot of attention being paid, particularly in the public forum, to relations with China. There are also other very significant economic relationships—for example that with Japan, which is twice as large a market as China is now.

Senator SANDY MACDONALD—You make a good point by saying that we have not put all our eggs in one basket with China, but we certainly have an awful lot of eggs in North Asia, have we not?

Ms Morton—We do. We also have a lot of eggs in the United States. We have just negotiated a free trade agreement with them so that we can position ourselves to take—

Senator SANDY MACDONALD—True. But, if you took the total amount of our exports to China, South Korea, Taiwan and Japan, that would be approaching 50 per cent of our export market. It is a very big—

Ms Morton—It is a very significant amount.

Senator SANDY MACDONALD—What do you consider the main risks existing that could limit China's growth?

Ms Morton—Our major predictions are done not only within the department but also elsewhere within the government—you could speak to Treasury, who are the experts on this, or ABARE. We expect that China will continue to grow, although possibly not quite so fast as it has over the past four of five years. But there certainly are challenges for the Chinese economy. I have already spoken about what we regard as a very important challenge—that is, the income disparities between the east and west of China. There is also a lot of commentary about rising unemployment within China.

In the past China had a system of employment through state owned enterprises and government-run businesses, which meant that employees had a very secure future in terms of employment. They started off with a state owned enterprise, they worked their whole life with that enterprise and the enterprise provided them with medical services and accommodation—a social security net, in other words. Some of these state owned enterprises are now being allowed to be declared bankrupt, and the Chinese economy is being restructured so that inefficient state owned enterprises are no longer being supported by the more efficient ones. This means that a lot of the former employees of these state owned enterprises have become unemployed. The challenge for China is to find new employment for these people, many of whom will be quite difficult to retrain, and to provide a social security net for this growing number of unemployed people in China. The Chinese government has already made these major challenges two of its highest priorities—that is, develop the west and provide income and support for laid-off workers.

Senator SANDY MACDONALD—I guess there are other models that the Chinese can use in terms of a developing economy like theirs, but there has never been an economy developing in such a way on such a scale.

Ms Morton—That is true, it is a huge challenge. Financial sector reform is another area where the Chinese government already acknowledges it has major restructuring problems. Again, government dominance of the financial system has really left China with a very non-market-driven financial sector. They need to do a lot of work on restructuring their banking system, which they are doing. There has been a lot of comment on the level of non-performing loans in China. They are also looking to liberalise their financial sector and have made WTO commitments to do that. I think the time line is 2006 for those WTO commitments.

Senator HOGG—On financial sector reform, what precisely do you mean by that? Is that reform of the banking system, the insurance system, the stock exchange and so on, or does it go further into issues such as currency as well?

Ms Morton—There has been a lot of commentary recently about currency issues. I think it also includes that. The Chinese government has made statements that it is aware that it will need to at least at some point liberalise the exchange rate mechanism that they currently have, which is just closely pegged to the US dollar.

Senator HOGG—In terms of financial sector reform are the main problems non-tariff barriers? What are the barriers that external providers face trying to get into that market—or is there no access at all?

Ms Morton—I think you are referring to the barriers to foreign companies operating or providing financial services.

Senator HOGG—Yes. Is that what you are referring to when you talk about financial sector reform?

Ms Morton—No, I was talking about financial restructuring within China—its own banking system.

Senator HOGG—Within, China—okay.

Ms Morton—There has been a very centralised financial system there in the past. The banks have been operated by the government and they have had less than market driven lending criteria, for example. They are now working very hard on getting a better prudential system going, both in the insurance and in the banking sectors.

Senator HOGG—So this is legislative reform as much as anything else?

Ms Morton—Yes, legislative and regulatory reform.

Senator HOGG—Where are they seeking assistance from, in terms of adopting a legislative or regulatory regime? Are they looking to any particular model?

Ms Morton—They are looking at a lot of models. They are doing a lot of work overseas. They are doing a lot of work with other countries, including with Australia. The Australian Prudential Regulation Authority, APRA, has a program going with China—exchanges and visits where they provide advice and understanding of how the Australian regulatory system works.

Senator HOGG—Is that done through DFAT?

Ms Morton—No, it is done directly with APRA. We often, for example, will provide support. If it is a visit by APRA to Beijing, we will provide support for that visit through the embassy. But the contact goes on between them.

Senator HOGG—Where does feedback on what happens in those exchanges go to—or does it just evaporate into the ether? Do you get a report back? Who do they report to?

Ms Morton—The Chinese side reports to its various bodies. Perhaps I could go to another question which I think will answer what your main question is. Within this department we do not run all of the relationship with China. It is far too diverse for that.

Senator HOGG—I accept that. What I am trying to find out is where we ask the questions.

Ms Morton—You ask the questions of APRA, which I think comes within Treasury.

Senator HOGG—I presume we will get Treasury here at some stage.

Ms Morton—But at least once a year—more often if we need to—we bring all of the government agencies together to have a sort of China policy meeting. We get everybody together and we ask for just a very short report on what various government bodies and departments are doing in terms of their relationship with China. We do this to try and get a bit of a feel for where this really very complex relationship now is heading—to find out what areas China is particularly interested in, what areas we are interested in, where we can get leverage between one part of the organisation—one part of the relationship—and another.

Senator HOGG—Given the complexity of the relationship—and I do not doubt that complexity in any way—who is responsible for the whole-of-government coordination and for being the policy driver in our relationship with China?

Ms Morton—We do a lot of the policy coordination ourselves, but the overall relationship has many elements that have their own momentum.

Senator HOGG—I accept that, but is there a whole-of-government coordination in this or is it just a matter of you getting together with the other agencies on a 12-monthly basis, or whatever you said, to share what you are doing? I am just trying to find out if there is an engine room somewhere out there in the bureaucracy that is driving the agenda and coordinating the agenda to see that one agency is not at cross-purposes with another and that no agency is duplicating another's efforts.

Ms Morton—We do not seek to coordinate the whole relationship, because it is really far too big and too complex. It has many parts—not only does the federal government have a relationship with China but also each state government does. They often have high-level visits both ways. They have particular programs for investment promotion, tourism promotion or business promotion that they undertake themselves. We are aware of these programs, both through facilitating this in Beijing or in the consulates, which do a lot of work with business and a lot of work with the state and territory governments, and through our coordination within the department. But we do not seek, if you like, to coordinate the whole thing into one brand.

Senator HOGG—That is what I was trying to get an appreciation for.

Mr Saxinger—I think Ms Morton mentioned before that we signed the trade and economic framework with China in 2003, and that provides a broad framework for how we might take forward the trade and economic relationship. That covers a number of areas with other agencies as well—education, agriculture et cetera, for example. So, in a way, as Ms Morton said, we do

not have an overarching role, but that framework does attempt to put in place a mechanism to bring it together.

Senator HOGG—I understand that you have established a committee for that framework. Is that correct?

Mr Saxinger—That is right. We have a joint committee.

Senator HOGG—Who is on that committee?

Mr Saxinger—That is with DFAT, on our side, and also with the Ministry of Commerce, on the Chinese side. At times we draw in other agencies, as we did recently when we had a meeting of that joint committee in Sydney last month—we had other agencies such as Agriculture, Fisheries and Forestry and Immigration attend as well.

Senator HOGG—How often does it meet?

Mr Saxinger—It has met three times in the last 12 months, I think—really on an ‘as required’ basis. The idea would be that it would meet annually but, because there have been a range of issues, including the FTA negotiation, completion of the study and so on, it has actually met three times.

Senator HOGG—Does it have a specific charter or a specific set of activities that it undertakes?

Mr Saxinger—It does, and that is outlined in the framework.

Ms Morton—We could provide a copy.

Senator HOGG—Could you provide a copy of that for the committee?

Ms Morton—Certainly.

Senator HOGG—I think that would be helpful.

Mr Saxinger—That is actually attached to our submission, I think.

Senator HOGG—Okay, thanks.

Ms Morton—And it is publicly available. But what tends to happen is that, when there is a meeting of the committee, there will be certain priority areas that have been highlighted through the processes of consultation, and those are the departments and agencies that will tend to be represented at a particular meeting. In a lot of cases, departments, agencies and state and federal governments have programs which are rolling along independently but alongside the Commonwealth’s programs.

Senator HOGG—Even though that is a Commonwealth committee, is there any liaison with the states?

Mr Saxinger—We do seek input from the states if there are issues that we are aware of, in terms of the briefing prepared for that particular meeting.

Senator HOGG—How does the consultation with the states take place?

Mr Saxinger—At this stage, it has usually just been through email et cetera.

Senator HOGG—Through their state development areas to the departments?

Mr Saxinger—Yes, through the state governments.

Ms Morton—And through the usual trade policy mechanisms of COAG and—

Senator HOGG—All right.

Mr Saxinger—I should also mention that the Joint Committee on Trade and Investment comes under what is known as the Joint Ministerial Economic Commission, which is the overarching ministerial-level dialogue that we have with China. That is normally led by the Minister for Trade and, on the Chinese side, by the Minister of Commerce. That is held every two years.

Senator HOGG—What is the level of the officials on the committee?

Ms Morton—Are we talking about the committee under the framework agreement?

Senator HOGG—Yes, the framework committee.

Ms Morton—It is led by our Deputy Secretary, Geoff Raby, again. On the Chinese side, it is a vice minister from the Ministry of Commerce. We held the meeting last time just before the first meeting of the FTA negotiating teams. It was led by Vice Minister Wei. The first two meetings were led on the Chinese side by Vice Minister Ma, also from the Ministry of Commerce.

Senator ROBERT RAY—You mentioned labour standards before. Are you satisfied that Australian firms operating in China observe the appropriate labour standards, including your own employment practices but more widely? You mentioned that you can see a large expansion in the services areas—you mentioned legal services, architectural services and all these areas—how certain are you that Australian firms operating in China are observing proper labour standards?

Ms Morton—We liaise very closely and keep in touch with the Australia China Business Council around Australia—there are state branches as well as a national body—and we know that they have a very firm and high commitment to ethical standards in their business in China and I know that they are fully aware of these issues. But we do not, as such, run any kind of checking or monitoring of them. We are just aware, through our contact with Australian business, of their very clear focus not only on questions of labour standards but also on other

ethical questions which come to light in doing business in an environment which is different from not only our own ethical environment in Australia but also our own regulatory environment.

Senator ROBERT RAY—In negotiating the FTA, there has been a feasibility study done and that has identified some potential losers. I am interested in the process of how you go about consulting and representing the interests of the losers. It is human nature to do it for the winners always. How do you do that? When the feasibility studies say there are potential losers in this deal, even though the overall deal may be of massive benefit to the country, how do you actually consult them and represent their interests?

Ms Morton—For the FTA feasibility study, we called for public submissions to the study.

Ms McCarter—There were 143 submissions to the study.

Ms Morton—We had an extensive series of consultations. We went to all the states and territories. We advertised those meetings. We had over 1,000 meetings.

Senator ROBERT RAY—Could I just interrupt you. You have shown how compassionate you are on the issue, but it is not actually the question I asked. I said, ‘How do you represent their interests in the negotiations when you know they have potential losers?’

Ms Morton—In seeking to negotiate, we will represent and have a very meticulous consultative process. I think our consultation will be equal with all sectors who will offer themselves up as being involved or interested in this process. We will seek to have, on the negotiating team, others—not only DFAT but also other parts of the bureaucracy—who will also go out to their constituencies and, in negotiating, when we come to a final agreement on what it is that both sides can agree on, as a government we will need to sit down and see that overall the balance of interest is in Australia’s favour.

Senator ROBERT RAY—There is no question of that.

Ms Morton—To answer your question, we will represent all sectors of the Australian economy in seeking to negotiate this. We will represent their interests insofar as they have brought them to our attention, either through the study or the consultative process we will have during the ongoing negotiation. At the end of the day, the agreement will either be in the overall interests of Australia, in which case we would conclude it, or we would keep negotiating until it were in the interests of Australia.

Senator BROWN—Ms Morton, you pointed out, in response to a question from the chair earlier, that the joint agreement with China, back in 1972, describes Taiwan as a province of China.

Ms Morton—It acknowledges the position of the People’s Republic of China that Taiwan is a province.

Senator BROWN—And that Australia opposes any threat of force to resolve cross-strait differences. What was the department’s or the government’s reaction to the passage of a binding

act by China earlier this year saying that it would use force against Taiwan if it declared independence?

Ms Morton—We examined very carefully the provisions of the Anti-Secession Law, and our assessment was that overall the law largely restated the longstanding elements of China's policy on cross-strait issues. There were some positive messages in it on the wish to build trust through cross-strait cooperation and exchanges. There was also a call for consultation and negotiation on an equal footing between the two sides, which we considered was a small but positive step. We also noted that Beijing said that they would pursue resolution of the cross-strait issue by peaceful means as long as there was a glimmer of hope and that they would not be imposing deadlines. Nevertheless, overall we did feel it would have been better had China not proceeded with the law and we were very disappointed by the reference to the use of non-peaceful means and other measures, even though they were termed to be a last resort should efforts towards a peaceful settlement be completely exhausted. Overall, we continue to urge both sides to refrain from any unilateral action that would change the status quo, pending a dialogue towards an eventual peaceful settlement.

Senator BROWN—My question really was: what was the department's or the government's reaction to China when it passed this legislation which had an inherent threat of force against Taiwan? How was that expressed to China, publicly or privately?

Ms Morton—We did have a dialogue with the Chinese government on this and we made clear our position that, while we welcomed the positive aspects of that law, we felt that overall the reference to non-peaceful means and other measures was a disappointment in a law such as this.

Senator BROWN—Who had that dialogue?

Ms Morton—We had it at several levels, including at ministerial level.

Senator BROWN—So it was expressed as disappointment?

Ms Morton—Yes, that was the thrust of our message.

Senator BROWN—On the free trade agreement, is the aim to have no barriers in either direction?

Ms Morton—That would be the ultimate free trade agreement, yes.

Senator BROWN—Can you say that the free trade agreement will not proceed if, for example, there is a disparity in agriculture?

Ms Morton—At this stage everything is on the table. We are not taking anything off and we are not having the Chinese take anything off either.

Senator BROWN—Generally, what are the prospects for uranium exports to China?

Ms Morton—There has been interest expressed on both sides in possible commercial sales of uranium to China.

Senator BROWN—Does that mean on both sides at government level?

Ms Morton—Australian companies own the uranium. We are talking at a government-to-government level to establish China's willingness and ability to meet Australian stringent safeguard conditions which apply to all countries for the supply of uranium. The Director-General of the Australian Safeguards and Non-Proliferation Office, which is within our department, visited China in February and conducted some talks with the Chinese. These talks were constructive and they are ongoing. At this stage, it appears likely that China will be able to satisfy our very stringent conditions for supply of uranium for its nuclear power industry.

Senator BROWN—How will those conditions prevent Australian uranium from ending up in Chinese nuclear weapons?

Ms Morton—This is a regime which is already established through multilateral means, and Australia must be satisfied that the supply of Australian obligated nuclear material would not contribute to any military purpose.

Senator BROWN—Yes, but how would Australia be satisfied about that when we know that Australian uranium has ended up in nuclear weapons in other countries?

Ms Morton—I am not able to comment on the second part of your question. But, in terms of the first part, a key condition for the supply of Australian obligated nuclear material to a nuclear weapons state such as China is that the Australian obligated nuclear material must be covered by the state's safeguards agreement with the International Atomic Energy Agency or by other safeguard arrangements acceptable to Australia. In this case, it would be the IAEA.

Senator BROWN—The problem is that China is a nuclear weapons power and is going to continue building nuclear weapons. What I want to know is: how does the Australian government, which from what you say is entertaining uranium sales to China, ensure that the uranium does not end up in nuclear weapons in China? What are the specific measures that are taken to prevent that from happening?

Ms Morton—We are negotiating with them a bilateral safeguards agreement. The terms of the agreement that we have with the other nuclear weapons states are publicly available, and we can provide those to you if you wish.

Senator BROWN—I would like to have those provided to the committee with any comment about any other measures that would be required of China to ensure that uranium from this country does not end up in nuclear weapons.

Ms Morton—We certainly can provide you with the agreements that we have, which are the basis on which we are negotiating with China. The further conditions that would apply to this uranium would include no retransfers to third countries, no enrichment to 20 per cent or greater in the isotope uranium-235, no reprocessing to take place without Australia's prior consent, an assurance that internationally agreed standards of physical security would be applied to the Australian obligated nuclear material, and detailed administrative arrangements setting out the procedures which would apply in accounting for and reporting on Australian obligated nuclear

material to Australia. We have nuclear cooperation agreements in place with the other four nuclear weapons states, and any agreement which—

Senator BROWN—Which four are those? I can count more than four nuclear weapons states.

Ms Morton—Those under the IAEA.

Senator BROWN—So that is Britain, France, the US and Russia, as it is now?

Ms Morton—That is as I understand it, but we will provide you with a written reply to your question. Any agreement with China will be consistent with the provisions in these agreements and in conformity with Australian policy governing uranium exports. I have here that the agreement with Russia covers only reprocessing of Australian obligated nuclear material on behalf of third countries, not the use of Australian obligated nuclear material by Russia. So that is a partial agreement.

Senator BROWN—Can you say which companies have negotiated or expressed interest in exporting uranium to China?

Ms Morton—I do not have the details of that.

Senator BROWN—Can you get those details?

Ms Morton—I am not sure we are at liberty to do that. I do not think we have that information, because we do not yet have a safeguards agreement with China.

Senator BROWN—Yes, but it is clear that some companies are interested in exporting uranium if they can. Would you check on whether you can supply that information?

Ms Morton—Certainly I can check. I believe there is some information on the public record about it.

Senator BROWN—Has the issue of nuclear waste arisen in discussions with China?

Ms Morton—I am not aware that it has arisen.

Senator BROWN—Can you check on that for the committee, please?

Ms Morton—Certainly.

Senator BROWN—Can you point to any specific successful outcomes for political or religious prisoners in China as result of the bilateral human rights dialogues?

Ms Morton—Our aim in the human rights dialogue with China is for incremental progress. We would like it to be fast, but we are aware that it will be quite gradual and quite slow. Every year we present a list to China of particular cases; we have a list we raised in the October 2004 human rights dialogue. We have received responses on more than half of those cases. We have

raised a number of cases since then, because we raise them not only in session but also out of session with the Chinese government. It is an ongoing dialogue which has a formal dialogue once a year, but in between those formal dialogues we also regularly talk to the Chinese about human rights issues. Where a particular case comes to our attention and we assess that it should be raised, then we raise it intersessionally with the Chinese as well. But your particular question was about people being released from custody—

Senator BROWN—No, I asked about any particular advantage coming to people who are being held for their political or religious beliefs or for their efforts to set up trade unions—or political parties, for that matter.

Ms Morton—We are aware of five cases where people whom we have raised with the Chinese have been released.

Mr Neumann—Those five cases are since we raised the last list in October.

Ms Morton—We believe our dialogue does sensitise the Chinese and they have become more aware that their international image is at stake. We believe they are responding better; when we raise cases, they are responding more frequently than they did in the past.

Senator BROWN—Can you say when an Australian minister last raised the issue of human rights with a Chinese counterpart?

Ms Morton—I am aware that the Minister for Foreign Affairs regularly raises human rights during his visits to China. I am aware that he raised the issue during his last visit to China.

Senator BROWN—How did he do that?

Ms Morton—He raised it during his dialogue with the Chinese government.

Senator BROWN—In what way?

Ms Morton—These discussions are government-to-government discussions about which we do not release public details. I am not able at this point, without referring to the minister, to give you any further detail on that.

Senator BROWN—Do you know China's position going into the International Whaling Commission meeting in South Korea on Monday? Do you know China's position on Japan's move to lift restrictions on whaling?

Ms Morton—I have been very focused on Japan in this respect, and I really do not have any information on China's attitude—or, indeed, on whether they are even members of the International Whaling Commission. I can look that up and give you an answer, if I can take that question on notice.

Senator BROWN—Thank you. China has been interested in building a large pulp mill and has had talks in Australia about that. Are you aware of any progress in terms of a pulp mill?

Ms Morton—No, I am not aware of those discussions. They may well have been between companies.

Senator BROWN—Are you able to tell the committee anything about the defection of the Chinese diplomat Chen Yonglin and when the Department of Foreign Affairs and Trade first became aware of that defection?

Ms Morton—There is already information on the public record, which the ministers have given in parliament in answer to questions. I do not have anything further which I could add to that.

Senator BROWN—Can you say from that information when the department first became aware of Mr Chen's application for asylum?

Ms Morton—I think Mr Chen and his representatives have put it on the public record that in a letter dated 25 May which was delivered to DIMIA on 26 May he sought asylum in Australia. I believe it has been put on the public record as well that that letter was passed to the department by DIMIA on 26 May.

Senator BROWN—And when did the minister become aware of that letter?

Ms Morton—I would need to refer to the minister to answer that question.

Senator BROWN—I would think ordinarily, though, that you would expect that the minister would have been made very promptly aware of the letter coming to the department on 26 May.

Ms Morton—I believe that the department has acted very professionally in this case, but I cannot answer your specific question without reference to the minister.

Senator BROWN—Would you get a response on that for the committee?

Ms Morton—I will ask the minister.

Senator BROWN—How many personnel does Australia have in its diplomatic service in China?

Ms Morton—Australia or the department?

Senator BROWN—Australia.

Ms Morton—In all of our posts in the China region, there are 96 Australian based and 458 locally engaged staff.

Senator BROWN—Can you give me the figures for Chinese personnel in Australia?

Ms Morton—No, I do not have that information. But it is a matter of public record in the diplomatic list that is published by the department. I can provide you with the diplomatic list.

Senator BROWN—Does that include the number of local people who are employed by the embassy and consulates?

Ms Morton—No, it does not. These are China based—

Senator BROWN—Can you provide that figure for the committee?

Ms Morton—Of locally engaged people in Chinese missions in Australia?

Senator BROWN—Yes.

Ms Morton—I do not believe I could. I do not have that figure. The government would not have that figure, as far as I am aware.

Senator BROWN—The government would not have that figure?

Ms Morton—I do not believe so. The department certainly does not have that figure.

Senator BROWN—Have you had representations that you are aware of from the Chinese government about the defection of Mr Chen, at departmental level or at ministerial level?

Ms Morton—It is a matter of public record that Mr Chen has applied for a protection visa under the Migration Act and that that application is being considered by DIMIA. It is therefore a process which is now in DIMIA's jurisdiction. Our minister has declined to make further comment on this application.

Senator BROWN—But it has become part of the public record that the minister had a corridor exchange with the Chinese ambassador. Can you tell the committee what the nature of that exchange was or what the department's record of that exchange was?

Ms Morton—I know the minister has made a statement to parliament on that meeting, and that information is available on the public record.

Senator BROWN—Not exactly, in terms of what the exchange involved.

Ms Morton—I am sorry; I have no further details that I can provide to you.

Senator BROWN—There has been concern expressed in the public arena in recent days that Chinese operatives have been questioning people in Australian detention centres. Are you able to tell the committee about how that arrangement works and what the arrangement with the Chinese authorities is that allows that to happen?

Ms Morton—Sorry, Senator, but that is something that is not within DFAT's jurisdiction. That is a matter for DIMIA.

Senator BROWN—I will move on to the matter of trade and the well-known cases which have occurred in the United States of trade secrets being purloined and taken back to China,

sometimes with the exchange of considerable amounts of money. Are you aware of any cases of that occurring in Australia?

Ms Morton—That is an intelligence matter. It is not within the responsibility of the department.

Senator BROWN—Setting aside the intelligence, there have been some very important assessments of the impact and potential impact on trade of espionage in such matters as patents, corporate structure, economic base and so on. Does the department keep a watch on that potential damage to Australia's interests and, in particular, on the potential for the production of Chinese goods—and this can of course extend to weaponry—which may be using Australian information to Australia's detriment? I know that there is a matter for intelligence involved there, but does the department itself have a brief on what the impact might be of espionage against Australia's trading interests?

Ms Morton—The department is certainly aware that the protection of intellectual property is an issue in the trading and economic relationship with China. It is, of course, a matter of global concern and it is a matter that we are very conscious of. We hold discussions with our business representatives from time to time to inform ourselves about the best way to advance the interests of particular businesses and to protect intellectual property rights in China for our business community.

CHAIR—We will take a short break.

Proceedings suspended from 6.35 pm to 6.49 pm

CHAIR—In your submission you talk of the Australian government's opposition to chequebook diplomacy in the south-west Pacific. What contact correspondence has Australia had with Chinese authorities on this issue?

Ms Morton—As I have said, we have a range of contact. We have made our attitude clear to the Taiwanese, both here and in Taipei. We have also raised these issues with the Chinese government, outlining our opposition in terms of the provision of funds to small Pacific nations. The provision of funds with no conditions attached allows particular elements in these countries to evade both the fiscal responsibility imposed on them by our bilateral aid programs, which are very much focused on governance, and the discipline imposed on them by the international financial institutions when they provide funding, grants and loans with strict conditions attached relating to governance. We have outlined our problem with that to both the Taiwanese and the Chinese governments.

CHAIR—With AusAID, which has a strong focus on Australian aid in the south-west Pacific, is there scope for better cooperation in the future to ensure that aid money to the region is a positive influence?

Ms Morton—Are you talking about Chinese aid?

CHAIR—Yes.

Ms Morton—Certainly, part of our dialogue with the Chinese does address this kind of issue. We make it very clear; we brief them very thoroughly on the direction of our own aid policy in the South Pacific and our objectives there. Before regional meetings—for example, the South Pacific forum—we brief them very carefully on our objectives, what we are trying to do, in the Pacific so that they can understand what our priorities for the region are. The Chinese tell us that they see us as very influential in the Pacific region. They are very careful to note what our objectives and strategies are for the development of these small and micro states.

CHAIR—In relation to China's 'economic miracle' and in light of the human rights dialogue and the issue of political parties, which you mentioned earlier, does the department have a view that at some point the reform and development of the economy must go hand in hand with political reform?

Ms Morton—We are certainly very keen and close observers of China's political development. We maintain a wide range of contacts within the Chinese government, within the Communist Party of China and within think tanks in China so that we can understand political development within that country. We study very carefully and we talk to people about the evolution of Chinese political theory, of which there have been major developments over the last 10 years. We also try to observe, on the ground, how these changes in Chinese political theory are being implemented and how they affect people's rights at the grassroots level.

CHAIR—Thank you.

Ms Morton—I think it is true to say that China's economic development has brought along with it some development in individual rights within China. Some of the rights that we could point to would be things like the freedom to move around—the freedom to travel and the freedom to change place of residence more easily, especially from countryside to township. There has also been some movement recently in the one-child policy. But in terms of major political reform within China, I do not think it is true to say that there has been the rapidity of development that there has been on the economic front.

CHAIR—In relation to the forthcoming East Asian summit to be held in Kuala Lumpur, does China favour an approach which would wish the summit to include Australia and New Zealand?

Ms Morton—We have discussed this with the Chinese government and we have talked to them in terms of our strong conviction that the developing regional institutions should be open and outward looking. The Chinese leaders have agreed with this view. They have noted Australia's activity in the region and have welcomed Australia's increased involvement in the region.

CHAIR—Do they favour an approach that would have Australia and New Zealand included in the summit?

Ms Morton—This is a really evolving situation. At the moment the Chinese tell us that, for the East Asian summit, the ASEAN countries are at the core of this organisation and that China will be guided by what ASEAN wants in this regard. So as ASEAN's approach evolves, China has said that it goes along with what ASEAN wants.

CHAIR—So what is ASEAN's approach? Ms Morton, you can just say yes or no—no, they do not want us included?

Ms Morton—No, the Indonesian attitude has been made very clear during the visit of the Indonesian President. He said he would welcome it. Sorry, could I just find my briefing on this.

CHAIR—I would like to ask two more sets of questions dealing with the currency situation and the China-Japan relationship. Are you answering all the questions, Ms Morton? Senator Tchen also has a few questions.

Ms Morton—Can I answer the question on the East Asian Summit? The purpose of the East Asian Summit, who will participate in it, how often it will meet and the modalities of it are still being worked out by the ASEANs. The core membership, of course, is ASEAN plus 3, the plus 3 being China, Japan and South Korea. In December 2004 the ASEAN leaders agreed that Malaysia would host the inaugural East Asian Summit in December this year and there was a report from an East Asian study group set up by the ASEAN plus 3 to look at ways of building greater regional integration. It set out a whole series of wide-ranging aims covering wider policy concerns as well as economic matters for the summit.

More recently, the ASEANs agreed to a formula for considering membership beyond the ASEAN plus 3 countries. Those three criteria are: substantive relations with ASEAN; full ASEAN dialogue partner status; and a commitment to accede to the Treaty of Amity and Cooperation. Clearly Australia meets the first criterion: we already have very substantive relations with ASEAN. We already have full dialogue partner status and the government is on record saying that it will give consideration to the question of acceding to the Treaty of Amity and Cooperation.

Senator HOGG—I do not know if this the appropriate time to ask this question but, whilst we are on ASEAN, I understand that we are either hopeful, or in the process, of negotiating an FTA with ASEAN. Is that correct?

Ms Morton—Yes, we are.

Senator HOGG—Has that started at this stage?

Ms Morton—Yes.

Senator HOGG—I thought that was the case. How does that set of negotiations—which I will loosely term a multilateral type of agreement—

Ms Morton—A regional agreement.

Senator HOGG—All right, a regional agreement. How does that fit in with our negotiations with China for a free trade agreement? Are there any conflicts there? Is there any complementarity? Where does the complementarity exist, where do the conflicts exist?

Ms Morton—Broadly speaking, there are some guidelines for bilateral and regional trade agreements within the WTO context. Within the APEC context, Australia has been taking the

lead in developing a set of criteria for model regional trade agreements. I could provide you with a written briefing on what Australia is doing to try to make sure that the proliferation of regional trade agreements meets certain minimum criteria.

Senator HOGG—If you could tell us what those minimum criteria look like. If you have not got them with you now—

Ms Morton—I do not have them.

Senator HOGG—I do not want to hold you to it in the most definite of terms tonight, but just some sort of flavour would be helpful. Can you also tell us, in responding to that, whether or not going down the path of a range of bilateral or regional agreements is undermining in any way our efforts in the multilateral forums—whether it be at APEC or whether it be in the WTO area? There is that competing energy, if I can call it that, between those two areas.

Ms Morton—Regarding trade policy, we give absolute primacy to the WTO in terms of this being the best mechanism for trade liberalisation globally. However, we have acknowledged that there are some areas where the WTO is moving only very slowly, or not moving discernibly at all at the moment, on liberalisation. If there are areas of liberalisation where either two countries—Australia plus one—or Australia plus a group of countries can move more rapidly than the world can move through the WTO, we should be progressing and using those potentials to liberalise trade.

Senator HOGG—We have the Thai free trade agreement and the Singapore free trade agreement. Do we have Malaysia?

Ms McCarter—We are negotiating that.

Senator HOGG—Why haven't all of these been tied under the one umbrella? This will be a question that exercises the minds of a lot of people. Why isn't it ASEAN plus whatever you need to broaden it—given that it seems to have slowed down, if not stopped completely, within APEC at this stage—given the diversity of APEC?

Ms Morton—Within the WTO, I think. APEC is about trade facilitation and there is a great deal of very good work that is being done within the APEC context on trade facilitation.

Senator HOGG—Yes, I understand that.

Ms Morton—Trade liberalisation is largely the WTO.

Senator HOGG—Yes, but there were also goals within APEC.

Ms McCarter—The Bogor goals.

Senator HOGG—The Bogor goals. I remember we conducted an inquiry here a few years ago where we looked at the early voluntary sectoral liberalisation. It was trumpeted and was going everywhere but then went nowhere because everyone balked at it and stepped right out. It

was for their own reasons and that might be the case. But there is a place there, and I wonder where it is in terms of those competing negotiations that we are involved in.

Ms McCarter—Our approach to all our bilateral FTAs, including the one with the group of ASEAN countries and New Zealand, is that we enter these negotiations on the basis of a set of principles: that they are going to be comprehensive, which, as you heard previously, we have in the case of China; they must cover goods and services and also the liberalisation of investment; and that they are a single undertaking. Enshrined in these principles as well are the commitments in the WTO for free trade agreements: that we will liberalise tariffs on substantially all goods and liberalise restrictions on substantially all services. Investment liberalisation is another element. We are looking, in these FTAs, for WTO-plus type commitments. In other words, they are all moving in the direction of positive liberalisation and building on the WTO so that when the Doha Round concludes—

Senator HOGG—That is hopeful.

Ms McCarter—The others have concluded so far—the FTAs will flow into that.

Senator HOGG—And you are reasonably confident that, given the pattern and structure that you have set up, that will occur?

Ms McCarter—I do not think we would agree to enter into a binding agreement that did not enshrine those commitments.

Senator HOGG—I am sorry, I did not want to launch into a major discussion on multilateralism and bilateralism. I am just trying to work it into the free trade agreement that we are negotiating with China. Where does that fit in with the ASEAN free trade agreement and the other bilateral ones that we have in the region? Could we have achieved it by some broader set of negotiations which would have incorporated places like China, or are they all moving at different paces that make it impossible?

Ms McCarter—That is the point. China is such a substantial economy in its own right that there are obvious interests for us in doing one bilaterally with them at this point in time.

Ms Morton—But if we have the same principles and standards applying to all of them, eventually these will—

Ms McCarter—Converge.

Ms Morton—The units will contribute to a regional liberalisation of trade and then hopefully a global liberalisation trade.

Senator HOGG—Will they feed into the APEC liberalisation program or is that goal not achievable?

Ms Morton—They all feed into each other, but the main goal is that they all be WTO consistent.

Senator HOGG—All right. I will leave it there.

Senator TCHEN—Ms Morton, my first question relates to China's market economy. I note that at the beginning of your evidence you reminded the committee that during his visit to China the Prime Minister announced that Australia accepted China's declaration that it is a market economy. In your submission you referred to China's efforts after its accession to the WTO in 2001. Your submission states:

... China conducted a massive review and modification of its domestic legislation and introduced new legislation which provides China with a sound legal basis for governing its market economy.

I assume that the Prime Minister's announcement is on the advice of the department and that we can accept China's progress.

Ms Morton—When we talk about accepting or recognising China's market economy status we are talking about the operation of Australia's antidumping legislation—that is, the operation of the antidumping provisions under the Customs Act. We are not making a broad statement about China's level of economic development or the nature of the Chinese economy. We are only talking about WTO trade remedies. In our case the major one is antidumping.

Until China joined the WTO, all members were treated as market economies for the purposes of antidumping when they joined the WTO. There is a WTO antidumping agreement and all of those members of the WTO were treated in the same way. When China joined, it had the United States in its bilateral discussions with China on joining the WTO. The United States wanted to preserve a particular aspect of the operation of its antidumping legislation. It would not have been able to do that if there had not been this separate agreement with China—that China would accept that the United States continued to have this particular antidumping regime. In the course of the negotiations on China's entry, that particular provision came to apply to all other members of the WTO who had special provisions relating to China in terms of their antidumping regimes. It said that these countries that have special provisions can continue to have them for a particular period of time. I think it was 15 years.

Ms McCarter—Fifteen, 16 years.

Ms Morton—After it had acceded China realised that it had agreed to something that was very significant for it, not only in terms of antidumping but also symbolically because it felt that it was not being treated on an equal basis to the other WTO members. During our preliminary discussions in relation to a free trade agreement, China said, 'If we agree to this, we want to be treated as equals by Australia—that is, equal members of the WTO.' So in the framework agreement we agreed that the two sides would do a study on an FTA and, should both sides agree to proceed to negotiations, Australia would recognise China as an equal—that is, equal for the purposes of WTO. This related only to Australia's antidumping regime. At the time we did the study we also, with Customs, did a very close examination of our antidumping provisions. We came to the conclusion that we could do this—we could recognise China's market economy status and move them from the category of economy in transition to the category that is not called 'market economy'; it is just every other WTO member. We could do that and still maintain an effective antidumping regime to protect Australian industry against dumping by China. Therefore the cabinet decided that, as part of the consideration of the study, it take into account

that if it wished to proceed with the negotiation it would need to give China this status under the Customs Act. It decided that it could do so and still maintain an effective antidumping protection for Australian industry against Chinese dumped goods.

Senator TCHEN—That would mean that China has accepted Australia's assumption as well.

Ms Morton—China was very pleased that we did recognise—

Senator TCHEN—I am aware they would be very pleased.

Ms Morton—We signed an MOU on the launch of an FTA negotiation, and we can provide the committee with a copy of that if you are interested. That says very clearly that Australia recognises China as a market economy status for the purposes of WTO trade remedies.

Senator TCHEN—And China has reciprocated, accepting Australia's position?

Ms Morton—Yes. They signed the MOU, which really launches the negotiation. So they were satisfied with our amendment to Customs regulations.

Senator TCHEN—Chair, it may help the committee if we have a copy of that. Perhaps Ms Morton can table it.

CHAIR—Could we get a copy of that, Ms Morton?

Ms Morton—Certainly.

Senator TCHEN—Following on from that, in your submission you also say that China faces a number of systemic and social challenges that could undermine China's long-term economic prospects. By implication, that would also adversely affect Australia's economic prospects because of the importance of an Australia-China commercial relationship. You specify three particular issues. One is governance in the banking sector, if I remember correctly. The other is the predominance, I suppose, of government-run enterprise.

Ms Morton—Restructuring and state owned enterprises—

Senator TCHEN—And unemployment resulting from that.

Ms Morton—Yes, resulting unemployment.

Senator TCHEN—Are there other issues which may have a similar impact?

Ms Morton—Reform of the agricultural sector is a big challenge for China. It is one of the last major sectors in China to undergo reform. About 700 million people in China are employed in the agricultural sector, and it is probably true to say that many of them are underemployed. Rationalising this sector would involve a massive construction program to move and resettle up to possibly 200 million people who are currently working on land that only just gives them an income and that does not allow them to raise their standard of living.

Another problem is infrastructure bottlenecks in China. China's infrastructure overall has not kept pace with demand because of a combination of rapid urbanisation and rapid economic growth. The problems are particularly acute in the areas of transport, power generation and distribution and ports.

Environmental challenges are a big issue for China, mostly brought on by rapid economic and social development. They are related largely to water shortages and the need to address deteriorating air and water quality, to reverse extensive deforestation and halt the loss of productive agricultural land to urban development. This increased environmental focus by China has already had benefits for Australia in terms of China recognising the need for changing from their largely polluting coal generated electricity to cleaner forms of energy. They have therefore chosen to also develop their LNG powered energy production, and we were successful in getting the first contract for LNG supply to Guangdong.

Senator TCHEN—On that point, do they regard the conversion to LNG as a permanent solution or an interim solution? Aren't they also looking at nuclear energy?

Ms Morton—Yes, they are looking at nuclear energy. They have a goal to increase the nuclear component in their energy production mix. They wish to use not only LNG but also nuclear. I have some figures here. Currently, 80 per cent of electricity in China is supplied by fossil fuels—that is, coal. They are seeking to diversify from fossil fuel and are planning a fourfold increase in nuclear energy by 2020. Their electricity demand is growing annually by about 16 per cent and they are therefore expected to become a major uranium importer within the next few years. China also have their own uranium but not in the sorts of quantities that they will need to increase their nuclear energy capability 400 times by 2020.

Senator TCHEN—A fourfold increase of nuclear energy?

Ms Morton—A fourfold increase of nuclear energy by 2020.

Senator TCHEN—What would nuclear end up at as a proportion of their energy?

Mr Robinson—My understanding is that it would still be a relatively small percentage, perhaps four per cent. I would need to check that, but it is still a relatively small percentage.

Ms Morton—It is still overwhelmingly coal-fired electricity plants.

Senator TCHEN—If you think about it, it is rather mind-boggling. I do not know who identified these as challenges—I suppose international agencies such as the World Bank would have identified them—but does China also recognise these challenges as challenges?

Ms Morton—Absolutely, yes. Those are all government priorities.

Senator TCHEN—Is that including changes to the agricultural sector?

Ms Morton—Yes.

Mr Saxinger—In fact, that is probably one of their No. 1 priorities. Under Hu Jintao and Wen Jiabao they have made agriculture a key priority in terms of maintaining social equity, recognising the issue about disparities of incomes between the rural and the urban areas. Again, I guess that flows back to the issue of why the Chinese are so concerned about agriculture in our FTA negotiations.

Senator TCHEN—What would be the impact not only on China's economy but also on the world economy and on Australia's economy of the release of an extra labour force of something like 600 million people into the economy? Has anyone looked into that?

Ms Morton—We are not. We have not got the resources to do that. I am not sure that people are looking at 600 million at the moment. I think the initial estimates are 200 million in the first instance. But these are issues which the Chinese government are giving very great attention to. Looking at their past performance in managing economic development, they have to be given very great credit for having managed their economic growth since the 1979 opening-up policy. It has been a development that very few observers thought would happen as quickly as it has. I think the commitment to further reform the sectors that I have outlined—agricultural reform, continuing state owned enterprise reform, continuing reform of the financial and banking sectors and the continuing priorities of mitigating environmental damage and of minimising environmental damage through economic growth—are all priorities which the Chinese government are fully seized of and which they are proceeding to develop policies to address.

Senator TCHEN—One of the less advertised characteristics of the operation of Chinese economic political structure is the frequent short- to medium-term divergence between national strategies and provincial or regional priorities. Would that be a subject for discussion during the free trade agreement negotiations, because this forms a very effective non-tariff barrier in terms of trade and economic developments?

Ms Morton—Certainly when we reach an agreement with China—including on measures within a FTA with China—we would expect that this would be implemented not only at the national level but at all levels of government within China. That is something that we would be making very clear to the Chinese government during the negotiations.

Senator TCHEN—I have a couple of questions which I have jotted down while other questions have been asked. I want to fill in the answers, mainly for my own curiosity. I have two questions about the answer you gave to the chair's question about a dialogue between China and Australia. Firstly, you mentioned that one of the topics is the North Korean border crossing. Why would that be of interest to Australia? Is there any particular human rights issue involved?

Ms Morton—Yes, there is a human rights issue involved. There is a large number of North Korean citizens or people who cross over into China. Mostly they are economic migrants, if you like. When things get tough or the harvest is bad in North Korea, they move into China without any formal processes and they often work for small Chinese businesses in that north-east part of China, which was one of the first areas to be developed and to develop its industry. When things improve in North Korea or they have saved up some money, they move back again. But from time to time there are issues of forcible repatriation of North Korean residents in northern China. From time to time there have also been cases of North Koreans seeking to transit China on their

way to moving to the south. There have been questions about whether these people should be regarded as falling under the refugee convention.

Senator TCHEN—You advised the committee about the composition of the Australian delegation. I noticed that there is no representative of Australian NGOs. Is that correct?

Ms Morton—Not on the dialogue delegation. That is a government-to-government dialogue.

Senator TCHEN—Are you under any pressure from Australian NGOs for them to be represented?

Ms Morton—In association with the formal government-to-government dialogue at the last human rights dialogue, which was in Australia, Australian NGOs were invited to a separate meeting with the Chinese delegation. They accepted and attended that. The NGOs invited were the Australian Council of Trade Unions, the Australian Council for International Development, the United Nations Association of Australia, the Human Rights Council of Australia and the National Committee for Human Rights Education. Both the Chinese side and the Australian NGOs were pleased with this meeting. The Chinese delegation head invited the NGOs to visit China for a second round of meetings with government officials and Chinese NGOs. So far, the Australian NGOs have advised that due to logistical reasons they are not able to travel to China for discussions in conjunction with this year's dialogue, but they have expressed an interest in maintaining the parallel process in the future. The dialogue alternates between Australia and China. Obviously, when it is in Australia, it is logistically easier for the NGOs to talk to the Chinese delegation.

Senator HOGG—I have a follow-on question. What were the issues raised there?

Ms Morton—I do not know; we were not in the meeting.

Senator HOGG—It would seem to me that human rights is one of the fundamental issues that is occupying the minds of quite a lot of people in Australia regarding our relationship with China. That is why I am curious as to what sort of dialogue you have with these NGOs. You have obviously facilitated this. I am not saying they should report to you—I am not implying that whatsoever—but it would seem to me that there would need to be some level of feedback from these sorts of meetings so that you get a perspective as to where these Australian groups are moving in their discussions and their dialogue with China on such a vital issue.

Ms Morton—We agree that we do need to have a perspective of what the NGOs' interests and priorities are, but we do not do this through that dialogue. We do that through a separate process whereby, before each human rights round, we consult with the NGOs about their priorities.

Senator HOGG—I accept that. But you do not find the outcome. That is the thing that I find a little bit strange.

Ms Morton—We have only had one session so far.

Senator HOGG—All right. It seems to me that that might be an area that you might look at getting some feedback from these NGOs on. They may very well tell you, 'Yes, they were nice;

yes, they were pleasant.’ I understand that, when one sits around a table in these sorts of forums, it can be very pleasant and everyone can be very polite and so on. But one also needs to get some feedback from the interaction that takes place, so that one not only has a feeling for what the issue was and what the outcome of that issue was but also has a feeling for whether the issue is moving forward, standing still or going backwards. As I say, I am not expecting them to report to you.

Ms Morton—At this stage we see these as two separate processes. We consult with the NGOs in Australia to prepare for our official human rights dialogue.

Senator HOGG—I accept that.

Ms Morton—This initiative of having a separate dialogue between the Chinese delegation and the Australian NGOs has happened once. The feedback we got was that, while it was a first meeting, the NGOs were very happy with that. In terms of actual outcomes, it is probably a little early.

Senator HOGG—Feeling happy? We all feel happy; we can all feel sad. I am not having a go at you but—

CHAIR—You are not happy.

Senator HOGG—I am happy all the time. What the committee is looking for is some sort of digging in to find out just what ‘happy’ means. Otherwise, these people could go on having these parallel negotiations and feeling happy for years. That might be good and that might give them a warm feeling. However, while that consultation process involving them might help us to prepare for our negotiations, if they are negotiating as well it seems logical to me that we should get some feedback. I will leave it at that. It is not a great issue.

Ms Morton—As you can see by the list of NGOs, they have a very diverse range of interests.

Senator HOGG—Yes. That is why I ask the question.

Ms Morton—They may not actually be able to give you an overall view. Each of those NGOs may have a different view of the outcome.

Senator HOGG—I appreciate that as well. But even them having a different view of the outcome is important because it gives you a different assessment as to how they perceive the discussions and the negotiations that are taking place are moving. That is all. It is not rocket science that I am after.

Ms Morton—We certainly review the progress that we have made and set ourselves markers for what we will do in the next dialogue, for what we will focus on with our technical cooperation program and for how we would like to see the dialogue developing. One of the markers that we have set ourselves over the years that we have had the dialogue is to increase the number of Chinese organisations and agencies involved. In that respect, we believe that there has been great progress. It started off being entirely the Ministry of Foreign Affairs talking to us and

telling us how it was out there in those other agencies. Now we have a very wide range of Chinese agencies involved.

Senator HOGG—If you could chronicle that for us, that would be very good. That would give us a bit of detail of that sort of development so we can see how things are emerging. If I can just explain where I am coming from, we are trying through these hearings to write a report that will give us some flavour and some direction as to how our relationship with the likes of China is evolving and emerging—as you understand, because you have attended many hearings. I have done it with other countries. We want to know where the difficulties lie and where the positives lie. We are not just looking for the negatives: we want to know the negatives and positives. We want to know where there is room for improvement; we want to know about where we have done something that we should not have done or could have done better—whatever it might be.

We are not trying to put up a scorecard of DFAT or the other departments or anyone else who comes before us. We want to put out there at the end of the day a report that gives a fairly good assessment as to where we are going. That is why I am trying to probe into this. They might not be the big areas in DFAT but they may well give us some different insights into where you are going in some areas. For everyone who talks about China, the first word that comes out of their mouth is ‘FTA’. That is the focus for a lot of people. But there are a lot of other things happening—good things—that we need to focus on as well.

Ms Morton—The other sort of indicator that I would like to point out regarding progress on the human rights dialogue is whether we can get into the sensitive areas; the areas that China in the past has said, ‘This is very sensitive and we do not want to talk in great detail about this.’ One of those areas is HIV AIDS. Another area we wanted to push the barriers on was Tibet and we now have a project on that under the Human Rights Technical Cooperation Program.

Senator HOGG—But this comes about because you have gained face with the Chinese over the course of a long-established relationship.

Ms Morton—A gradual process, yes.

Senator HOGG—I concede that, and this is the sort of thing that I am trying to get you to put on the Hansard record so we can use it.

Ms Morton—We might put together some of the indicators and progress.

Senator HOGG—We are not looking for a 45-page chronology or something that will tax a large number of officials. We would like something that is reasonably simple and concise. If you have a cheat sheet you are using, that you might need to modify to hand up to us, then we are prepared to accept that.

Ms Morton—We will do that. We already have a bit of a summary of what the dialogues have covered.

Senator HOGG—I am sorry I called it a cheat sheet. I did not mean it in that sense—I meant a prompt. We use prompts too.

Ms Morton—We will put it into a form that we can hand up to you.

Senator HOGG—Thank you very much.

Senator TCHEN—In answer to a question from Senator McDonald, I think, you said that Australia and China have interests in common in the south-west Pacific. Can you expand on what these common interests are? I hope that they are not a counterpart of the North Korean broader crossers.

Ms Morton—No, it is an entirely different question. China is taking its place in the world as a responsible international citizen, and Australia actively supports China's integration into the world community in this way. One of the aspects of China's international presence is its aid program, its development assistance, and this is something that we have in common with China in the South Pacific. We both have aid programs there. We already have a dialogue on a wide range of issues relating to economic development and governance in the South Pacific, and we believe that there are areas where our interests coincide in terms of creating a stable environment in the South Pacific. But I am not exactly sure what the import of your question is.

Senator TCHEN—I was just intrigued by your answer because I think you told Senator McDonald that Australia and China have common interests in the south-west Pacific.

Ms Morton—We have a common interest in a stable region, in it developing economically, and in peace and stability.

Senator TCHEN—Why would it be of interest to China?

Ms Morton—Well, is an area that is closer to Australia than it is to China but China has global interests in peace and stability and wants that, as does Australia.

Senator TCHEN—But do we have common interests say, with Japan, because it has an even larger aid program in the south-west Pacific?

Ms Morton—Absolutely. We have even larger interests with Japan, yes. China, like Australia, has recognised that areas where governance or government is weak give rise to problems such as transnational crime, terrorism, transport of endemic disease—those larger questions of security threats to a nation that come through areas of instability.

Senator TCHEN—Okay, I get the picture. Can you give us some background on the Treaty of Amity and Corporation, which we hear so much about? Is it a new treaty?

Ms Morton—No, it is a very old treaty.

Senator TCHEN—As far as I know, there have been three private wars—that is, wars between two countries rather than United Nations sanctioned wars—since the end of the Vietnam War, and two of them have occurred in the South-East Asia region. How effective has this treaty been?

Ms Morton—I might need to take that on notice. It is not really my area. My understanding is the Treaty of Amity and Cooperation arose in 1976. It developed out of the Bandung conference. I am not sure it was in place then. It is one of the foundation treaties of ASEAN. With respect to that, it may be post confrontation. We can give you some notes on that. It is just not my area.

Senator TCHEN—If we can get some notes on its history and the content of the treaty, it would be helpful.

Ms Morton—Sure, we can provide that for you.

CHAIR—I have a few questions, but Senator Hogg wanted to ask whether when you talk about China you include Hong Kong—or is Hong Kong treated separately in all of these discussions we have been having with you?

Ms Morton—For our trade figures, we do not include Hong Kong. Hong Kong is a special administrative region but obviously part of China—as is Macau. We maintain separate figures for trade with Hong Kong and trade with Macau; they are also separate members of the WTO.

Senator HOGG—Yes, I accept that. The reason for the question is based on how we perceive the writing of this report in the longer term. If we mention the term ‘China’, we want to know your perspective of what we are representing in the inquiry. In your submission, you mentioned China. I took it for granted that you excluded Hong Kong and that you excluded Macau.

Ms Morton—For trade purposes we do; for political purposes, Hong Kong and Macau are integral parts of the People’s Republic of China.

Senator HOGG—If you treat them separately for trade purposes, does that include the negotiations on the FTA?

Ms Morton—Yes.

Ms McCarter—That is right. Hong Kong is not part of the negotiation.

Senator HOGG—No, Hong Kong and Macau are not part of it. What other arrangements do we have in place for Hong Kong and Macau?

Ms Morton—We have a consulate—

Senator HOGG—No, do we have any trade agreements? If they are not included in the China-Australia free trade agreement negotiations, what arrangements do we have in place for our trade relationship with Hong Kong and Macau?

Ms Morton—We have, of course, the normal WTO arrangements—

Senator HOGG—Yes, I accept that. I am trying to find out whether we have any special arrangements.

Ms Morton—No, Hong Kong has traditionally been the ideal of free trade.

Senator HOGG—I understand that.

Ms Morton—It has had minimal trade barriers. We conduct government-to-government negotiations, for example, on things like an air services agreement. We have talks with them on some quarantine issues.

Senator HOGG—But these are getting into trade facilitation areas; is that correct?

Ms Morton—A bilateral air services agreement is a market access question. In April 2004 we signed an expanded aviation services agreement with Hong Kong, and that was after seven years of negotiation. The agreement increased passenger and cargo flights between Australia and Hong Kong and provided for new flights on the London-Hong Kong-Australia route. In the time since April 2004, bilateral air traffic has almost doubled, so we were very pleased with the outcome of that negotiation. We have other negotiations and discussions with the Hong Kong authorities. We are constantly raising with them a luxury wine tax. The cost of Australian wine or any imported wine in Hong Kong is prohibitive. We argue that, if they could abolish that very high level of tax, we could supply more wine into the—

Senator HOGG—Why can't they abolish it? Australian wine is very good.

Ms Morton—That is right. We think we would be very competitive were they to abolish it, in terms of volume increases. They talk to us about it, but they say it is such a big revenue raiser of theirs that they would need to reform their whole taxation system were they to abolish it. It is just a big money spinner for them. They assure us that they are considering abolishing it and we have been given a series of time lines, which so far have not eventuated. But we keep pushing the issue.

Senator HOGG—Where is the time line out to now?

Ms Morton—I think it is now when they introduce a proper VAT system. So it might be some way off, or it might be tomorrow.

Senator HOGG—That is very encouraging. You have no specific guideline or indication from them as to when?

Ms Morton—No. We raise it every time we visit Hong Kong and our Hong Kong Consulate General raises it in official discussions. We are always given very encouraging answers, but so far we have not had an unreserved undertaking to abolish it.

Senator HOGG—What about access to financial markets?

Ms Morton—In Hong Kong?

Senator HOGG—Yes.

Ms Morton—We have very good access. I do not know that there is any problem with that. Most of our Australian banks are in Hong Kong; as far as I am aware, they have not raised with us issues of access to the Hong Kong market.

Senator HOGG—Would you be able to put together a small presentation about our relationship with Hong Kong and with Macau and where those relationships might differ from what you have presented to us today in your submission, because I do not think I saw that information in there.

Ms Morton—We did not cover specifically our historical links with Hong Kong.

Senator HOGG—No, I do not want a great historical background.

Ms Morton—Our relationship still has some historical links though. The major factor is the very large Australian community in Hong Kong; I think it is the largest after the UK. We can put together a paper on it.

Senator HOGG—Again this should not be something that will take a great deal of time. It should just set the scene for us in that, whilst we are talking about China, there is Hong Kong and Macau and there is a difference in terms of trade but when it comes to the broader FTA and other issues, including political issues, we are dealing with the main government of China as opposed to dealing with other issues on the side. Thank you very much.

CHAIR—I want to cover two other areas with you. I hope they do not take too long, but we do need to know these answers. Does Australia consider that the level of exchange rate for the Chinese currency is an issue or a problem for us in relation to Australia's bilateral trade? Before you answer that, you might want to cover this in your reply as well. Does Australia support arguments that China should act to revalue its yuan?

Ms Morton—Our primary position is that China's exchange rate policy is a question for China to decide and we have not been applying pressure, in our trade and economic relationship with China, to revalue its currency. However, we do believe that as China further liberalises and strengthens its financial system it should be able to move to what is already China's stated long-term goal of a more flexible exchange rate. Currently the Chinese renminbi is allowed to fluctuate within a very narrow daily band of around 8.3 renminbi to the US dollar. I think the technical term is a 'closely managed float' or a 'crawling peg'. In January 2005 the government of China's central bank, the People's Bank of China, reiterated that the government would aim to keep the exchange rate basically stable when the exchange rate mechanism is reformed. However, the extent of any shift to a more flexible exchange rate is likely to be limited and some time off. Any sudden revaluation of the currency at a time when China's financial sector still needs significant domestic reform and remains burdened by poor-performing large debt portfolios would see large outflows of capital and threaten the stability of China's economy. At the World Economic Forum meeting in Davos earlier this year, in 2005, Prime Minister Howard reiterated publicly—it is not the first time we have said it—that China's exchange rate policy was a matter for the Chinese government.

CHAIR—That is pretty clear. Does the department see the recent tensions between China and Japan as likely to continue? What steps could be taken by China and Japan to alleviate their differences? I have another question after that.

Ms Morton—The current tensions between China and Japan are really quite complex, and they have a lot of different issues involved in them. One issue is the question of history. The

Chinese consider that some of Japan's actions are not consistent with its already stated apologies for its past treatment of China, Korea and other parts of South-East Asia. The main issue is Prime Minister Koizumi's visits to the Yasukuni shrine, the war shrine which not only is a shrine to fallen Japanese soldiers but also contains tablets commemorating some people who were found to be class-A war criminals. There are also some territorial disputes involved in that relationship. We are very concerned about the recent anti-Japanese protests in Beijing and southern China. Amongst other things, they have criticised Japan's bid for a seat on the Security Council—a bid which of course we support. We have a policy and a position of not commenting on the historical or territorial issues between China and Japan, although our Prime Minister recently said in a press conference with Prime Minister Koizumi—so, publicly—that all countries must understand and be candid about their past.

We recognise that both countries are making an effort to address these issues. Following the recent outbreak of bad relations between China and Japan there was a meeting between them at the Bandung 50th anniversary in Indonesia, and that went some way towards addressing some of these concerns. We feel that Australia in the immediate post-war period has built a relationship with Japan that looks towards the future, not towards the past, and that is our comment to both China and Japan—that is, that there is a really great need for China and Japan to build a positive relationship in the future. This will be fundamental to peace and security in our region, and that is what we hope will develop.

CHAIR—Does the department think that Australia's trilateral dialogues with the US and Japan on security issues can be pursued without strain or tension on our relationship with China?

Ms Morton—Yes.

CHAIR—That was an easy one. Finally, we have heard a lot about what we think of China. Do you know from these discussions you have what they think of us?

Ms Morton—I guess there is a range of views just as there is a range of views in Australia about China. I think one of the things that is quite illustrative of the way people in China think about Australia is the very large numbers of students that are coming to Australia to study. It is now our largest overseas student group. These children are financed for their education and they are full fee paying students. They are financed by their extended family to come to Australia. That is a very significant financial outlay for a Chinese family. It is only, of course, the top level—the top economic group—of Chinese society that can afford it but, even so, the rate at which they are sort of voting with their feet by sending their children to Australia to study is indicative of the way they see both our education system and, I think, our society.

CHAIR—Thank you, Ms Morton. My colleagues and I have just been discussing something. We may have to ask you to come back at a later stage for other questions. Otherwise, we would probably keep you here all night.

Ms Morton—We would be very pleased to have notice of any questions that you would like to ask. It makes our preparation much easier if we know what particular area—

Senator HOGG—I can flag one area now. One of the areas I want to pursue is your relationship with other departments and other agencies and the coordination between those. We

have had DEST before us and AusAID. So I want your perspective on the relationships with those groups. That is just to start.

CHAIR—We have discussed that we will probably have to extend our inquiry. We might not get it past 9 August but we certainly believe we will need another day or so. We feel we probably will need to have you come back because of the two areas of your department: foreign affairs and trade. Thank you very much for coming along this evening. I hope it was not too gruelling for you.

Senator HOGG—They had a light night!

CHAIR—They may have expected it. I think the next one, when we will have the department before us, might not be as pleasant for someone!

Committee adjourned at 8.04 pm