

# Chapter 8

## Trade in services

8.1 The services industry has emerged as a vital sector of most countries' economy. Its efficiency underpins overall economic performance.<sup>1</sup> An OECD paper has noted:

Not only do economies derive the bulk of their employment and income from services, but many services—financial, telecommunications and transport—are vital intermediate inputs for the production of other goods and services.<sup>2</sup>

8.2 This chapter examines the trade in services between China and Australia. It discusses the use of the term services and the statistics available on the trade in this sector. The chapter then looks at the services industry in China, the opportunities for Australian companies to trade in services and the impediments they face. Finally, it considers two major areas of trade in services with China important to Australia—education and tourism.

### The term 'service'

8.3 The meaning of the term services is very broad. Under the multilateral system, the General Agreement on Services (GATS) and commitments made under the WTO govern trade in services. The GATS, however, does not define the word 'services', rather it uses the term 'trade in services'. The GATS definition of trade in services covers not only the cross-border supply of services but also transactions involving the cross-border movement of capital and labour.<sup>3</sup>

8.4 The difficulty with formulating a precise definition of services is that the term generally refers to intangible products. It covers a broad sector that encompasses a number of industry categories. The activities anticipated by GATS under the term services range from 'architecture to voice-mail telecommunications to space

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1 Julia Nielson and Daria Taglioni, OECD, 'Services Trade Liberalisation: Identifying Opportunities & Gains', *OECD Trade Policy Working Paper* no. 1, 2004, p. 81. See also Professor Christopher Findlay, Asia Pacific School of Economics and Government, the Australian National University, 'Trade in Services', *Melbourne Asia Policy Papers*, no. 6, March 2005. He stated that the service sector is 'huge' and noted that in OECD economies it accounts for about 70 per cent of GDP.

2 Julia Nielson and Daria Taglioni, OECD, 'Services Trade Liberalisation: Identifying Opportunities & Gains', *OECD Trade Policy Working Paper* no. 1, 2004, p. 81.

3 See WTO website for information on GATS. See for example [http://www.wto.org/english/tratop\\_e/serve\\_e/serv\\_cbt\\_course\\_e/cls3p1\\_e.htm](http://www.wto.org/english/tratop_e/serve_e/serv_cbt_course_e/cls3p1_e.htm) (accessed 22 July 2005).

transport.<sup>4</sup> Health, education, tourism and banking are also examples that fall within the understanding of a 'service'.

### Statistics on investment and services

8.5 The vagueness in definition means that accurate or precise statistics are not available on trade in services. Although acknowledging that trade in services is 'difficult to quantify', DFAT was of the view that:

Official statistics tend to underestimate services trade but indicate that Australia–China services trade has grown rapidly over the past decade. In 2003, bilateral services trade was valued at almost \$1.9 billion. China is one of Australia's fastest growing services export markets—annual growth has averaged around 14 per cent in five years to 2003—and China now ranks as Australia's seventh largest export market for services.<sup>5</sup>

8.6 Mr Ian Satchwell, ACIL Tasman, was also of the view that Australia's trade in services is not fully appreciated. He stated:

The services sector nationally, and its role in trade with China, is probably undervalued, because it is not a discrete industry sector like mining or gas; it is made up of firms in disparate industries. Data on services trade, therefore, probably does not tend to represent the full value and services are not as tangible as LNG, iron ore or widgets.<sup>6</sup>

8.7 Dr Stephen Morgan noted the difficulties in obtaining accurate and comprehensive statistics on investment and services. He stated that in trying to collate the data on investment and services you will have:

...a small army of people working for a couple of weeks and be not much better off than if you just had the handout, the flyer, the basic one-liner statement associated with trade, investment and so on.<sup>7</sup>

8.8 He further observed that Australian data on Australian investment in China 'is always significantly different from Chinese data'. He explained:

The criticisms and issues I am raising here are not necessarily directed at ABS for any failing on their part. They could improve the accessibility of the data. They could collaborate more effectively with industry and academics to perhaps better understand the nature of Australian investment in China and the nature of our trade in services. For example, two weeks ago a parliamentary officer from the Victorian state government called me because he was struggling with the services data. He was trying to work on the nature of Victoria's services trade with China. I made a number of

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4 WTO, 'Services trade', [http://www.wto.org/english/tratop\\_e/serve\\_e/serv\\_e.htm](http://www.wto.org/english/tratop_e/serve_e/serv_e.htm) (accessed 22 July 2005).

5 *Submission P19*, p. 8.

6 *Committee Hansard*, 1 August 2005, p. 2.

7 *Committee Hansard*, 27 June 2005, p. 1.

suggestions as to how he could use the national data that we have with what we know about the nature of services generated across Australia by state to come up with some approximate back of the cigarette packet type estimates.<sup>8</sup>

### **Committee view**

8.9 The committee believes that the Australian government in consultation with relevant agencies such as the ABS, should review the statistics made available on Australia's trade in services with a view to identify ways to improve the current system of gathering statistics so that they would provide an accurate and comprehensive representation of that trade.

8.10 Despite the difficulty in obtaining accurate statistics on trade in services, the DFAT joint feasibility study on the Australia–China free trade agreement stated that the annual growth has averaged 26 per cent to 2004 and that China now ranks as Australia's seventh largest export market for services.<sup>9</sup> The following section considers the service sector in China and the scope for Australian companies to improve their trade with China in this sector.

### **The service sector in China**

8.11 In Andrew Stoler's assessment, Chinese authorities were 'becoming preoccupied by the fact that while the country has succeeded brilliantly at becoming the world's "factory", its service sector has lagged behind miserably'.<sup>10</sup> At a conference on Australian trade, he explained:

Today in Australia, the services sector accounts for about 80% of national GDP. The world average is slightly over 60 per cent and services often represent 70% or more of GDP even in developing countries. In China, services account for only about 38% of GDP—and that share is falling. And where home-grown Chinese companies are services providers, they are often dismal performers.<sup>11</sup>

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8 *Committee Hansard*, 27 June 2005, p. 2.

9 See also I. Satchwell, *Committee Hansard*, 1 August 2005, p. 2.

10 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3. Mr Stoler is Executive Director, Institute for International Business, Economics and Law, the University of Adelaide.

11 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3. Professor Findlay, noted that in OECD economies the service sector accounts for about 70 per cent of GDP, 55 per cent in the middle-income countries and 42 per cent for low-income countries. In Australia services account for 'over 80 per cent of output and employment'. 'Trade in Services', *Melbourne Asia Policy Papers*, no. 6, March 2005.

8.12 China has recognised the benefits likely to accrue from liberalising its service sector and is now committed to opening up this sector to foreign interests. In China changes to the regulatory system governing trade in services mark a significant shift in approach and policy, representing a milestone in reform.<sup>12</sup> For example, under the WTO, China agreed to permit:

- foreign service suppliers to establish joint venture enterprises in the telecommunications services—within three years of accession foreign investment shall be no more than 49 per cent and within five years there would be no geographic restrictions;
- upon accession, foreign financial institutions to provide banking services in China without client restrictions for foreign currency business, within two years to provide local currency business to Chinese enterprises and within five years to provide banking services to all Chinese clients;
- foreign non-life insurers to establish as a branch or as a joint venture with 51 per cent foreign ownership and within two years of accession to establish as a wholly-owned subsidiary;
- upon accession, foreign life insurers 50 per cent ownership in a joint venture with the partner of their choice;
- upon accession, large scale commercial risks, reinsurance and international marine, aviation and transport insurance and reinsurance to form joint ventures with foreign equity of no more than 50 per cent and within five years allow wholly foreign-owned subsidiaries.<sup>13</sup>

8.13 Besides improving market access, China has made commitments to increase the transparency of its trade and investment regimes.

8.14 The reforms have produced positive results. Investment in China's service sector continued to increase in 2004, with the number of research and development centres and regional headquarters established by multinational companies increasing significantly.<sup>14</sup> Furthermore, China has agreed to open sectors of its service economy previously closed off to foreign companies and has indicated that they intend to improve their business environment by removing obstacles that weaken foreign

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12 See for example, Thomas Rumbaugh and Nicolas Blancher, 'China: International Trade and WTO Accession', *IMF Working Paper*, WP/04/36, International Monetary Fund, March 2002, p. 9. They stated: Plans include the opening of key service sectors where foreign participation was previously nonexistent or marginal, notably telecommunications, financial services and insurance. In those sectors, full access will eventually be guaranteed to foreign providers through transparent and automatic licensing procedures. China will also remove restrictions on trading and domestic distribution for most products.

13 WTO News, 'WTO successfully concludes negotiations on China's entry', 17 September 2001.

14 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005. OECD, 'Opening up Trade in Services', Policy Brief, 2003.

investor confidence. At the beginning of 2005, it indicated that it would gradually open banking, insurance, securities, commerce, telecommunications, tourism and other service industries to foreign competition.<sup>15</sup> These reforms should provide developed countries such as Australia with significant trade and investment opportunities.

### **Opportunities for Australian companies to trade in services with China**

8.15 Australian services businesses have much to offer China. Alan Oxley has suggested that the services sector is the one 'most likely to generate a new, special characteristic in the economic relationship.'<sup>16</sup> DFAT agreed with the view that Australian companies are being presented with opportunities to enter or expand their activities in the services sector as China implements market reforms.

8.16 It noted that the trade in services is expanding rapidly and will be an increasingly important element of the commercial relationship. It also observed that growth in services extends beyond tourism and education. They now include, for example, financial services; professional services like legal, engineering, and data base services; architecture, medical and health services; communications services; air and maritime transport services; services linked to developing partnerships in energy and mining; and freight and logistics services as well as agricultural consulting, technologies and machinery. Trade also has been increasing in environment, recreational and sports-related services, and scientific and technical consulting services.<sup>17</sup> In the department's view:

These developments demonstrate both countries' strengths outside traditional areas of trade and investment and highlight a broad new area of opportunity for the bilateral commercial relationship.<sup>18</sup>

8.17 This report has discussed the complementarity in trade between Australia and China. The same feature applies to Australia's trade in services with China. Another advantage stems from the complementary interaction between Australia's trade in goods and its trade in services. For example, ACIL Tasman is exporting its home grown services to China, some of which directly complement its trade in goods. It explained:

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15 *Report on the Implementation of the 2004 Plan for National Economic and Social Development*, submitted to the Third Session of the 10th National People's Congress, 5 March 2005.

16 Alan Oxley, Director ITS Global, Melbourne, Australia, and Chairman, Australian APEC Study Centre, 'Good FTAs should be like share prices—anticipate future developments: Trends in trade and investment between China and Australia', presentation to the Australia–China FTA Conference, Sydney, August 2004, p. 5.

17 *Submission P19*, pp. 9 and 13.

18 *Submission P19*, p. 14.

We work in wool technologies promoting the sale of Australian and Western Australian wool, which is somewhat differentiated, into China. We conduct LNG and gas market studies in China and in Australia. We undertake gas market training for Chinese gas executives, and we conduct market entry studies for Australian companies.<sup>19</sup>

8.18 According to ACIL Tasman:

Australia is leveraging its growing trade in goods into complementary growth in the services sector and, at the same time, we like to think that the services sector is enhancing market prospects for our trade in goods. That is a key point that we would like to make. We think, therefore, that a really good understanding of the Australian services sector should be a priority for government.<sup>20</sup>

8.19 While recognising that China has come a long way in opening its economy, two analysts have sounded a note of caution. They stated that China must step up its institution building and rebuilding—'including dismantling remaining central planning institutions, formulating policies consistent with WTO agreements, amending laws inconsistent with WTO rules, and imposing uniform rules throughout the country'.<sup>21</sup> Mr Graeme Thomson has argued that much regulation and preferment of local service providers is diminishing under WTO accession but:

...China will retain significant restrictions on pricing, ownership, business scope or region and further liberalization would boost efficiency and more meaningful and better paid employment for Chinese workers. Australia too could benefit from a freer flow of services from Chinese service providers.<sup>22</sup>

8.20 The Australia China Business Council also believed that if China were to relax many of the constraints that currently hamper trade in services, Australian enterprises, which are internationally competitive and have recognised expertise, would have the opportunity to compete on fair and equal grounds with Chinese firms.<sup>23</sup>

### ***Committee view***

8.21 The committee accepts that reform in China in the services sector may not be progressing as quickly as the international community would wish. Even so, the committee notes that China has taken considerable steps to open up this sector to

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19 I. Satchwell, *Committee Hansard*, 1 August 2005, p. 2.

20 *Committee Hansard*, 1 August 2005, p. 2.

21 Ramesh Adhikari and Yongzheng Yang, 'What will WTO Membership Mean for China and its Trading Partners?', *Finance & Development*, vol. 39, no. 3, September 2002.

22 Graeme Thomson, Principal Graeme Thomson and Associates, 'Trade Policy Issues', Australia-China FTA Conference, Sydney, 12–13 August 2004, p. 4.

23 *Submission P 40*, p. 4.

foreign competition. The following section looks at aspects of the financial services sector in China that are of particular interest to Australia.

## Financial services sector

8.22 Chapter 4 highlighted the urgent need for the Chinese to develop sound institutions with good corporate governance practices in order to generate public confidence in their economic system.<sup>24</sup> This observation is particularly relevant to institution building in the financial services sector. For example, banking is one of the main areas in need of reform in China. Mr Eswar Prasad, analyst with the IMF, stated that China's state-owned banking system 'has been plagued by a legacy of policy lending to state enterprises that has resulted in the accumulation of a large stock of nonperforming loans (NPLs)'.<sup>25</sup> He explained that, 'This was lending not done on a commercial basis, but it was directed in a sense by the central planning authority, the government'.<sup>26</sup> Mr Stoler has stated that 'Chinese state banks are struggling to transform their operations before the sector is liberalised in 2006 as a result of WTO commitments', concluding that they 'are right to be worried'.<sup>27</sup>

8.23 In evidence to the committee, Dr Davis, ACCI, noted that the Chinese, as required under the WTO rules, are progressively opening the banking sector up. He explained:

I understand the requirements of their accession to the WTO, they are required to allow Australian banks entry. I do not have the details at my fingertips. I believe that they are moving their banks towards Basel rules or capital adequacy...In terms of the sustainability of their fiscal system, they have issues in their tax system that they have to get right. They have large legacies from the state owned enterprise days. They have bad debts. On the positive side, at least they have substantial foreign reserves that they can draw upon if they need to.<sup>28</sup>

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24 See chapter 4, paragraphs 4.30–4.41.

25 Eswar Prasad, Division Chief, Asia and Pacific Department, IMF, 'Growth and Stability in China: Prospects and Challenges', *Harvard China Review*, Annual Conference, Cambridge, 17 April 2004. Two IMF analysts have also argued that 'the urgency of financial sector reforms has increased as domestic banks will need to be prepared to face intense competition when, with WTO accession commitments, the financial sector is opened up to foreign banks in 2006. 'China's Growth and Integration into the World Economy: Prospects and Challenges', Eswar Prasad (ed.), *IMF Occasional Paper* 232, p. 4.

26 Transcript of an IMF Economic Forum, 'China in the Global Economy: Prospects and Challenges', Washington, D.C., 19 October 2004, p. 2.

27 Andrew L. Stoler, Institute for International Business, Economics Law, University of Adelaide, 'Priorities for Australian Trade Initiatives in 2005', 2005 CEDA/Promina, Economic and Political Overview Conferences, Adelaide, Melbourne, 16–17 February 2005, p. 3.

28 R. Davis, *Committee Hansard*, 29 June 2005, p. 21.

### **Stock market**

8.24 The stock market in China is another area calling out for reform. It developed in tandem with the socialist market economy.<sup>29</sup> Premier Wen acknowledged that China is 'not knowledgeable or experienced enough' to establish an all-round securities market, admitting that the 'infrastructure of such a market is weak and the market mechanism is imperfect'.<sup>30</sup> He announced that China would continue to develop the capital market and increase direct financing by:

- improving the quality of the listed companies;
- establishing an open, fair and transparent securities market;
- tightening oversight and fight flaws and crime;
- enhance infrastructure for the securities market, concentrating on putting an appropriate system in place; and
- protecting the interests of investors, especially non-governmental investors.<sup>31</sup>

8.25 As noted in chapter 2, corporate law reform and the establishment of sound and responsible financial institutions are areas in which Australia can make a positive contribution to China's endeavours to develop and improve its financial services sector.<sup>32</sup> Having worked carefully and concertedly on corporate law reform over the last few years, Australia is in an ideal position to offer assistance to China. Regulators such the Australian Competition and Consumer Commission, the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority have a wealth of experience in the area of corporate reform.

8.26 Australian firms are also well placed to take advantage of the opportunities presented as China implements its reform program. Mr Calder, KPMG, told the committee that the company provides expertise on the delivery of financial advisory services, as part of teams in China, on matters such as the privatisation, or corporatisation, of state owned enterprises, investigations of fraud and other forensic issues and computer security.<sup>33</sup>

8.27 The Australia China Business Council noted that over recent years several Australian banks and insurance companies, including ANZ Banking Group, Commonwealth Bank, Macquarie Bank and IAG insurance group, have been granted licences to establish and develop their businesses in China.<sup>34</sup> It was of the view that further liberalisation of the current restrictions applying to financial services in China

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29 'Premier Wen Jiabao's press conference', 14 March 2005.

30 'Premier Wen Jiabao's press conference', 14 March 2005.

31 'Premier Wen Jiabao's press conference', 14 March 2005.

32 See chapter 4, paragraphs 4.30–4.42.

33 *Committee Hansard*, 1 August 2005, p. 2.

34 *Submission P40*, p. 24.



would allow Australian banks and other financial institutions to provide a greater range of products and services to their customers in China.<sup>35</sup>

### **Committee view**

8.28 On a number of occasions in this report, the committee has noted Australia's comprehensive reform program in corporate law and the expertise of many Australian business in the financial sector. This wealth of experience places Australian companies at a distinct advantage not only in advancing their own business interests in China but in helping the country through the difficult phase of transforming their financial institutions.

### **Education**

8.29 Australia already has an established presence in education and tourism that dominates Australia's export trade in services. The following section looks at the opportunities for further expansion in these two areas.

8.30 China openly admits the shortcomings in its education system. At the beginning of 2005 it acknowledged that it 'must adopt a scientific outlook on development and implement the strategy of reinvigorating our country through science, education and trained personnel'. It pledged to make education a 'strategic priority'.<sup>36</sup>

8.31 The Department of Education, Science and Training (DEST) noted that China had recently stated its aim of becoming 'a major exporter of international education and an international hub, which may see it become a competitor to Australia as well as a partner in the education area'.<sup>37</sup> Even so, according to the department, the Chinese government recognises that its present education system cannot support the demand for education:

More than 100 000 Chinese students left the country in 2002 to study overseas. The demand for overseas education is primarily limited by foreign governments' visa policies and is closely related to the ability of Chinese students to pay for their education. With continuing strong economic growth and improvement in per capita income, the proportion of families willing to invest in an overseas education will continue to increase strongly.<sup>38</sup>

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35 *Submission P40*, p. 4.

36 *Report on the Work of the Government*, delivered by Premier Wen Jiabao at the Third Session of the 10th National People's Congress, 5 March 2005.

37 *Submission P30*, p. 1.

38 *Submission P30*, p. 2.

### ***Chinese students in Australia***

8.32 Education is Australia's leading services export to China, and according to the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) contributes 46,000 jobs for Australians.<sup>39</sup> DFAT cited the following statistics to highlight the growing importance of China to Australia's education sector:

The number of Chinese student enrolments was 58 574 in 2003. This figure rose to 68 857 in 2004. In 2004, Chinese students comprised approximately 20 per cent of the total number of enrolments of international students in Australia. In addition, around 30 000 Chinese students studied and/or received training at Chinese institutions in China linked to Australia, particularly through course content and teaching staff. This growth in education services seems set to continue in response to rising Chinese incomes, the high priority being given to education and increased spending generally on high quality services. The number of Australian students studying in China has also risen over the past decade. Around 1 000 Australian students were studying in China in 2003.<sup>40</sup>

8.33 DEST informed the committee that in 2004, Chinese nationals made up the highest number of international students enrolled in Australia. In 2004, Chinese students represented 21.3 per cent of the total number of internal students studying in Australian institutions (322,776). DEST provided the following statistics:

#### **Chinese students studying in Australia 2004**

Higher education sector	30,041	43.6%*
ELICOS	15,006	21.8%
Schools	12,557	18.2%
Vocational education and training	9,779	14.2%

*\*this sector enjoyed the highest growth: an increase of 25% from 2003<sup>41</sup>*

8.34 The department expected the strong growth to continue through 2005 but almost all from the vocational and higher education sectors.<sup>42</sup>

### ***Education services in Australia***

8.35 Many submissions recognised the potential for Australia to build on its already well-established education links with China.<sup>43</sup>

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39 *Submission P51*, p. 7.

40 *Submission P19*, p. 9. DIMIA stated that at 30 September 2004, there were some 42,209 Chinese students and their dependents in Australia.

41 *Submission P30*, p. 3.

42 *Submission P30*, p. 3. See also DIMIA, *Submission P51*.

43 F. Lee, *Submission P17*, p. 110.

8.36 The Wollongong City Council highlighted the considerable economic benefits that flow to both the University of Wollongong and the city from its long-standing connections with China. The University has approximately 1,700 Chinese students enrolled, making it the largest body of foreign students at the university. They pay university fees of approximately \$15,000 per annum and spend about the same amount on living expenses. This expenditure contributes at least \$51 million to the region annually. There are also about 300 Chinese students studying English language courses at Wollongong University College in preparation for university studies. They too make a significant contribution to the local economy.<sup>44</sup>

8.37 The most popular courses for Chinese students at the university—engineering, informatics, commerce and science—are the very areas that hold great promise for expanding and deepening Australia's trade relationship with China. This important connection with Chinese students, however, goes beyond purely economic considerations. It also contributes to establishing and maintaining social, cultural and research links. Education is critical in building long standing rapport that supports business and commercial links in the long run.<sup>45</sup> This is discussed later in chapter 15.

8.38 Clearly, Australia has established its name in China as a preferred country for the education of its students. The education market, however, is highly competitive and Australia must match or better other countries in the quality of the education services it offers if it wants to maintain or expand market share.

8.39 There are a number of factors that influence a student's decision to travel overseas to continue his or her education—the safety and welfare of the student, the ease of access to the host country and the quality of the services. These factors are discussed below.

### ***Securing the reputation of Australia as a safe place***

8.40 In considering an educational institution for their child, parents want reassurance that their child will be in a safe environment with appropriate pastoral care.<sup>46</sup> In this regard, DIMIA works with DEST to identify student welfare concerns. Mr Rizvi, DIMIA, noted:

We have had reported to us from a range of sources within Australia and also following a delegation from the PRC Ministry of Education some concern particularly about the welfare of the younger students from China. Many of these people are probably outside their country for the first time, they are still fairly young, many of them have a substantial amount of money to spend for the first time and they are away from their parents for the first time. They are in a pretty vulnerable position, and there has to be a level of consciousness about that vulnerability and about how we make sure

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44 *Submission P10*, p. 4.

45 See for example, V. Kelly, *Committee Hansard*, 1 August 2005, p. 21.

46 See comments by D. Calder, *Committee Hansard*, 1 August 2005, p. 7.

we are doing what is reasonable to protect their vulnerability and indeed, from there, to protect the long-term viability of Australia's overseas student market. If Australia was to be viewed as a country where those younger students were going to be at some risk then our competitive advantage is diluted.<sup>47</sup>

8.41 DIMIA informed the committee that Student Welfare Reference Groups, which include relevant government agencies, providers and students, community and industry representatives, have met since early 2004. They share and discuss concerns, liaise with police and welfare agencies and identify 'best practice' to be disseminated throughout the industry.<sup>48</sup> Matters may include accommodation or issues of actual physical risk. For example, relatively young, inexperienced people, perhaps with a lot of money for the first time, may be susceptible to standover tactics. DIMIA also cited students getting themselves into difficulties with gambling as another concern.<sup>49</sup>

### ***Committee view***

8.42 The committee did not examine in detail this matter of Australia as a safe place for students. Even so, it recognises that governments at all levels and educational institutions must not only take seriously their responsibility for the safety and welfare of foreign students but actively promote the work done to enhance the welfare of students. The committee believes that this should be a priority.

### ***Arrangements for student entry to Australia***

8.43 The current student visa program was introduced in 2001. According to DIMIA, it initiated reforms in 2002 to enhance the flexibility of the student visa requirements. They were intended to bring 'greater consistency in the financial requirements across student visa subclass and added flexibility to the English language requirements and financial evidentiary requirements for higher risk applicants'.<sup>50</sup> The department has also introduced measures to facilitate the lodgement and processing of student visa applications from China, including a formal internet lodgement trial.<sup>51</sup>

8.44 Even so, some witnesses were critical of the student visa arrangements. The Wollongong City Council was of the view that Australia's potential to attract greater numbers of Chinese students was undermined by government policies. It stated that DIMIA imposes strict controls on Chinese students entering Australia. DIMIA classifies China as a Category 4 country in its risk assessment of foreign nationals most likely to breach conditions of their student visa. In the Council's view, this high

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47 *Committee Hansard*, 21 June 2005, p. 18.

48 *Submission P51*, p. 10.

49 *Committee Hansard*, 21 June 2005, p. 19.

50 *Submission P51*, p. 8.

51 *Submission P51*, p. 8.

rating effectively restricts the number of Chinese students undertaking undergraduate courses in Australia. It explained:

The most obvious impact is the requirement for students from Category 4 countries to produce evidence that they have the finances to cover their living expenses and tuition fees for the duration of their course. This is a considerable amount of money for three, four or more years of undergraduate study. The inability to demonstrate this level of financial resources forces many Chinese students to undertake undergraduate courses elsewhere, before coming to Australia for the shorter post-graduate courses.

In 2001 the Australian Government also introduced a requirement that Chinese students must pass the International English Language Testing System exam *before* they can study at an Australian university. While this policy seems logical in theory, it is in practice extremely restrictive and detrimental to Australian education providers and the Chinese students themselves. This policy has had a major impact on the Wollongong University College, by considerably reducing the length of time a Chinese student spends doing an English language course. It has also had an adverse impact on the Chinese students, because most of them are now not being trained in Australian-accented English. This affects their listening skills in lectures and tutorials and makes their study unnecessarily harder.

In addition, it is extremely difficult for people living in large parts of northern and western China to apply for student visas. This restriction is aimed at the poorer provinces of China whose residents are deemed more likely to overstay their visas and remain in Australia illegally. As a result, residents of these provinces are denied the opportunity to study in Australia.<sup>52</sup>

8.45 The Western Australian government also cited problems with visas as a major restriction on trade. It noted that a student coming from China to attend an institution in the TAFE or the private sector experiences more difficulty in obtaining a visa than one going to university. Mr Gunningham provided the example of the TAFE sector in Western Australia, where there are about 450 students in colleges under partner agreements across China. The Western Australian Government would like to bring more of these people to Perth but pointed to the visa problem.<sup>53</sup> Mr Gunningham believed that if this problem were fixed there would be a marked improvement.<sup>54</sup>

8.46 The Northern Territory government supported the view that the current visa entry requirements for students from China impede the growth in student numbers. It believed that action to improve the arrangements would help overseas students seeking to undertake studies in the Northern Territory.<sup>55</sup>

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52 *Submission P10*, p. 5.

53 *Committee Hansard*, 1 August 2005, p. 17.

54 *Committee Hansard*, 1 August 2005, p. 27.

55 *Submission P33*, p. 2.

### **Committee view**

8.47 In light of the criticism raised by a number of educational institutions about visa restrictions, the committee suggests that the Australian government, in consultation with Australia's educational institutions, review visa requirements with a view to improving the system.

### **Joint ventures**

8.48 The Australian government has introduced a number of incentive schemes designed to attract overseas students. For example, on 1 July 2003, it launched the Professional Development Visa (PDV) scheme. According to DIMIA, overseas Chinese organisations form the majority of those participating in this scheme. It is designed to allow Australian businesses to provide 'tailored training programs to groups of professionals, managers and government officials from overseas'.<sup>56</sup> They include courses leading to Masters of International Management, Masters in Public Administration, English Language, Hospital Management, Senior Training in Finance and Professional Teaching in Higher Education.

8.49 The scheme supports and encourages the development of partnerships between Australian organisations (mainly universities) and Chinese government agencies. According to DIMIA, at 28 February 2005, there were 28 PVD sponsorships involving partnerships with Chinese organisations with over 200 Chinese nationals obtaining PVDs.<sup>57</sup>

8.50 The committee supports schemes that encourage Australian organisations to work in conjunction with Chinese organisations to attract Chinese students to Australian educational institutions.

### **Recognition of qualifications**

8.51 An important aspect not yet touched on in this discussion on education is the importance of mutual recognition of qualifications.<sup>58</sup> The Charles Sturt University (CSU) has succeeded in having four of its degree offerings formally recognised by the Chinese Government. The university is pleased with this result as only 17 Australian degrees in a total of 80 overseas degree programs have been formally recognised by the Chinese Government.<sup>59</sup> It would like to see 'the Australian Government provide assistance, both financial and diplomatic, to facilitate Australian university recognition by the Chinese Government'.<sup>60</sup>

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56 *Submission P51*, p. 9.

57 *Submission P51*, p. 9.

58 See for example, I. Satchwell, *Committee Hansard*, 1 August 2005, p. 8.

59 *Submission P29*, p. 1.

60 *Submission P29*, p. 2.

8.52 The Western Australian Government argued that the failure to have mutually recognised qualifications is a serious obstacle to providing education services. It gave the example:

If you are, say, marketing a TAFE qualification in Beijing, in Shanghai or in any other part of China and a student asks, 'What will this qualification mean to me when I get back to China?' the answer is, 'Very little, because there is no recognition.' So help is needed on the visa side and help is needed with the mutual recognition of qualifications.<sup>61</sup>

### *Committee view*

8.53 Word of mouth is an important means of promoting a service, particularly education. Students returning to China happy with the quality of the education they received in Australia will in many ways become ambassadors for Australia's education services. It is particularly important for their qualifications to be recognised in China. The committee would like to see the Australian Government take a leading role in working with Australian and Chinese educational institutions, professional bodies and responsible government agencies to achieve mutual recognition of qualifications across all professions.

### **Recommendation 9**

**8.54 The committee recommends that the Australian government:**

- **work closely with the states and educational institutions to support and promote the work being done to enhance the welfare of overseas students in Australia;**
- **in consultation with state governments and educational institutions review the visa requirements for overseas visitors with a view to allowing greater access for foreign students; and**
- **take a lead role in discussions with Australian and Chinese educational institutions, professional bodies and responsible government agencies to achieve mutual recognition of qualifications across all professions.**

### *Providing education services in China*

8.55 China's enthusiasm for improving its education system offers opportunities for Australian service providers. DEST noted that the Chinese government has developed policies and laws encouraging the delivery of foreign education with a Chinese institution. It explained that the appeal of an international qualification, coupled with limited access to domestic higher education opportunities in China, had led to an expansion of joint programs. It maintained that Australia is 'at the forefront of foreign program delivery in China'.<sup>62</sup> It observed that:

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61 *Committee Hansard*, 1 August 2005, p. 17.

62 *Submission P30*.

...there has been a proliferation of what are known as education joint ventures or joint programs in China. The Implementation Measures for the Regulations on Chinese–Foreign Cooperation in Running Schools (hereafter Measures) which took effect from 1 July 2004 provide administrative rules for setting up and running Chinese–Foreign cooperatively–run schools and education programs.

Most importantly, the new Measures along with 2003's Regulations raise the legal and administrative expectations for the delivery of foreign education with Chinese partners and increase the importance of the partnership arrangement. Australia is one of the most active foreign countries involved in these joint venture arrangements in China.<sup>63</sup>

8.56 It stated that an estimated 30,000 Chinese students are now studying at Sino–Australian joint ventures in China, which cover all levels of education from English language through to school, vocational education, undergraduate and postgraduate programs.<sup>64</sup>

8.57 For example, in 1997, the Illawarra Institute began to explore seriously the opportunities for expanding their vocational education and training courses into China. Since then it has developed a series of programs and consultancy services in China and has around 20 staff working there.<sup>65</sup>

8.58 Mr Barry Peddle, Director, Illawarra Institute and Chair of TAFE Directors Australia, noted that Chinese public and private investment in schools, vocational and higher education infrastructure in China is 'phenomenal, reflecting a determination by the Chinese authorities to sharply improve education and skills training standards across the country'.<sup>66</sup> He commented further that:

...at the moment China still needs to improve its teacher education and ongoing professional development and is looking to develop educational managers and administrators—providing Australia with a major opportunity to assist in training Chinese people to meet this demand.<sup>67</sup>

8.59 In his view:

...the Australian government should place a higher priority on education in its aid programs to countries across Asia, including China, to capitalise on this country's strong reputation for quality education teaching and administration as well as our highly regarded national curriculum framework and teacher competency standards.

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63 *Submission P30*, pp. 2–3.

64 *Submission P30*, pp. 7–8.

65 *Submission P10*, p. 6.

66 *Submission P10*, p. 6.

67 *Submission P10*, p. 6.



...Australia has an advantage over many other countries because the Chinese recognise the quality of our system which is really international best practice.<sup>68</sup>

### **Committee view**

8.60 The committee recognises that the provision of educational services operates in a highly competitive international market. To remain competitive, Australia must ensure that it maintains and promotes its reputation as a safe place for young students, that conditions for entry and stay in Australia do not discourage overseas students and finally, that the reputation of Australia's educational institutions and the quality of their education remains high. The committee believes the Australian Government should increase its efforts towards the mutual recognition of qualifications. It also recognises that Australia has much to offer the Chinese in their endeavours to improve their education system and that joint ventures are an ideal vehicle for doing so.

### **Tourism**

8.61 Chinese citizens have hitherto tended to travel within their own country, but as China increasingly opens to the outside world they are venturing overseas for work, study and leisure.

8.62 The number of Chinese tourists visiting Australia is the fastest growing market in the services sector for Australia. DFAT described the growth of two-way tourism as spectacular:

In 2003, 176 100 Chinese travelled to Australia compared with 42 600 in 1995. Chinese visitors now make up nearly four per cent of overseas visitors to Australia, and the Australian Bureau of Tourism forecasts that Chinese visitor numbers could rise to around one million by 2012 driven by growing disposable incomes, the priority given to international travel by prosperous Chinese, and government-to-government arrangements to facilitate group international travel such as the extension of 'approved destination status' to more areas within China.<sup>69</sup>

The following table shows the substantial growth in the number of Chinese nationals visiting Australia over the past ten years.

8.63 It should be noted, however, that the number of Chinese travelling abroad has also risen dramatically. In 2004, a total of 28.85 million Chinese visitors went abroad, accounting for an increase of 42.7 per cent.<sup>70</sup>

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68 *Submission P10*, p. 6.

69 *Submission P19*, p. 9.

70 National Bureau of Statistics of China, *Statistical communiqué of national and social development*.

**Table 8.1: Chinese arrivals in Australia 1997–98 to 2003–04**

Year	Number of Chinese arrivals
1997–98	60,354
1998–99	61,361
1999–2000	82,100
2000–01	117,216
2001–02	146,438
2002–03	158,754
2003–04	171,568

*DIMIA, Submission P51, p. 11*

8.64 Chinese tourists also rate very highly on the average expenditure rating, as shown in the following table.<sup>71</sup>

**Table 8.2: Average expenditure for all visitors by selected countries of residence**

Year ended 30 December 2003 to 2004

	Package tour and prepaid international airfares		Expenditure in Australia		Total	
	Year ended 30 December		Year ended 30 December		Year ended 30 December	
	\$	\$	\$	\$	\$	\$
	2003	2004	2003	2004	2003	2004
Hong Kong	1,177	1,292	2,982	3,245	4,159	4,537
Indonesia	830	1,049	3,844	3,903	4,674	4,952
Thailand	1,121	1,125	3,492	3,817	4,613	4,942
Korea	1,689	1,553	2,790	2,881	4,479	4,434
China	1,689	2,124	4,075	3,522	5,764	5,646
Malaysia	901	944	2,825	3,413	3,726	4,356
Germany	2,992	3,093	3,420	3,351	6,412	6,443
USA	3,045	3,092	2,586	2,507	5,631	5,599
Canada	2,509	2,434	2,911	3,085	5,420	5,519
United Kingdom	2,820	2,566	3,034	2,875	5,853	5,441

*A sample taken from Table 8, Average expenditure for all visitors by country of residence, Tourism Australia, Inbound tourism trends, year ended 30 December 2004, p.31. (Published March 2005.)*

71 Table 8, Average expenditure for all visitors by country of residence, Tourism Australia, *Inbound tourism trends*, year ended 30 December 2004, p. 31, published March 2005.

8.65 Overall in 2004, spending from Chinese visitors reached \$1.4 billion, an increase of 39 per cent on the previous year.<sup>72</sup> This accounted for 7 per cent of all international expenditure.<sup>73</sup>

### ***Approved Destination Status (ADS)***

8.66 In part, the expansion in the numbers of Chinese tourists to Australia was due to Australia's status as an 'approved destination' for Chinese tourists. The Approved Destination Scheme (ADS) was an initiative of the Chinese Government. In 1999, Australia was one of the first western countries (along with New Zealand) to be granted ADS status. Since then, Australia has hosted over 160,000 Chinese tourists undertaking leisure travel in groups. The scheme allows Chinese citizens access through streamlined group travel, 'arranged and coordinated through gazetted travel agents', to Australia.<sup>74</sup>

8.67 According to DIMIA, the ADS scheme has been successful in increasing the number of Chinese tourists to Australia while achieving high levels of integrity and compliance with visa conditions.<sup>75</sup> The increase is impressive.

**Table 8.3: Approved Destination Status Scheme arrivals**

<b>Year</b>	<b>Number of arrivals</b>
<b>Approved Destination Status Scheme—China</b>	
1999–2000	6,960
2000–01	24,555
2001–02	31,306
2002–03	28,044
2003–04	31,633
1 July to 31 July 2004	19,221

*DIMIA, Submission P51, p. 13.*

8.68 The ADS scheme has recently been strengthened with a range of reforms to ensure Chinese tourists will continue to receive a quality Australian tourism experience. DIMIA stated that the changes are to ensure that tourists receive 'a good

<sup>72</sup> Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 11.

<sup>73</sup> Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 11.

<sup>74</sup> *Submission P51*, p. 12. See also *Submission P54*, p. 13.

<sup>75</sup> *Submission P51*, p. 12.

tourism product while in Australia'.<sup>76</sup> It noted that there had been allegations of some tourism proprietors behaving unscrupulously by restricting tourists' visits to selected stores only, as well as concerns about commissions that have been taken. DITR is working closely with state governments to address these matters.<sup>77</sup>

8.69 The *ADS Code of Business Standards and Ethics* is an important component of the scheme. The committee believes that compliance with the code must be monitored and enforced.<sup>78</sup>

8.70 Despite its success in attracting Chinese tourists to its region, the Wollongong Council was critical of the government's Approved Destination Status program. In its view, the program limits the opportunities for residents of some of China's less advanced provinces to obtain tourist visas because they are considered to be more likely to breach their visa conditions.

8.71 DIMIA noted these concerns but explained to the committee that as the scheme moves away from Beijing and Shanghai the difficulties with managing the travel agents increase and the level of control diminishes. It underlined the need to proceed cautiously—'to balance issues of facilitation versus integrity'.<sup>79</sup>

8.72 Even so, since its introduction in 1999 the scheme has expanded from the three regions of Beijing, Shanghai and Guangdong to include an additional six provinces. According to DIMIA, the department is gradually working through the process of training additional ADS agents; when they have reached a level of competency the department will look at expanding the scheme to other regions of China. They indicated that:

Eventually we hope to cover all regions of China by progressing the scheme in that gradual way. The key is to make sure that the agents are sufficiently well trained so that the people coming here have an enjoyable visit and the vast bulk of them return before their visas expire.<sup>80</sup>

8.73 While, in principle, Tourism Wollongong (TW) supported this policy of gradually expanding the scheme, it was concerned that other international markets such as Britain and Western Europe would take advantage by offering more attractive visa conditions.<sup>81</sup>

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76 *Committee Hansard*, 21 June 2005, p. 13.

77 *Committee Hansard*, 21 June 2005, p. 13.

78 *Committee Hansard*, 21 June 2005, p. 13.

79 *Committee Hansard*, 21 June 2005, p. 17.

80 *Committee Hansard*, 21 June 2005, p. 12.

81 *Submission P10*, p. 9.

8.74 The Wollongong City Council also mentioned the limited availability of aircraft seats on the Australia–China route. It wanted the Australian government to play a more active role in increasing air traffic between the two countries.<sup>82</sup>

8.75 It should be noted that organisations in the Wollongong region have made a concerted effort to promote the region as a tourist destination. TW actively targeted the Chinese market as the main source of international visitors to the city and surrounding region because it identified China as the international market with the highest potential for growth. It appreciated that attracting even a small percentage of total Chinese visitors to Australia would provide strong tourism growth for Wollongong and the region. It has:

...participated in trade missions to Hong Kong in 2002, 2003 and 2004 and to mainland China in 2003, 2004 and as recently as February 2005...TW has also hosted visits by Chinese travel writers and television presenters who have generated strong publicity and awareness of Wollongong in specific Chinese markets, notably Guangzhou and Shenzhen in Guangdong Province.<sup>83</sup>

8.76 These efforts have been rewarded with 8,000 tourists participating in day trips from Sydney to Wollongong and the Illawarra as part of their Australian holiday package. TW realises the advantages to be gained by teaming with Wollongong University College and other education providers to conduct tours.<sup>84</sup>

### ***Committee view***

8.77 The committee is impressed with the enthusiasm and dedication of the Wollongong Council and other associations in the region such as Tourism Wollongong in promoting business activity in their district. They provide an ideal model for other local councils and associations and deserve recognition for their work. They have raised concerns about impediments that discourage visitors to Australia. The committee believes that both DIMIA and Tourism Australia should give close attention to their concerns.

### ***An attractive destination***

8.78 According to Tourism Australia, Australia has strong appeal for group holiday tourists. The main attractions focus on 'Australia's physical and natural environment, the variety of scenery, the beaches and coastal areas and the clean air'.<sup>85</sup> The most popular activities were shopping for pleasure, visiting the beach, going to markets,

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82 *Submission P10*, p. 9.

83 *Submission P10*, p. 8.

84 *Submission P10*, p. 8.

85 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 3.

visiting national and state parks and botanical or other public gardens.<sup>86</sup> Tourism Australia found that Chinese visitors:

... expect to participate in a variety of activities that are genuinely different from what they can do at home and to experience local Australian culture. They seek a personal experience of Australia, and the freedom that allows them to get to know a country and culture that is very different for their own.<sup>87</sup>

8.79 DIMIA noted that the results of recent research by the Australian Tourist Commission indicated that 73 per cent of ADS travellers would recommend Australia as a holiday destination to family and friends and 54 per cent would like to return for another holiday within five years. It suggested that on both counts Australia performs better than its major Western competitors—United States, Canada and Europe.<sup>88</sup> A 2003 survey, also noted that Chinese tourists on group tours stated that they were likely to return to Australia or to recommend Australia to their friends. Despite this apparent endorsement, they nonetheless rated their satisfaction with their Australian visit lower than that for similar tours to other western destinations.<sup>89</sup> The Chinese Ambassador Fu Ying told a conference in July 2005 that tourist agencies were not offering relevant services and that there had been increasing complaints.<sup>90</sup>

8.80 This comment takes on greater significance in light of a study conducted by Ms Grace Wen Pan who found that one of the key issues in the Chinese inbound travel business to Australia is quality of service.<sup>91</sup>

### **Committee view**

8.81 The Australian tourist market is poised to benefit from the increasing number of Chinese now travelling abroad. Australia has the opportunity to build on its reputation as a desirable place to visit and to capitalise on the potential for growth in

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86 Tourism Australia, *China Visitor Summary*, 18 June 2005, p. 10.

87 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 3.

88 *Submission P51*, p. 12.

89 Tourism Australia, *China ADS Visitor Experience Study 2003*, p. 1.

90 This statement was reported in the *Australian*, 8 July 2005. See also Industry Search, 8 July 2005.

91 Grace Wen Pan, 'Business Partnership Relationships in the Chinese Inbound Tourism Market to Australia', PhD thesis, School of Tourism & Hotel Management and School of Marketing and Management, Faculty of Commerce and Management, Griffith University, 2005, p. 276. An article in Open China also underlined the importance for high quality services for Chinese visitors. It noted that although Chinese tourists like to visit a foreign country, they do not necessarily want to live and eat like a westerner. For example it stated: 'Catering for meals should be Chinese with lots of fresh vegetables and seafood. The Chinese deem 'eating to be the first happiness'. It is very important that this be taken seriously and every effort to ensure that good Chinese style catering is provided at all times'.  
[http://www.openchina.com.au/Chinese\\_Tourism\\_Growth.htm](http://www.openchina.com.au/Chinese_Tourism_Growth.htm) (accessed 8 July 2005).

this market. The industry, however, should not simply look to this expanding market to bolster their productivity. The findings of the 2003 survey and the observations of Ambassador Fu suggest that Australian providers should lift their standards.

8.82 The committee believes that Australia cannot rely solely on its natural attributes to attract Chinese tourists. There is no place for complacency or lack of imagination in the tourist industry. It must ensure that service delivery standards are high and meet the expectations of Chinese visitors. The committee suggests that the Australian tourist industry, including the federal, state and local governments and their respective agencies, work together to identify the areas that Chinese tourists consider could be better. Armed with this information, the committee believes that the Australian tourism industry should then direct its energies to assisting or encouraging service providers to make changes. This would apply not only to private enterprise concentrating on accommodation and tour guide services, shopping and recreational activities but to governments who may have a role in improving the processes involved in visa applications, customs clearance and entry requirements. Governments also have an important part in ensuring that infrastructure with regard to travel facilities is of a high standard.

### **Recommendation 10**

**8.83 The committee recommends that:**

- **the Australian tourist industry and the federal, state and local governments and their respective agencies, work together to identify the areas that Chinese tourists consider could be improved;**
- **following this study, the Australian tourism industry direct its energies to assist or encourage service providers to make appropriate changes;**
- **the Australian government note the criticisms raised by witnesses in this report about visa requirements, and review these requirements and the procedures for processing visa applications and clearances through customs;**
- **the Australian government place a priority on extending the Approved Destination Status (ADS) program beyond the regions now covered by the scheme;**
- **the Australian government, in planning and allocating funds for infrastructure development or in attracting investment for infrastructure development, take account of the increasing importance of Australia's tourist industry to the Australian economy and devote resources to ensuring that transport and associated travel facilities are of a high standard; and**
- **the Australian government acknowledge the work being done by local councils such as the Wollongong City Council in attracting tourists to their region and supports such councils in their endeavours to boost Australia's tourist industry, for example through the promotion of such regions as part of Australia's tourist promotion campaign.**

### ***Australians visiting China***

8.84 DFAT noted that there has also been strong growth of around 12 per cent in the number of Australians tourists visiting China. It stated:

According to the China National Tourism Administration, around 50 000 Australian tourists visited China in 1990, 130 000 in 1995, 234 000 in 2000, and nearly 300 000 in 2002. Again, this steeply rising trend seems set to continue in line with increasing global interest in China as a tourist destination and expected flow-on effects from the Beijing Olympics in 2008.<sup>92</sup>

### **Conclusion**

8.85 Without doubt trade in services with China holds great promise for Australian businesses. At the moment Australia enjoys a number of advantages that derive mainly from the perception of Australia as a safe place of great natural beauty and whose delivery of services is high. China's demand for services in both education and tourism is growing at a remarkable rate. Australia should not be complacent and rely on this growth together with its established reputation as a good place to study or visit to maintain or increase its market share. Competition is too fierce. Both sectors must be alert to the importance of promoting their services to the Chinese market. Greater efforts must be made to facilitate the entry of Chinese students, tourists and business people to Australia, and to ensure that the quality of service provided is high.

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92 *Submission P19*, p. 9.