



Australia signs FTA with China

Supporting a shift from 'mining to dining'

Australia signed a long-awaited free trade agreement with China, its largest trading partner, coinciding with today's state-visit by China's president, Xi Jinping. As expected, the FTA sees tariffs on Australian agricultural products lowered and thresholds increased on Chinese private company investment in Australia. More surprisingly, Australian services providers have been given priority access to the Chinese market. This includes allowing Australian tourism operators to buy hotels and restaurants and insurers to access the third-party insurance market. The FTA should help to bolster Australia's already strong links to Asia and the ongoing 'rebalancing' of Australia's growth towards the non-mining sectors. Australia's agricultural and services industries are set to be key beneficiaries, helping to shift growth from mining to 'dining'.

Facts

- Australia has completed negotiations for a FTA with China, after almost a decade of trade rounds.
- The parliamentary secretary to the Australian Prime Minister announced that, over time, up to 95% of Australia's exports will enter China tariff free as a result of the agreement.
- For agriculture, Australian dairy producers are set to get tariff free access to the Chinese infant formula market (current tariffs are 15%) within four years (equivalent to New Zealand's FTA deal) with broader dairy tariffs set to be phased out over nine years. Tariffs on beef (currently 12-25%) are to be phased out over nine years. Sheep meat is to see its 23% tariff phased out over eight years. Tariffs on Australian wine exports to China are also set to fall to zero (from 14-30%) over the next four years. Other goods, including barley, seafood, skins, leather and horticultural products are to see tariffs eliminated over coming years.
- For mining, tariffs on alumina, zinc, nickel, copper and uranium are to be removed. Coking coal tariffs of 3% will be removed and the 6% tariff on thermal coal will be removed after two years.
- For services, Australian businesses will get greater access to Chinese private hospitals and nursing homes, tourism operators will be able to be buy restaurants and hotels and Australian insurance companies will get access to the third-party insurance market.
- Foreign investment rules will be changed, with the threshold for Chinese investment by a private company in Australia, without Foreign Investment Review Board (FIRB) approval, lifted from \$A248 million to \$A1.087 billion, in line with other Australian FTA's. Chinese state-owned enterprises will continue to need to apply to the FIRB for all investment approvals.
- Chinese workers may also have greater access to the Australian labour market, with the Australian government agreeing to a case-by-case application process for Chinese investors to bring in migrant workers.

Paul Bloxham



Chief Economist, Australia & New Zealand
HSBC Bank Australia Limited
+612 9255 2635
paulbloxham@hsbc.com.au

Daniel Smith

Economist
HSBC Bank Australia Limited
+612 9006 5848
daniel.john.smith@hsbc.com.au

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- The Australian media are reporting that the agreement could boost Australia's economy by \$A18 billion over ten years (1.1% of GDP) (see 'The Australian', 17 November 2014), although there is clearly significant uncertainty around any specific estimates given the interaction of various policy measures and uncertainty about the general outlook.

Implications

As widely anticipated, Australia signed a free trade agreement with China today. The signing coincided with Australia's hosting of the G-20 meeting in Brisbane last weekend and a state-visit by China's president, Xi Jinping, which includes a speech to Australian parliament today, only the second speech by a Chinese president to Australia's parliament in history.

Many of the announced changes as a result of the FTA were as expected, including reductions in agricultural tariffs, coal tariffs and the lifting of thresholds on Chinese private sector investment in Australia (see [Bloxham, P and Smith, D. \(2014\) 'Downunder digest: What to expect from an Australia FTA with China', 11 November](#)). Key amongst these is the reduction in tariffs on Australia's dairy and meat exports, which will put Australia on an equal footing to New Zealand over coming years. Australia's agricultural exports to China were worth \$A9 billion in 2013, with significant scope for expansion. In terms of foreign investment flows, the FTA will see Chinese private companies able to invest up to \$A1.087 billion in Australia, up from \$A248 million, without approval from the Foreign Investment Review Board, although there were no changes in access for Chinese state-owned enterprises.

The surprises were for Australian services exporters and in terms of improved scope for Chinese investors to import Chinese labour into Australia, albeit with approval required on a case-by-case basis. Australia's services exports to China are currently around \$A7 billion (4% of total exports to China) and there is significant scope for service exports to pick up in coming years, given services account for the bulk of Australia's output and as a developed economy, the services sector has high productivity. The agreement on services is being billed by the Australian government as the best deal China has given on its FTA agreements (see ABC News website, 17 November 2014).

Although Australia's trade ties to China are already strong, most of this trade is currently in minerals and energy. The free trade agreement should help to encourage growth in Australian exports of agricultural products and services to China's rapidly growing middle classes. This should help to support Australia's great rebalancing act, from mining investment led growth towards the non-mining sectors of the economy. Although mining will continue to be an important part of Australia's export basket, dining is also expected to support Australia's growth. Australia's FTA with China should help support a dining boom as the mining boom comes to its end.

Disclosure appendix

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Issuer of report

HSBC Bank Australia Limited

Level 32

HSBC Centre

580 George Street

Sydney, NSW 2000, Australia

Telephone: +61 2 9006 5888

Fax: +61 2 9255 2205

Website: www.research.hsbc.com

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