



# **Australia's Social and Commercial Engagement With China: New Directions For The Relationship**

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OPENING ADDRESS TO A SYMPOSIUM ON  
CHINA, TRADE LIBERALISATION AND LABOUR:  
RACING TO THE BOTTOM OR BUILDING A FOUNDATION FOR LABOUR  
RIGHTS?

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## INTRODUCTION

In all the discussion and debate about trade policy and economic development, it is essential to keep a sharp focus on the main game.

A plethora of technical detail and jargon necessarily attaches to negotiation of trade agreements. The labour movement must not get itself stuck in that thicket and lose sight of the way forward.

The main ambition must be advancing the human condition.

This is and has long been the ultimate goal of organised labour worldwide. It is reflected in the ILO Constitution and the Declaration of Philadelphia. Labour is not a commodity. Freedom of association is both a fundamental human right and a bulwark of democracy.

Advancing the human condition is the avowed goal for free trade purists too. They see abolition of protectionism in all its forms as the decisive reform, one which allows developing countries into first world markets and puts a rising material tide under every economic boat.

Our differences centre not on philosophical ends, but on practical means.

For free trade advocates, in the Age of Global Capitalism, it is assumed that the market will automatically provide for improvements in living standards for working people and to the honouring and protection of human rights.

For organised labour, assuring human rights and effective minimum standards is what provides the market with parameters that ensure working families a fair share of the fruits of economic endeavour and guarantee faster and more sustainable development for the poorer countries.

For Australian unionists, these same tensions arise in both the domestic and international contexts. At home, the federal government has embarked on a crusade to "increase labour market flexibility" by reducing minimum standards in our labour markets and curtailing rights to organise and bargain collectively. Internationally, a proliferation of bilateral free trade agreements with countries in our region constrains national policy autonomy and challenges job security and labour market minima throughout the economy.

In today's globalised world, the same challenges arise for organised labour everywhere. We must deal with these issues.

Internationally, the WTO establishes trade rules incorporating a disputes process and an enforcement mechanism. It is strongly supported by governments in all major nations and its coverage and hegemony has grown substantially over the past fifty years. The ILO – the longest standing international institution and the only tripartite international institution - promulgates international labour standards, both Conventions and Recommendations. It issues Country Reports, but the complaints mechanism lacks enforcement capacity. Since the end of the Cold War, it has come under sustained attack from conservative economists and politicians in major nations who have pilloried it as being a fetter on market forces. Its operating capacity has been subject to financial attrition and employers resist the reality of emerging global bargaining and the need for stronger dispute mechanism/s.

The corresponding antipodean story is of the growth of the Productivity Commission whose genesis lies in the Tariff Board, and sustained attack on the Industrial Relations Commission. There is every indication that the present federal government will take this story further in the next few years.

This is because in the October 2004 election in Australia, John Howard and his conservative coalition government, secured an electoral majority in both the House of Representatives and the Senate. This has significant consequences for Australia's trade and economic relationships with East Asia in general and China in

particular. In effect, the Government will be able to determine whether and what Australia negotiates and agrees to in any free trade agreement. It will also be able to guarantee the passage of any enabling legislation needed to give effect to such negotiations.

The expectation of many commentators is that:

- The Australian Government has already taken the decision to recognise China as a market economy which is the pre-condition set by China to negotiate a bilateral free trade agreement. With the scoping study between the two countries concluding at the end of March 2005 the Prime Minister will formalise Australia's position in his speech at the Boao Forum in China in April.<sup>1</sup>
- Within the next two years Australia is likely to conclude an FTA with China as well as Malaysia. This will complement our FTA's with Singapore (operational in July 2003) and Thailand (operational January 2005).
- As announced in November 2004, an FTA between Australia, ASEAN and New Zealand will also be negotiated within two years and fully implemented in ten years.
- Having FTAs with most countries in East Asia on the one hand and the United States on the other hand is expected to provide significant benefits for Australia and, it is argued, will compliment rather than conflict with any multilateral outcomes achieved in the current WTO round.

We have significant reservations about the net economic gain from bi-lateral agreements and of course significant concern in regard to the impact on vulnerable sectors like manufacturing. Thus the agenda being pursued by government is a

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<sup>1</sup> *Howard Posed to Extend Asian Reach*, Australian Financial Review, Friday 21 January 2005

source of endless debate. This paper does not address all of the issues, rather the focus is almost exclusively on the Australia-China social and commercial relationship.

Given China's new role in the global economy, the significant history of the Australia-China bilateral relationship and the virtually unfettered power the Federal Government will have after 1 July 2005, it is essential for the trade union movement and others to debate the issues publicly.

Following the establishment of diplomatic relations in 1972, the Trade Agreement between the Government of Australia and the Government of the People's Republic of China was signed in 1973. Three decades later, in October 2003, the two nations signed the Australia-China Trade and Economic Framework.

Much has changed in the Australia-China trading relationship in those three decades, including our combined bilateral trade in goods and services which has grown from less than \$200 million in the early 1970s to more than \$27 billion last financial year.

Importantly, during this 30 year period, the Australia-China bilateral relationship has endured during periods of global tension and instability. It was consummated by the Whitlam Labour Government in the early 1970s at a time of war in the Middle East and Viet Nam, the first oil price shock, the early 1970s US dollar crisis and the ensuing global recession. At the end of the 1980s it again endured events ranging from Tiananmen Square, the first gulf war and yet, another global boom-bust economic cycle.

Today, as the architects of the Australia-China Trade and Economic Framework reconfigure priorities in the commercial relationship for the next decade, there are a new set of tensions and conflict in both the global economy and society. In economic terms the source of instability resides in macroeconomic and exchange rate misalignments as well as trade imbalances which are fuelling tensions between the United States, the EU and East Asia in general and China in particular.

In social and political terms the problems include global poverty, global terrorism, the aftermath of the second gulf war, the humanitarian tragedy brought about by the Indian Ocean tsunami, as well as fundamental global tensions over labour standards, environmental protection and human rights abuses.

Given these tensions, and the social, political and economic factors that underlie them, new directions for the bilateral Australia-China social and commercial relationship require a broader global focus. Both nations must properly attend to their own national interest considerations in any such agreement. However, they must also work together and with others to help restore stability and balance within the global economy, as well as fairness and social justice within the broader global community.

In the first section of this paper the focus is on the questions of social engagement. Notwithstanding the union case for a strong labour clause and a dispute settling mechanism there must be a minimum standard of social engagement required in the Australia-China trade/economic relationship which has the capacity to evaluate labour and environmental progress.

The current position of the Australian Government is illustrated in its commitment to paragraph eight of the 2003 Australia-China Trade and Economic Framework Agreement. That paragraph requires:

- Australia to temporarily suspend the application of Sections 15 and 16 of the Protocol of Accession of China into the WTO as well as paragraph 242 of the Working Party Report on China's WTO accession. These provisions relate to market economy status in determining subsidies and dumping, safeguard provisions in textile and clothing products, and transitional product specific safeguard mechanisms. The suspension of these provisions applies till the conclusion of the feasibility study which is being undertaken in regard to a possible bilateral free trade agreement.
- Australia must also recognise China's full market economy status (by changing its treatment of China as "an economy in transition" for processing dumping action) before any FTA is negotiated.

The text of paragraph eight suggests that doing this is:

- *“an expression of the will of the two countries to build an even stronger economic and trade relationship”;*
- recognises *“China’s tremendous achievements in establishing a market economy”*.

Our challenge is to expand this thinking to facilitate a commitment by the two nations, out of mutual respect and acknowledgement of reciprocal obligation, to set a new direction for social engagement including a dialogue on labour, human rights and environmental issues. Trade purists and other forces will reject such a linkage with trade agreements. Unionists, myself included, as well as NGOs will demand much higher level commitments. Perhaps we could all take a renewed look at the Singapore WTO commitments and negotiate a permanent forum where, with the involvement of the ILO in the assessment process, labour issues can be raised with a view to ensuring corporate respect for the rights of working people in both China and Australia.

In the second section of the paper the focus is on three standards or tests that need to be applied in judging the commercial content of new directions in the Australia-China trade and economic relationship.

This includes:

1. Dealing sensibly and pragmatically with the market economy issue.
2. Getting more balance in the trading relationship; and doing so in a manner that strengthens rather than weakens the multilateral system.
3. Undertaking a significant reform agenda to make the Australian economy, Australian society and our political culture far more capable of maximising the benefits and minimising the costs of new forms of social and commercial

engagement with China and other nations. This is what we call the “getting free trade ready” test.

This paper then concludes with reference to broader regional trade priorities and the significance of the WTO meeting in Hong Kong in December 2005.

## SECTION 1

### *“Certainly, the impotent are pure”*

Future Australian Prime Minister Gough Whitlam in 1969, responding to the view that it is better for a political party to hold fast to ideological principle and remain in opposition than to compromise and win government.

The “argument in Singapore”, the ‘battle in Seattle’, the “depression in Doha” and the landmark ‘campaign in Cancun’, demonstrate clearly that the reservations about free trade long held by organised labour are shared widely, by unions around the world, and by environmental and human rights movements.

The central issue is the place of labour rights and environmental clauses, in trade agreements. Inadequate though the specific provisions are, the inclusion of a labour clause in the Australia-US FTA, is evidence that we are making some headway. So too, is the WTO “Singapore Declaration” calling for continuing dialogue on labour issues through the ILO.

This Conference focuses squarely on these issues, on labour rights in particular, so I will be brief at this point. But there are a few things to be said now.

Planet Earth loses when a country wins world market share from another if the former excludes environmental costs from its market prices but the latter does not. Planet Earth wears the externality from this source of national competitive advantage. The human condition is not advanced.

Similarly too where one nation wins world market share at the expense of other nations by reducing or suppressing the real value of wages paid to its workers, the world loses.



This is at the heart of the proposition that 'labour is not a commodity'. A 'race to the bottom' is no way to advance the human condition.

Application of this proposition in practical circumstances across the globe has long presented difficulties to organised labour.

Nation states are at different stages of historical evolution, different stages of economic and social development. Consequently, the development and application of global minimum standards has always been problematic.

But where nation states commit to being part of the global trading community, for the purpose of advancing the human condition within their own borders, some lines can readily be drawn in the economic sands.

To a substantial degree, these lines define both the central features of decent work, and the essential footings for democracy.

We can say this:

- Countries that accept membership of the ILO should uphold its precepts in practice not honour them in the breach. This applies perforce where the country ratifies ILO Conventions.
- Freedom of association, collective bargaining and the right to strike are fundamental human rights. Absent these rights in word and in deed, the proposition that free trade advances the human condition carries no conviction.
- Nation states should enforce their own minimum standards for wages and conditions. There should be an open and transparent process for uprating these over time.
- Child labour and forced labour violate fundamental precepts of market economies.

- Hazardous materials handling provisions should be harmonised internationally.
- Occupational health and safety standards should be monitored with outcomes subject to regular review and open reporting.

On the available evidence, it cannot be said that China today meets these criteria. The ACFTU does not exhibit characteristics of a free and independent trade union organisation. Chinese law does not protect freedom of association, nor the right to strike. And minimum labour standards are not enforced there.

The question then is, what to do about it?

As global citizens, we, in organised labour have a duty to advance the interests of working people everywhere.

Do we do this best by standing resolute and remote, refusing to engage with China? Recognising the limitations of current union organisations in China, do we refuse all contact, pass resolutions expressing condemnation and dismay, and wash our hands of it?

In Australia, this is not the approach we take to dealing with our own national government.

It would seem that any engagement with Chinese organised labour should be a *critical* engagement, one in which at every opportunity our fundamental concerns are raised and cogently articulated. This is, in fact, ICFTU policy.

Any engagement should lead to a better future for Chinese working people. To this end a *constructive* engagement would seem to have greater prospects than one which consists exclusively of direct criticism.

Is it possible to have a *critical and constructive engagement* with current labour organisations in China? It will be most interesting to hear the discussion on this point.

Social engagement in the Australia-China bilateral relationship requires:

1. A strong labour clause in the text of the trade agreement; and
2. A process for social dialogue underpinned by the commitment to monitor and evaluate corporate respect for labour rights and environmental standards.

In the case of labour and consistent with the obligations of both countries' membership of the ILO, this could take the form of a permanent forum where, with the involvement of the ILO in the assessment process, labour issues can be raised with a view to ensuring corporate respect for the rights of working people in both China and Australia. Given that the focus will largely be Multi-national Enterprises, both the ILO MNE's Declaration and the OECD guidelines provide a basis for any structured dialogue.

The ACTU for its part will need to formalise a position consistent with that of the NZ CTU. This would be strengthened, of course, if it was supported by the ACFTU.

## **SECTION TWO:**

In this section of the paper we consider what tests or standards the Australian Government should have to satisfy if it chooses "FTA engagement" between Australia and China. In particular, three tests are identified being:

1. There is no disadvantage, to Australian industry in changing the way Australia deals with China in anti-dumping cases (the market economy test);
2. The more balanced trade test (consistent with strengthening the multilateral system);
3. The Making Australia Free Trade Ready Test.

### The Market Economy Test

China joined the WTO in November 2001 and in its Protocol of Accession (in Article 15 *“Price comparability in determining subsidies and dumping”*) agreed to be treated as a non-market economy for 15 years. In simple terms this commitment allows WTO members to use a different methodology in determining “normal value” for the purpose of processing dumping investigations. It provides discretion to determine the extent to which state interference through price controls, subsidies, etc may distort the normal value of a product compared to what would occur in market conditions. It also allows information to be sought from third countries on costs, prices, etc to assess what “normal value” might be.

However, Article 15 also makes it clear that WTO members can grant China market economy status for some or all products/industries before 15 years has elapsed if they so choose.

With China’s emergence as a global power it is not surprising that it is demanding to be treated as a market economy.

Australia is not alone in confronting the debate about granting China market economy status. By the end of 2004 nearly 30 countries had recognised China’s market economy status and that list which includes countries in East Asia, Brazil, New Zealand amongst others, continues to grow<sup>2</sup>. To date, the European Union and the United States have not agreed.

As of late last year, the EU had 32 anti-dumping disputes with Chinese exporters and another 22 cases under investigation. So far the US has imposed anti-dumping duties on 52 Chinese exporters. In 2003 almost half of America’s anti-dumping actions were against China.

The law in the United States requires the Commerce Department to take into account six factors in reviewing non-market economy status:

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<sup>2</sup> AFP: Business News Online, 26 December 2004

1. The extent to which the currency is convertible into the currency of other countries.
2. The extent to which wage rates are determined by free bargaining between labour and management.
3. The extent to which joint ventures and other investments by firms of other foreign countries are permitted.
4. The extent of Government ownership or control of the means of production.
5. The extent of government control over the allocation of resources and over the prices and output decisions of enterprises.
6. Such other factors as the Administration considers appropriate to review.

When applying these criteria recently, the US recognised Russia as a market economy, but not Viet Nam. Under these criteria the United States rejects China's claim to market economy status, and applies anti-dumping legislation accordingly.

The approach has been somewhat different in the EU since March 2001. The EU does not consider China a market economy. However, it has agreed that in certain specific cases where market conditions can be demonstrated to apply, that in such cases the EU will prosecute anti-dumping action against China's exporters as if they had market economy status.

At the seventh China-EU summit on 9 December 2004, agreement was reached (as reflected in paragraph 13 of the summit communiqué) to set up a working party to resolve the technical issues associated with China being accorded market economy status.

In Australia's case the debate within and between Government and industry is strictly limited to how Australia processes dumping cases involving China. Like the EU, Australia treats China as an economy in transition. While the issues are complex and technical, the legal opinion commissioned by the Australian Industry

Group suggests that removing China from the provisions of the Customs Act dealing with “economies in transition” would weaken Australia’s anti-dumping regime and diminish the Minister’s powers in certain respects.

However, it also suggests that it may be possible to incorporate changes into the existing customs law and regulation, in a WTO consistent manner, to deal with price control situations and use surrogate (third country) costs and prices in particular cases where necessary.

Such an assessment is highly conditional on further evaluation of the issues as the AI Group legal opinion makes clear. It is also subject to a very optimistic assessment of how transparent the relationship is between China’s exporters, state owned enterprises and a multitude of government agencies in China at a number of levels. Australia’s current anti-dumping regime for economies in transition (particularly Section 269, Subsection 5D to 5F and regulation 183) is very dependent on transparency (particularly in determining the extent of Government subsidising a wide range of input costs for China’s exporters) to make informed decisions. It is precisely the lack of transparency that has caused so much concern for both the EU, the USTR and the leading International Corporate Governance Agency (IIF Equity Advisory Group) in their recent assessments of China.

All agencies note how much progress China is making. But they also stop well short of giving the sort of approval to existing arrangements that DFAT and the Howard Government seem prepared to do in treating China as a market economy.<sup>3</sup>

This in effect, is the first test of Australia’s future commercial engagement with China that the Howard Government must satisfy. Simply put:

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<sup>3</sup> A good overview of this issues can be found in US Trade Representative: 2004 Report to Congress on China’s WTO Compliance, December 11, 2004 and Institute of International Finance: Corporate Governance in China: An Investor Perspective: Task Force Report, April 2004.

- (a) amendments to Australia’s anti-dumping regime must not disadvantage Australian firms as a result of China no longer being recognised as an economy in transition.
- (b) where prices or costs are distorted by non-market factors in China or where the Chinese based firms involved do not co-operate in providing sufficient information, the Minister must be able to use surrogate costs and prices to determine “normal value”.
- (c) the regulation/legislation to achieve this must be WTO consistent and Customs provided with sufficient resources to make sure Australia’s anti-dumping regime is effective and efficient.

Increasing trade tensions in the global economy will result in dumping cases being highly emotive and politically charged. This will be even more the case with a country like China in view of its human rights and labour relations track record. All it will take is one or two cases of a group of Australian workers losing their jobs to “dumped” China imports to ignite a highly charged negative environment in the future. The stakes are very high to get the right outcome on the dumping issue.

### The More Balanced Trade Test

At one level Australia’s trading relationship with China is a very good news story:

Our service exports to the world have grown by less than five per cent per annum in the last five years while our service exports to China have been growing at 14.4% per annum. Similarly our exports of elaborately transformed manufactures (ETMs) to the world have grown by less than four per cent per annum in the last five years while our ETM exports to China have been growing by more than 15% per annum. As shown in Table One, the good news story for Australian exports to China compared to our exports to the rest of the world also applies to our simply transformed manufacture exports, and Australia’s exports of primary products.

Table 1: Australia’s trade with China 2003 - 2004

	Services Trade 2003-2004	5 Year Growth with China (% p.a.)	5 Year Growth with World (% p.a.)
1. Australia exports to China	\$1,187	14.4%	4.8%
2. Australia imports from China	\$881	9.7%	3.8%
Merchandise Trade (Total) 2003 – 2004			
3. Australia's exports to China	\$9,912,394	20.2%	5%
4. Australia's imports from China	\$15, 339,477	20.6%	6%
Elaborately Transformed Manufactures (ETMs) 2003 – 2004			
5. Australia's exports to China	\$1,060	15.2%	3.7%
6. Australia's imports from China	\$13,499	19.7%	5.9%
Simply Transformed Manufactures (STMs) 2003 – 2004			
7. Australia's exports to China	\$710	25.3%	3.0%
8. Australia's imports from China	\$977	23.5%	2.2%
Primary Products 2003 – 2004			
9. Australia's exports to China	\$5,884	18.1%	5.5%
10. Australia's imports from China	\$675	25%	10.9%

Source: DFAT: *Composition of Trade Australia 2003 – 2004 and Exports of Primary and Manufactured Products Australia 2003 – 2004*. Trade in ETMs, STMs and Primary Products will not equal total merchandise trade as confidential items and the "other" category are excluded. The growth rates are average annual growth rates for the five years to 2003 – 2004.

Much of the optimism expressed about the future of the Australia-China trading relationship is based on the expected boom in Australia's energy and resources sector.

With a population of 1.3 billion, an economic growth rate more than double that of global GDP growth and an insatiable appetite for imports of oil, gas, iron ore, coal, nickel and other minerals, China has become the driving force behind capacity expansion decisions amongst global energy and resources companies.



Australia is already experiencing this energy-resources surge. The \$25 billion long-term LNG contract between China and Australia's Woodside-North West Shelf joint venture partners will commence shipments in 2006. China also looms as a key potential long-term LNG contract to kick start the \$11 billion Gorgon project for its Chevron Texaco backers in West Australia.

In the iron ore and coal industry the boom times that China's steel industry has helped induce are reflected in reports in the financial press of the potential doubling of export contract prices, significant capacity expansion, surging share prices for the likes of BHP Billiton and the infrastructure capacity constraints that are occurring at Australia's coal ports in Queensland and NSW.<sup>4</sup>

While welcoming the wealth and job creation that comes from Australia's mineral-resource exports to China the current trading relationship is not without problems. As the ACTU pointed out in its submission on the FTA Joint Feasibility study:

*"Getting more balance within the Australia-China trading relationship would be a most welcome development ... the current trading relationship is almost solely based on Australia exporting largely unprocessed commodities and importing manufactures."*<sup>5</sup>

That ACTU submission and other studies have indicated:

- Australia's trade deficit with China in manufactures is close to \$13 billion and that trade deficit has grown by more than 18% per annum in the past decade. While this is largely explained by China winning market share from other overseas importers it has also come at the expense of many job losses for Australian manufacturing workers.<sup>6</sup>

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<sup>4</sup> For recent reports of Australia's LNG and coal prospects see: S. Wyatt *LNG Rivals Woo China Trade*, Australian Financial Review, November 24, 2004 and *Asian Boom Heats Up Coal*, Australian Financial Review, November 8, 2004

<sup>5</sup> ACTU Submission to DFAT *Study Taskforce*, 30 June 2004, p4

<sup>6</sup> Between 1990 and 2003 China increased its share of total Australian imports from 2.5% to 10.9% (DFAT: Trade Topics: *A Quarterly Review of Australia's International Trade*, September Quarter, 2004, Table 3, p10)

- Any free trade agreement with China could also threaten more jobs in the textile, clothing and footwear industry, as well as auto components.
- The failure of the Federal Government to adequately promote elaborately transformed manufacture (ETM) exports to East Asia was an important factor explaining Australia's loss of market share in China, Hong Kong, Japan, Korea, Philippines and Thailand. Compared to 1993-95 Australia has lost a third of its market share of global ETM imports into China. The loss of ETM market share to the six countries noted above has cost Australia \$3 billion in export earnings and thousands of job opportunities.<sup>7</sup>

It is the lack of balance in the trading relationship that leaves many Australians wondering whether the China-Australia trading relationship is simply the latest version of this country's dependence on the quarry and the sheep's back.

Against this view there is clearly room for Australia to win more international business opportunities through trade in services:

- Australia already attracts nearly 200,000 tourists from China with this projected to increase to a million by 2010.<sup>8</sup>
- Australia generated \$5.9 billion in export revenue in 2003-2004 from its education industry with 66,240 enrolments as at October 2004 from China, which now provides the greatest share of foreign students<sup>9</sup>
- Many also consider that Australia has the potential to lift a wide range of other service exports to China in areas such as legal, financial, construction, telecommunications, as well as intellectual property and technical – manufacturing related services.

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<sup>7</sup> Calculated from CSES: *Report to Victoria's MICC*, December 2003, Tables 3.2 & 3.3

<sup>8</sup> DFAT: *People's Republic of China Country Brief*, November 2004, p3

<sup>9</sup> DFAT: *Australia in the International Education Market*, Trade Topics, September 2004, pp14-15

Nevertheless, questions remain about how to get more balance into the economic and trading relationship with China and whether a bilateral free trade agreement is the best mechanism for achieving this.

In answering these questions the ACTU's starting position is the one we put to the recent Senate Inquiry into an Australia-US FTA.

The ACTU's strong commitment to multilateral agreements reflects the following considerations:

- *“The economic benefits of such agreements are available to both industrialised and developing countries.*
- *The proliferation of bilateral trade agreements leads to different rules of origin and associated complexity and other costs for exporters.*
- *There is a significant risk of trade diversion due to bilateral preferential trade agreements. This has been highlighted by the recent Productivity Commission evaluation of around 17 bilateral agreements.*
- *The advantage of multilateral negotiations is that smaller countries are able to aggregate their bargaining power to negotiate on a more equal basis with major economies.*
- *Multilateral negotiations are more appropriate for Australia given our diverse patterns of trade, with major export markets in Asia, Europe, the Middle East and North America.”<sup>10</sup>*

In this respect the second test the Howard Government must satisfy is to demonstrate beyond reasonable doubt that changing our commercial engagement with China through a bilateral FTA is in the national interest and;

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<sup>10</sup> ACTU Submission to Senate Select Committee Inquiry Into Australia-US Free Trade Agreement, 2004, p3

- (a) is the best way to restore balance to the economic and trading relationship;
- (b) can be achieved in a manner that strengthens rather than weakens the multilateral system.

To prove this case the following issues and questions must be addressed:

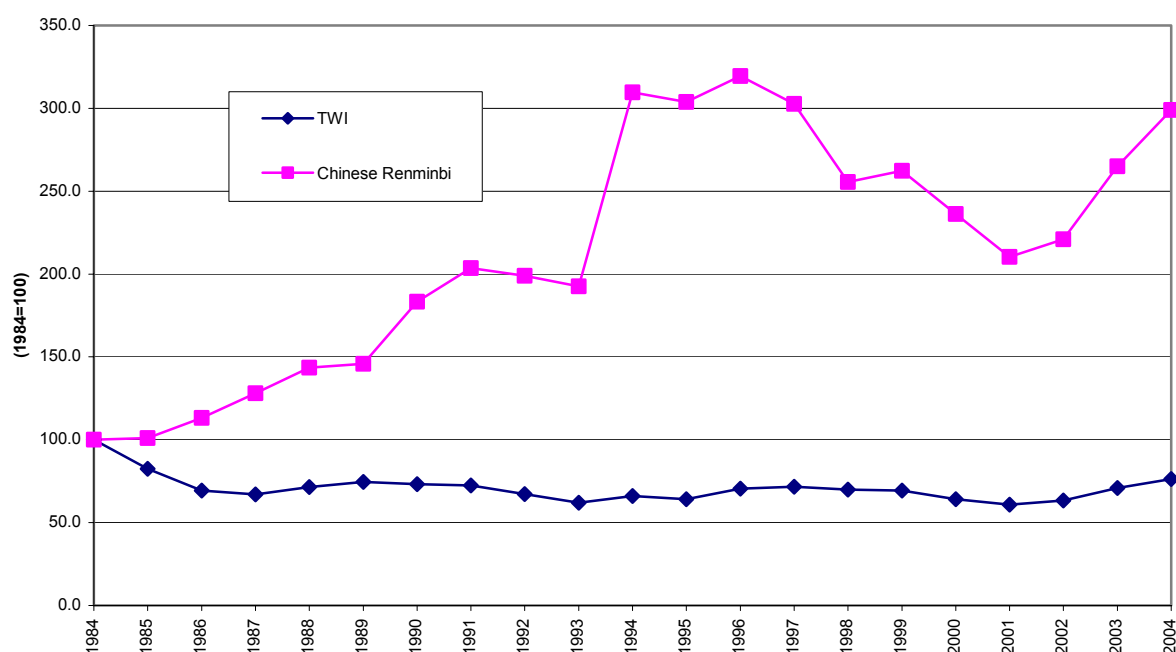
1. With dozens of countries lining up to negotiate bilateral FTAs with China is it not the case that this will seriously compromise the integrity of the multilateral system, diminish China's commitment to the multilateral system, produce an unworkable labyrinth of rules of origin arrangements and end up inducing so much trade diversion that Australia loses as much or more than it gains?
2. The 2003 Australia-China Economic Framework provides numerous avenues for bilateral engagement, as does the existing network of Australia-China bilateral arrangements in everything from quarantine and development assistance, to Australian Studies Centres in Chinese universities. WTO engagement with China also provides Australia the basis for both multilateral and bilateral dialogue and negotiations. Why is this not sufficient given the potential risk of (1) above?
3. Australia's textile, clothing and footwear industry as well as our auto industry are in the midst of long-term tariff phase-down arrangements with a 2007-2008 review to determine whether the next round of downward adjustments from 10% to 5% will proceed in 2010. How will the integrity of these arrangements be maintained in a bilateral FTA with China?
4. As noted earlier in this paper the global economy is confronted with serious macroeconomic and exchange rate misalignments as well as trade

imbalances. One dimension of this problem for Australia is highlighted in Chart One below which suggests:

- in 2004 the Australian dollar was 7% to 8% above its long-term average (1984 to 2004) against the trade weighted index;
- in 2004 the Australian dollar was almost 40% above its long-term average (1984 to 2004) against the Chinese currency, the Renminbi.

With China's currency pegged to the US dollar since the mid 1990s adjustment against the Australian dollar has not occurred.

**Chart One: Appreciation of the Australian Dollar Against the Chinese Renminbi**



Source: RBA data base, calendar year averages 1984 = 100

Nor is it hardly surprising that this significant nominal appreciation has been a significant factor in the widening trade deficit between Australia and China. The question that must be addressed is how sustainable this imbalance is, how and

when it will be corrected, and how a more balanced trading relationship can be realised between the two nations with such a serious currency misalignment.

These are just some of the questions that will need to be addressed after details of the scoping study of a possible FTA are released at the end of March.

### The Making Australia “Free Trade Ready” Test

Discussion about the future of Australia’s trading and economic relationship with East Asia in general and China in particular, comes at the very time the debate about Australia’s economic performance has fundamentally changed.

As Australia’s economy enters its 15<sup>th</sup> consecutive year of expansion there are many indicators to suggest the nation has done well. The official unemployment rate is close to five per cent, inflation remains less than three per cent, living standards have risen in aggregate, while consumer and business confidence remains strong.

Not surprisingly the mainstream economic debate in this environment has tended to focus on the distribution of the benefits of this prosperity. The debate has also been focused on the reform agenda of the past two decades that many suggest provided the impetus to the productivity gains that have underpinned solid and prolonged economic growth and rising living standards.

However, in the last two years the consensus about the Australian “economic miracle” has begun to unravel:

- Australia’s export performance in general and that of high value manufactures in particular began to falter with the trade deficit blowing out to more than \$25 billion (2004) and the current account deficit heading towards 6% of GDP despite improvements in our terms of trade;

- survey after survey began to show that skill shortages were becoming a significant constraint to growth as the legacy of a decade of under-investing in training the future workforce became more transparent;
- the consequences of under-investing in the nation's economic and social infrastructure became front page news;
- an increasing number of economists began to question the sustainability of increasing household debt being the main driver of economic growth;
- and importantly the double digit annual growth in business sector investment in research and development that put Australia back in the business of building knowledge-based industries with high wage, high skill jobs in the decade till the mid 1990s came to an end. Since that time annual business investment in research and development has only averaged 2.5% in real terms while our investment levels in venture capital to build the next generation of import competing and exporting firms has been at half the levels of the leading nations in North America and Europe.<sup>11</sup>

As the new leader of the Australian Labor Party, Kim Beazley, put it in his media statement after being elected leader on 28 January 2005:

*"I was a very proud member of Labor governments, which put in place the reforms which underpinned our prosperity. And I know this: we cannot maintain this prosperity with the trade deficit we have, with the collapse of investment in innovation and infrastructure as well as industry bottlenecks due to skill shortages."*

This under-investment in exports, innovation, infrastructure and skills, as well as the nation's over reliance on increasing levels of household debt to sustain growth

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<sup>11</sup> For under-investment in infrastructure see Econtech: Modelling the Economic Effects of Overcoming Under-investment in Australian Infrastructure, August 2004; and National Economics: State of the Region Report 2004-2005. For under-investment in R&D venture capital and innovation and over reliance on household debt see Dr Peter Brian and N. Apple: The Implications of Free Trade Agreements for Industry Development and Australia's Manufacturing Regions, July 2004. For Australia's over reliance on domestic demand see Shane Wright Recession around the corner warns Russ Garnaut, The Age, December 3, 2004. For the significant slowdown in Australia's manufacturing exports see Centre for Strategic Economic Studies (2003) Report to the Manufacturing Industry Consultative Council Export Subcommittee and The Allen Consulting Group Growing Global Niches: Positioning Victorian ETMs for Future Growth: Final Report to DIIRD, January 2005. For skill shortages see M. Mellish and A. Stafford Skill Shortage Hampers Firms, Australian Financial Review, November 12, 2004.

comes at the very time the nation's position in the global economy is being challenged like never before.

In effect, Australia's export and import competing industries are being squeezed between the knowledge and technology industry base in America, Japan and Europe on the one hand, and the low wage/low cost industry base evolving in China, other East Asian nations, as well as India.

All of this is happening at a time when our multilateral and bilateral trade agreements put more and more constraints on what we can and cannot do to build our nation. Yet the very things we can do to enhance our global competitiveness while strengthening social cohesion and community well being, such as investing sufficiently in innovation, infrastructure and skills are the things we are not doing. No wonder a recent report concluded:

*“There are few other major advanced industrial economies that are so unprepared and ill equipped to maximise the benefits and minimise the costs of free trade globalisation as Australia”.*<sup>12</sup>

Unless an economic development strategy is put in place to make Australia “free trade ready” it is hard to see how the nation's political leadership will be able to deliver on the promise of more high wage, high skill jobs for Australians from engaging more effectively in the global economy, particularly with China and East Asia.

What we do know is that during the last decade, 87% of all jobs created in the Australian economy paid less than the equivalent of \$500 a week in terms of what that was worth in year 2000 prices. More than half of the more than 1.1 million jobs created were for an income of less than \$300 a week. ACTU research undertaken last year has shown that this trend towards low paid part-time and casual job creation is continuing.<sup>13</sup> Australia's award system of labour market regulation has

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<sup>12</sup> Dr. Peter Brian and N. Apple, The Implications of Free Trade Agreements for Industry Development and Australia's Manufacturing Regions, July 2004, p14

<sup>13</sup> Derived from J. Borland, R. Gregory and P. Sheehan: Work Rich, Work Poor: Inequality and Economic Changes in Australia, Centre for Strategic Economic Studies, University of Victoria, Melbourne, 2001.



not inhibited this trend – we have highest part-time employment share after the Netherlands – but has put a floor under hourly minimum wages. Yet at a time when the Howard Government needs to support effective minimum standards in China, it is intent on cutting them here.

We also know that on average firms that export, when compared to firms that don't export, pay higher wages, have higher productivity, provide higher levels of investment in training and also have better occupational health and safety practices at their workplaces<sup>14</sup>. And yet there is no evidence of progress in the Government's commitment to double the number of companies exporting.

We also know that the job creation that comes from investment in innovation is much more skill intensive with much higher average weekly earnings per job<sup>15</sup>. And yet, there is no evidence to suggest that the Government's current innovation policies will restore the double digit real growth in business R & D that Australia requires over the next decade to move up the value added ladder of industry development.

This is the third test of Australia's future commercial engagement with China that the Howard Government must satisfy. Simply put:

1. There must be a convincing case made that Government is putting in place new strategic initiatives to make Australia more FTA ready. In particular, the following four questions must be answered:
  - (a) what are the new co-operative measures between the States and the Commonwealth to address the chronic under-investment in infrastructure and for progressing priority projects for export and import competing sectors?
  - (b) what are the new Commonwealth-State initiatives that will restore double-digit business R & D growth for the next decade?

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<sup>14</sup> ABS: A Portrait of Australian Exporters, ABS 8145, August 2000, pp20-24

<sup>15</sup> NIEIR: Growth or Stagnation: Constructing an Alternative Scenario for Victorian Manufacturing in the New Millennium: A Report for Victoria's MICC, October 2001, Chapter 8.

- (c) what is the co-operative plan between the Commonwealth and the States to address serious skill shortages?
- (d) what are the new industry development initiatives the States and the Commonwealth will jointly initiate to increase the number of firms exporting, lift the exports of existing firms, attract additional domestic and foreign direct investment in knowledge intensive globally competitive activities and strengthen the capacity of more firms to compete against imports?

As the 2003 ACTU Congress policy on Industry, Jobs and Nation Building put it:

*“If a nation wants its workers to live well, the businesses that employ them and the industries in which they work must produce well and trade well. Simply put, improvements in a nation’s productive performance and its ability to participate in the global economy provide an ongoing sustainable capacity to improve the living standards of workers and the well being of the communities in which they live and work.*

*For most of the past 20 years successive Governments have tried to meet the challenge of globalisation through trade liberalisation, privatisation, competition policy and similar measures. The major gains to be had through co-operation and planning, however, are increasingly being recognised.*

*In Australia, co-operation between the states in planning and implementing infrastructure development, attracting global investment opportunities or facilitating an increase in the number of companies that export are examples of such an approach. Co-operative approaches by firms in a supply chain, clusters of firms in a particular region or between firms and R&D agencies as well as between*

*unions, workers and employers to lift the productive performance of their industries can yield gains that are not achievable by reliance solely on competition and the market.*

*There is a growth dividend that comes from harnessing the potential for co-operative approaches to nation building in much the same way as there are gains from a co-operative approach in areas as diverse as health, education and the environment”.*

If Australia is to initiate changes in its economic and trading relationship with China and East Asia we will only maximise the potential benefits and minimise the potential losses by seizing the growth dividend to be had from a co-operative approach that makes the nation more free trade ready than it is today.

## **CONCLUSION**

This paper has suggested four criteria any Australian Government should have to satisfy in promoting new forms of social and commercial engagement in the Australia-China economic and trading relationship. An FTA agreement should require a high level of commitment to meet these four standards. Simply put, an FTA between Australia and China should require:

- (a) Inclusion of a labour clause within the agreement. It would also require a commitment to a permanent forum for social dialogue with the ambition to ensure corporate respect for the rights of workers in both countries.
- (b) Market economy status can only be afforded to China by Australia if there is no disadvantage to Australian industry in doing so for the purpose of applying anti-dumping provisions.
- (c) An Australia-China FTA would need to demonstrate:

- (i) how the economic and trading relationship would become more balanced rather than Australia simply exporting largely unprocessed commodities and importing manufactures from China;
  - (ii) why a bilateral FTA will not further compromise the multilateral system;
- (d) The Australian Government must demonstrate its commitment to make Australia free trade ready so the nation can maximise the benefits and minimise the costs of commercial engagement with China and other countries. As a minimum this requires a clear and agreed plan between the Commonwealth and the States to address the under-investment in infrastructure and innovation, as well as tackling skill shortages and effectively promoting trade and investment.

Finally, the terms and conditions of an FTA with China must be capable of providing a foundation for a broader regional agreement between the countries of the ASEAN, New Zealand and Australia. Such an agreement must not diminish support for or the effectiveness of the multilateral system.

Complimentary to this must be an ongoing commitment to move to completion of the Doha Round. We need to see a WTO framework that promotes fair trade in manufacturing, agriculture, minerals, energy and services. This framework must take us beyond the Hong Kong Ministerial in December 2005.

Ultimately corporate globalisation will only work for the world's workers and their families when it is underpinned by a fair set of global rules including labour rights.



**CHINA, TRADE LIBERALISATION AND LABOUR:  
RACING TO THE BOTTOM OR BUILDING A  
FOUNDATION FOR LABOUR RIGHTS?**

**Symposium presented by the**

**Australian Council of Trade Unions  
New Zealand Council of Trade Unions**

**and the**

**Monash Institute for the Study of Global  
Movements**

**ACTU House  
Level 4  
393 Swanston Street  
Melbourne**

**14 and 15 February 2005**

**SYMPOSIUM PROGRAMME**

# SYMPOSIUM PROGRAMME

<b>DAY 1: ECONOMIC PERSPECTIVES</b>	
8.30am	<b>Registration</b>
8.50 am	<b>Opening and Welcome:</b> Professor John Nieuwenhuysen (Monash Global Institute)
9.00am	Sharon Burrow (ACTU) <i>Industry, Jobs and Labour Rights: Threats and Opportunities of a Trade Agreement with China</i>
<b>SESSION ONE</b>	
9.30 – 11 am	Chair: Helen Kelly (NZCTU)
	Peter Dixon (Monash University) <i>Estimating the Impact of an Australia-China Trade Agreement</i>
	Thomas Palley (US-China Economic and Security Commission) <i>The Political Economy of Bilateral Trade Agreements – A US Perspective</i>
	Discussion
11.00 – 11.30am	<b>Break</b>
<b>SESSION TWO</b>	
11-30am – 1.00pm	Chair: Anne O'Rourke (Monash University)
	Peter Conway (NZCTU) <i>Unions and Free Trade – the New Zealand Experience</i>
	Nigel Haworth (University of Auckland) <i>The New Zealand-China Free Trade Agreement</i>
	Discussion
1.00 – 2.00 pm	<b>Lunch</b>

### SESSION THREE

2.00 – 3.30 pm	Chair: Joe de Bruyn (SDA)
	Thea Lee (AFL-CIO) <i>Linking Labor Rights to Trade: the AFL-CIO's Experience with GSP, bilateral agreements, and China Policy</i>
	Sandra Polaski (Carnegie Endowment for International Peace) <i>The Incorporation of Labour Chapters into Trade Agreements</i>
	Discussion
3.30 – 4.00	<b>Break</b>
4.00pm	<b>Services Sector Panel</b>
	Chair: Ros Eason (CEPU)
	Jane Kelsey (NZCTU)
	Ted Murphy (NTEU)
	Greg McLean (ASU)
	Discussion
4.45pm	<b>Resources Sector Panel</b>
	Chair: Helen Creed
	John Maitland (CFMEU)
	Rick Newlyn (MUA)
	Bill Shorten (AWU)
	Discussion
5.30	<b>Finish</b>
6.00pm – 7.00pm	<b>Function</b> <b>INCK Café – Swanston Street (Next door to ACTU)</b>

## DAY 2: LABOUR STANDARDS

### SESSION ONE

9.00 – 10.30am	Chair: Barbara Shailor (AFL-CIO)
	Tim Pringle (ICFTU Hong Kong Liaison Office) <i>Barriers and Barricades: Labour Rights and FTA's in the context of China</i>
	James Howard (ICFTU) <i>China Trade and Labour Rights – A Union Perspective</i>
	Discussion
10.30 – 11.00am	<b>Break</b>

### SESSION TWO

11.00 – 12.15pm	Chair: Russell Smyth (Monash University)
	Sean Cooney (University of Melbourne) <i>Chinese Labour Law – State of Play and Recent Reform</i>
	Bill Taylor (City University of Hong Kong) <i>Is the ACFTU a trade union and does it matter?</i>
	Lee Cheuk Yan (HKCTU) <i>China and Union: A Hong Kong Perspective</i>
12.15 – 12.30pm	Greg Combet (ACTU)
	Discussion
12.45 – 1.30pm	<b>Lunch</b>

### SESSION THREE

1.30 – 3.00pm	Chair : Nixon Apple (ACTU)
	Serena Lilywhite (Brotherhood of St Lawrence) <i>Ethical Investment and Workers' Rights in China</i>
	Anita Chan (Australian National University) <i>Chinese Labour Standards, China's Trade Union Federation, and the Question of Engagement</i>
	Discussion
3.00 – 3.30pm	<b>Afternoon Tea</b>



<b>SESSION FOUR</b>	
3.30-4.15pm	<b>Manufacturing Sector Panel</b>
	Chair: James Howard
	Julius Roe (AMWU) Tony Woolgar (TCFUA) Charlie Donnelly (NUW) Maxine Gay (NZCTU) Mike Sweeney (NZ - EPMU)
	Discussion
<b>SESSION FIVE</b>	
4.15-5.30pm	<b>Future Directions and Strategies Panel</b>
	Chair : Sharan Burrow
	John Evans (TUAC) James Howard (ICFTU) Chris Nyland (Monash Global Institute)
	Discussion
5.30pm	<b>Finish</b>