



# China's deft economic diplomacy is good for Australia

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The fact that it took 10 long years to get the deal done has already been forgotten. All that matters is that this week Australia and China settled a high quality trade agreement.

This week also brought news on the other big trade deal that Australia has been negotiating that doesn't include China, the Trans-Pacific Partnership (TPP). We found out that this is now mired in US domestic politics, possibly terminally.

While China committed to cut tariffs of up to 30 percent on Australian beef, dairy, seafood, wine and horticulture to get the deal done, the US was refusing to give an inch on sugar, just as it had done back in 2004 during bilateral free trade negotiations.

China was being realistic and accepted that Australia wouldn't be giving it any significant concessions not already given to its other major trading partners. No ground was given on investment by Chinese state-owned companies: all must still go to the Foreign Investment Review Board (FIRB). No special sweetener was extended to Chinese purchases of agricultural land, agribusinesses or residential real estate.

This is something of a contrast to the US, which has been demanding that greater protection be given to intellectual property, of which Australia is a net importer.

The symbolism and the reality on this week's events for Australia's economic future couldn't be starker.

No wonder that a survey by the Australia-China Relations Institute in April found that more Australians thought the FTA with China would bring bigger economic benefits than any of our other bilateral FTAs.

And no surprise that the 2015 Lowy Poll, released on Tuesday, found that 77 percent of Australians said that China was more an economic partner than a military threat: more than five times the number who thought the reverse was true.

All this comes on the back of Australia becoming a prospective founding member of the China-sponsored Asia Infrastructure Investment Bank (AIIB), despite US and Japanese protests.



China's economic diplomacy is cutting through in Australia for two very simple reasons.

First, it has become almost impossible to argue that engaging more deeply with China runs contrary to the national interest.

By 2030, the OECD says that the five largest TPP countries – the US, Japan, Mexico, Canada and Australia – will have a 30 percent share of world GDP, down from 36 percent now. The share of China and India will grow from 25 percent to 34 percent.

Second, Chinese President Xi Jinping is gaining a reputation for being able to overcome domestic interest groups and push through reforms on internal and external fronts.

The FTA with Australia is China's 14<sup>th</sup> such deal and comes hot on the heels of one it signed with Korea just two weeks ago.

In Australia we've come to accept and have sympathy for politicians in the US and Japan: cutting agricultural protection is tough.

But the plight of farmers and worries over food security is just as high in China, where the government has responsibility for ensuring that 1.4 billion mouths are fed. Rural Chinese are also at the lower end of the income distribution and have few social protections, a far cry from life on the land in the US and Japan. And yet what is plain for Australian farmers to see is that it's China offering them the greatest gains in market access.

The Chinese are also proving adept at brokering deals beyond trade.

This was confirmed in Singapore last month when the 57 prospective founding members of the AIIB met to nut out the AIIB's Articles of Association. In just three days this motley group of countries emerged to announce that an agreement had been reached. President Xi first raised the idea of a regional bank focusing on infrastructure in Jakarta a little over 18 months ago. Now the bank's first loan will be extended by year's end.

This new state of affairs where China is looked upon as a country that delivers economic leadership might take some getting used to. But from what we've seen so far, it's an improvement on the status quo for Australia.

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