

China-Australia Free Trade Agreement

Post-Implementation Review

December 2020

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EXECUTIVE SUMMARY

The China-Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. The Department of Foreign Affairs and Trade (DFAT) has conducted this Post-Implementation Review within five years of the implementation date, in accordance with the Australian Government's Guide to Regulation.

This Review has considered Australia's objectives of a free trade agreement with China, in light of the policy context leading up to ChAFTA's entry into force, and outcomes achieved in the first five years of its implementation.

Analysis of relevant data outlined in this Review shows ChAFTA has, to date, met its broad objective of expanding economic opportunities for Australian businesses and consumers:

- economic flows between Australia and China have been liberalised through reduction of tariffs and other ChAFTA trade and investment outcomes;
- the value of two-way goods and services trade between Australia and China has increased by 66 per cent since the entry into force of ChAFTA;
- the value of Australia's goods exports to China has increased by 97 per cent since the entry into force of ChAFTA;
- the value of Australia's trade in services exports to China has increased by 76 per cent since the entry into force of ChAFTA;
- Australia's trade surplus with China has increased by 283 per cent since ChAFTA's entry into force;
- the number of Australian businesses exporting goods to China has increased by 31 per cent since the entry into force of ChAFTA; and
- ChAFTA has significantly reduced the tariff burden on Australian businesses and consumers, by almost \$1 billion annually.

Submissions received from stakeholders for this Review provided a range of perspectives on the impact of ChAFTA on Australian businesses and on business activity. While stakeholders were positive about the expansion of export opportunities under ChAFTA, many raised concerns about recent trade tensions, non-tariff barriers, and increased uncertainties in the China market. Stakeholders noted the lack of progress with ChAFTA review and implementation mechanisms, and associated concerns about effective bilateral dialogue to address trade issues.

ChAFTA includes a structure of regular meetings intended to create an ongoing dialogue between Australia and China and a built-in agenda of reviews, which provide avenues to address issues and increase two-way trade opportunities. After a reasonable start in bilateral engagement, in recent years the Chinese Government's lack of engagement has prevented use of these structures.

At the time of writing, the Australian Government has raised concerns with China about a number of recent disruptions to bilateral trade, including bilaterally (in Beijing, Canberra and Geneva) and in various WTO committees. The Australian Government continues to seek to

resolve these issues, including by working closely with Australian exporters. These issues and any future impacts are outside the scope of this PIR.

The overall conclusion is that ChAFTA has delivered a net benefit to Australia since its entry into force. Notwithstanding implementation issues and recent difficulties faced by businesses, our assessment is that ChAFTA has been successful in liberalising trade and expanding opportunities for Australian businesses and consumers.

INTRODUCTION

1. This Post-Implementation Review relates to the China-Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015.
2. In accordance with the Australian Government's Guide to Regulation, the Department of Foreign Affairs and Trade (DFAT) has conducted this Post-Implementation Review within five years of the implementation date.
3. The purpose of this Post-Implementation Review is to assess whether the regulation relating to ChAFTA remains appropriate and how effective and efficient it has been in meeting its objectives.
4. This Post-Implementation Review is required to address seven questions:
 - What problem was the regulation meant to solve?
 - Why was government action needed?
 - What policy options were considered?
 - What were the impacts of the regulation?
 - Which stakeholders have been consulted?
 - Has the regulation delivered a net benefit?
 - How was the regulation implemented and evaluated?

A note on data and methodology

The methodological approach taken in this paper includes analysis of time-series trade and investment data from before the entry into force of ChAFTA up to the end of 2019 (the most recent calendar year for which data is available). As such, the analysis does not encompass the effects of COVID-19 on economic activity from 2020. Similarly, the trade data analysis does not encompass the effects of actions taken by China in 2020 in respect of its imports of barley, coal, beef, wine and other products from Australia.

Background on ChAFTA timelines and processes

5. Negotiations on a free trade agreement (FTA) between Australia and China began in May 2005. Prior to commencement of negotiations, a joint government study on the feasibility of a bilateral trade agreement was completed.
6. The Australian Government received more than 260 submissions from industry, business, state governments, peak bodies and individuals that helped inform Australia's approach to the negotiations. Over 700 direct consultations with stakeholders were also held during the negotiations.
7. The ChAFTA negotiations concluded on 17 November 2014. The Department of Foreign Affairs and Trade submitted a Regulatory Impact Statement on ChAFTA to the Office of Best Practice Regulation (OBPR) in March 2015.

8. Andrew Robb AO MP, who was Australia's Minister for Trade, and China's then Minister for Commerce, Mr Gao Hucheng, signed ChAFTA in Canberra on 17 June 2015.
9. The same day, Minister Robb tabled the text of the FTA in the Australian Parliament.
10. Minister Robb introduced customs implementing legislation into Parliament on 16 September 2015.
11. The Joint Standing Committee on Treaties (JSCOT) tabled its report of its inquiry into ChAFTA in Parliament on 19 October 2015. The report supported ChAFTA and recommended the Government take binding treaty action.
12. The House of Representatives passed ChAFTA implementing legislation on 22 October 2015.
13. The Senate Foreign Affairs, Defence and Trade References Committee and the Senate Foreign Affairs, Defence and Trade Legislation Committee reviewed the legislation and tabled their reports in Parliament on 6 November 2015. The implementing legislation was passed by the Senate on 9 November 2015.
14. Australia and China exchanged diplomatic notes on 9 December 2015, confirming the completion of domestic processes in both countries.
15. ChAFTA entered into force on 20 December 2015. The first round of tariff cuts took place on entry into force. Subsequent tariff cuts took place on 1 January in each subsequent year.
16. The Joint Commission established under ChAFTA first met in February 2017. Seven of the eight ChAFTA sub-committees have met since entry into force, the most recent meeting take place in late 2017. Further details on ChAFTA implementation are provided at page 46.

Context

17. In the lead up to the commencement of the ChAFTA negotiations in 2005, China was an increasingly prominent economic partner for Australia. At that time, China was Australia's third largest two-way goods and services trading partner behind Japan and the United States (up from seventh a decade earlier). China has been Australia's largest trading partner since 2009.
18. At the commencement of the ChAFTA negotiations Australia had in-force bilateral FTAs with New Zealand (1983), Singapore (2003), the United States (2005), and Thailand (2005). Concurrent with the ChAFTA negotiations, Australia was also negotiating bilateral FTAs with Chile (2009), Malaysia (2013), the Republic of Korea (2014), and Japan (2015), as well as the regional ASEAN-Australia-New Zealand FTA (AANZFTA) (2010), the Trans-Pacific Partnership (TPP) (later incorporated into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)) (2018), the Pacific Agreement on Closer Economic Relations Plus (2020) and the Regional Comprehensive Economic Partnership (RCEP).

PROBLEM IDENTIFICATION – WHAT WAS CHAFTA MEANT TO RESOLVE?

19. In 2014, when ChAFTA negotiations were concluded, Australia had an extensive, growing and highly complementary economic relationship with China. China was Australia's largest trading partner with two-way goods and services trade valued at \$146.2 billion, and a trade surplus with Australia of \$37.3 billion. China was Australia's largest goods export destination (31.1 per cent of total goods exports), largest source of goods imports (19.7 per cent), and largest services export destination (13.4 per cent).

20. At the end of 2014 China was Australia's seventh-largest source of international investment (valued at \$66.4 billion) and sixth-largest Australian investment destination (\$57.7 billion). While bilateral investment was modest compared to other trade and investment relationships, investment in both directions was growing rapidly: the value of Chinese investment in Australia at the end of 2014 had more than tripled since 2010, and the value of Australian investment in China in 2014 was almost five times its value at the end of 2010.

21. Notwithstanding the strength of the bilateral trade and investment relationship, and the rapid expansion of Australia's economic flows with China, the absence of a bilateral trade agreement:

- constrained Australian producers and exporters' ability to further expand trade, in the context of high tariffs (particularly for agricultural products);
- left Australian exporters vulnerable to erosion of competitiveness due to China's existing and future preferential agreements with other countries;
- constrained Australian businesses' ability to fully capitalise on the increasing orientation of the Chinese economy towards consumption and services;
- denied Australian exporters the benefit of increased certainty as to treatment of their goods, services and investments in the Chinese market;
- risked Australia becoming less attractive to Chinese investment; and
- was an impediment to Australia deepening its relationship with China and expanding market access for Australia's exports in the long term.

High tariffs limited trade opportunities for Australia, particularly in agriculture

22. In the absence of improved market access through a trade agreement, Australian exporters faced very high tariffs into China for many key products of export interest.

23. China's average applied tariff in 2013 was 9.9 per cent¹. Tariffs were particularly high for agricultural products, with an average tariff of 15.6 per cent.

¹ WTO, World Tariff Profiles 2014

Tariffs on resources and energy products were generally low in percentage terms but given the volume and value of trade, the overall costs of the tariffs were significant. China applied tariffs of up to 47 per cent on some of Australia's manufactured exports, including pharmaceuticals, mining machinery, medical equipment, paper products, automotive parts, clothing and film.

24. In the absence of a bilateral free trade agreement with China, Australian exporters would have continued to face these very high tariffs on key products, affecting the competitiveness of Australian products in the Chinese market.

Australian producers and exporters faced increasing competition in the China market

25. Before the conclusion of ChAFTA negotiations, China already had in force trade agreements with the Association of Southeast Asian Nations (ASEAN); Pakistan; Chile; New Zealand; Singapore; Peru; Costa Rica; Iceland and Switzerland. These agreements put Australian exporters at a competitive disadvantage. Due to the tariffs and market access barriers faced by Australia and the preferential access given to our competitors, the competitiveness of Australian exports in China was in danger of being eroded in the absence of a bilateral FTA.

26. Over the period prior to the entry into force of ChAFTA, Australian agricultural exporters were facing growing pressure from competitors in the Chinese market. Dairy is a prime example. Following entry into force of New Zealand's FTA with China, New Zealand's dairy exports to China grew by over 800 per cent between 2008 and 2014. Australia's dairy exports to China grew by around 89 per cent over the same period.

27. Australia also needed to hedge against preferential access granted to competitors in China's future trade deals. China had recently concluded negotiations with Korea and was participating in the Regional Comprehensive Economic Partnership (RCEP) negotiations, which included key trading partners in the Asia-Pacific, and in trilateral negotiations with Korea and Japan. China was negotiating with the Gulf Cooperation Council (GCC), conducting a feasibility study with India, and considering launching FTA negotiations with the European Union (EU) and Canada.

28. As well as giving Australian exporters an immediate competitive advantage over countries that did not have trade deals with China, Australia's approach under ChAFTA was to include implementation and review mechanisms to facilitate negotiation of further market access and liberalisation in the future.

Higher costs for Australian consumers and businesses for key imports from China

29. For most goods subject to tariffs, the MFN general duty rate imposed by Australia on Chinese goods was five per cent.² Manufactured and consumer goods, including whitegoods and electrical items, were subject to tariffs that increased the costs for Australian consumers and businesses.

Lack of certainty for Australian businesses

30. Before the conclusion of ChAFTA negotiations, China applied a tariff lower for some products than the maximum permitted under its World Trade Organization (WTO) commitments, which meant it had scope to raise tariffs for such products at any time. For example, in October 2014 China increased its applied tariff on anthracite and coking coal from zero to three per cent, and on non-coking coal/bituminous coal to six per cent. While this may have been within WTO rules, it nevertheless caused difficulties for Australian coal exporters, including by creating uncertainty in the marketplace.

31. Under ChAFTA, tariff reductions would be locked in, providing greater certainty for Australian businesses.

Exposure to loss of competitiveness in services and investment

32. In the lead up to ChAFTA, China's WTO commitments to Australia relating to trade in services were limited. China's commitments under its FTAs with New Zealand, Switzerland, Chile and Iceland built on its WTO commitments, including in relation to investment in services activities located in China. In the absence of a bilateral FTA, there was a risk that Australian suppliers would receive less favourable treatment in China than suppliers from these countries.

33. A 1988 bilateral treaty on the encouragement and protection of investments committed China and Australia to provide minimum standards of treatment in relation to each other's investors and investments and includes an investor-state dispute settlement (ISDS) mechanism. The treaty did not include market access obligations. ChAFTA provides increased certainty for investors of both countries. It encourages further Chinese investment into Australia, in particular by raising the screening threshold at which investments in non-sensitive sectors by private sector entities from China are considered by the Foreign Investment Review Board (FIRB). ChAFTA also commits China to providing Australian investors with the most favourable treatment it gives to any other investment partner in the future.

² Note Australia's remaining 10 per cent MFN tariffs on certain clothing and textile imports were cut to 5 per cent in 2015.

OBJECTIVES – WHY WAS GOVERNMENT ACTION NEEDED?

34. The Government's objectives for concluding a high-quality bilateral FTA with China as soon as practicable were to secure and improve Australia's competitiveness in a key market, through:

- improved market access for Australia's goods exports, including through the elimination of Chinese tariffs on a broad range of Australian agricultural, resources, energy and manufacturing goods over the shortest possible timeframe and a mechanism to address non-tariff measures;
- improved or restored competitiveness for Australia's agricultural and services exports;
- expanded access for Australian service suppliers in the large Chinese market;
- increased certainty for Australian investors in the Chinese market;
- a commitment to negotiate a reciprocal agreement on government procurement after the completion of China's negotiations to join the WTO Government Procurement Agreement;
- commitments to enhance the use of electronic commerce in goods and services, including by ensuring that customs duties will not be introduced on electronic transmissions;
- retention of full access to WTO trade remedies, including anti-dumping and countervailing measures;
- commitments to ensure that the benefits of ChAFTA are not undermined by anti-competitive practices; and
- a framework for settling disputes under ChAFTA.

What were the conclusions from the ChAFTA Regulatory Impact Statement?

35. The ChAFTA Regulatory Impact Statement concluded it was in Australia's interests to enter into an FTA with China, as it was expected to:

- deliver commercially meaningful market access gains that would benefit Australian agricultural producers, energy and mineral resources exporters, service providers, consumers and investors;
- allow Australian exporters to capitalise on the opportunities created by the growth in China's middle class and the increased orientation of its economy towards consumption and services;
- deliver faster and deeper market access gains than those possible through multilateral WTO or regional negotiations;

- be consistent with WTO requirements for FTAs, covering substantially all trade in goods and services; and
- complement Australia's efforts to seek additional trade liberalisation from China through the WTO and regional mechanisms.

36. The Regulatory Impact Statement noted that the removal of tariffs on Australian merchandise imports would lead to reductions in Australian tariff revenue, although this would be offset over time by the second-round effects of increased economic activity.

WHAT POLICY OPTIONS WERE CONSIDERED?

37. As outlined in the 'Problem Identification' section, China maintained trade restrictions on goods and services of interest to Australia. Without an arrangement to reduce these restrictions, Australian exporters would be constrained in their ability to capitalise fully on the opportunities presented by China's large, growing and transitioning economy. Furthermore, it was in Australia's interest to ensure the competitiveness of its agricultural and manufacturing industries in China, particularly at a time when many of Australia's trade competitors had gained preferential access, or were negotiating preferential access, through bilateral FTAs. A bilateral FTA would also give Australian services exporters improved access to China's significant and growing services sector, which in 2014 accounted for 48 per cent of GDP.

38. The most viable option available to the Government to achieve these objectives was the negotiation of a bilateral FTA with China. This section considers other options available to the Government, including conducting concurrent regional/plurilateral and multilateral trade negotiations.

No action

39. The absence of a new trade arrangement with China would have left Australia with, at best, the status quo, and the prospect of losing competitiveness in the Chinese market. With no action, Chinese tariffs on Australian goods would continue to constrain Australian exporters' ability to capitalise fully on continued growth in the Chinese economy. Without an FTA, it would be difficult to restore the competitiveness of Australian exporters against rival producers from other countries that already have FTAs in place with China (e.g. dairy, meat, seafood and wine in relation to New Zealand's FTA with China). As Australia's trade competitors concluded new FTAs with China in the future, Australia's export-focussed industries would be even further disadvantaged.

40. The opportunity costs were significant: China's economy was transitioning from an export and investment-driven model toward greater domestic consumption of goods and services, with expansion of its middle class and increased urbanisation of its population.

41. On the import side, taking no action would also maintain any applicable Australian tariffs on imports from China (dominated by textiles, clothing and footwear, electrical goods and home furnishings), depriving Australian consumers and businesses of a wider range of competitive imports.

Regional trade negotiations only

42. At the time of launching ChAFTA negotiations, regional trade options to deliver market access opportunities into China appeared not to be an option. However, by the time of ChAFTA's entry into force in 2015, Australia and China were participating in the Regional Comprehensive Economic Partnership (RCEP) negotiations.

43. These negotiations were complementary rather than an alternative to ChAFTA – the bilateral negotiations between Australia and China supported further

progress in these regional efforts, while providing early gains and protections for Australia.

44. RCEP negotiations included all ten ASEAN Member States and ASEAN's six FTA partners – Australia, China, India, Japan, Korea and New Zealand. The guiding principles for RCEP potentially allowed for negotiation of a high-quality, comprehensive agreement. However, RCEP negotiations were then at an early stage, with key decisions yet to be taken on the scope and level of goods and services market access. As RCEP negotiations were unlikely to conclude quickly, pursuing a bilateral FTA with China would deliver the objectives and specific outcomes sought in a more certain and timely manner. RCEP was signed in November 2020³, almost five years after ChAFTA's entry into force.

Multilateral trade negotiations

45. The WTO Doha Round of trade negotiations, launched in 2001, included an ambitious agenda, with all WTO members participating. Decisions were to be by consensus, and as a single undertaking – meaning nothing could be agreed until everything was agreed.

46. While the Doha Round was a vehicle for advancing Australia's trade interests with China, there was no certainty at the time it would deliver outcomes addressing Australia's specific priority interests with China as extensively, or in as timely a way, as was possible under a bilateral FTA with China. A comprehensive bilateral trade agreement would provide scope to go beyond disciplines contained in the WTO agreement, for example, on investment.

47. In 2016, after 15 years of talks, the Doha round effectively ended due to the wide divergence of views between WTO members on a way forward.

³ RCEP will enter into force 60 days after six ASEAN Member States and three non ASEAN Member States have ratified the Agreement.

WHAT WERE THE KEY OUTCOMES OF THE CHAFTA NEGOTIATIONS?

49. ChAFTA factsheets and other information published on the DFAT website outline the key outcomes of ChAFTA for Australian stakeholders, including goods exporters, service suppliers, investors, consumers and businesses. The following information is adapted from the 'ChAFTA Outcomes at a Glance' Factsheet.⁴

For Australian goods exporters

50. On full implementation of ChAFTA (1 January 2029), almost all of Australia's goods exports to China will enjoy duty-free entry.

51. China is the largest destination for Australia's agricultural produce. On its entry into force, ChAFTA provided Australia with an advantage over our major agricultural competitors, including the United States, Canada and the European Union, none of which have FTAs with China. It also countered market access advantages Chile and New Zealand had enjoyed through their earlier FTAs with China.

52. In agriculture, ChAFTA eliminated remaining tariffs on Australian barley and sorghum on entry into force, with progressive tariff reduction on other agricultural exports, including seafood, sheep meat, and a variety of horticulture products. Other key agriculture outcomes include:

- dairy – elimination of tariffs of up to 20 per cent by 1 January 2026;
- beef – elimination of tariffs of up to 25 per cent by 1 January 2024;
- wine – elimination of tariffs of up to 20 per cent by 1 January 2019; and
- wool – a new Australia-only duty-free quota, in addition to continued access to China's WTO wool quota.

53. On full implementation of ChAFTA (1 January 2029), virtually all of Australia's resources, energy and manufacturing exports will enjoy duty-free entry into China. Key outcomes include:

- iron ore, gold, crude petroleum oils and liquefied natural gas – ChAFTA locked in existing zero tariffs on these major exports, providing greater certainty for Australian exporters;
- coking coal – elimination of the 3 per cent tariff on entry into force;
- thermal coal – elimination of the 6 per cent tariff on 1 January 2017;

⁴ Further detailed information is available on the DFAT [website](#), including other Factsheets relating to the ChAFTA Implementation Timeline; Built-in Agenda; Agriculture and processed food; Resources, energy and manufacturing; Trade in goods – trade rules and facilitation; Trade in services; Financial services; Investment and Investor-State Dispute Settlement (ISDS); Movement of natural persons; and Electronic commerce, intellectual property, competition policy and Government procurement.

- refined copper and alloys (unwrought), aluminium oxide (alumina), unwrought zinc, unwrought aluminium, unwrought nickel and titanium dioxide – elimination of tariffs of up to 10 per cent, many on entry into force;
- pharmaceuticals, including vitamins and health products – elimination of tariffs of up to 10 per cent, on entry into force or by 1 January 2019; and
- car parts and engines, plastic products, opals and other precious stones – elimination of tariffs by 1 January 2019.

For Australian services suppliers

54. ChAFTA provisions give greater clarity and certainty for Australian service suppliers by binding China's existing market access and committing China to lock-in future improvements to its regulatory regime.

55. Through ChAFTA, China provides Australia its best services commitments in an FTA (other than its agreements with Hong Kong and Macau). These include new or significantly improved market access commitments for Australian banks, insurers, securities and futures companies, law firms and professional services suppliers, education services exporters, as well as health, aged care, construction, manufacturing and telecommunications services businesses in China.

56. ChAFTA includes a Most-Favoured Nation (MFN) clause, which protects Australia's competitive position if China extends more beneficial treatment to another party within ten specific services sectors: education, tourism and travel-related services, construction, engineering, securities, environmental services, forestry services, computer and related services, and certain scientific and consulting services.

57. Key CHAFTA services outcomes include:

- legal services – guaranteed market access for Australian law firms to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ);
- education services – China listed 68 additional Australian private higher education institutions registered on the Commonwealth Register of Institutions and Courses for Overseas Students on a key Chinese Ministry of Education overseas study website;
- telecommunications services – guaranteed market access for Australian companies investing in specified value-added telecommunications services in the SFTZ, providing greater certainty for Australian telecommunications investments;
- financial services – China committed to deliver new or improved market access to Australian financial services providers in the banking, insurance, funds management, securities, securitisation and futures sectors;

- tourism and travel-related services – guaranteed market access for Australian services suppliers to be able to construct, renovate and operate wholly Australian-owned hotels and restaurants in China; and
- health and aged care services – Australian service suppliers can establish aged care institutions throughout China, and wholly Australian-owned hospitals in certain provinces.

For investors

58. ChAFTA improves opportunities for investors in both countries. China's commitments on investment in ChAFTA help protect the competitive position of Australian businesses in China into the future.

59. ChAFTA promotes investment supporting further growth and diversification in the Australian economy through liberalising the Foreign Investment Review Board (FIRB) screening threshold for private Chinese investors in non-sensitive sectors from \$252 million to \$1,054 million⁵. The Government continues to screen Chinese investments at lower thresholds for agricultural land and agribusiness, and in sensitive sectors, including media, telecommunications and defence-related industries.

60. FIRB continues to screen all direct investments, new business proposals and acquisitions of interests in land (including agricultural land) by Chinese state-owned enterprises, regardless of transaction size. ChAFTA does not change these arrangements in any way, consistent with the Government's practice in other FTAs.

61. Australian and Chinese investors can enforce ChAFTA investment obligations through an Investor-State Dispute Settlement (ISDS) mechanism. The ISDS mechanism includes safeguards to protect the government's ability to regulate in the public interest and pursue legitimate public welfare objectives such as public health, safety and the environment.

For Australian consumers and businesses

62. Remaining Australian tariffs on Chinese imports were eliminated by 1 January 2019 under ChAFTA, consistent with the approach with Australia's other FTAs. This includes elimination of the five per cent tariff on imports of Chinese manufactured goods such as electronics and whitegoods, with consumers and businesses benefitting from downward pressure on prices and greater availability of products.

Business and skilled worker mobility

63. ChAFTA provides improved access for a range of Australian and Chinese skilled service providers, investors and business visitors, supporting investment and providing business with greater certainty.

⁵ Indexed on 1 January each year. The threshold increased to \$1,192 million on 1 January 2020.

Is ChAFTA consistent with Australia's overall trade policy objectives?

64. ChAFTA is consistent with Australia's trade policy objectives. It is a high-quality trade agreement that substantially liberalises Australia's trade with a major economy and complements multilateral and regional trade liberalisation. ChAFTA is consistent with Australia's existing international commitments, including our WTO commitments.

WHAT HAVE BEEN THE IMPACTS OF THE REGULATION TO DATE?

Preliminary discussion

65. The analysis of the impacts of ChAFTA set out below identifies the key stakeholders impacted by ChAFTA and considers broad trade and investment trends. It also analyses product, sector- and stakeholder-specific outcomes. The analysis draws heavily on data in the ChAFTA Regulatory Impact Statement, including comparison of the actual outcomes with the expected outcomes articulated therein.

66. In considering outcomes, it should be recognised ChAFTA was the result of a negotiated outcome between sovereign nations. While the conclusion of ChAFTA represented an overall 'win-win' for Australia and China, this does not mean all stakeholders got the outcomes they wanted, particularly for agricultural product exports to China.

67. There are multiple influences on trade and investment flows between countries, such as prevailing economic conditions, exchange rate fluctuations, supply and demand factors, and environmental factors such as natural disasters. This has an impact on any attempt to determine a 'cause and effect' relationship between an FTA and trade and investment outcomes. Measuring the counterfactual – what would have happened if the FTA had not entered into force – is also complex. Moreover, data considered in isolation may not always reveal the full picture – there may be instances where, for example, Australia's exports have decreased following ChAFTA's entry into force, but market share has increased due to a higher-than-proportionate decrease in China's imports from other markets. Finally, comparisons between Australian and partner-country trade data can be difficult, reflecting valuation differences, transshipments through third-party countries, and timing issues.

68. Also outside the scope of this PIR are the impacts of recent disruptions to trade in a wide range of goods imported from Australia in recent months. The Australian Government continues to raise concerns with China about these disruptions, including bilaterally (in Beijing, Canberra and Geneva) and in various WTO committees, and is also working closely with Australian exporters to resolve these issues.

69. Analysis of the impact of ChAFTA should also take into account the effect of the significant expansion of Australian resources exports in the years before ChAFTA entered into force, which can influence data trends and impact on time-series data analysis. Similarly, the trends in non-resources trade and investment flows in the years preceding the entry into force of ChAFTA are relevant. These reflect, in many cases, businesses pursuing strategies to position themselves in the marketplace in the years leading up to entry into force of the Agreement, in order to maximise opportunities under the Agreement.

70. Note that all data in this Review reflects nominal Australian dollars.⁶

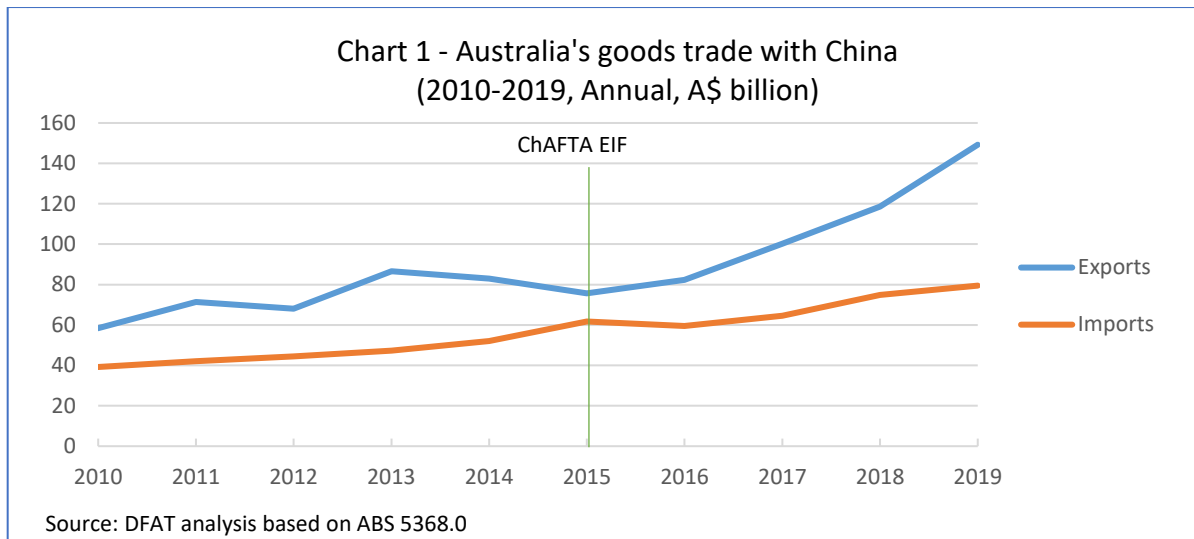
⁶ Unless otherwise indicated. Note it is not feasible to determine movements in real terms, due to the absence of China-specific deflators across exports and imports.

Who are the key Australian stakeholders impacted by ChAFTA?

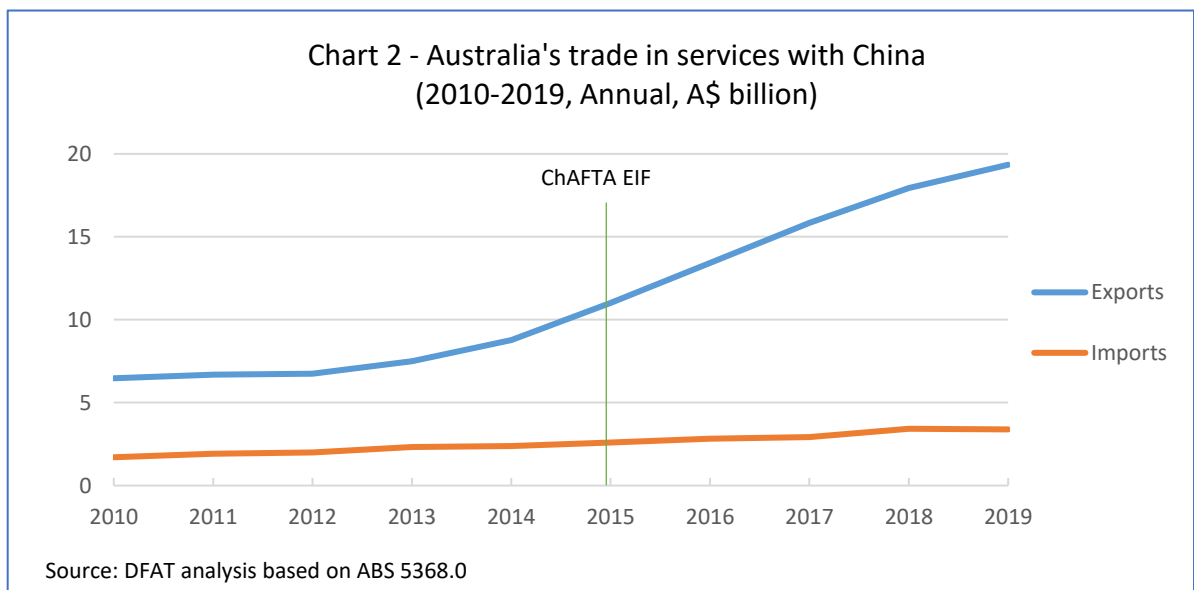
71. The main Australian stakeholders affected by ChAFTA include:
- producers and exporters, particularly in the agri-food sector, whose products benefit from improved competitiveness in the Chinese market as tariffs and other trade barriers are reduced or eliminated;
 - consumers and businesses, who benefit from more competitively priced imports and a broader choice of Chinese-made products;
 - importers, who benefit from improved access to quality intermediary goods and equipment from China, and may be able to source an increased choice of imports;
 - manufacturers, who face increased competition from Chinese-made goods but also benefit from improved demand for their products as a result of ChAFTA;
 - service providers, who benefit from increased business activity in Australia as a result of ChAFTA and improved access to the Chinese market in key areas of commercial interest;
 - businesses and investors, who benefit from increased business activity in Australia as a result of ChAFTA, through attracting greater Chinese investment for projects and ventures in Australia, and through business and investment opportunities in China;
 - employees, who benefit from improved career and job prospects through increased business activity resulting from ChAFTA; and
 - governments and institutional partners, including the education and tourism sectors, which benefit from ChAFTA's contribution to greater regional, economic and people-to-people links between Australia and China.

What has happened with broad bilateral trade and investment post-ChAFTA?

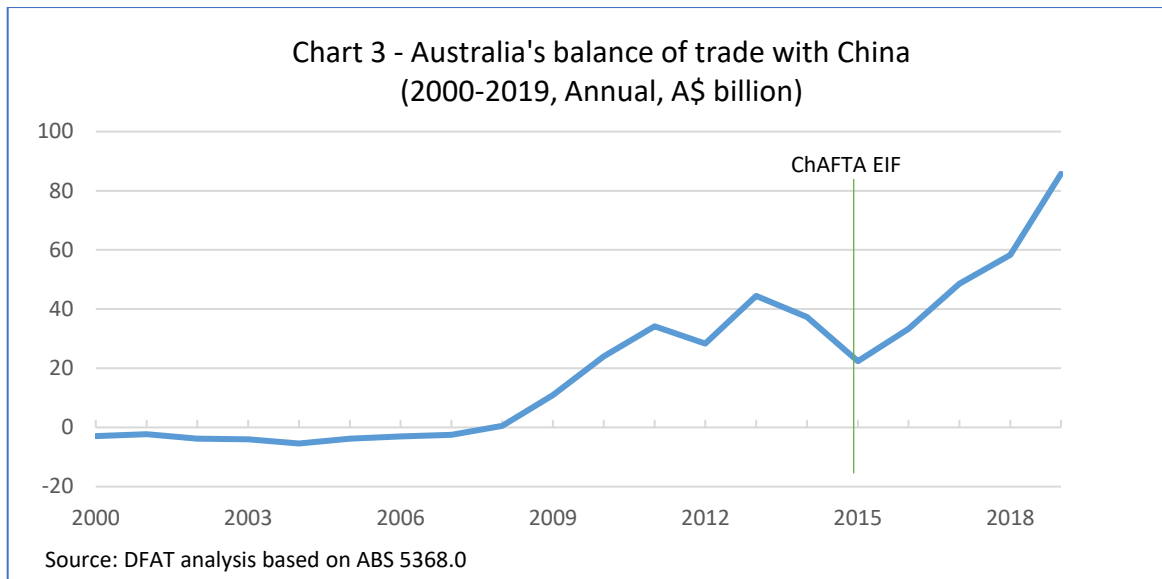
72. Chart 1 shows Australia's goods trade with China from 2010 through 2019. Goods exports have grown strongly to \$149.2 billion in 2019 (up 97.0 per cent on \$75.7 billion in 2015, before ChAFTA's entry into force). Goods imports grew steadily following ChAFTA's entry into force to reach \$79.5 billion in 2019 (up 28.7 per cent on \$61.8 billion in 2015).



73. Chart 2 shows Australia's services exports to China reached \$19.3 billion in 2019 (up 75.8 per cent on \$11.0 billion in 2015), and services imports grew to \$3.4 billion in 2019 (up 29.3 per cent on \$2.6 billion in 2015). Movements in trade in services were driven mainly by personal travel services (see analysis below).

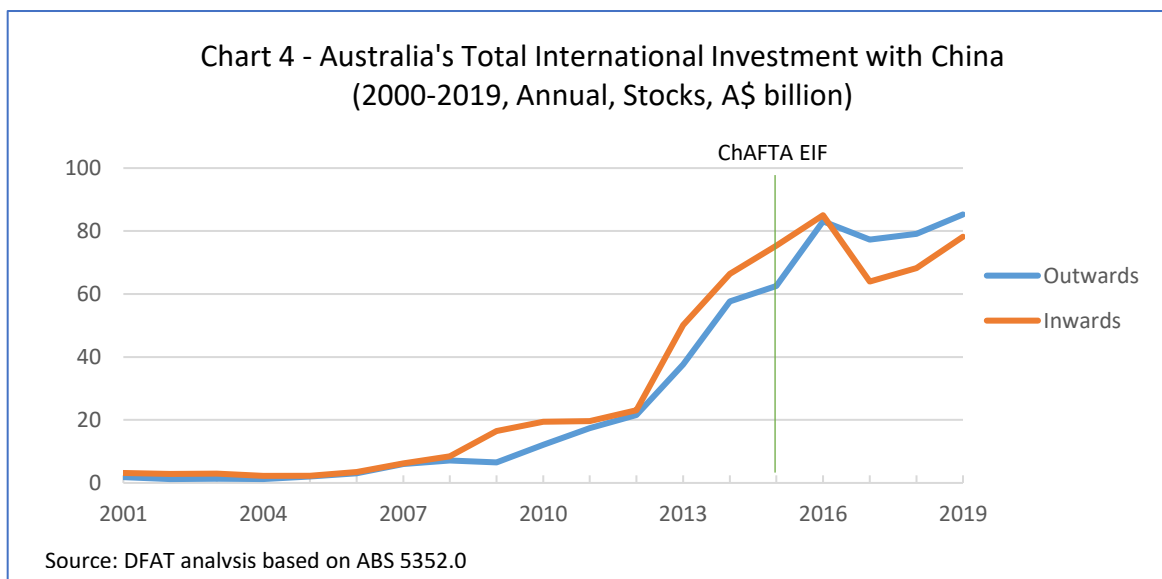


74. Chart 3 shows Australia recorded an annual goods and services trade deficit with China between 2000 and 2007. Since 2008, Australia has had an annual trade surplus with China (i.e. goods and services exports to China have outweighed goods and services imports from China). The annual trade surplus has grown strongly since ChAFTA's entry into force to \$85.7 billion in 2019, up over 280 per cent on the \$22.4 billion surplus in 2015.



75. Chart 4 shows the level of Australia’s inwards foreign investment stock from China has fluctuated since the entry into force of ChAFTA, reaching \$78.2 billion in 2019 (up 3.7 per cent on \$75.4 billion in 2015, but down from \$85.0 billion in 2016). The level of Australia’s investment in China reached \$85.3 billion in 2019, up 36.1 per cent on \$62.6 billion in 2015). The level of both inwards and outwards investment with China increased significantly in the years leading up to entry into force of ChAFTA.

76. China was Australia’s ninth-largest international investor in 2019 (down from seventh in 2015). China was Australia’s sixth-largest destination for outwards investment in 2019 (unchanged from 2015).⁷



⁷ The ranking has fluctuated during this time.

Observation 1:

Overall trade and investment flows between Australia and China have grown substantially since entry into force of ChAFTA.

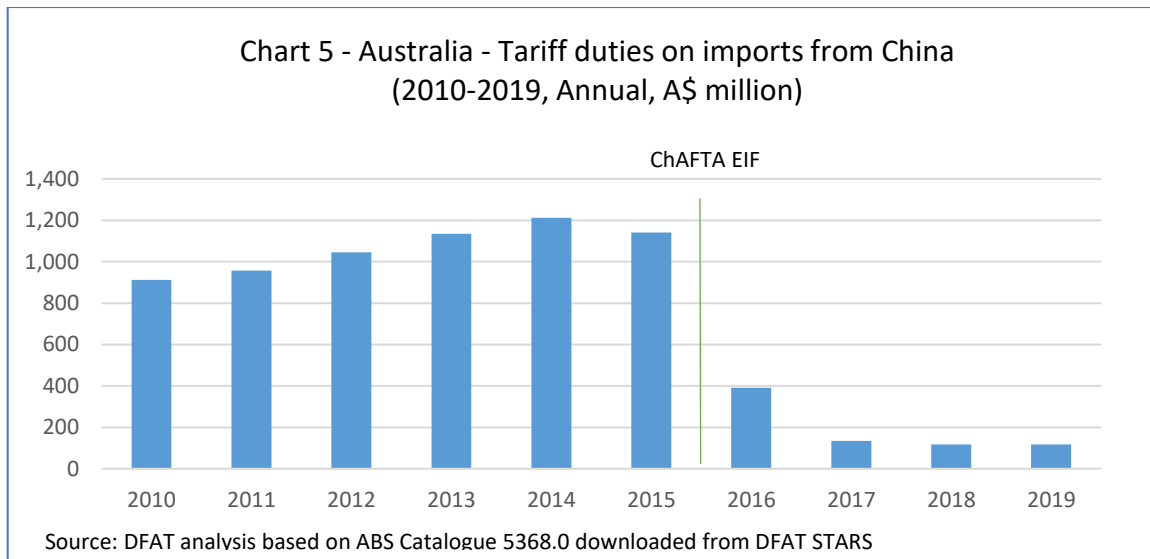
What has happened with tariffs since ChAFTA entered into force?

77. Analysis included in the ChAFTA Regulatory Impact Statement indicated China eliminated tariffs immediately on entry into force of the Agreement for around 85 per cent of China's imports (by value) from Australia. The Agreement delivered duty-free entry for nearly all (99.9 per cent) of Australia's resources, energy and manufacturing exports within four years. On full implementation of the Agreement, around 95 per cent of the goods flow into China from Australia (by value) will be free from duty.

78. Australia eliminated tariffs on around 82 per cent (by value) of merchandise imports from China on entry into force of ChAFTA, with the remaining tariffs on Australia's sensitive products phased out within four years.

79. Tariff reductions and elimination tend to result in improved price-competitiveness in the marketplace and cheaper prices for imported goods. In simple economic terms, elimination or reduction of tariffs and other barriers to the bilateral flow of goods reduces the costs of trade and helps increase the competitiveness of the Australian economy.

80. Chart 5 shows tariff duties collected on Australia's imports of goods from China has dropped significantly following the entry into force of ChAFTA. In 2019, tariff duties collected on imports from China totalled \$118 million, representing an 89.7 per cent decrease from the \$1,141 million collected in 2015. The duties collected between 2016 and 2019 totalled \$761 million, compared to \$4,534 million in a similar period before ChAFTA, represent an estimated average annual saving to Australian importers and consumers of around \$940 million.



81. In 2019, tariff duties accounted for 0.15 per cent of the value of total goods imports from China, compared to 1.85 per cent in 2015. This represents a tariff saving of 1.7 per cent of the value of all goods imports from China, which translates to cheaper prices for importers, businesses and consumers.

82. Note that equivalent data on tariff duties collected by China on imports from Australia is not available. However, our assessment is that the tariff savings have been significant.

Observation 2:

ChAFTA has resulted in substantial tariff savings, benefitting Australian and Chinese businesses and consumers.

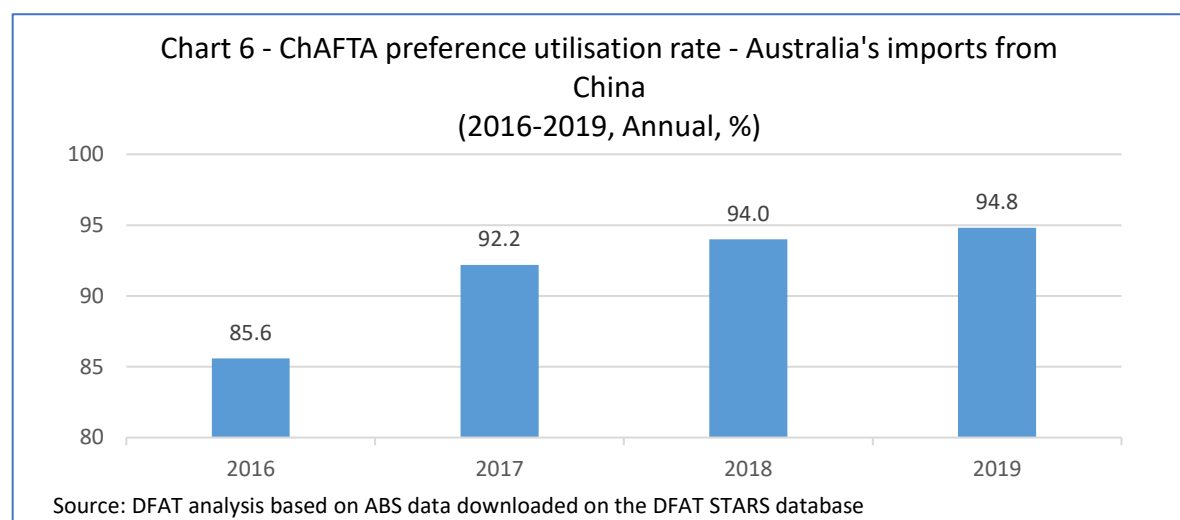
83. Separate to tariff cuts, a key outcome of ChAFTA has been improved certainty for traders through ‘binding’ or locking in tariff settings. Before ChAFTA, many Australian exports entered China under applied or temporary tariffs which were lower than the tariffs ‘bound’ under WTO rules. This meant that China had discretion to adjust the rate upwards in the future. ChAFTA locks in the tariffs on these products, providing more certainty for Australian exporters.⁸

How well have ChAFTA tariff preferences been utilised?

84. Chart 6 shows ChAFTA preference utilisation for Australia’s imports from China has trended upwards since ChAFTA’s entry into force, rising from 85.5 per cent

⁸ Note that ChAFTA includes provisions for parties to exercise trade remedies, in accordance with WTO rules.

in 2016 to 94.8 per cent in 2019. This analysis is based on Australia's import clearances data (a subset of ABS catalogue 5368.0).



85. Mirror analysis of ChAFTA preference utilisation for China's imports from Australia relies on the General Administration of Customs People's Republic of China (GACC) data. While Australia and China instituted data exchange arrangements following entry into force of ChAFTA, the latest data received from the GACC Customs relates to 2017. Based on analysis of China's data, ChAFTA preference utilisation for eligible Australian exports increased to around 90 per cent in 2017, up from around 85 per cent in 2016. Our expectation is that ChAFTA preference utilisation is likely to have continued to trend upwards since then, consistent with the pattern for Australia's imports.

Observation 3:

ChAFTA preference utilisation has been strong and has trended upwards since entry into force of the Agreement. This means that businesses and consumers have benefitted from tariff savings through strong uptake of ChAFTA preferential tariffs by goods traders.

What has happened with key agricultural and processed food exports to China since entry into force of ChAFTA?

86. Table 1 outlines the key market access outcomes for agricultural products under ChAFTA, including a comparison between the value of exports in 2015 (before ChAFTA's entry into force) and 2019.⁹ The combined value of exports in 2019 for the key agricultural products listed was around \$12.8 billion, up 83 per cent on 2015.

⁹ The methodological approach taken in this review is mainly to use 2015 and 2019 as comparison points, noting ChAFTA entered into force on 20 December 2015 and 2019 is the latest available calendar year dataset. Note that comparison based on these years avoids the effect of changes in economic flows from early 2020, relating to COVID-19. In analysing the data, it is worth noting

Table 1: Key agricultural market access outcomes for Australia

Product	China's MFN tariff	ChAFTA Outcome (Years until tariff elimination)	Australian exports to China A\$ m, 2015	Australian exports to China A\$ m, 2019
Wool	In-quota (global): 1% Out-of-quota: 38%	Duty-free quota of 30,000 tonnes (increasing to about 45,000 tonnes over 8 years)	2,098	2,433
Hides and Skins (sheepskin, cowhides, kangaroo)	5-14%	2-7	924	772
Beef	12-25%	9*	1,006	2,672
Sheep and goat meat	12-23%	8	255	1,214
Barley	3%	0	1,364	591
Dairy	10-20%	4-11*	422	1,468
• Liquid milk	15%	9	77	128
• Skim milk powder	10%	11	64	154
• Whole milk powder	10%	11*	48	235
• Butter	15%	9	12	14
• Cheese	12%	9	77	93
Infant formula	15%	9	120	767
Wine	14-30%	4	363	1,137
Live cattle	0-5%	0-4	192	341
Food preparations (doughs and mixes)	10-25%	4	43	106
Horticulture (fruit, vegetables and nuts)	10-30%	4 -8	161	1,064
Leather	5-14%	0-4	53	33
Cotton seeds	15%	4	3	42
Processed foods:				
• Juice	10-30%	4	5	9
• Sauces, soups and broths	15-32%	4	10	14
• Biscuits and cakes	8-20%	4	4	10
Seafood	10-15%	4	92	952

anecdotal reports of uptick in trade in the years leading up to entry into force of an FTA, as businesses made strategic market entry or expansion decisions.

Product	China's MFN tariff	ChAFTA Outcome (Years until tariff elimination)	Australian exports to China A\$ m, 2015	Australian exports to China A\$ m, 2019
Animal fats (tallow)	8%	4	27	49
Honey	15%	4	11	15
Pork, poultry and other meat	10-23%	4	2	3

Source: ChAFTA, WTO, GACC, ABS

* ChAFTA Safeguard applies

Observation 4:

Key agricultural products expected to benefit from ChAFTA have overwhelmingly recorded increased exports since entry into force of the Agreement. Some exports, including beef, dairy, infant formula, horticulture and seafood have recorded very strong growth trends.

What has happened with key resources, energy and industrial exports to China since entry into force of ChAFTA?

87. Table 2 outlines the key market access outcomes for resources, energy and industrial products under ChAFTA, including a comparison between exports in 2015 (before entry into force) and 2019. The combined value of exports in 2019 for the key products listed was around \$22.7 billion, up 60 per cent on 2015.

88. Table 2 does not include significant mineral and energy exports that already entered China duty free before ChAFTA, including iron ore (Australia's largest export to China, worth \$38.9 billion in 2015, \$79.0 billion in 2019), and liquefied natural gas (LNG) (worth an estimated \$2.2 billion in 2015, \$16.1 billion in 2019). Note that China bound tariffs for these products at zero under ChAFTA, thereby safeguarding Australian exporters against MFN tariff rate changes.

Table 2: Key resources, energy and industrial market access outcomes for Australia

Product	China's MFN Tariff	ChAFTA Outcome (years until tariff elimination)	Australian exports to China A\$m, 2015	Australian exports to China A\$m, 2019
Bituminous coal - coking (metallurgical coal for steel making)	3%	0	3,935	9,728
Bituminous coal - non-coking coal (thermal / steam coal for power generation)	6%	2	2,171	3,978
Refined copper & alloys (unwrought)	1-2%	0	3,274	3,851

Product	China's MFN Tariff	ChAFTA Outcome (years until tariff elimination)	Australian exports to China A\$m, 2015	Australian exports to China A\$m, 2019
Aluminium oxide (Alumina)	8%	0	6,457	8,251
Nickel mattes and oxides	3%	0	112*	8*
Pharmaceuticals and Vitamins	3-10%	0-4	477	1,882
Zinc (unwrought)	3%	0	1,045	1,426
Copper waste & scrap	1.5%	0	311	361
Aluminium (unwrought)	5-7%	0-4	3,741	3,901
Aluminium waste & scrap	1.5%	0	167	77
Unwrought Nickel	3%	0	95*	924*
Mineral substances	3-5%	0	345	1,392
Car engines	10%	4	327	232
Plastic Products	6.5-14%	4	100	109
Titanium dioxide (colouring)	6.5-10%	4	100	109
Medical (Orthopaedic) Devices	4%	0	77	34
Aluminium Plates/Sheets	6-10%	4	9	10
Cosmetics & Hair Products	6.5-15%	4	29	138
Motor Vehicles	25%	4-9	2	8

Source: ABS and IHS Markit

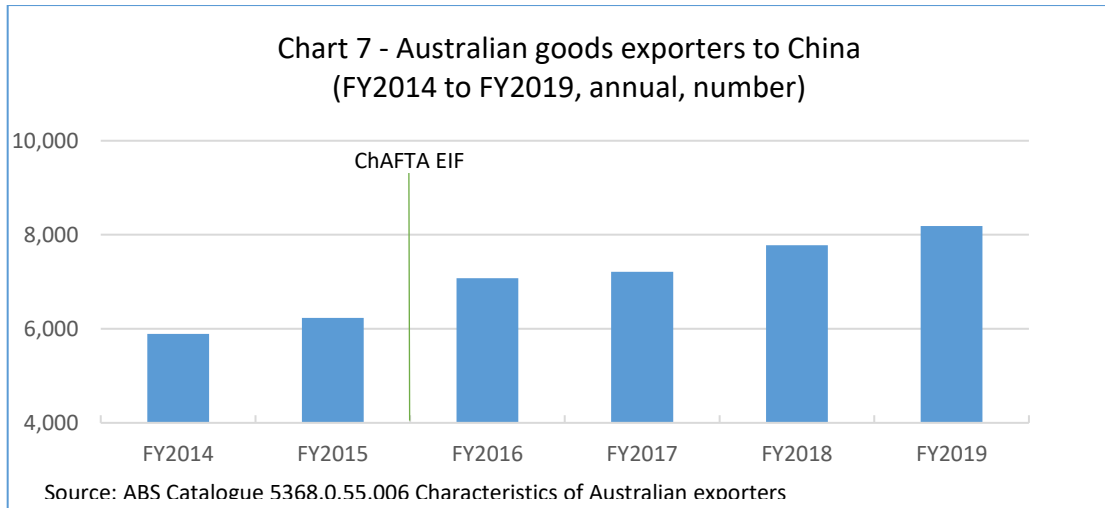
* indicates China import data converted to A\$ (used where data is unavailable or is treated as confidential by ABS)

Observation 5:

Resources, energy and industrial products expected to benefit from ChAFTA have mainly recorded increased exports since entry into force of the Agreement.

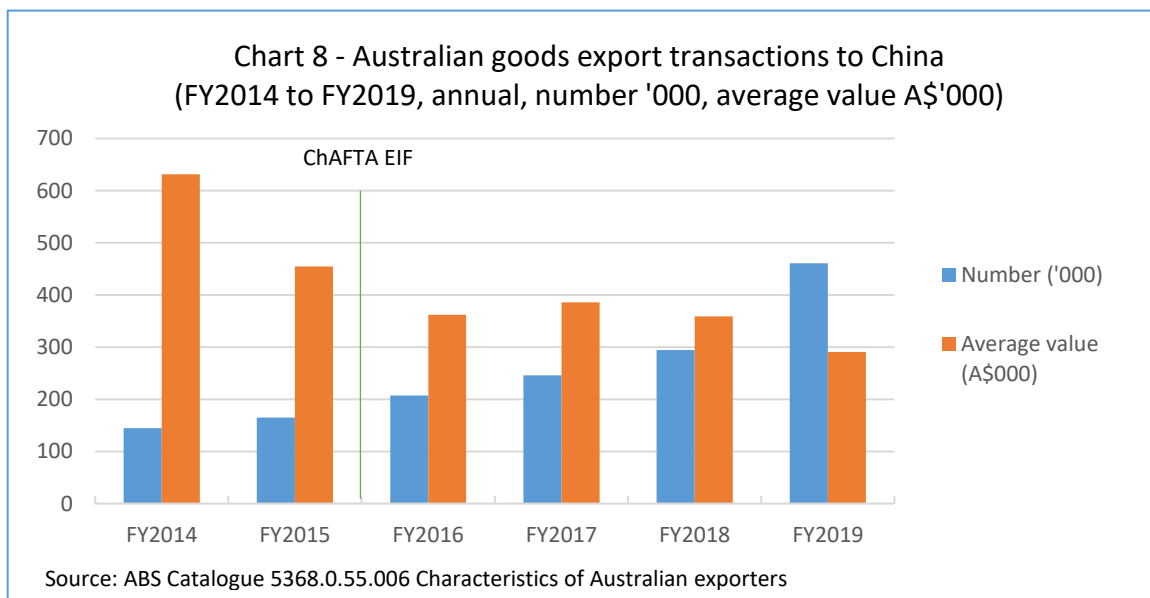
What has happened with exporter and transaction numbers since entry into force of ChAFTA?

89. Chart 7 indicates the number of Australian businesses exporting goods to China increased each year from 6,231 in 2014-15 to 8,184 in 2018-19 (up 31.3 per cent).



90. Chart 8 shows the number of Australian goods export transactions to China increased from around 165,000 in 2014-15 to around 461,000 in 2018-19 (up 180.0 per cent). The average value of each goods export transaction to China was around \$290,000 in 2018-19, down 36.0 per cent on \$454,000 in 2014-15.

91. These two charts suggest increasing engagement by small and medium enterprise (SME) exporters in the China market since entry into force of ChAFTA, with an increasing number of exporters and export transactions combined with a decrease in the average value of export transactions.



Observation 6:

Export activity in terms of both number of goods exporting businesses and number of export transactions has increased since the entry into force of ChAFTA. The average value of each transaction has decreased, suggesting increased SME export activity.

What has happened with key imports from China since entry into force of ChAFTA?

92. **Table 3** summarises the key goods market access concessions Australia granted China under ChAFTA, along with a comparison between imports in 2015 and 2019. The combined value of imports in 2019 for the key products listed was around \$29.0 billion, up around 13.6 per cent on 2015.

Table 3: Key goods market access outcomes for China

Product	Australia's applied tariff for China (per cent)	Years until tariff elimination	Australia's imports from China (\$million, 2015)	Australia's imports from China (\$million, 2019)
Textiles, clothing, footwear and carpets	0, 4, 5 and 10 [^]	0, 2 and 4	8,796.6	9,580.9
Furniture and lighting*	0 and 5	0	3,734.2	4,521.6
Iron and steel products#	0, 4 and 5	0, 2 and 4	3,424.2	3,121.7
Toys, games and sporting equipment	0 and 5	0	2,023.9	2,545.9
Plastics products	0, 5 and 10 [^]	0, 2 and 4	2,023.9	2,545.9
Railway equipment	0 and 5	0 and 4	2,359.1	3,099.9
Printing machinery	0, 4 and 5	0	804.7	541.5
Aluminium products	0, 4 and 5	0, 2 and 4	994.0	1,547.1
Paper and paperboard	0, 4 and 5	0, 2 and 4	915.3	1,060.4
Power tools, soldering & welding tools	0, 4 and 5	0	456.3	558.0
Taps, cocks and valves	0 and 5	0, 2 and 4	499.7	487.1
Refrigerators, freezers and heat pumps	5	0	371.8	594.6
Air-conditioners*	5	0	346.6	373.3
Copper products	0, 4 and 5	0 and 2	219.3	323.2

**Excludes parts relating to automobiles*

[^]Note – As of 1 January 2015, the 10% tariff was reduced to 5%

#Data confidentiality issues

What information is available on compliance costs associated with ChAFTA?

93. In order to access the preferential trade arrangements for goods under ChAFTA, goods must meet Rules of Origin (ROO) and certification documentation requirements. The ROOs provide criteria for determining whether a good is 'originating' in either Party and is therefore eligible for preferential tariff treatment. Without ROOs, traders from third-party countries could undermine the objectives of the Agreement by merely transshipping through Australia or China to access lower tariffs.

94. A claim for ChAFTA preferential tariff treatment for Australian goods exported to China can be made on the basis of a Certificate of Origin (CoO) issued by an authorised body (usually at a fee for service).

95. Information provided by ChAFTA Authorised Bodies in Australia indicates the number of ChAFTA CoOs issued has increased from around 25,000 in 2015-16 to over 90,000 in 2019-20.¹⁰ DFAT's estimate of the annual direct costs paid by businesses to Authorising Bodies for ChAFTA CoOs increased from under \$1.0 million to around \$3.0 million in the same period.¹¹ An Authorised Body advised processing times for CoOs were between two and four business hours.

Observation 7:

The number of ChAFTA CoOs issued annually by Authorised Bodies has grown from around 25,000 to around 90,000 since the entry into force of ChAFTA.

96. Attachment A provides further information on the Regulatory Burden Cost Estimate for ChAFTA in accordance with the Commonwealth Regulatory Burden Measurement Framework.

What has happened with cross-border trade in services since ChAFTA entered into force?

97. As shown in Chart 2 above, Australia's total services exports to China reached \$19.3 billion in 2019 (up 75.8 per cent on \$11.0 billion in 2015), and total services imports grew to \$3.4 billion in 2019 (up 29.3 per cent on \$2.6 billion in 2015).

98. Travel services, comprising business visitors, international students, and tourists, represent a significant proportion of Australia's services exports to China.

¹⁰ Note that many traders use non-preferential certificates of origin outside of FTAs, including for trade with China preceding ChAFTA. Note the 2015-16 data includes the period from 1 July to 20 December 2015, before the entry into force of ChAFTA.

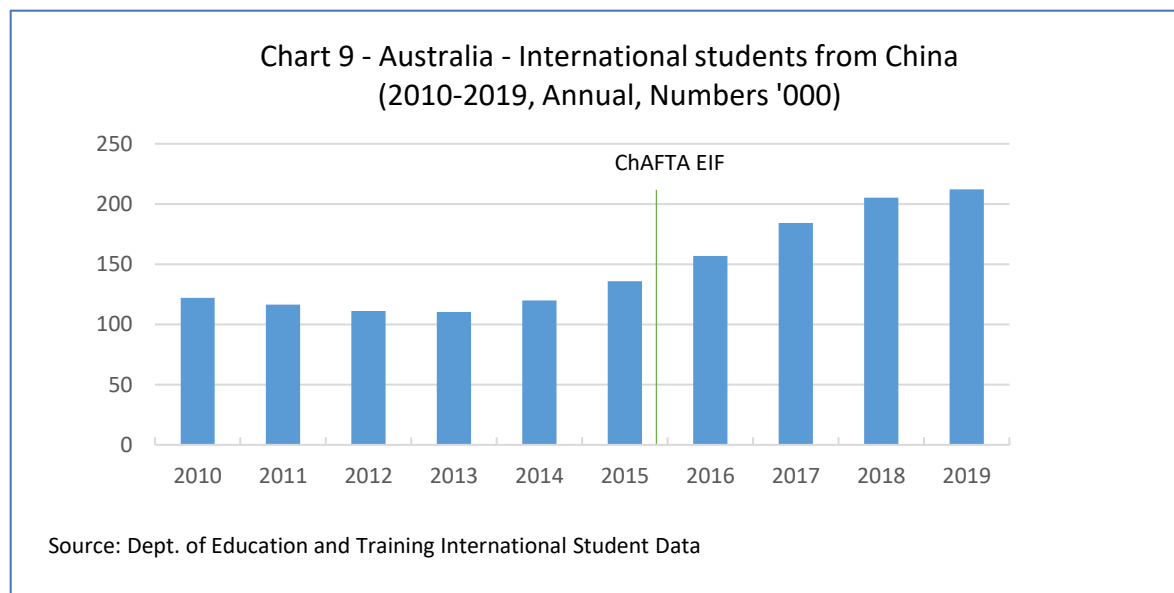
¹¹ Based on average CoO costs previously advised by an Authorised Body.

Observation 8:

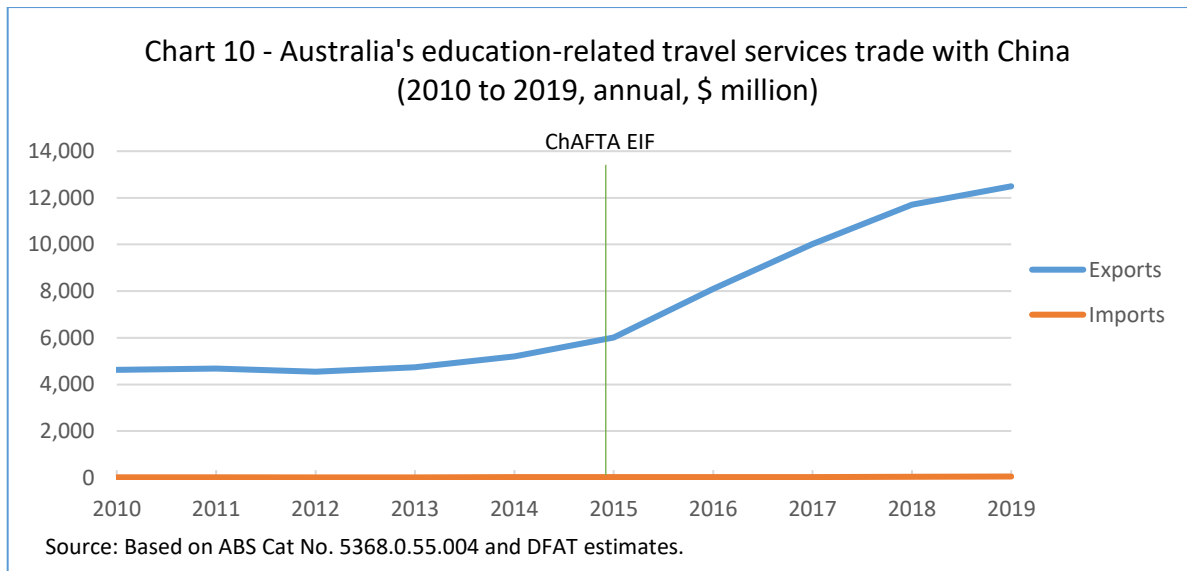
Travel services account for a large proportion of the expansion in Australia's services exports to China.

What has happened with education-related travel services since ChAFTA entered into force?

99. Chart 9 shows the number of Chinese international students in Australia has grown each year since ChAFTA entered into force, reaching 212,300 in 2019 (up 56 per cent on 135,900 in 2015).



100. Chart 10 shows Australia's education-related travel services exports to China have increased strongly since the entry into force of ChAFTA, consistent with the increase in international student numbers. The value of education-related travel services exports was \$12.7 billion in 2019, up 110.4 per cent on \$6.0 billion in 2015. Note that Australia's education-related travel imports from China are relatively minor, valued at \$55 million in 2019.



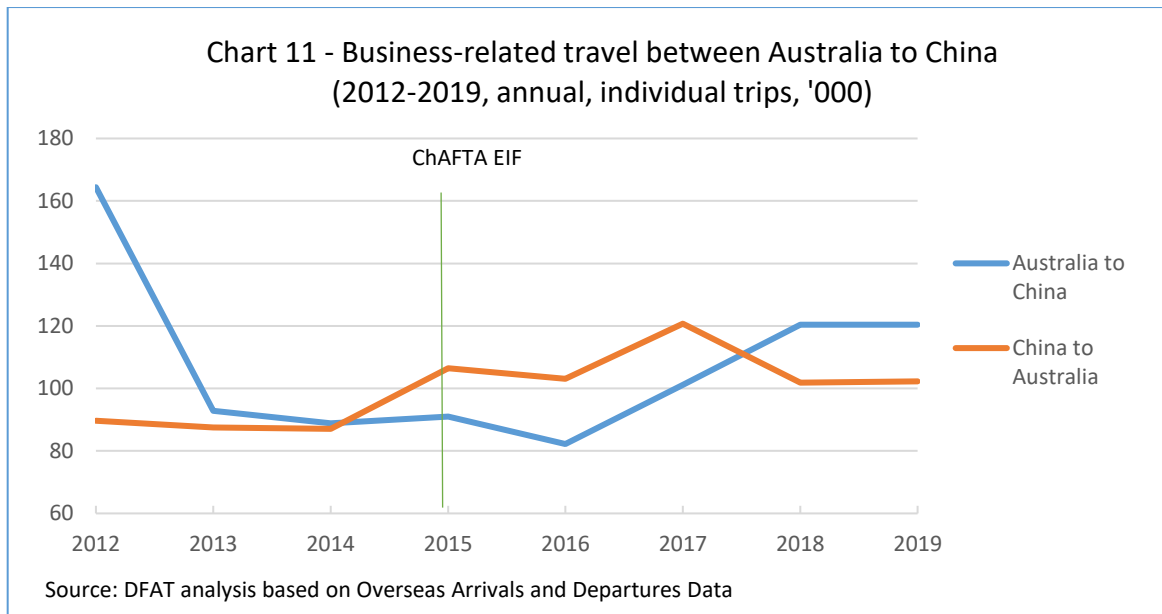
Observation 9:

The number of Chinese students in Australia and the value of Australia's education-related travel services exports have both grown strongly since ChAFTA entered into force.

What has happened with the number of business travellers since ChAFTA entered into force?

101. Chart 11 shows the number of individual business-related trips between Australia and China between 2012 and 2019. The number of business-related trips from Australia to China was 120,000 in 2019, up 23.0 per cent on 91,000 in 2015 (although below the high of 164,000 in 2012). The number of business-related trips from China to Australia was 102,000 in 2019, down slightly on 106,000 in 2015.¹²

¹² Business travel in this Chart comprises business trips, trips to attend conferences, and trips for employment purposes. Data rounded to the nearest 1000.



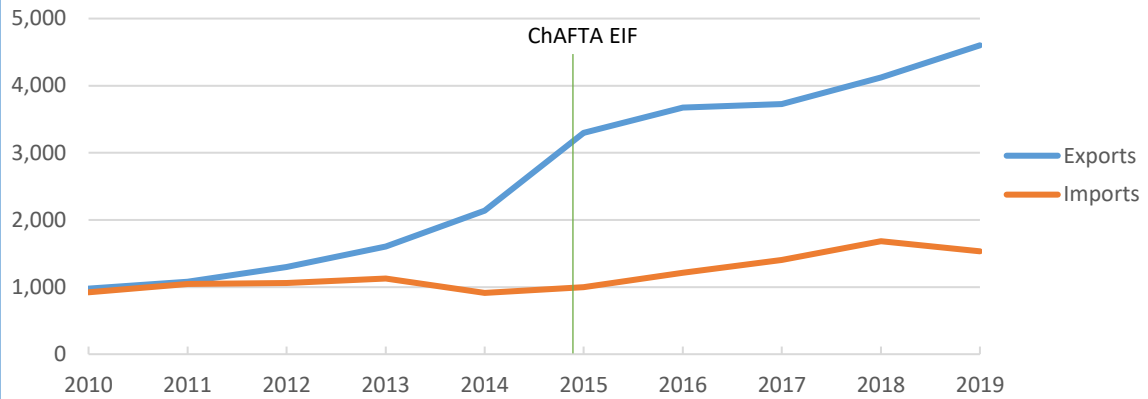
Observation 10:

The number of business trips between Australia and China has generally increased since ChAFTA entered into force.

What has happened with other personal (recreational) travel services since ChAFTA entered into force?

102. Chart 12 shows Australia's other personal travel services imports and exports with China, such as personal travel for holidays, recreation or other personal reasons, increased strongly since the entry into force of ChAFTA. The value of other personal travel services exports, or visitors from China, was \$4,474 million in 2019, up 35.7 per cent on \$3,297 million in 2015. The value of other personal travel services imports, or Australian visitors to China, was \$1,561 million in 2019, up 56.1 per cent on \$1,000 million in 2015.

Chart 12 - Australia's other personal travel services trade with China (2010 to 2019, annual, \$ million)



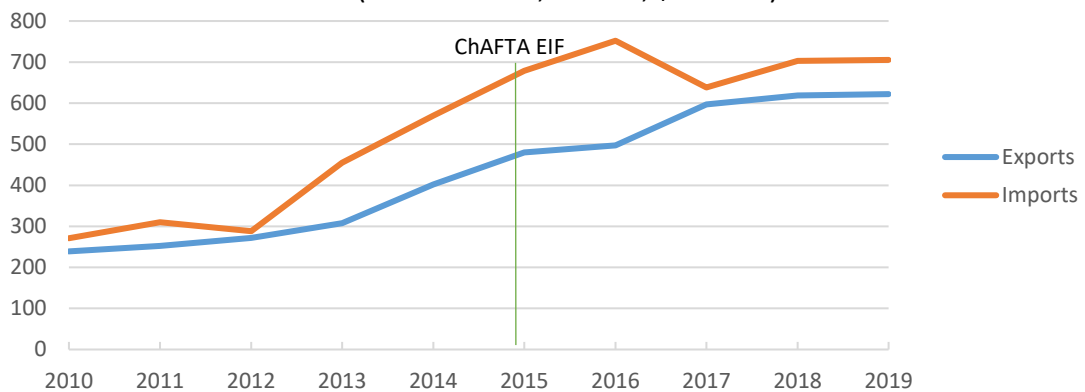
Source: Based on ABS Cat No. 5368.0.55.004 and DFAT estimates.

Observation 11:

The value of other personal travel services exports and imports between Australia and China have both increased strongly since ChAFTA entered into force.

103. Chart 13 shows that Australia's the value of transport services exports to China was \$622 million in 2019, up 29.6 on \$480 million in 2015. The value of transport services imports from China was \$705 million in 2019, up marginally (3.8 per cent) on \$679 million in 2015, and down from \$752 million in 2016.

Chart 13 - Australia's transport services trade with China (2010 to 2019, annual, \$ million)



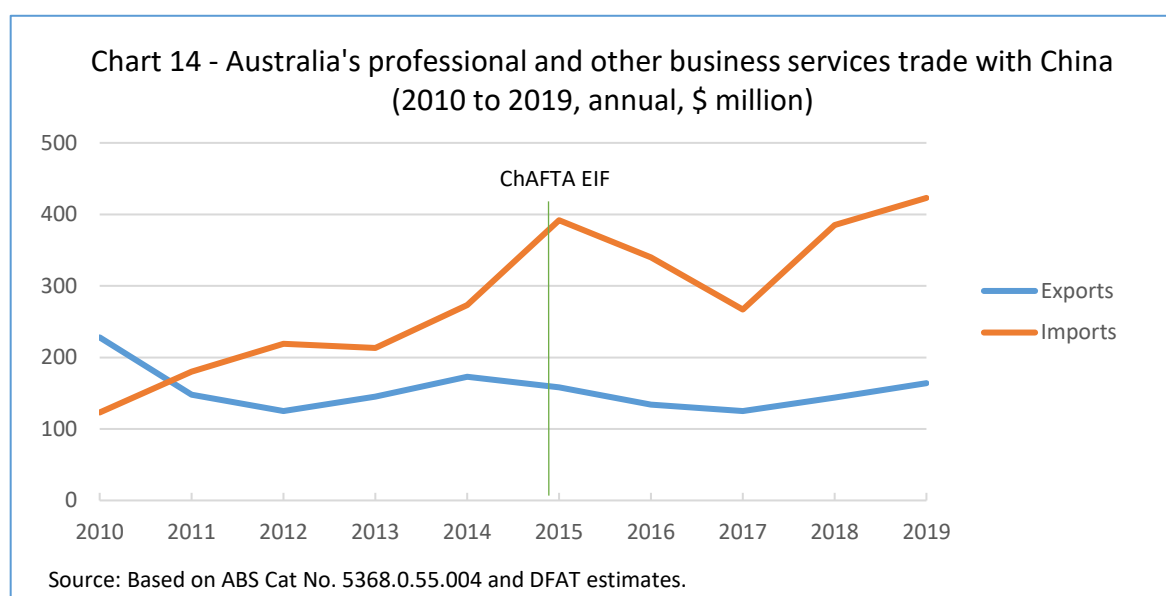
Source: Based on ABS Cat No. 5368.0.55.004 and DFAT estimates.

Observation 12:

Transport services exports have grown strongly since ChAFTA entered into force, while transport services imports have fluctuated.

104. Chart 14 shows patterns for professional and other business services trade, which includes research and development services; legal, accounting, management consultancy public relations and other professional services; and technical, trade and other business services. The value of professional and other business services exports to China has been relatively flat since ChAFTA entered into force, reaching \$164 million in 2019, up 3.8 per cent on \$158 million in 2015.

105. The value of professional and other business services imports from China decreased sharply between 2015 and 2017 before increasing to \$423 million in 2019, up 7.9 per cent on \$392 million in 2015.

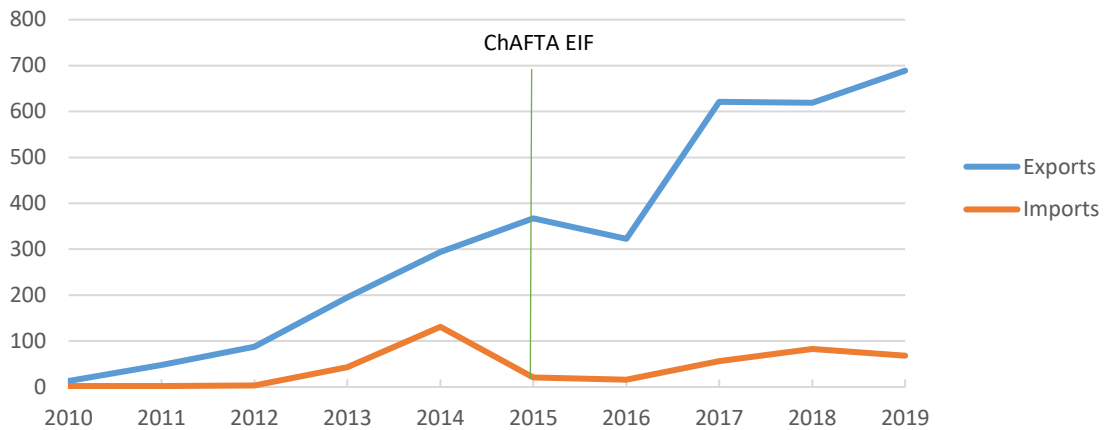


Observation 13:

Professional and other business services exports to China have been flat since ChAFTA's entry into force, while imports have fluctuated across years.

106. Chart 15 shows the value of financial services exports to China has increased strongly since ChAFTA's entry into force, reaching \$689 million in 2019, up 87.7 per cent on \$367 million in 2015. Of lower magnitude, the value of financial services imports from China has also increased under ChAFTA, reaching \$68 million in 2019, up 223.8 per cent on \$21 million in 2015.

Chart 15 - Australia's financial services trade with China
(2010 to 2019, annual, \$ million)



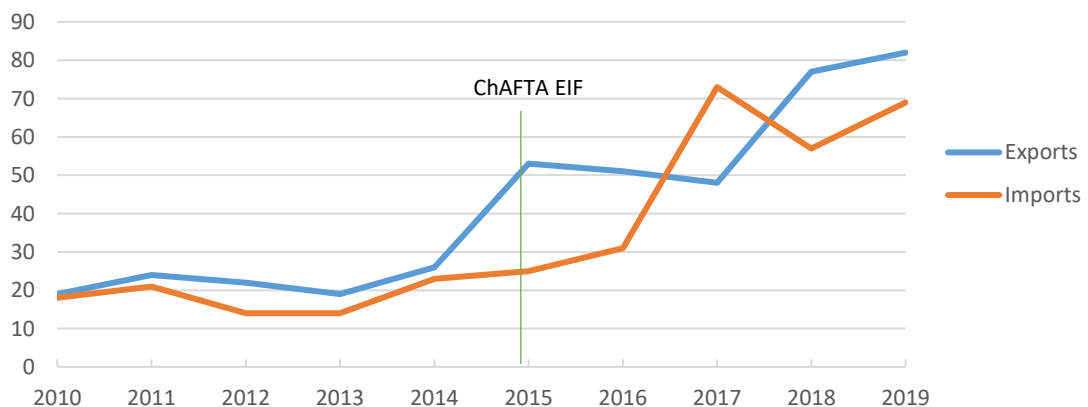
Source: Based on ABS Cat No. 5368.0.55.004 and DFAT estimates.

Observation 14:

Financial services exports have increased strongly since ChAFTA entered into force.

107. Chart 16 shows the value of telecommunications, computer and information services exports to China was \$82 million in 2019, up 54.7 per cent on \$53 million in 2015. The value of telecommunications, computer and information services imports from China was \$69 million in 2019, up 176.0 per cent on \$25 million in 2015, but down from a high of \$73 million in 2017.

Chart 16 - Australia's Telecommunications, Computer and Information services trade with China (2010 to 2019, annual, \$ million)



Source: Based on ABS Cat No. 5368.0.55.004 and DFAT estimates.

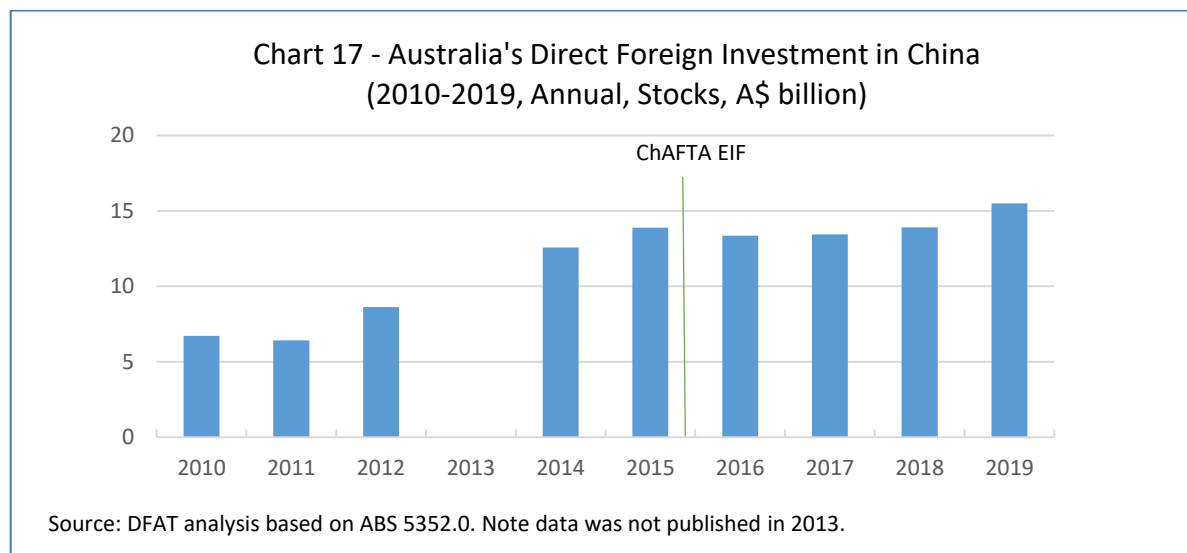
Observation 15:

Telecommunications, computer and information services exports and imports have grown strongly since the entry into force of ChAFTA.

What has happened with Australian investment in China since ChAFTA entered into force?

108. Under ChAFTA, Australian investors are to be treated no less favourably than Chinese domestic investors in the establishment, expansion, or acquisition, operation and sale of their investments in China (unless specifically exempted). ChAFTA provides protection to Australian investors from discriminatory or arbitrary expropriation and nationalisation. ChAFTA provisions improve certainty for investors and improve opportunities for Australian investment in China.

109. Chart 17 shows the value of Australia's direct investment stocks in China as at the end of 2010 to the end of 2019.¹³ The data shows Australia's direct investment in China was valued at \$15.5 billion at the end of 2019, up 11.6 per cent on \$13.9 billion at the end of 2015.

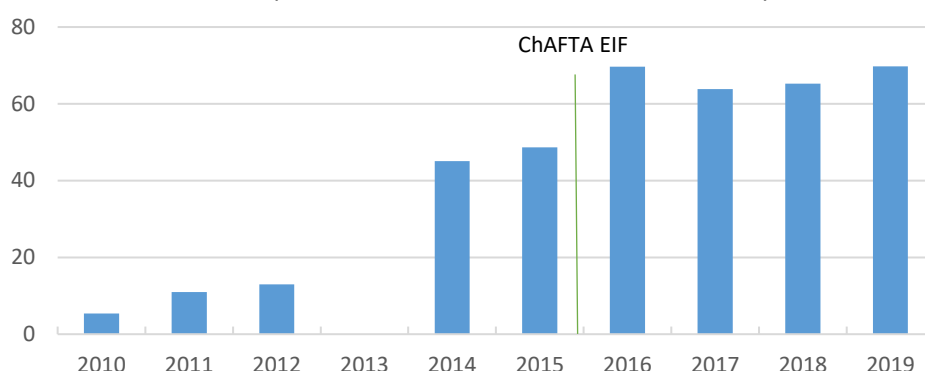


110. Chart 18 shows the value of Australia's portfolio and other investment stocks in China as at the end of 2010 to end 2019.¹⁴ The data shows Australia's portfolio and other investment in China was \$69.8 billion at the end of 2019, up 43.4 per cent on \$48.7 billion as at the end of 2015.

¹³ Direct investment relates to 10 per cent or more equity in the enterprise or entity.

¹⁴ Portfolio and other investment is where there is less than 10 per cent equity in the enterprise or entity.

Chart 18 - Australia's Portfolio and Other Foreign Investment in China
(2010-2019, Annual, Stocks, A\$ billion)



Source: DFAT analysis based on ABS 5352.0. Note data was not published in 2013.

Observation 16:

The value of Australia's direct investment and portfolio and other investment in China have both grown strongly between 2010 and 2019.

What has been the impact of ChAFTA on Chinese investment in Australia?

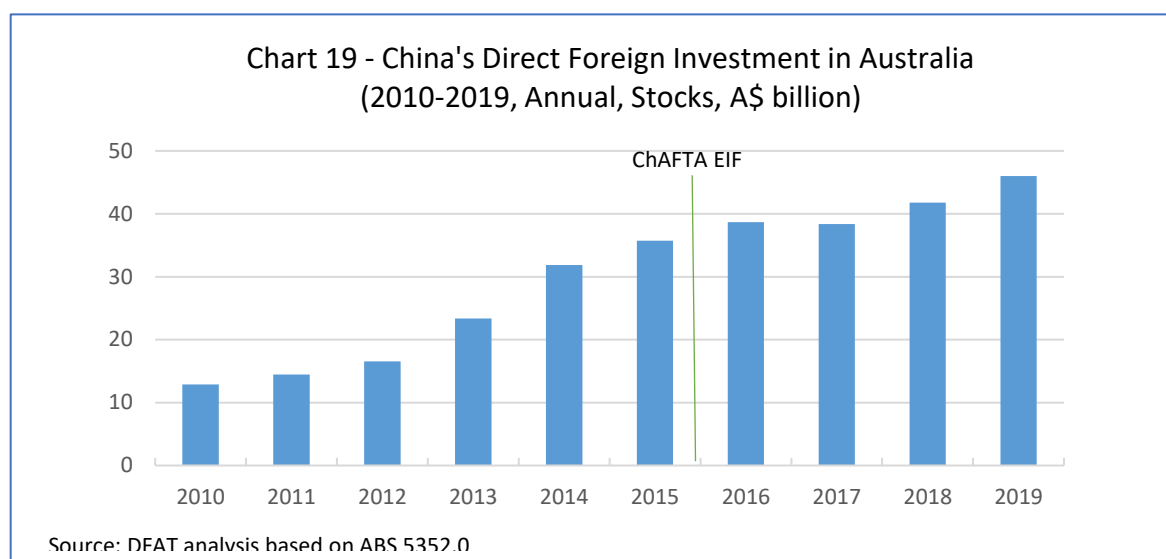
111. The ChAFTA provisions and protections for Australian investment in China (outlined above) apply equally to Chinese investment in Australia.

112. Under ChAFTA, Australia raised the monetary threshold from \$248 million to \$1,192 million¹⁵ for Foreign Investment Review Board (FIRB) consideration of private investments from China, consistent with the threshold provided to other FTA partners such as the United States, New Zealand, Korea and Japan. The Australian Government has retained the ability to screen at lower levels for sensitive sectors, including media, telecommunications and defence-related industries. The threshold for screening proposals for foreign investment in agricultural land is \$15 million, and \$60 million for agribusinesses. FIRB requirements pertaining to investment by state-owned enterprises also continue to apply.

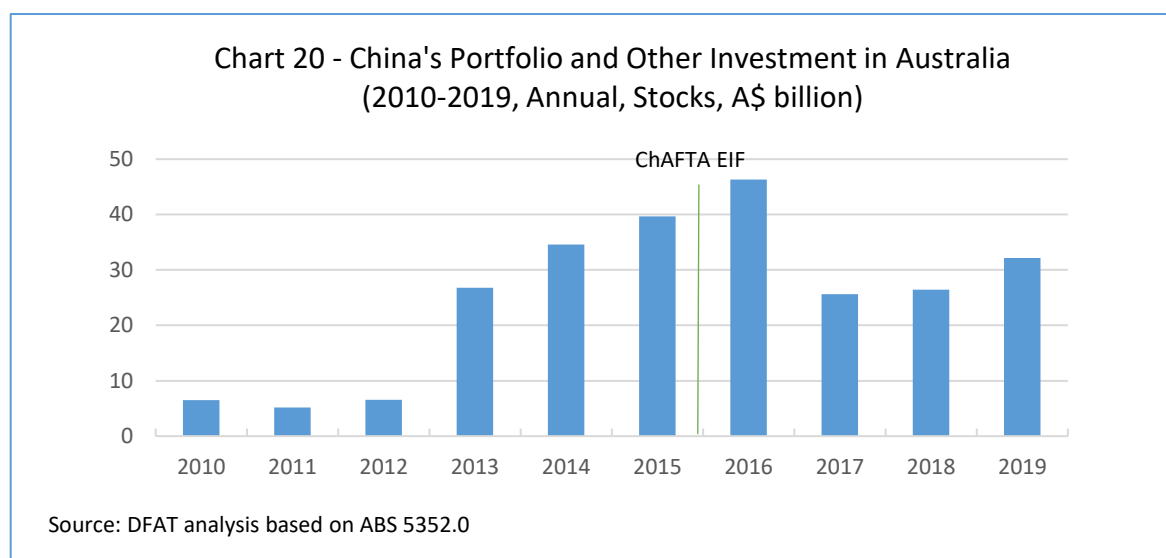
113. The ChAFTA provisions facilitate Chinese investment into Australia, reducing compliance costs, and creating greater certainty for Chinese investors. International investment helps stimulate economic activity, helping employment opportunities and standards of living for Australians.

¹⁵ The thresholds are indexed annually. The amounts shown are as at 1 January 2020. In March 2020, Australia introduced a temporary reduction of the FIRB threshold to zero for all foreign investments from all countries due to COVID-19.

114. Chart 19 shows the value of China's direct investment stocks in Australia as at the end of 2010 to end 2019. The data shows China's direct investment in Australia was \$46.0 billion at the end of 2019, up 28.7 per cent on \$35.7 billion at the end of 2015.



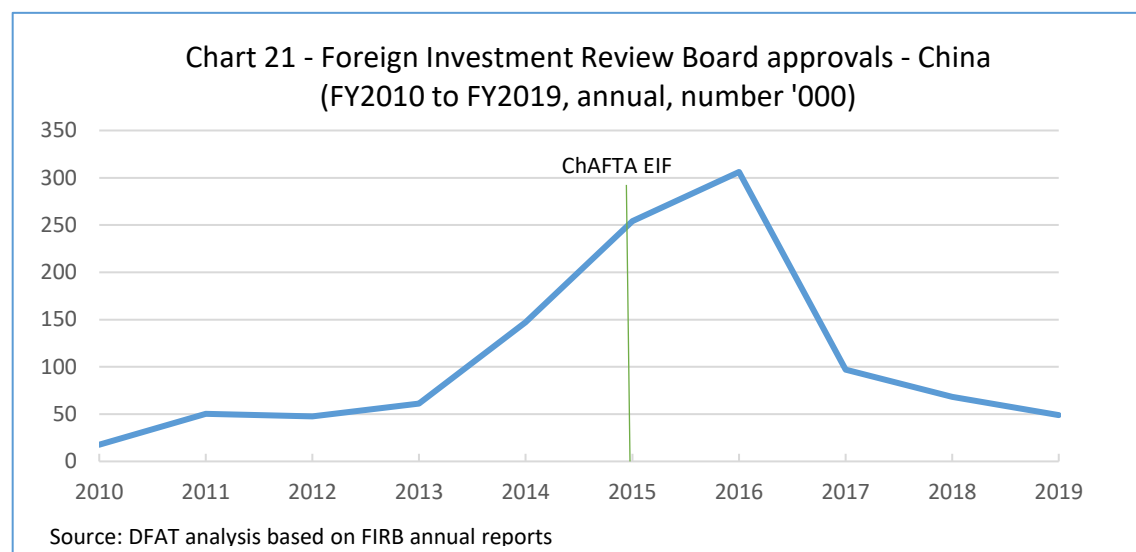
115. Chart 20 shows the value of China's portfolio and other investment stocks in Australia as at the end of 2010 to end 2019. The data shows China's portfolio and other investment in Australia was \$32.2 billion at the end of 2019 down 18.9 per cent on \$39.7 billion in 2015.



Observation 17:

The value of China's direct investment in Australia increased between 2015 and 2019, whereas the value of China's portfolio and other investment decreased in the period.

116. Chart 21 shows the number of foreign investment approvals for Chinese investments granted by the FIRB across the 2010 to 2019 financial years. The number of approvals spiked in the years preceding entry into force of ChAFTA and has decreased from a high of 306,000 in 2016 to 49,000 in 2019. Note the number of approvals reflect the specific circumstances of each investment. While the number of FIRB approvals has fallen since 2016, this is not necessarily indicative of reduced investment activity. The lower number of FIRB approvals reflects the higher threshold. Data is not available on the number or value of investment approvals that did not require consideration by the FIRB due to the higher ChAFTA thresholds.



What has been the impact of ChAFTA on Australia's domestic manufacturing sector?

117. The impact of ChAFTA on Australia's domestic manufacturing has varied through the sector. Australian manufacturing businesses using goods and materials produced in China may benefit from lower input costs through elimination and reduction of tariffs under ChAFTA. On the other hand, businesses may face increasing competition from Chinese products.

118. While the elimination of Australia's five per cent tariff on new motor vehicles and automotive products increased competition within Australia's domestic automotive industry, at the time of ChAFTA's entry into force major manufacturers had already announced the cessation of vehicle manufacturing in Australia by 2017.

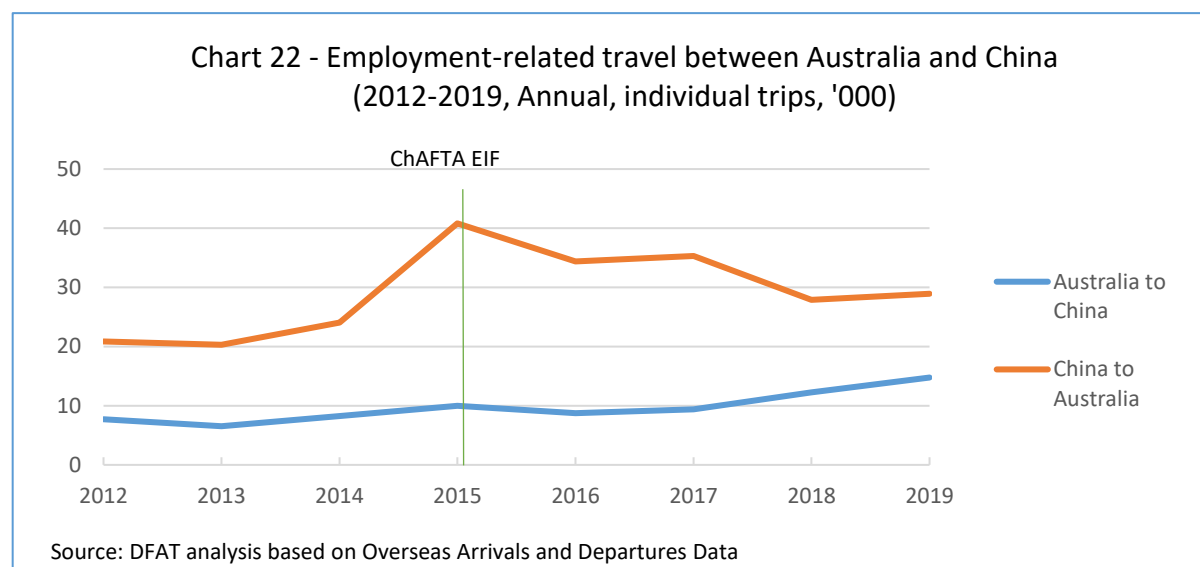
119. Other manufacturing sectors, including the steel, copper, plastics, chemicals, textiles, clothing and footwear industries, face increased competition from Chinese imports following the elimination of Australian tariffs.

What has been the impact of ChAFTA's movement of natural persons provisions?

120. The ChAFTA commitments on the movement of natural persons guarantee entry and temporary stay for Australian and Chinese skilled service providers, investors and business visitors in each other's country. These commitments build upon those made by both countries in the WTO.

121. Chart 22 shows the number of Chinese entering Australia for employment purposes between 2012 and 2019.¹⁶ The data shows 40,800 Chinese employment-related arrivals in 2015 (in the lead-up to entry into force of ChAFTA), gradually decreasing to 28,900 in 2019 (down 29.2 per cent).

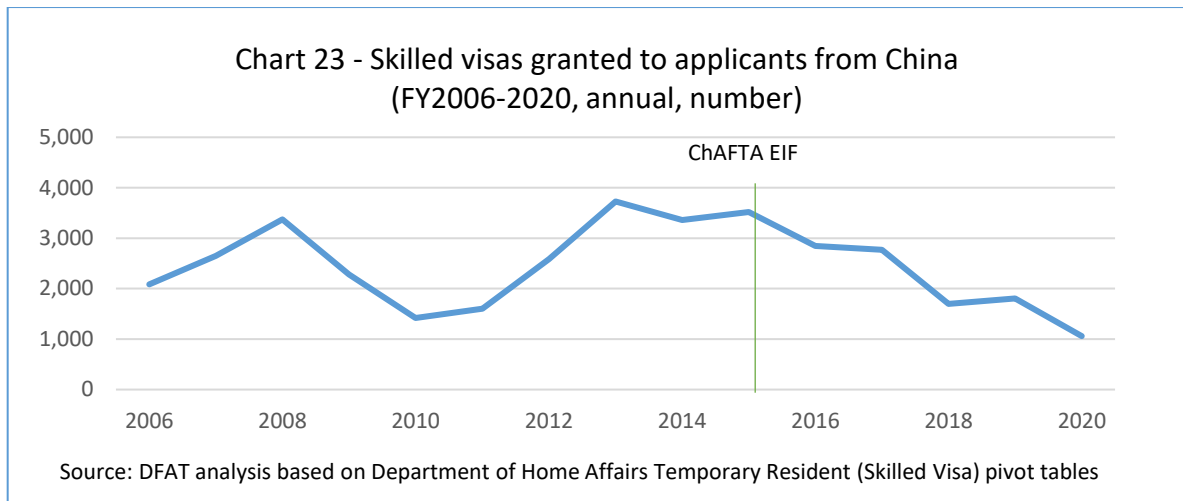
122. The data also shows an increase in the number of Australians travelling to China for employment-related purposes, reaching 14,800 in 2019 (up 48.0 per cent on the 10,000 in 2015).



123. Chart 23 shows the number of visas granted to Chinese seeking entry to Australia under skilled visa arrangements from 2005-06 through 2019-20. The data shows the number of visas granted has fallen each year since ChAFTA's entry into force, reaching around 1,800 visas in 2018-19, around half the 3,500 visas granted in 2014-15¹⁷.

¹⁶ Note this data is also included within Chart 15 above. The data includes entry of skilled and unskilled employees.

¹⁷ The 2019-20 figure of around 1,100 visas reflects the onset of COVID-19 late in the second half of that financial year.



Observation 18:

The number of Chinese entering Australia for employment-related purposes has fallen since ChAFTA's entry into force. Grants of visas to skilled workers from China have also declined since ChAFTA's entry into force.

What has been the impact of ChAFTA on Mutual Recognition Arrangements for Professional Services?

124. Australia and China are both members of the Asia-Pacific Economic Cooperation (APEC) program for architects, which is a plurilateral arrangement facilitating mutual recognition of professionals across APEC parties. China is not a member of the similar APEC Engineer program. With ChAFTA providing a high-level framework to progress MRAs, Engineers Australia (EA) has made good progress with the China Association for Science and Technology (CAST) by entering into a Memorandum of Understanding (MoU) between the two parties on 20 November 2019 as a pathway agreement to an MRA. Flowing from this MoU, EA and CAST have now commenced discussions on negotiating an MRA.

125. The Australian accountancy profession has also expressed interest in entering into an MRA with their counterpart(s) in China.

What has been the impact of ChAFTA on small business?

126. Quantitative data on the impact of ChAFTA on small businesses is not available. Our qualitative assessment is that ChAFTA has had a positive impact on many small businesses due to increased business activity, a greater range of competitively priced inputs imported from China, and improved access and competitiveness of Australian goods and services in the Chinese market. Small businesses, including those providing goods and services to the tourist sector, have benefitted from the increased numbers of visitors from China since entry into force of the Agreement. Many small businesses may face increased competition from Chinese imported goods. The impact of ChAFTA on small businesses is consistent

with the expected outcomes of ChAFTA articulated in the Regulatory Impact Statement.

What has been the impact of ChAFTA on regional Australia?

127. Quantitative data on the impact of ChAFTA on regional Australia is not available. Our qualitative assessment is that ChAFTA has had a positive impact on regional Australia noting the ChAFTA market access outcomes for key agricultural products and resources. Regional businesses may also benefit from increased numbers of Chinese tourists and students in regional areas.

What has been the impact of ChAFTA on Australian consumers?

128. Quantitative data on the impact of ChAFTA on Australian consumers is not available. Our qualitative assessment is that Australian consumers have benefitted from the elimination and reduction of tariffs on key Chinese imports, resulting in lower prices. Consumers have also benefitted from greater choice of available products.

Observation 19:

The impacts of ChAFTA for small businesses, regional areas and industry sectors have been largely consistent with expectations.

What has been the impact of ChAFTA on government revenue?

129. As discussed earlier in this paper, the elimination of tariffs on merchandise imports has reduced Australian government duties revenue by around \$940 million annually since ChAFTA's entry into force. This is consistent with Treasury estimates made before entry into force of the Agreement that tariff revenue would decline by \$4,150 million over the forward estimates. This figure did not include the second-round effects on government revenue from increased activity in the Australian economy facilitated by liberalised trade and investment flows between Australia and China. The overall effect of ChAFTA on government revenue is assessed as positive.

What has been the impact of ChAFTA on State and Territory Governments?

130. During ChAFTA negotiations, State and Territory governments raised issues of interest to industries residing in their respective jurisdictions, their regulatory responsibilities and the administrative implications of ChAFTA. State and Territory Governments are bound to comply with relevant sections of the Agreement. A significant point of difference with the Japan-Australia Economic Partnership Agreement (JAPEPA) and Korea-Australia FTA (KAFTA) is that ChAFTA does not currently have specific commitments on government procurement. Our qualitative assessment is that ChAFTA has had minimal direct impact on State and Territory Governments.

What other impacts have there been from ChAFTA?

131. The conclusion of ChAFTA negotiations in 2014, taken together with conclusion of bilateral FTA negotiations with Korea and Japan, has had a positive impact on some of Australia's other trade and economic priorities. In particular, the JAEPA outcomes provided impetus towards the conclusion of ChAFTA, and a platform for conclusion of the CPTPP.

132. Similarly, these agreements have provided impetus towards conclusion of the Regional Comprehensive Economic Partnership (RCEP), which brings together nine of Australia's top 15 trading partners into a single economic framework. RCEP parties signed the agreement on 15 November 2020 and are now working towards its ratification. Australia will seek the entry into force of RCEP as quickly as possible. RCEP will help to strengthen economic integration and build strategic confidence in the region and send an important signal of support for trade liberalisation and rules-based trading arrangements at a time of significant global trade tensions.

Observation 20:

ChAFTA has positively contributed to outcomes for Australia through other bilateral and regional FTAs, including RCEP. ChAFTA underpins the strong and complementary economic relationship between Australia and China.

Have there been any unintended impacts of ChAFTA?

133. This Review has not identified any unintended impacts of ChAFTA.

HOW HAS CHAFTA BEEN IMPLEMENTED AND EVALUATED?

Parliamentary scrutiny, and legal implementation of ChAFTA

134. The comprehensive Parliamentary and other processes leading up to the entry into force of ChAFTA are detailed in the Introduction of this report.

135. The implementation of ChAFTA required legislative changes to the *Customs Act 1901*; the *Customs Tariff Act 1995* and associated regulations; the *Foreign Acquisitions and Takeovers Regulations 1989*; and the *Life Insurance Regulations 1995*.

ChAFTA institutional mechanisms

136. ChAFTA includes a structure of regular meetings intended to create an ongoing dialogue between Australia and China and a built-in agenda of reviews, which provide avenues to address issues and increase two-way trade opportunities. The ChAFTA Joint Commission is tasked with the overall implementation of ChAFTA with responsibility for:

- considering matters relating to the implementation of the Agreement;
- considering issues referred to it by the committees and working groups established under the Agreement or by either Party;
- exploring measures for the further expansion of trade and investment between the Parties;
- considering any proposal to amend the Agreement and make recommendations to the Parties; and
- considering any other matter that may affect the operation of the Agreement.

137. ChAFTA also includes provisions for a number of reviews:

- a General Review within three years of entry into force, and at least every five years thereafter (Article 16.5);
- a services review, within two years of entry into force, and every two years thereafter (Article 8.24);
- an investment review, no later than three years of entry into force, and every two years thereafter (Article 9.9);
- a review of the Memorandum of Understanding on Investment Facilitation Arrangements (MOU of IFA) within two years of entry into force (Article 10.6);
- a joint review of origin documentary requirements within three years of entry into force (Article 3.24);
- an appellate review within three years of entry into force (Article 9.23).

138. After a reasonable start in bilateral engagement under ChAFTA, in recent years the Chinese Government's lack of engagement with Australia has prevented use of ChAFTA institutional mechanisms. To date, the ChAFTA Joint Commission has met once - on 27 February 2017, in Beijing.

139. The ChAFTA Committee on Sanitary and Phytosanitary Measures has met twice, in 2016 and 2017. The ChAFTA Committees on Trade in Goods, Technical Barriers to Trade, Trade in Services, Investment, Financial Services, and Movement of Natural Persons each met during 2017.

140. The first meeting of the services, investment and MOU on IFA reviews took place in Canberra on 25-27 October 2017.

Observation 21:

ChAFTA committee and review processes have not progressed since late 2017 due to lack of engagement by China.

FTA Seminars, FTA Portal and other support for businesses on FTAs

141. Implementation of Australia's 'trifecta' of FTAs with Korea, Japan and China which entered into force in 2014 and 2015 have been supported by a significant investment by the Australian Government to promote increased business awareness and use of opportunities under Australia's FTAs.

142. The Government has sought to increase SMEs and other businesses' awareness and use of ChAFTA and other FTAs including through:

- FTA information seminars and webinars;
- bespoke advocacy for domestic stakeholders;
- detailed on-line ChAFTA information, including business guides and case studies;
- FTA-specific email inboxes where businesses and members of the public can contact experts with specific questions or issues relating to ChAFTA and other FTAs; and
- developing a modern online FTA Portal for businesses.

143. In respect of the FTA information seminars about ChAFTA and other FTAs, DFAT and Austrade delivered over 130 seminars since March 2015, engaging with more than 5500 business and other representatives, with around two-thirds of the seminars held in regional areas. Due to COVID-19, the seminars were adapted to webinars from early 2020. Between May and November 2020 12 FTA webinars have been held involving over 5,000 participants. Feedback from seminars and webinars indicates that they are highly valued by the participants.

144. The FTA Portal assists businesses to access information on Australia's FTAs in a user-friendly way. Launched in March 2016, the FTA Portal initially covered goods

for JAEPA, ChAFTA and KAFTA. It has since expanded to include comprehensive information on all of Australia's in-force FTAs. Information on FTA services commitments, including under ChAFTA, was included in the FTA Portal from 2018. Since its launch, the FTA Portal has attracted over 300,000 users.

145. The FTA Portal features a sophisticated tariff finder, rules of origin guide, trade data on individual markets and relevant links to help businesses make informed decisions. It also helps businesses make comparisons where there may be more than one available FTA, such as will be the case for China following RCEP's entry into force.

146. DFAT and partner agencies have received many positive comments about the FTA Portal, including from business groups and customs brokers, noting the easy-to-use interface and search function. The FTA Portal was awarded 'Best Application Development' at the 2016 Government ICT Awards.

147. In addition to the FTA information seminars outlined above, Austrade has supported ChAFTA implementation through its services to businesses and investors, including the TradeStart network and the Export Market Development Grant scheme. The Austrade website includes ChAFTA-specific video case studies and other material to assist businesses. In November 2020, Austrade launched the Free Trade Advantage online platform. This new platform brings together a range of practical advice and resources to help Australian businesses access the benefits of Australia's FTAs. Export Finance Australia also assists businesses develop export opportunities.

Observation 22:

FTA seminars and webinars, the FTA Portal and other government programs have supported business understanding and uptake of opportunities under Australia's FTAs including ChAFTA.

Evaluation – Export outcomes and ChAFTA preference utilisation

148. Following the entry into force of ChAFTA, DFAT initiated an ongoing program of work to analyse and evaluate export trends for key products benefiting from ChAFTA tariff cuts, and ChAFTA preference utilisation. These analyses have supported FTA advocacy and policy, and stakeholder engagement (including targeted outreach on tariff preference uptake for specific products and sectors). Examples of these analyses are included throughout this report.

FTA Utilisation Study

149. Following the entry into force of Australia's three FTAs with Korea, Japan and China in 2014 and 2015, DFAT commissioned an independent study on business utilisation of Australia's FTAs. The study considered all of Australia's FTAs, with an emphasis on the (then) most recent FTAs with Korea, Japan and China.

150. The FTA Utilisation Study undertaken by PricewaterhouseCoopers (PwC) and published in early 2018 found Australia's FTAs, including ChAFTA, were being widely used and were having a positive impact on business confidence, activity, strategy, expansion planning, and international investment (including in the services sector).

151. PwC's report found high utilisation rates for Australia's FTAs with Korea, Japan and China.¹⁸

152. PwC found while FTAs were providing greater regulatory certainty for Australian services providers and investors in partner markets, services businesses were not yet fully exploiting the commitments in FTAs to liberalise services. The report noted that the full services market access outcomes under Australia's north Asian FTAs will take some time to bear fruit. Not surprisingly, SMEs lag behind larger businesses in FTA utilisation, and continued outreach and education are required for these businesses to maximise the opportunities available to them from Australia's FTAs.

153. The PwC research highlighted the 'head turning' effect of Australia's trade agreements with Korea, Japan and China, contributing to the positive perception of Australia as a place to invest and do business. It also noted businesses reporting increases in domestic demand for goods and services from businesses trading internationally.

Observation 23:

The FTA Utilisation Study provided timely analysis of Australia's FTAs including ChAFTA.

What other relevant inquiries or reports have taken place since ChAFTA entered into force?

154. The Joint Standing Committee on Foreign Affairs, Defence and Trade launched an inquiry in 2018 into access to FTAs by SMEs.

155. The Terms of Reference for the Inquiry were:

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine opportunities and challenges facing small and medium Australian export-oriented businesses that seek to leverage free trade agreements for the export of goods and services with particular regard to:

- *consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements;*
- *awareness of, and accessibility to, free trade agreements;*

¹⁸ The study methodology included focus groups and a business survey (conducted in 2017), and consideration of preference utilisation data from 2016.

- *lessons learnt from attempts at leveraging free trade agreements, including barriers to implementation and success in fast-tracking export opportunities;*
- *role and effectiveness of support structures and networks in helping leverage free trade agreements;*
- *ongoing capacity building that will assist in creating opportunities and capturing more value from free trade agreements in the future; and*
- *any other related matters.*

156. The inquiry report *From little things big things grow: Supporting Australian SMEs go global* was released in February 2019. The Government response to the Report was tabled in December 2019. None of the recommendations of the report related specifically to ChAFTA.¹⁹

Observation 24:

Small and medium enterprises (SMEs) require additional support to access benefits from Australia's FTAs.

WHICH STAKEHOLDERS HAVE BEEN CONSULTED?

Consultations

157. The DFAT website includes details of the extensive stakeholder consultations leading up to and during the ChAFTA negotiations. DFAT received over 260 submissions from interested parties and, in conjunction with relevant Commonwealth agencies, conducted an extensive program of direct consultations and discussions with over 1000 stakeholders to inform the Government's negotiating strategy.

Ongoing stakeholder engagement

158. DFAT has an ongoing stakeholder engagement process, including six-monthly stakeholder meetings to update interested parties on the progress with FTAs under negotiation or implementation. DFAT trade negotiators also meet on an ad hoc or periodic basis with stakeholders to discuss sector- or business-specific issues.

159. State and Territory Governments have been consulted on the implementation of ChAFTA through the Trade and Investment Ministers Meeting (TIMM) and the Senior Officials Trade and Investment Group (SOTIG). In accordance

¹⁹ The [Inquiry](#) report includes 167 separate references to China, highlighting the importance of that partner economy to our SME and other stakeholders' interests.

with a whole-of-government approach, DFAT has also consulted with relevant Commonwealth Government agencies on ChAFTA implementation.

PIR Call for submissions

160. DFAT issued a call for submissions in April 2020 on its website as part of the processes for preparation of this Post-Implementation Review (PIR).

161. DFAT received a total of 19 PIR submissions from a range of Australian stakeholders, including:

- the Business Council of Australia (BCA);
- the Australia-China Business Council (ACBC);
- the Export Council of Australia (ECA);
- the National Farmers' Federation (NFF);
- the Australian Free Trade and Investment Network (AFTINET);
- various businesses;
- various industry and sectoral bodies (including in the red meat, sugar, grains, dairy, forest products, complementary medicines, and retail/distribution sectors); and
- trade intermediaries such as customs agents and freight forwarders.

162. A number of submissions were marked 'In Confidence' or 'Commercial in Confidence'.

163. DFAT greatly appreciates the efforts of stakeholders in providing submissions, particularly with the constraints of COVID-19 in a most challenging year.

Discussion

164. The stakeholder PIR submissions portrayed a diverse range of views. While many highlighted the positive outcomes under ChAFTA, many expressed disappointment and concern about relatively recent trade-disruption events up to and during 2020 which created uncertainties for traders. Some stakeholders highlighted what they considered to be shortfalls in the ChAFTA provisions, while others raised issues which were not directly linked to the impact of ChAFTA or its implementation. While some of the issues raised by stakeholders may fall outside the scope of this PIR, they have been included within the following discussion so as to reflect the full range of views expressed. There was a high degree of common ground in the submissions: some issues were raised by multiple stakeholders, and many of the issues raised were linked.

165. The key positive themes expressed in stakeholder submissions included:

- ChAFTA has delivered tangible benefits to Australian businesses;

- ChAFTA has reduced tariffs and expanded export opportunities for Australian exporters;
- examples of strong trade outcomes under ChAFTA;
- ChAFTA has assisted in lowering supply-chain costs for goods imported into Australia, with lower prices for consumers;
- ChAFTA has provided improved certainty for traders, including through locking-in zero duties for key commodity exports; and
- ChAFTA has stimulated business confidence for Australian companies doing business in China.

166. While stakeholders were overwhelmingly positive about the trade-expansion impact of ChAFTA, many raised concerns on specific aspects of trading with China or operating in the China market. Issues raised included:

- the recent downturn in the bilateral relationship between Australia and China;
- difficulties with a range of perceived non-tariff barriers in the China market;
- increasing uncertainties in the business environment in the China market, including for trade in specific products and commodities;
- erosion of Australia's competitive position in the China market, including through China's third-party FTAs and its Phase One deal with the United States;
- China's actions up to and during 2020 relating to beef, barley and other Australian imports, which stakeholders saw as undermining the spirit and intentions of ChAFTA;
- lack of progress with ChAFTA committee and review mechanisms, and the (consequent) ineffectiveness of these mechanisms in addressing issues as they arise;
- lack of further market access which may have resulted from timely and effective ChAFTA review processes;
- asymmetrical tariff relativities or market access arrangements between China and Australia for specific products under ChAFTA;
- lopsided ChAFTA commitments on investment and trade in services;
- lack of enforceable obligations on either party to improve their environmental standards;
- lack of enforceable commitments to implement the fundamental ILO Conventions on labour rights;

- uneven ChAFTA outcomes – including key products or sectors of interest to stakeholders where ChAFTA provided no or insufficient preferential access to the China market;
- disappointment around expected trade increases for specific products as yet being unfulfilled;
- concerns over ability of dispute resolution mechanisms within ChAFTA to address or resolve anti-dumping and countervailing duties issues;
- need for improved processes where there are minor errors in ChAFTA certificates of origin; and
- general concerns about exporters' over-reliance on the China market;

167. Non-tariff barriers to trade were a key theme in stakeholder submissions. Specific issues raised by stakeholders included:

- protracted accreditation and licensing processes in the China market, including in the context of accelerated processes for US suppliers under the US-China Phase One deal;
- lack of technical market access to the China market for many Australian products;
- China's approach to non-compliance issues relating to matters such as labelling and certification;
- China's actions against a number of specific Australian products, which stakeholders considered were not based on sound evidence; and
- China's application of Special Safeguards for beef and dairy products, which are detrimental to local consumers.

168. Some stakeholder submissions highlighted issues to be taken up in ChAFTA reviews and committees, with resumption of discussions a priority:

- market access improvements, including for products excluded under ChAFTA and those where Australia's competitive position has been eroded;
- reducing the number of NTBs through the ChAFTA Joint Committee and subsidiary committee processes;
- introduction of declarations of origin under ChAFTA and other streamlining of origin processes; and
- changes to ChAFTA direct consignment provisions.

169. In summary, stakeholders were generally positive about ChAFTA's impacts on liberalising trade with China and expanding export opportunities for Australian businesses. However, many stakeholders highlighted non-tariff barriers and other difficulties in operating in the China market. Stakeholder submissions also noted what they considered to be shortfalls in ChAFTA provisions, and the perceived deficit

between actual outcomes under ChAFTA compared to what may have been possible with more open dialogue between China and Australia, together with timely and effective implementation of ChAFTA review and committee mechanisms.

Observation 25:

Feedback from stakeholders highlighted strong export expansion under ChAFTA, offset by concern about non-tariff barriers and other difficulties operating in the China market which were seen as not being effectively addressed through ChAFTA or other mechanisms.

CONCLUSIONS ON THE IMPACT OF ChAFTA

170. ChAFTA has delivered a net benefit in the five years since its entry into force. The analysis of relevant data shows ChAFTA has, to date, met its broad objective of expanding economic opportunities for Australian businesses and consumers.

171. Relevant evidence of the net benefits flowing from ChAFTA's entry into force includes:

- economic flows between Australia and China have been liberalised through reduction of tariffs and other barriers to trade and investment;
- Australian goods exports increased between 2015 and 2019 for the vast majority of products receiving ChAFTA tariff preferences, including key agricultural, processed food, resources, energy and industrial products;
- Australian exports of travel and other services increased between 2015 and 2019;
- two-way international investment increased in the lead up to ChAFTA's entry into force, and has since fluctuated; and
- two-way people movements, including for business travel, increased in the lead up to ChAFTA's entry into force, and have since fluctuated.

172. Other positive aspects of implementation of the Agreement are clear:

- ChAFTA has significantly reduced the tariff burden on Australian businesses and consumers;
- ChAFTA preference utilisation rates have risen to 90 per cent and beyond since 2017, illustrating strong business use of the Agreement across Australia's imports and exports;
- the compliance costs associated with Certificates of Origin issued through Authorised Bodies have been relatively low, with positive cost/benefit outcomes for most traders;
- uptake of ChAFTA by Australian businesses has been supported by government assistance programs, including the FTA information seminars, the FTA Portal, and Austrade programs; and
- submissions from stakeholders highlighted the positive impact of ChAFTA on improving export opportunities for Australian businesses, notwithstanding difficulties with operating in the China market.

173. Submissions received from stakeholders for this Review provided a range of perspectives on the impact of ChAFTA on Australian businesses and business activity. Stakeholders were generally positive about the expansion of trade and business activity under ChAFTA, tempered by concern about non-tariff barriers and the increasing uncertainties when operating in the China market. Stakeholders raised

concerns about progress with ChAFTA review and implementation mechanisms, and effective dialogue between China and Australia on trade issues.

174. The Chinese Government's lack of engagement with Australia in recent years has prevented use of ChAFTA's institutional structures and review mechanisms. Australia remains committed to building on the gains already achieved under ChAFTA and will continue to advocate for its timely and effective implementation for the benefit of businesses and consumers in both Australia and China.

ATTACHMENT A: REGULATORY BURDEN ESTIMATE

1. The ChAFTA Regulatory Impact Statement estimated ChAFTA would decrease regulatory business compliance costs by a nominal amount of \$1,350 per annum, with an increase in compliance costs associated with preferential Certificates of Origin (CoOs) offset by a larger decrease in compliance costs associated with Foreign Investment Review Board (FIRB) applications.

Certificates of Origin

Direct Costs

2. Australian goods exporters must satisfy the importing requirements of the destination country. This is a prerequisite for participating in international markets and represents business-as-usual practice. In the absence of ChAFTA, Australian exporters would continue to pay third party industry groups to certify origin for a range of products, in order to satisfy the requirements of the importing businesses and the General Administration of Customs People's Republic of China (GACC) (such as for administering WTO import tariff quotas).

3. Australian exporting businesses seeking preferential tariff treatment under ChAFTA for goods imported into China need to provide a preferential-CoO issued by an Australian authorised body. Under certain circumstances involving advance rulings by the GACC, exporters can provide a declaration of origin (DoO) instead of a CoO. While there is no data available on the number of advance ruling applications to the GACC, anecdotal evidence suggests few businesses have taken this DoO approach.

4. Based on the number of additional ChAFTA preferential CoOs issued each year since entry into force of the Agreement, and the average cost per CoO charged by Australian Authorised Bodies, our estimate of the average direct cost is \$1.98 million per annum.

Administrative costs

5. The ongoing annual administrative costs incurred by a business in preparing the documentation to obtain a CoO are assessed as close to zero. The bulk of Australian exports to China are 'wholly obtained' goods such as agriculture and resources commodities, which unlike more complex manufactured products such as motor vehicles, require relatively minimal administration to ensure compliance with origin requirements. Further, while new exporters may expend considerable time applying for certification for their initial consignment, as a matter of practice this information can be re-submitted for subsequent certifications. In addition, much of the information required would be collected for other purposes.

6. Records relating to CoO are required to be kept for five years for most foreign customs agencies. However, businesses are required under Australian Tax Law to retain these records for seven years. The incremental compliance burden associated with record keeping for CoOs is assessed as minimal.

Foreign investment screening

7. The changes to foreign investment screening thresholds for Chinese private investors in non-sensitive sectors (primarily business investment and real estate) are described in the body of this review. The increase in FIRB monetary thresholds has a deregulatory effect as fewer investment proposals and applications to FIRB need to be prepared by or on behalf of those investors. DFAT's estimate is that the total average decrease in regulatory burden for businesses and individuals is \$1.99 million per annum. This is based on average administrative, legal and application costs of around \$62,000 for each application.

Overall compliance burden estimate

8. Table A shows ChAFTA is assessed as reducing the compliance burden by an annual amount of \$0.01 million, compared to the situation before ChAFTA's entry into force. The direct and administrative costs associated with compliance through preferential CoOs have been more than offset by reductions in overall costs due to the increase in the FIRB thresholds.

Table A - Regulatory Burden and Estimate Table

Average annual compliance costs (from business as usual) Costs (\$m)	Business	Community organisations	Individuals	Total cost
Total by sector	(\$0.01)	\$	\$	(\$0.01)