

# Australian PM pushes for free trade deal with China

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Australian Prime Minister Tony Abbott concluded a visit to China on Saturday, the final leg of a tour of northeast Asia that included Japan and South Korea. The trip, which took place amid sharp regional tensions, especially between China and Japan, was generally praised in the Australian media, simply because Abbott managed to avoid any diplomatic rows with Beijing.

Abbott arrived in China after signing Free Trade Agreements (FTAs) with Japan and South Korea, as well as bolstering defence ties with Japan. While the Australian PM declared that the new security measures were “not against any specific country,” Australia and Japan are both deeply integrated into the US “pivot to Asia,” which is directed at undermining Chinese influence in the region and encircling China militarily.

Abbott’s visit to China focussed almost entirely on reaching an FTA with China before the end of the year. He made one oblique reference to the heated dispute between Japan and China over the Senkaku/Diaoyu islands in the East China Sea, telling a business lunch in Shanghai on Friday that “disputes in our region [should] be resolved peacefully and in accordance with international law.” The statement lines up entirely with the US and Japan in affirming the status quo, namely Japanese administration over the disputed islets.

Abbott was in China with a large delegation that included, as he explained in Shanghai, “two ministers, five state premiers and a chief minister, as well as chairmen and CEOs representing half the value of our stock exchange.” He expressed the hope that FTA talks with China, which began in 2005, could be concluded by the time Chinese President Xi Jinping visits Australia in November.

On the key issue of Chinese investment in Australia, Abbott offered concessions, including raising the

threshold for scrutiny by Australia’s Foreign Investment Review Board (FIRB) from \$248 million to \$1.08 billion. Such a change to the foreign investment rules, in line with Australian FTAs with Japan and South Korea, would apply only to “non-sensitive sectors,” and exclude land purchases and agribusinesses.

Abbott’s manoeuvring on the investment issue reflects sharp divisions in his ruling Liberal-National Coalition. The National Party, which is based in rural and regional areas, is opposed to loosening the investment rules that trigger FIRB reviews of any purchase of established agricultural land above \$15 million and of agribusinesses more than \$53 million.

Abbott signalled a significant shift on the automatic FIRB review, established by the previous Labor government, of all purchases by Chinese state-owned enterprises (SOEs). The issue has been a major sticking point for concluding a FTA, as much Chinese overseas investment is via large SOEs.

Speaking to the Shanghai business lunch, Abbott reaffirmed his slogan that Australia was “Open for Business.” He continued: “We now appreciate that most Chinese state-owned enterprises have a highly commercial culture. They’re not the nationalised industries that we used to have in Australia. That’s why Australia has never rejected any investment application from a Chinese SOE and recently approved a large SOE investment in critical infrastructure.”

Abbott’s comments, suggesting that a formula could be found to facilitate Chinese SOE investment in Australia, also implied that China would need to make concessions in return. Canberra is seeking greater access to China for agricultural exports and Australian investment in areas such as financial services, banking, education and health. China is already Australia’s top

trading partner, buying huge quantities of iron ore, coal and other commodities, while Australia is a major destination for Chinese students and tourists.

The Chinese government signalled during Abbott's visit that it was open to Sydney becoming a financial hub for trading in the Chinese currency. The step, if successful, would enhance Sydney's role as a major financial centre in the Asia-Pacific region. The Australian foreign exchange market is already the seventh largest in the world, in terms of global turnover.

Abbott suggested that Australia and China could expand defence cooperation, such as officer exchanges and more participation in military exercises, including those involving other countries. The vice-chairman of China's military commission, General Fan Changiong is due to visit Australia later this year.

The Australian prime minister declared that such cooperation was "a good antidote to the strategic pessimism that sometimes clouds consideration of our region's future." No one in the Chinese leadership will have been fooled by this remark. The US is also seeking closer defence cooperation with China, but only to ensure that it has a better appreciation of the Chinese military's strengths and weaknesses, as the Pentagon builds up its forces in Asia and refines its war plans against China.

Abbott used the Australia-led search for the missing Malaysia Airlines plane in the southern Indian Ocean to curry favour, briefing Chinese leaders and the media on the latest developments. He also spoke about plans for hundreds of government-funded Australian students to study in China, of the large number of Chinese immigrants in Australia and historical associations between the two countries.

Chinese President Xi and Premier Li Keqiang gave no public hint of their concerns over Australia's developing defence ties with Japan or its close integration into the US "pivot." No reference was made to the Abbott government's strident opposition to China's declaration of an Air Defence Identification Zone in the East China Sea last November, which provoked a public dressing down of Australian foreign minister Julie Bishop when she visited Beijing in December (see: "Australian foreign minister toes US line").

Abbott's cordial treatment belies the underlying

tensions. The Chinese leadership is no doubt seeking to use its economic leverage with Australian and other countries to cultivate relations that could blunt Washington's aggressive moves within the region. While Abbott's latest trip proceeded without open public disagreements, Australian support for the confrontational US "pivot" is a constant source of destabilisation and friction.



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