



**中国人民大学重阳金融研究院**  
Chongyang Institute for Financial Studies, Renmin University of China (RDCY)

# **The Australia-China Trade and Business Cooperation under the Background of OBOR**

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Renmin University of China (RDCY)**

## About RDCY

- Established on January 19th, 2013
- Over 80 former politicians, bankers, and preeminent scholars; 40 resident fellows
- Mission: advise the government and serve the public by focusing on finance and academics, while grounded in reality
- The joint coordinating think tank by the Chinese government for the T20 2016 Summit, the Executive Director of the Chinese Think Tank Cooperation Alliance for the “Belt and Road”





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# Content

- 1. Trade and Business between Australia and China
- 2. One Belt and One Road Initiative
- 3. Australia-China Trade and Business Cooperation



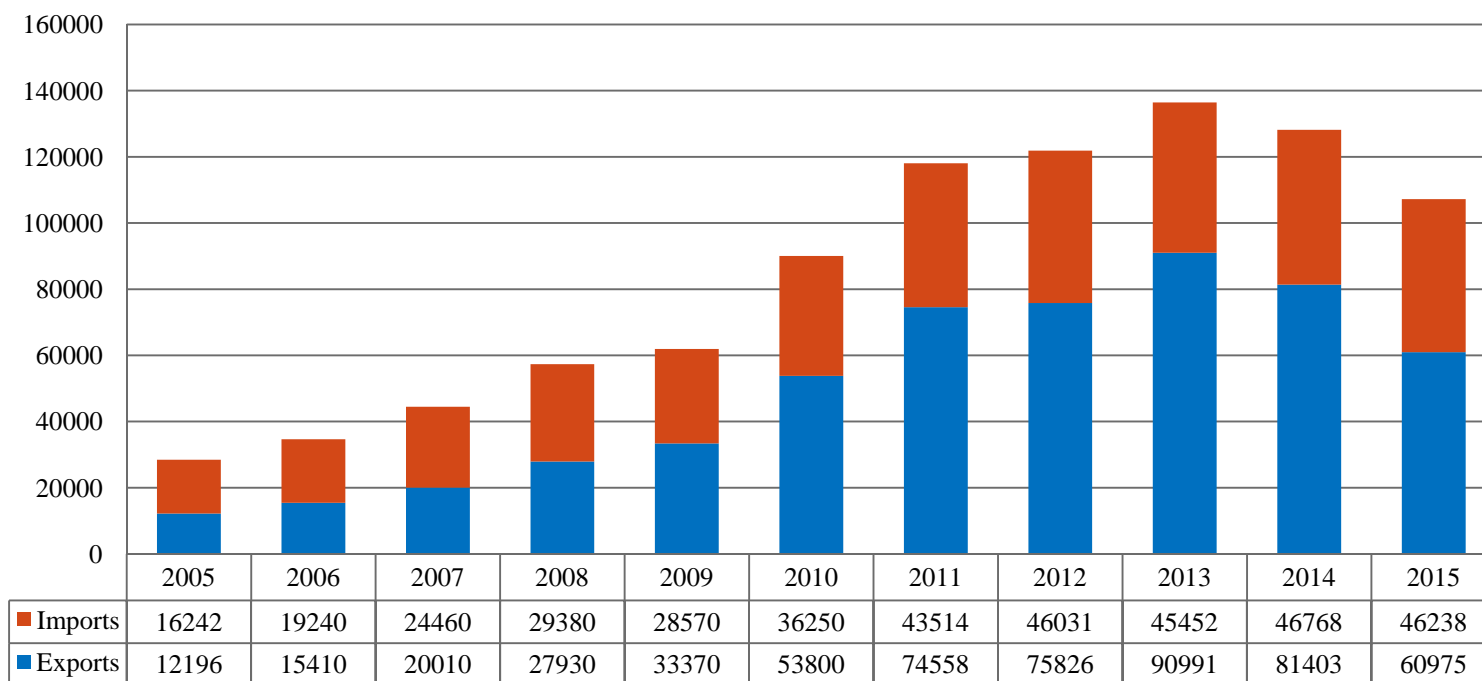
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# 1. Trade and business between Australia and China

# 1.1 The growing trade flow between Australia and China

**2005-2015 Australia's merchandise trade with China (Million USD)**





## Australia's major exported goods to China (2015) (Million USD)

Category of Commodities	value	%
Minerals	37775	62.0
Precious Metals and Related Products	6774	11.1
Base Metals and Related Products	2409	4.0
Textile Materials and Products	2082	3.4
Vegetables, Fruits and Cereals	1844	3.0

## Australia's major imported goods from China (2015) (Million USD)

Category of Commodities	value	%
Machinery & Electric Equipment	18320	39.6
Textile Materials and Products	5406	11.7
Furnitures, Toys and Miscellaneous Manufactured Articles	4549	9.8
Base Metals and Related Products	4358	9.4
Plastics, Rubber and Related Products	1844	5.2

## 1.2 Trade Intensity between Australia and China

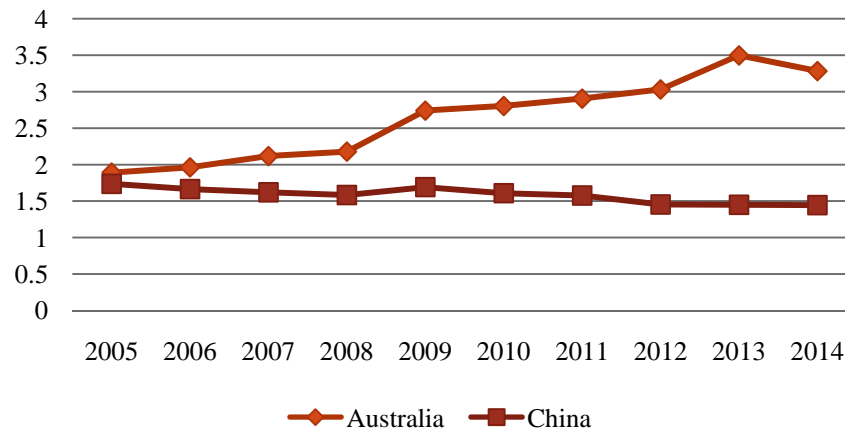
- The trade intensity index is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner.
- Trade intensity indices provide a convenient approach for describing the geographic distribution of country trade and for analyzing the strength of bilateral trade ties between countries.
- Values of the index above (below) 1 indicates the trade between two countries is more (less) intensive than expected.



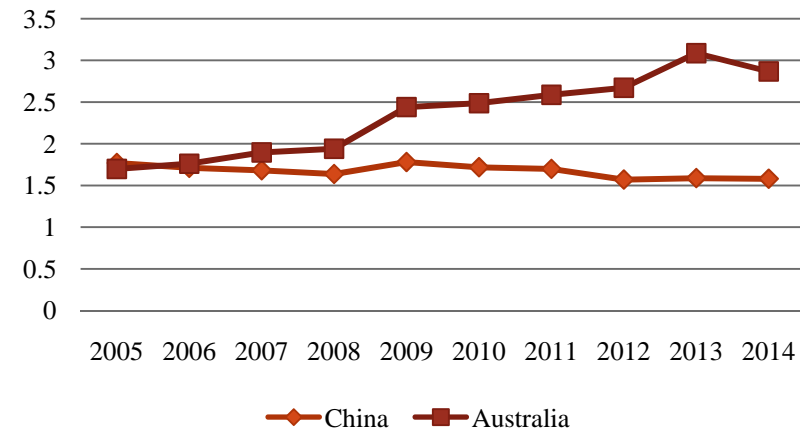
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2005-2014 TI<sub>Ix</sub> between Australia and China



2005-2014 TI<sub>Im</sub> between Australia and China



Data Source: WTO Statistics database

The values of trade intensity index are greater than 1 since 2005, indicating that an 'intense' trade relationship between Australia and China.





## 1.3 Revealed Comparative Advantage

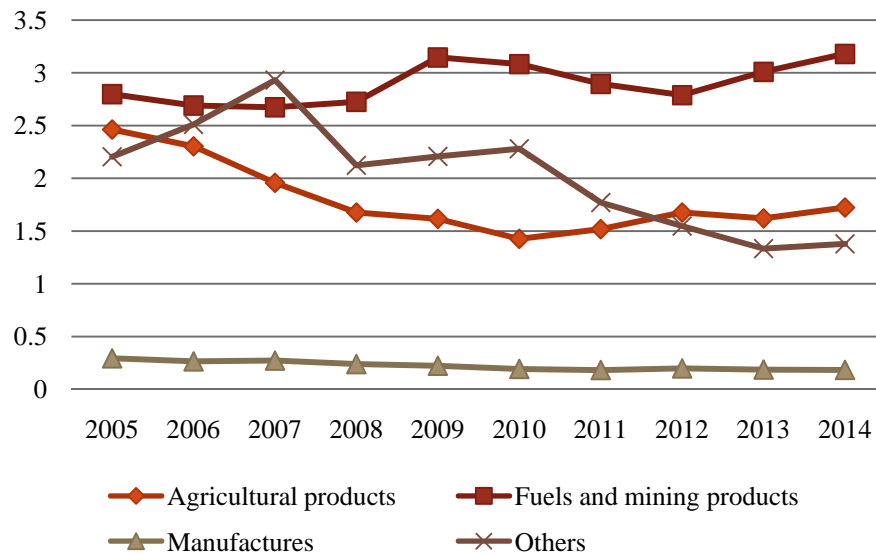
- The revealed comparative advantage is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows.

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

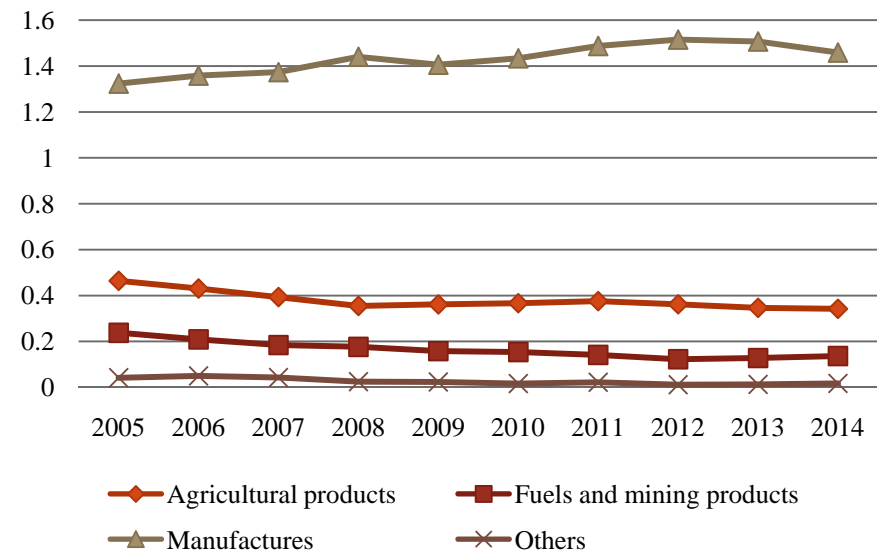
Where  $x_{ij}$  and  $x_{wj}$  are the values of country  $i$ 's exports of product  $j$  and world exports of product  $j$  and where  $X_{it}$  and  $X_{wt}$  refer to the country's total exports and world total exports.



2005-2014 Australia's RCA



2005-2014 China's RCA



Data Source: WTO Statistics database

Australia has comparative disadvantages in agricultural, fuels and mining, and other products, while China has comparative disadvantages in manufactures.

## 1.4 Trade Complementarity Index

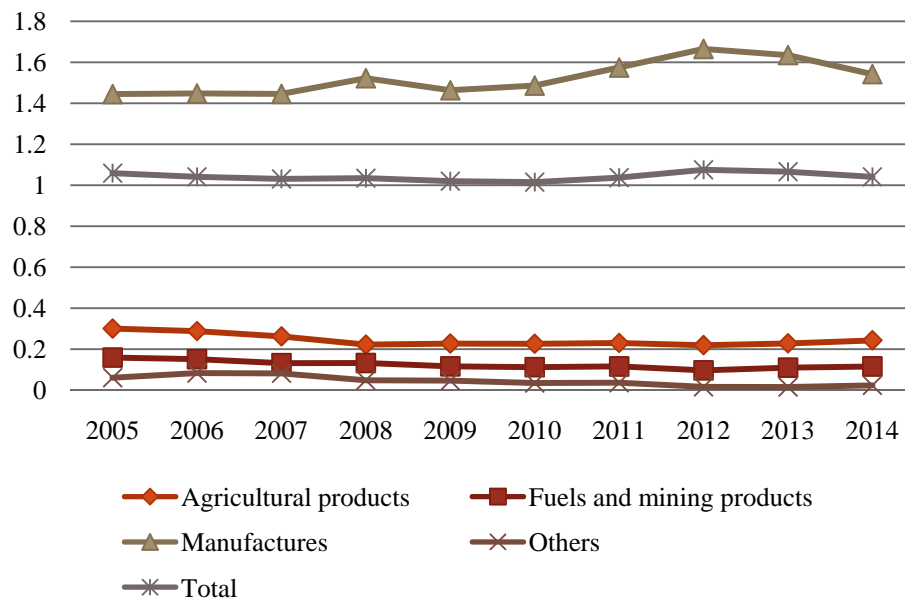
- The trade complementarity (TC) index can provide useful information on prospects for intraregional trade in that it shows how well the structures of a country's imports and exports match.
- It also has the attraction that its values for countries considering the formation of a regional trade agreement can be compared with others that have formed or tried to form similar arrangements.
- Values of the index above 1 indicates the trade between two countries has a complementarity relationship.



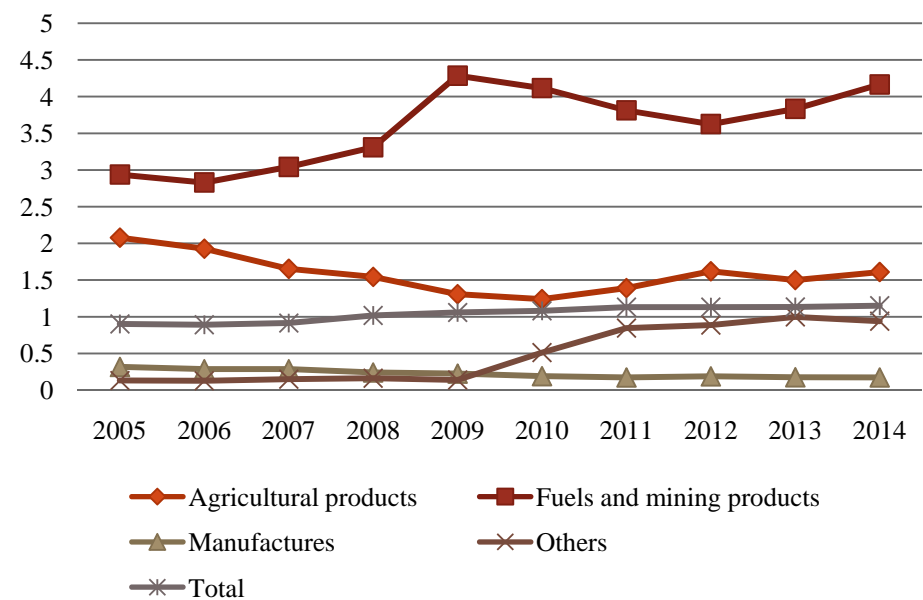
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### 2005-2014 China's TC with Australia



### 2005-2014 Australia's TC with China



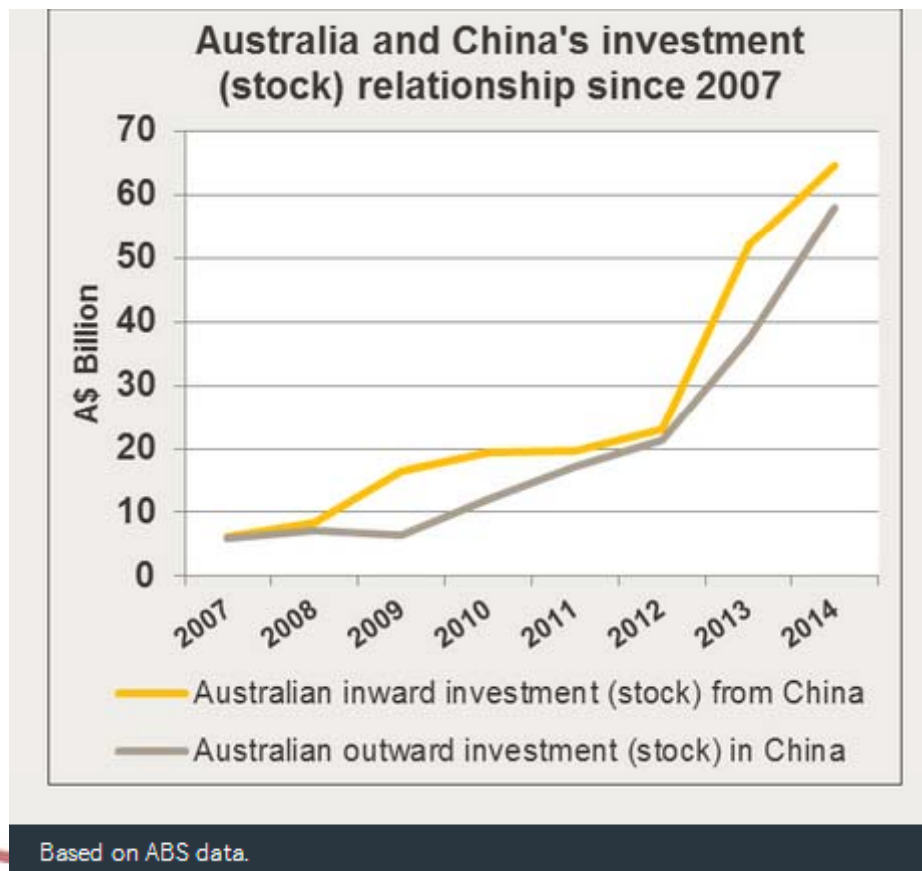
Data Source: WTO Statistics database

China's trade complementarity with Australia is greater than 1 from 2005 to 2014, which means that China's export structure and Australia's import structure are complementary over the period.

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## 1.5 Investment relationship



Both inward and outward investment(stock) with China kept rising since 2007, especially since 2012.





## 1.6 FTA-ChAFTA

- The China Australia Free Trade Agreement (ChAFTA) came into force on 20 December 2015.
- It lays an historic foundation for the next phase of Australia's economic relationship with China. The agreement unlocks significant opportunities for Australia in China which is Australia's largest export market for both goods and services, accounting for nearly a third of total exports, and a growing source of foreign investment.



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17 Nov 2014

Minister Robb and Minister Gao signed a Declaration of Intent, formalising the conclusion of ChaFTA

17 Jun 2015

Minister Robb and Minister Gao signed ChaAFTA

16 Sept 2015

Minister Robb introduced customs implementing legislation into Parliament

19 Oct 2015

The Chair of JSCOT that conducted a public inquiry into ChAFTA tabled the report of it in Parliament

22 Oct 2015

ChAFTA legislation passed by the House of Representatives

6 Nov 2015

Reports by two other Parliamentary committees that reviewed ChAFTA and its implementing legislation were tabled in Parliament

9 Nov 2015

ChAFTA legislation passed by the Senate

9 Dec 2015

Exchange of diplomatic notes between Australia and China

20 Dec 2015

Entry into force



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## **ChAFTA will benefit Australian businesses and everyday consumers alike by:**

- Making Australian goods exports more competitive in the growing Chinese market
- Reducing the costs of importing from China
- Making it easier for Australian businesses to operate and expand in the growing Chinese market
- Encouraging new investment into Australia to boost economic growth



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- As the closest region to Asia, it only takes 1 week for cargo ship travel from Darwin Port to Shanghai, which helps reduce the logistics cost.
- Since the entry into force of the FTA, the bilateral tariff decreased gradually. In this case, the rent of Darwin port is conducive to the promotion of trade cooperation between the two countries.





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## 2. The One Belt One Road Initiative





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## 2.1 International Background

- The underlying impact of the international financial crisis keeps emerging.
  - The world economy is recovering slowly and global development is uneven.
  - The European Union is still struggling to overcome the consequences of this crisis.
  - Countries still face big challenges to their development.

- The international trade and investment landscape and rules for multilateral trade and investment are undergoing major adjustments.
  - Regional FTA has already become a new trend of world trade.
  - Trans -Pacific Partnership Agreement (TPP)
  - Transatlantic Trade and Investment Partnership (TTIP)
  - Plurilateral Services Agreement (PSA)



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- East Asia has become the global growth center.
  - In last three decades, East Asia has achieved steady and robust growth, and become the most dynamic and fastest growing region in the world.
  - East Asia, with 2.2 billion people, continues to grow steadily.
  - Its steady growth is not only important for the whole Asia but also very much needed by the rest of the world.



## 2.2 Domestic Background

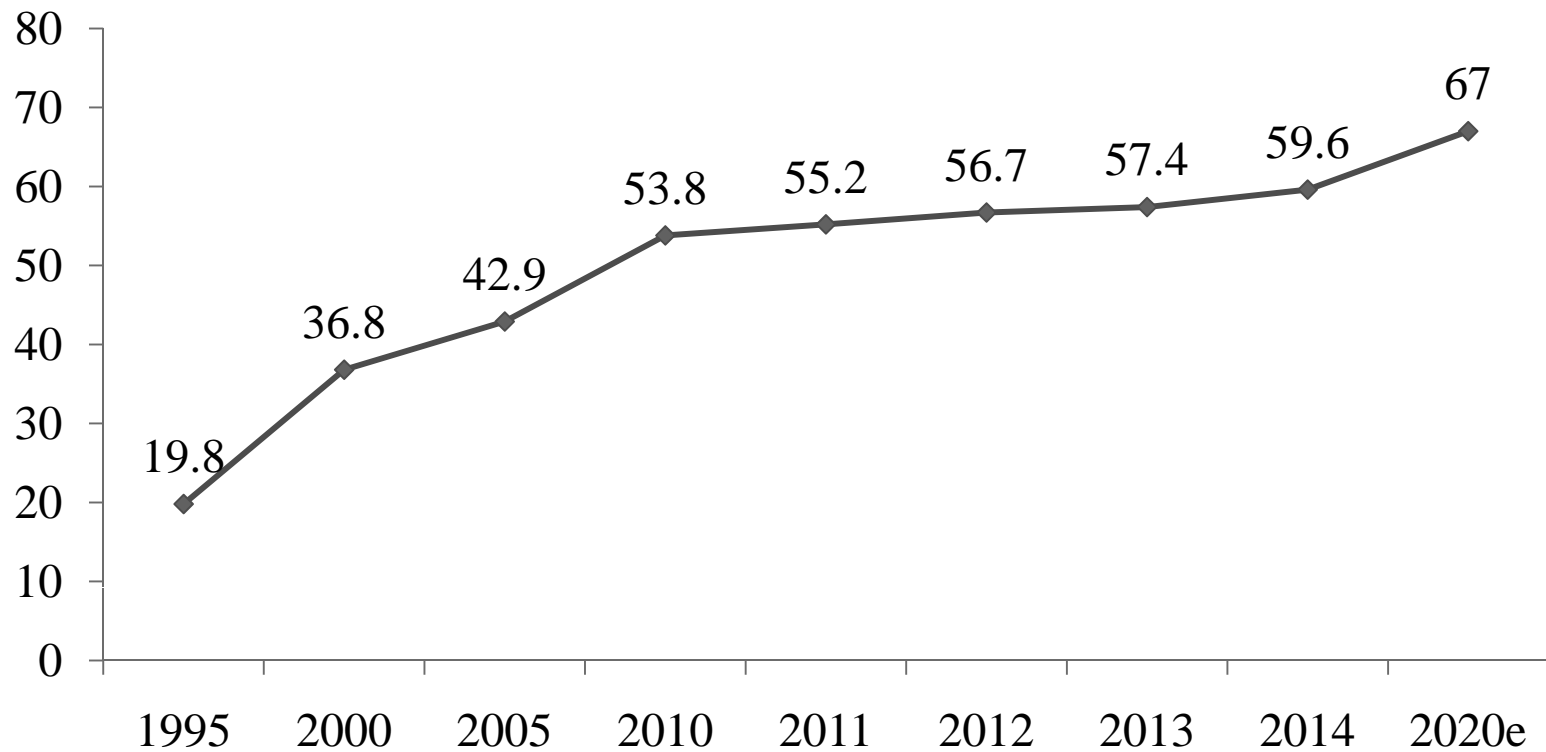
- Overcapacity Problem
  - Since 2012, the overcapacity concern has started spreading from traditional industries - including iron, steel and chemicals - to emerging ones such as carbon fiber and solar power, and capacity utilization is less than 75 percent in some sectors. (Ministry of Industry and Information Technology of China)
  - China's foreign exchange reserves, the largest in the world, kept increasing; but the real value of China's reserves had depreciated considerably due to the United States' monetary policy.



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- Resource Acquisition: World Factory
  - China's Dependence on Foreign Oil







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- Unbalanced Development
  - The regional development and economic growth in China has been unbalanced.
  - This has led to some serious consequences which Chinese policy makers are now trying to rectify.
  - One of the consequences is the deterioration of regional disparity which is threatening the stability of the Chinese society and hence the sustainability of current high economic growth.



## 2.3 OBOR Initiative

- On Sept. 7th 2013, during his state visit to Kazakhstan, President Xi Jinping proposed in his speech at Nazarbayev University that China and the Central Asian countries build an “economic belt along the Silk Road,” a trans-Eurasian project spanning from the Pacific Ocean to the Baltic Sea.
- On Oct. 3rd 2013, President Xi Jinping proposed a new maritime silk road in his speech at the Indonesia Parliament during his state visit to Indonesia.
- This is the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road (Belt and Road Initiative)



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- Belt
  - a planned network of overland road and rail routes, oil and natural gas pipelines, and other infrastructure projects that will stretch from Xi'an in central China, through Central Asia, and ultimately reach as far as Moscow, Rotterdam, and Venice
- Road
  - a network of planned port and other coastal infrastructure projects that dot the map from South and Southeast Asia to East Africa and the northern Mediterranean Sea.

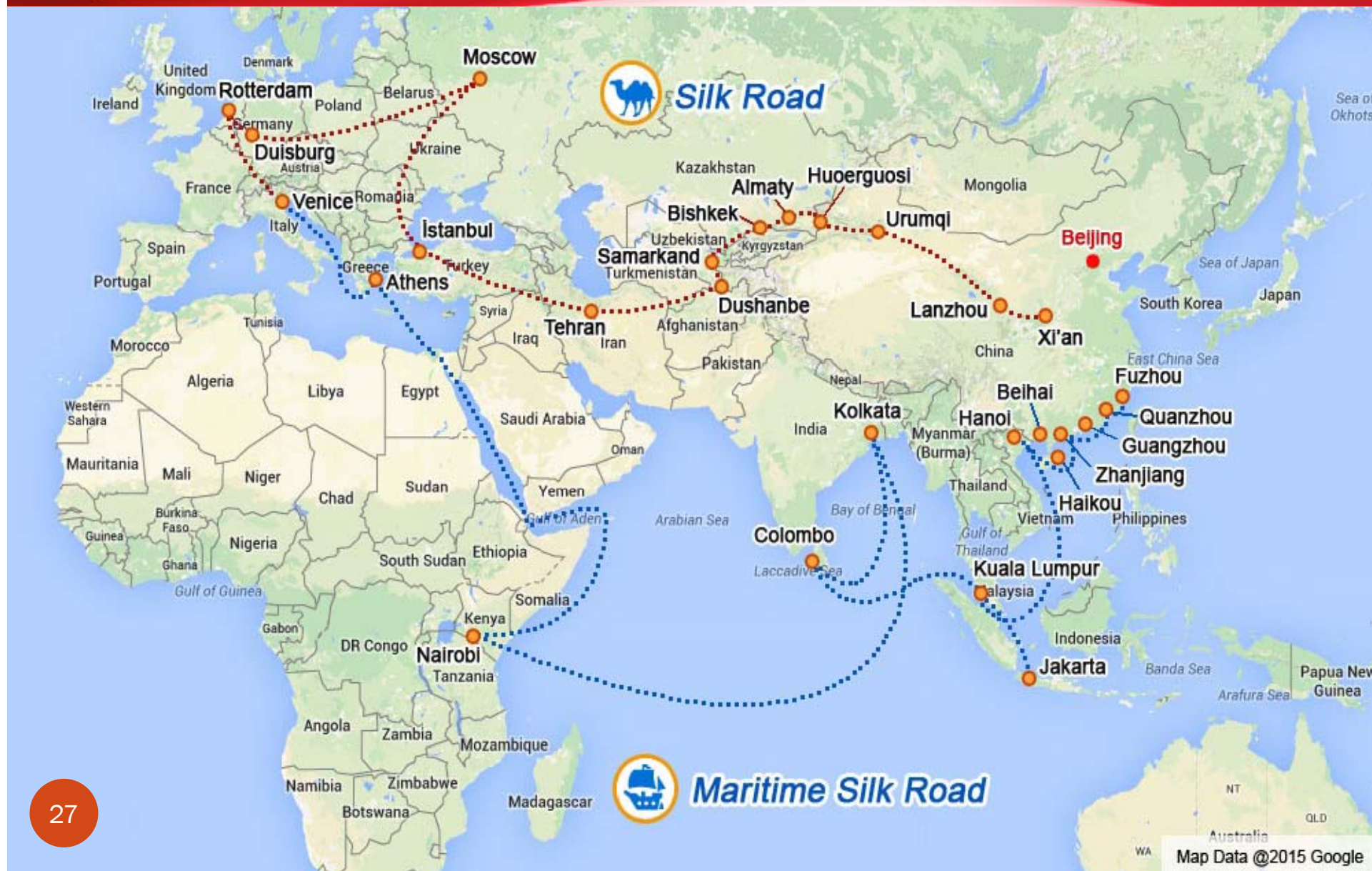




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- OBOR is the world's longest as well as the most promising development economic corridor, which connects the vast areas of East Asia, southeast Asia, South Asia, the Middle East, central Asia, Southern Europe and Northeast Africa together.
- OBOR will accelerate the process of infrastructure construction and connectivity for countries along the route.

The economic dimension in these countries will bring profound influence on the global capital market

GDP of OBOR Countries		Proportion of global GDP
Population	44Billion	63%
GDP	21trillion USD	29%
Cargo and service trade exports	18 trillion USD	24%
Countries along OBOR		64

Infrastructure investments creates multiplier effect for economic development: \$1 billion in infrastructure investment can create 30000-80000 jobs, and 2.5 billion GDP





## 2.2 Priorities of OBOR

- Policy coordination
  - Enhancing policy coordination is an important guarantee for implementing the Initiative.
  - Intergovernmental cooperation
    - Build a multilevel intergovernmental macro policy exchange and communication mechanism
    - Fully coordinate their economic development strategies and policies, work out plans and measures for regional cooperation; jointly provide policy support for the implementation of practical cooperation and large-scale projects.



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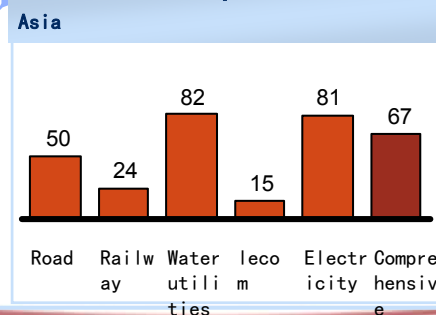
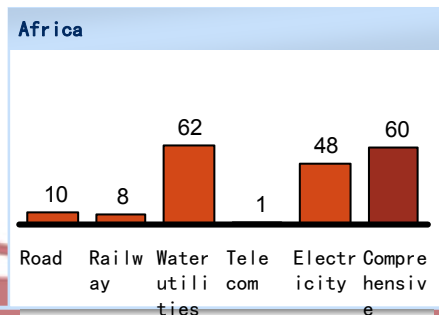
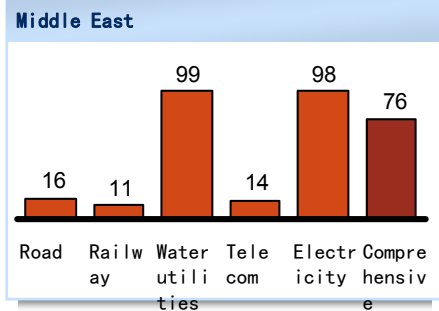
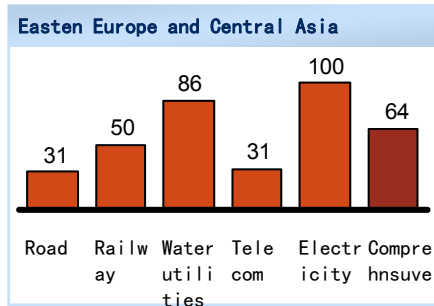
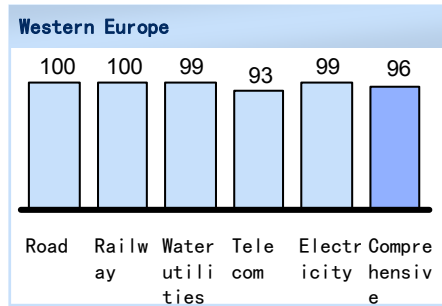
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- Facilities connectivity
  - Facilities connectivity is a priority area for implementing the Initiative.
  - Improve the connectivity of their infrastructure construction plans and technical standard systems
  - Focus on the key passageways, junctions and projects
  - Promote cooperation in the connectivity of energy infrastructure
  - Advance the construction of cross-border optical cables and other communications trunk line networks



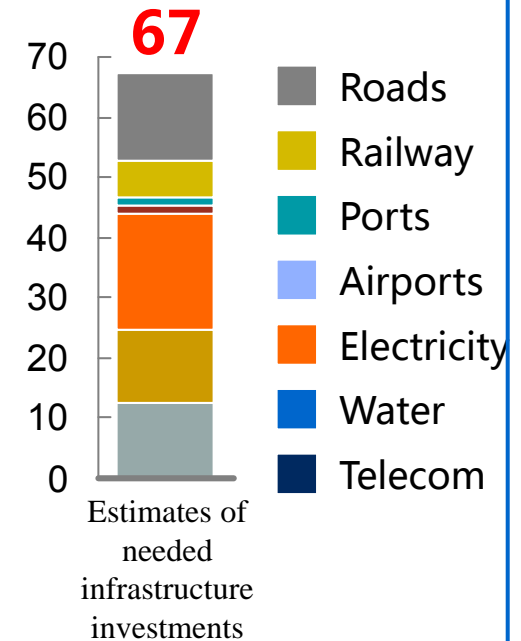
## Infrastructure development level of OBOR countries

Infrastructure development level and efficiency; maximum value=100



A large amount of investment is expected in infrastructure from 2013-2030.

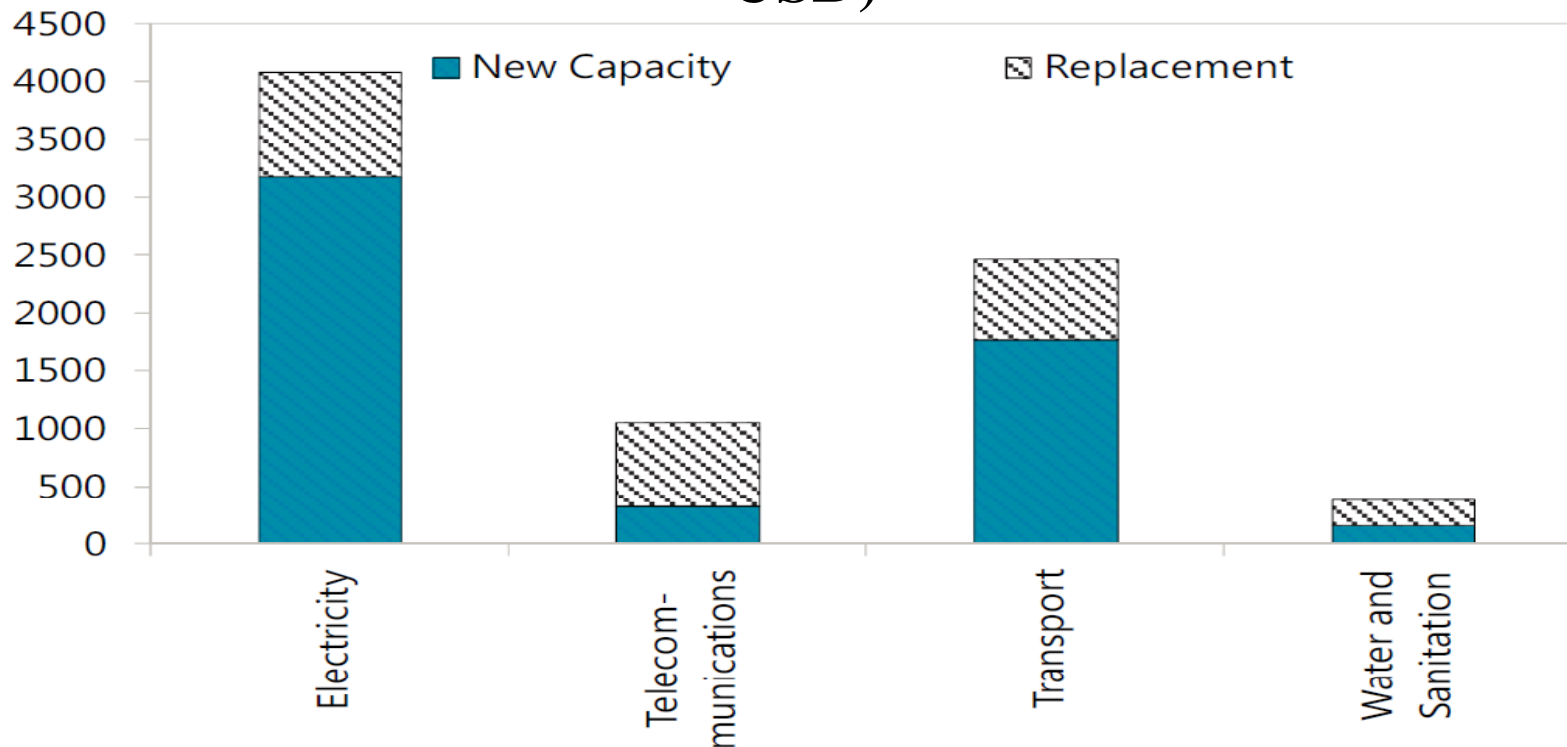
Trillion USD



- The world is expected to invest \$67 trillion for infrastructure construction, and more than 60% will focus on the OBOR region.



## Estimated infrastructure needs in developing Asia (in billions of USD)



Sources: ADB and ADBI.

- the greatest infrastructure gap or shortfall in emerging Asia appears to be electricity generation and transport



- Unimpeded trade
  - Investment and trade cooperation is a major task in building the Belt and Road.
  - Improve investment and trade facilitation
  - Expand trading areas, improve trade structure, explore new growth areas of trade, and promote trade balance
  - Expand mutual investment areas
  - Push forward cooperation in emerging industries
  - Improve the division of labor and distribution of industrial chains



- Financial integration
  - Financial integration is an important underpinning for implementing the Belt and Road Initiative.
  - Deepen financial cooperation, and build a currency stability system, investment and financing system and credit information system in Asia
    - Asian Infrastructure Investment Bank
    - BRICS New Development Bank
    - Shanghai Cooperation Organization (SCO) financing institution
    - Silk Road Fund
    - Issue bonds in both RMB and foreign currencies
- Strengthen financial regulation cooperation



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- People-to-people bond
  - People-to-people bond provides the public support for implementing the Initiative.
  - Carry forward the spirit of friendly cooperation of the Silk Road
    - Send more students to each other's countries, and promote cooperation in jointly running schools
    - Enhance cooperation in and expand the scale of tourism
    - Strengthen medical cooperation with neighboring countries
    - Increase cooperation in science and technology
    - Increase exchanges and cooperation between parties, cities, nongovernmental organizations

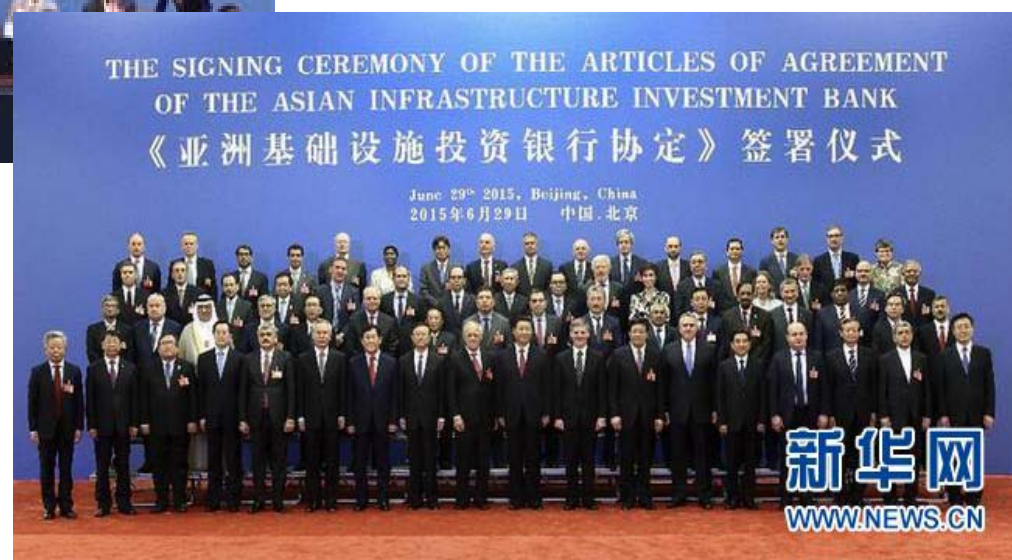
## 2.3 China in Action

- High-level guidance and facilitation
- Signing cooperation framework
- Promoting project cooperation
- Boosting the role of cooperation platforms





- Improving policies and measures





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# Australia-China Trade and Business Cooperation





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- Australia can take a bigger part in China's infrastructure projects based on the OBOR.
- Australia can cooperate with China to take a bigger part in 3<sup>rd</sup> party's infrastructure projects.
- Australia can cooperate with China under a new mechanism.



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- "OBOR" strategy fit well with the Australian government "Our North, Our Future: A Vision for Developing North Australia" Plan. Through strategic docking, the capacity cooperation could be enhanced between China and Australia.
- Moreover, Australia also plays a positive role in the "OBOR" financing demand. As one of the founding member of the Asian infrastructure investment bank, Australia will invest 0.93 billion Australian dollars over the next five years to support the development of the bank.

Thank you!



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