

G20 Leaders meeting and Australia/China FTA: All over the world

Economic Research Note

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- The G20 Leaders meeting in Brisbane focused on strengthening the global economy and improving the growth outlook.
- Specific focus has been given to infrastructure spending and financing, trade, labour force participation, strengthening the financial system, international tax fairness, dealing with corruption, improving international institutions and climate policy.
- Australia's 2014 Presidency of the G20 has generally been seen as a success. The focus will now shift to Turkey's Presidency in 2015.
- While in Australia, the Chancellor of Germany, Angela Merkel gave a wide ranging speech on economic and geopolitical issues that was very well received and demonstrated her high standing in the global community.
- In an historic development, Australia and China have agreed on the outline of a Free Trade Agreement (FTA). This will reduce tariffs to zero for around 85% of Australia's exports to China at implementation and up to 95% over the next 10 years.
- This FTA will help drive closer relations between Australia and China and will broaden Australia's trade exposure to China beyond resources – especially to agriculture and services.
- In addition, Australia and India have agreed on a Framework for Security Cooperation, while the Indian Prime Minister has expressed a desire to further develop the economic and trade relationship with Australia.

G20 Leaders meeting: All over the world

The leaders of the G20 nations (see page 3 for a list of countries and details on the G20) met in Brisbane over the weekend. This meeting follows the very successful meeting of G20 Finance Ministers and Central Bank Governors in Sydney in February and is the culmination of Australia's Presidency of the G20.

In terms of outcomes, the leaders of the G20 have remained focused on building a stronger global economy, stating that 'raising global growth to deliver better living standards and quality jobs for people across the world is our highest priority.'

Part of the G20 agenda for this year has been to set the goal of lifting GDP growth by an additional 2% by 2018. The G20 Leaders meeting noted that International Monetary Fund (IMF)-Organisation for Economic Co-operation and Development (OECD) analysis of the individual commitments agreed to by the G20 is expected to lift growth by an additional 2.1%, adding US\$2 trn to the global economy and create one million jobs.

Specific policies as detailed in the so-called 'Brisbane Action Plan' include:

- A 'Global Infrastructure Initiative', described as 'a multi year work programme to lift quality public and private infrastructure investment.' This includes identifying the best projects and improving financing models.
- A 'Global Infrastructure Hub' will be established to 'foster collaboration...to improve the functioning and financing of infrastructure markets.' It is expected that this Hub will be based in Sydney.
- There is a specific goal to improve global trade, generally through reducing red-tape and barriers to trade.
- Improving the labour market by increasing female workforce labour participation and reducing the gap between male-female participation by 25% by 2025.
- A commitment to poverty eradication and development.
- Continuing to build resilience in the global economy, including through the 'reforms to improve banks' capital and liquidity positions and to make the derivatives



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markets safer.’ This will include the work done by the Financial Stability Board (FSB).

- A commitment to ‘ensure the fairness of the international tax system and to secure countries’ revenue bases. Profits should be taxed where economic activities deriving the profits are performed and where value is created.’
- Endorsing the 2015-2016 Anti-Corruption Action Plan.
- A commitment to strengthen global institutions, including the IMF and World Trade Organization (WTO).
- Agreeing on an ‘Action Plan for Voluntary Collaboration on Energy Efficiency.’
- The G20 will also ‘support strong and effective action to address climate change.’
- In addition, the G20 stated that ‘we are deeply concerned with the humanitarian and economic impact of the Ebola outbreak’ and are ‘committed to do all we can to contain and respond to the crisis.’

Views from Angela Merkel

While in Australia the Chancellor of Germany, Angela Merkel, delivered the 2014 Lowy Institute lecture. The key points from her speech and the Q&A session that followed were:

- The Chancellor was directly critical of the Russian leader, Vladimir Putin, saying that his attitudes and behaviour, especially towards the Ukraine (i.e. the annexation of Crimea) were reminiscent of the kind of thinking and behaviour that led to WWI, WWII and the Cold War.
- She stated clearly that Germany and many other countries had learnt the lessons of these tragic period in history – but that some other countries (i.e. Russia) seemingly had not.
- The Chancellor was clear that Europe (EU) and its allies couldn’t use military force against Russia, because that could never be contained, but the other major nations (including Germany and Australia) could use their strong economies as a ‘weapon’ against Russia (i.e. sanctions).
- The EU needs to listen to the will of the Ukrainian people and help them achieve their national objectives.
- But the Chancellor was clearly against the Ukraine joining North Atlantic Treaty Organization (NATO).
- On the economy, the Chancellor stated that the EU authorities must ‘stay the course’ on economic reform, fiscal policy and policy co-ordination.
- She stated a couple of times that having a single currency and a single interest rate required a much greater co-ordination of fiscal policy, banking regulation and structural reforms than had been the case so far and that this was the main lesson from the debt crisis.

- The EU will help and support Asian countries as they continue their development and the best way to do this was through various institutions, such as the G20, Association of Southeast Asian Nations (ASEAN) etc.
- The Chancellor is gravely concerned about the situation in Syria and Iraq. In addition, combating the threat from Ebola will require a strong international effort.
- In the context of both these issues she stated clearly that ‘we cannot leave suffering people alone’ and that ‘globalisation has turned us all into neighbours.’
- The Chancellor reinforced the view that it was important for all nations to focus on climate change policy – especially ahead of the Paris Climate Change Summit taking place in early 2015.
- She hopes that the UK remains in the EU, as the UK brings strengths to the EU that no other nation has and an important/difference perspective on world events.
- The Chancellor repeated the view that the main lesson from the EU debt crisis was not to get into too much debt in the first place – but she did note that many other G20 nations had the same problem (i.e. US, Japan etc).
- The Chancellor noted the effects of the ageing population in the EU, but that the recent progress on banking regulation as a positive.
- She is very supportive of stronger global trade and FTAs. She praised the Australia/China pending Free Trade Agreement (FTA) (see below for details) and the discussions the US and Asia is having around the Trans-Pacific Partnership (TPP).
- The Chancellor talked about the delicate balance between personal safety and security and national security efforts – especially when it comes to countries spying on each other.
- On a lighter note, she was asked about the situation when the US spied on her and other German politicians. Her response was that you didn’t need to tap the phone of any German politician to find out what they were thinking, you could just ask them to lunch or dinner or read the newspapers and you would know with 99.9% probability what they were thinking about.

Australia/China FTA

While President Xi Jinping of China was in Australia for the G20 he extended his trip to speak to the Australian Parliament and sign a ‘Declaration of Intent’ on a FTA with Australia.

This is a significant development – for both nations. The FTA has been around 10 years in the making, with negotiations starting in 2005.

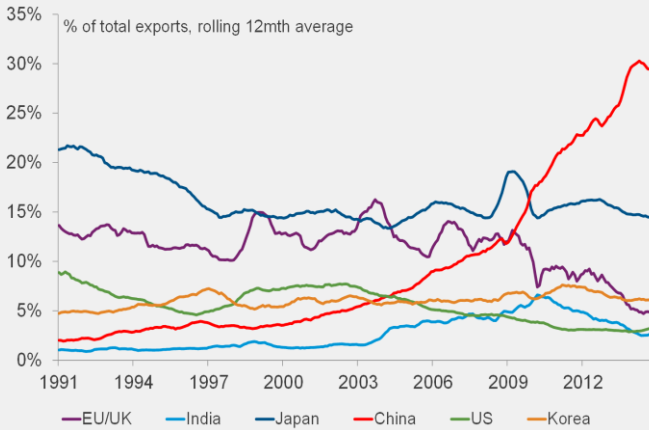
The deal elevates Australia’s position with the world’s second largest economy and follows on from Australia signing an FTA with both Japan and South Korea in recent times. FTA’s with

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these significant Asian nations will help Australia's economic prospects and is a positive for Australia on the global stage.

Currently Australia's trade with China accounts for around A\$150bn a year and a massive 23% of Australia's two-way trade (in 2013).

Australia's major export markets



Source: ABS, data to September 2014.

Under the FTA, around 85% of Australia's exports to China will be tariff-free on implementation. This will rise to 93% in four years and 95% in 10 years.

This trade is currently dominated by resources (iron ore, coal, LNG), but the FTA will be of significant benefit to other sectors, such as agriculture and services.

In terms of the specifics of the Australia/China FTA, the following tariffs will be removed:

- Dairy products (currently up to 20%), within 4-11 years.
- Beef (12%-25%) over 9 years.
- Live animal exports (10%) within 4 years.
- Sheep meat (12%-23%) over 8 years.
- Wine (14%-20%) over 4 years.
- Barley (3%) immediately.
- Wool – an Australia-only duty free quota.
- Seafood (14% to 15%) over 4 years.
- Coking coal (3%) immediately.
- Thermal coal (6%) within 2 years.
- Aluminium oxide (8%) and many other 'transformed resources and energy products'.
- Pharmaceuticals (up to 10%) over 4 years.
- 'Other manufactured products', such as car engines, plastic products, diamonds and precious stones, pearls etc.
- Zero tariffs are locked-in for iron ore, crude petroleum oils and LNG.

Other major parts of the FTA include:

- Australian law firms will be able to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ).
- Australian financial service providers (banks, insurance, funds management, securities, securitisation and futures) will gain improved market access to China.
- Australia and China have signed a Memorandum of Understanding designating an official renminbi (RMB) clearing bank in Sydney, allowing trading of the RMB in Australia.
- Australia will be granted access to the RMB Qualified Foreign Institutional Investor (RQFII) program, with an initial quota of RMB50 bn. This will allow approved Australian-domiciled financial institutions to invest in China's domestic bond and equity markets using RMB.
- Australia and China will continue to build ties on education, with Australian higher education institutions listed on the official Ministry of Education website in China.
- Greater investment by the telecommunications sector will be allowed in the SFTZ.
- Australian tourism operators will be allowed to construct, renovate and operate wholly Australian-owned hotels and restaurants in China.
- In Health, the FTA will allow wholly Australian-owned hospitals and aged care institutions to be established in China.
- Australian construction companies will have greater access in China.
- A range of other service providers (mining, architecture, transport) will gain increased access to China.

In return for all this Australia will grant China:

- More flexible rules for labour within projects valued at over A\$150bn.
- The threshold where Chinese private company investments in Australia will attract Foreign Investment Review Board (FIRB) attention will rise from A\$248m to A\$1.1bn.
- The FIRB process will remain in place for all China State-owned investment into Australia.
- Australia will also retain the ability to screen Chinese investment in certain sectors, such as media, telecommunications, defence-related industries, agricultural land and agribusiness.

What is the G20?

The G20 was originally established in 1999 after the Asian financial crisis as a forum for Finance Ministers and Central Bank Governors. The first Leaders' Summit of the G20 was held in November 2008 in Washington and played a significant role in the response to the global financial crisis.

Australia holds the Presidency of the G20 for 2014. Apart from the Leaders Meeting held over the weekend, Sydney hosted a meeting of Finance Ministers and Central Bank Governors in February this year. (see 'G20 in Sydney: Show me the way', 26 February 2014, for further details).

The G20 consists of 19 nations, plus the European Union (EU). The nineteen nations represented are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the US.

In addition a number of "guest" countries and country groups are invited. For the meetings held in Australia the following nations have been invited: Spain (as a "permanent guest"), Myanmar (as the 2014 Chair of ASEAN), Mauritania (as the Chair of the African Union), Senegal (representing NEPAD, the new partnership for Africa's development), Singapore and New Zealand.

In addition the G20 works closely with international organisations such as the FSB, IMF, the International Labour Organisation (ILB), OECD, the United Nations (UN), the World Bank and the World Trade Organisation (WTO).

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