



**THE HON DR CRAIG EMERSON MP**  
MINISTER FOR TRADE

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WHITNEY FITZSIMMONS: To our interview with Federal Trade Minister Craig Emerson, who joins us from our Canberra studios.

Craig Emerson, welcome to the program.

CRAIG EMERSON: Thanks very much.

FITZSIMMONS: Now, let's just start with the recent delegation to China. Can you just tell us why focus on second- and third-tier cities?

EMERSON: They were huge cities of somewhere between eight million and, in the case of Chongqing, 30 million. So just the fact that they're less well-known than Beijing and Shanghai, they're

nonetheless huge places. And the reason for the focus is that China, in its 12th Five-Year Plan, has committed to increasing the proportion of services in its own economy. So here are exciting new opportunities for deeper engagement by Australian and Chinese businesses through the service economy. That's why we gave such an emphasis to the so-called second-tier cities, and to the fact that this was a services trade delegation.

FITZSIMMONS:

Does it suggest at all though that opportunities are exhausted in Shanghai and Beijing and other well-known cities?

EMERSON:

No, not at all. In fact, Australian presence in those cities, especially Shanghai, is very, very heavy. But we do recognise that these are well-trodden paths and businesses from all around the world spend a lot of time in Shanghai and also in Beijing, and not nearly as much time in Chongqing, Chengdu, Wuhan, Changsha, just by way of example. And they're the sorts of cities that we visited and the reception there was very, very enthusiastic, because they just don't see quite as many foreign businesses coming there. So we had an incredibly warm welcome, not only from their business communities but from provincial governors and also the mayors of these very large cities.

FITZSIMMONS:

Now, an interesting point is that China's foreign direct investment into Australia's been much larger than Australia's foreign direct investment into China. Why is that? Why is there an imbalance?

EMERSON:

China itself has huge investible surpluses, because it's been running trade surpluses for a very long period of time and, in fact, they're investing heavily in US Treasury bonds, for example. So they're actually looking actively for places to put those surpluses.

We do have foreign investment from Australia into other countries but our tradition, as a country, since European settlement, is that we've had a deficit of domestic savings over our investment needs. So it's really just the mathematics of whether we have big investible surpluses or China does. And the truth is China is going to be the biggest creditor and one of the biggest investors in the world by 2020. In fact, most of the surpluses in the world will be from these giant emerging countries such as China and India.

FITZSIMMONS:

Now, obviously there's the example of IAG actually making a move into China. What other areas and examples do you have of Australian businesses directly investing in China?

EMERSON:

In that particular sector, which is financial services, we've got examples of a wealth management fund from Australia getting involved with wealth management for China's rising middle classes, and there are very large numbers now of very wealthy Chinese. So the whole financial services sector, more traditional banking facilities and insurance which we've covered. And then beyond financial services, architectural design, and environmental remediation - a number of these cities are looking to clean up their rivers and their airways so there's another area.

Architectural design: we had cases there where one of our oldest architectural firms was signing contracts while we were there. And another area is actually in the construction of kitchen design, and this is an Australian who decided, once he got \$250,000 together, to go to China and see if they could help in the construction of kitchens that he and his colleagues were designing. And they are making an absolute fortune out of that.

And then our more traditional services, but very important: education and tourism.

FITZSIMMONS:

Craig Emerson, there's been concern that Australia's been too focused on the resources sector and exporting, you know, iron ore to China. Is this an opportunity or is this a campaign to redress that imbalance and also

to sort of deal with what some are calling Australia's "patchwork economy"?

EMERSON:

It is an effort to diversify our export base and it's an effort that started with the Labor Government through Prime Minister Rudd and especially through my predecessor, Simon Crean, as Trade Minister. We have been to China to seek to implement that. When Prime Minister Gillard was in China in April she witnessed the signing of a memorandum of understanding for exchanges of CEOs in the service sector.

So, yes, the answer is that we are seeking to diversify. And the good news is so is China because of its emphasis on consumption, on development in its West, and on services. So this is a very good fit for us and we'll continue to diversify but, make no mistake, the demand from China for our traditional minerals and energy resources is going to continue to rise as it is, of course, from countries such as Korea, Japan, and other countries in the region. And one of our biggest and most exciting exports is LNG, the transition fuel to a low carbon economy.

FITZSIMMONS:

Minister, we're getting close to time. There are a couple of other issues I want to cover off with you while we're here.

In regard to Australia allowing New Zealand apples across the border, you've said that Australia risks retaliation from New Zealand if it doesn't allow this to happen. Have there been...

EMERSON: That's right.

FITZSIMMONS: ... threats by New Zealand?

EMERSON: Well, the threat is at this stage from the Coalition: Mr Abbott and his Agriculture Shadow Minister, Mr Cobb, who are saying that they will proceed with a Bill that would overturn the decision of the Australian Government and therefore the judgment of the World Trade Organization. That, then, would activate, under the world trading rules, an ability by New Zealand to retaliate against Australia...

FITZSIMMONS: Do you anticipate...

EMERSON: ...applying tariffs of up to 100 per cent.

FITZSIMMONS: ...that New Zealand would retaliate if there were...

EMERSON: I would imagine ... well, it's certainly available to them and they are sick and tired of Australia, over the years, thumbing its nose at decisions of the World Trade Organization on this. We

understand that. This Government has said that it accepts the referee's decision here and the decision is that we were in breach of the world trading rules.

The reason that we're in the world trading system is so that we can take action against other countries which breach those rules for our exporters of agricultural produce. Sixty per cent of our agricultural produce is exported. We have used those rules to support and defend Australian farmers. If we turn our back on those rules then the risk of retaliation is very great, and that would mean that innocent farmers are caught in the crossfire.

So much for the commitment of the Coalition to the principles of free trade. They obviously believe that we shouldn't be adhering to the World Trade Organization's rulings and system.

FITZSIMMONS:

Craig Emerson, we're just on time but in regard to the carbon tax, what response, quickly, did you get when you were in China, to that?

EMERSON:

I can't even recall it being mentioned in any way of expressing concern. There was one mention of it, and that was one of the cities is actually talking of establishing an emissions trading system in that large city, in the province. They were suggesting that Australia might work with that particular city in developing that carbon trading regime and perhaps that we could collaborate across the seas in an emissions trading scheme. That's a very constructive suggestion. It's the sort of suggestion that we thought would be coming from China but, of course, again, opponents of putting a price on carbon are saying China's doing nothing when in fact the opposite is true.

FITZSIMMONS:

All right, Craig Emerson. We'll have to leave it there, but thanks so much for your time today.

EMERSON:

Thanks very much.