

## Barriers To Business With China

Report

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Red tape, crime and unfair laws were slowing the progress of Australian banks, transport companies, telcos and universities into China, a new report shows.

The Department of Foreign Affairs and Trade has released a report, Unlocking China's Services Sector, which explores how China's services sector is opening up to exporters such as Australia.

The report said despite Australia exporting \$1.3 billion worth of services to China each year - making it our sixth largest services export market - there were still many barriers.

China committed itself to opening its banking, education and other services to overseas businesses when it acceded to full membership of the World Trade Organisation in December 2001.

Since then it has been winding back its tight restrictions on ownership, geographical coverage and business scope.

But businesses wanting to export to China are still finding significant problems with red tape, complex and unevenly administered laws, and crime such as piracy and counterfeiting.

Adding to the problem is the Chinese hukou system, which limits how far Chinese citizens can travel beyond their home and reduces their opportunities to find jobs in banks, telcos, universities and schools run by overseas companies and institutions.

The report showed that while foreign banks could now conduct local currency business in 18 Chinese cities, market access was limited by high capital requirements and prudential requirements which went beyond international standards.

Foreign banks were limited to holding a stake of no more than 20 per cent in a local bank without it losing its status as a Chinese financial institution.

Changes in the transport industry had allowed more foreign investment in storage, warehousing and freight transport, according to the report.

"However, in practice substantial establishment and operational barriers remain, and at the provincial level, there is an additional layer of regulation," the report said.

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China, the world's largest telecommunications market, remained "highly restrictive" with competition restrained by a vague licensing system and unclear pricing and some new players plagued by the deliberate destruction of cables and disruption of computer software.

However, one of the success stories identified by the report is the education sector.

About 30,000 Chinese students are currently studying in Chinese-Australian joint education institutions, including English language schools, training colleges and universities.

But educators say Chinese authorities are wary of foreign majority ownership of such ventures, despite allowing it, and there are some red tape hold-ups within the ministry of education.

Tourist operators such as Flight Centre and Qantas have also had recent success.

Flight Centre and China Comfort, the country's third largest international travel group, have formed a joint venture - Flight Centre Comfort - and Qantas has regular flights in and out of Beijing and Shanghai.

But overseas players are being hampered by a minimum turnover (about \$54 million for a joint venture and \$135 million for a wholly foreign owned business), the inability to provide outbound travel to Chinese tourists and the Chinese consumers' limited use of credit cards.

Computer firms remain disenchanted with China's moves to crack down on piracy, with the report saying only eight per cent of all software sold in the country is being legitimately bought, amounting to global losses of over \$5.4 billion a year.

But the federal government and businesses are hoping a China-Australia free trade deal could pave the way for an improvement in the export of services.

In a speech to mark the launch of the report, Trade Minister Mark Vaile said the FTA negotiations were a good opportunity for the two nations to discuss some of the barriers Australian business faced getting into China.

He said Australia would be seeking a very strong outcome on services in the negotiations but told China it shouldn't be seen as a danger.

"Australian companies are not a threat to China's service industries," Mr Vaile said.

"We want to work with China as a partner, the FTA is an opportunity for us to do it better."