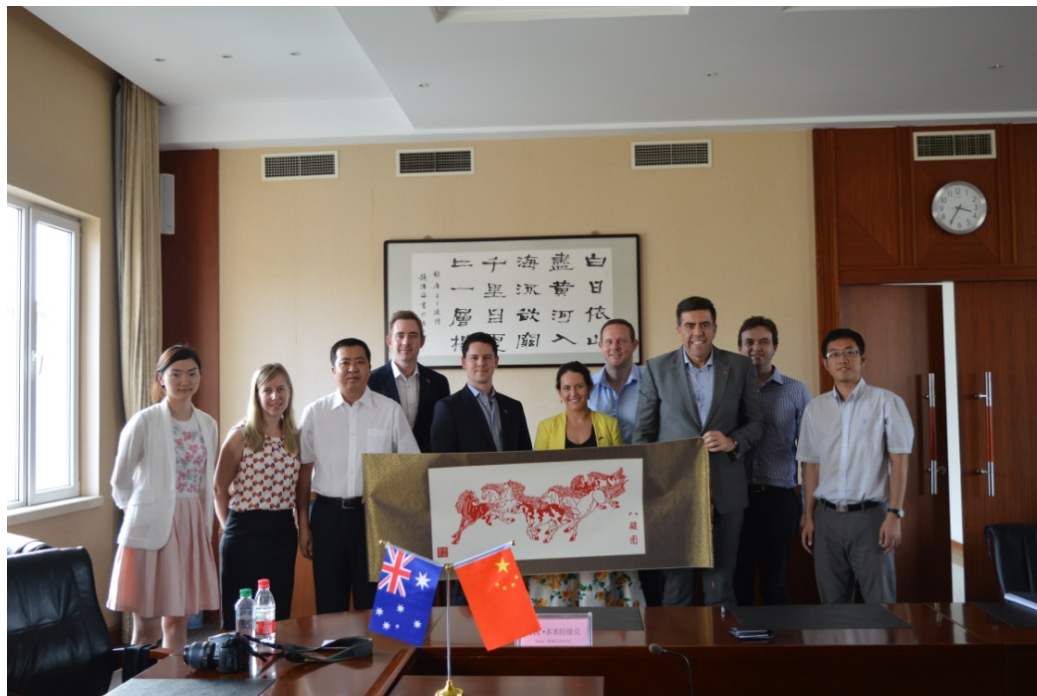


AUSTRALIAN POLITICAL EXCHANGE COUNCIL

TWENTY-SECOND AUSTRALIAN DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA

26 July to 1 August 2014



DELEGATION

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Executive Summary

The Australian Political Exchange Council Delegation to China (the delegation) travelled to China for seven days and had the opportunity to visit two regions, Beijing and Shenyang.

Visits to official residences as well as tours of regions gave the delegation a sense of what life in China is like. It was heartening to see local people employed to work in small streetscape projects and dedicated to building communities that will attract tourism opportunities.

As the host of the APEC Summit Meeting in 2014, there will be significant attention on China and it was insightful to see preparations well underway with residences, hotels and conference facilities being built.

The delegation had the opportunity to:

- Visit the Forbidden City;
- Meet with Professor Wang of Peking University;
- Visit the Great Wall of China at Mutianyu;
- Inspect the 2014 APEC Summit site;
- Enjoy a traditional lunch at Xiang Zi;
- Visit Yancheng Village;
- Meet with representatives of the People's Bank of China;
- Meet with representatives of the Ministry of Commerce;
- Visit the West Changan Street sub-district community;
- Meet with Mr Zhou Changkui, Vice-President, All-China Youth Federation;
- Meet with Mr Wan Xuejun, Assistant President, All-China Youth Federation;
- Meet with Mr Tian Ye, President of the Liaoning Provincial Youth Federation
- Visit the Industrial Museum of China;
- Tour Northern Heavy Industries;
- Visit the Chicago International English Institute;
- Visit the Shenyang Imperial Palace; and
- Meet with leaders of the Standing Committee of Liaoning Provincial People's Congress.

Through these exchanges, the delegation had the opportunity to learn how China balances strong economic growth and stability with the desire to continue advancing the nation. Visiting the Industrial Museum of China gave the delegation an understanding of the historical content of industry and employment in China. This allowed for a comparison of current industry employers like Northern Heavy Industries who employ 12,800 people with an impressive asset base of around \$1 billion.

Meetings with representatives of the People's Bank of China and the Ministry of Commerce gave the delegation an understanding of where China's economy is heading and how the expected growth will be managed.

The delegation witnessed first-hand the commitment to high class education, language and culture. In particular, there was a clear determination from young people to gain an education and apply those learns to better their chances of studying abroad. The delegation was impressed by students of the Chicago International English Institute who were learning English at their own expense and on top of their already extensive course load.

The delegation was impressed by the diverse opportunities to meet with distinguished representatives of some of China's best employment, cultural, educational and government agencies.

Report

Saturday, 26 July 2014

Visit to the Forbidden City

The delegation had the opportunity to visit the Forbidden City which allowed delegates to begin the exchange with an understanding of the diverse history of the city of Beijing, and indeed the country of China.

Dinner with Professor Wang, Peaking University

The delegation was joined by Professor Wang from Peaking University for an evening banquet with cuisine from the southern Johnsnu province. The Professor had recently returned from an exchange to Oxford University as a visiting fellow, and the discussion focused the delegates on the key topics for conversations in the week ahead including:

- The China-Australia Free Trade Agreement;
- Projections for the Chinese economy; and
- China's rapidly growing desire to educate its young people abroad.

Sunday, 27 July 2014

Great Wall of China at Mutianyu

The day began with a visit to the iconic Great Wall of China at Mutianyu, about 75km (or ninety minutes by car) northeast of Beijing. Mutianyu is not the most widely visited section of the Great Wall; that honour is claimed by Badaling. However, it is a particularly interesting section as it sits in a very hilly landscape and it would therefore have been immensely challenging to construct.

The scenery at Mutianyu is breathtaking in its own right, but of course it was the Great Wall, kilometres of which punctuate the undulating landscape, which caught the delegates' attention.

APEC Summit Site

The delegation was given the opportunity to inspect the site of the 2014 APEC Summit, scheduled to be held on the outskirts of Beijing at Yanqi Lake in mid-November. Local officials provided a viewing of site models as well as a briefing and presentation on preparations for the various meetings to be held at the site in late 2014.

The Chinese Government has spent well in excess of \$1billion AUD to develop Yanqi Lake. The APEC site will feature seventeen houses of significant proportion to house heads of state, the imposing Kempinski five-star hotel, additional boutique hotels and various conference buildings and facilities.

Xiang Zi – Garden of Delicious Food

Lunch was taken at Xiang Zi (Garden of Delicious Food) close to the APEC site. The delegation was served a variety of unique local foods, including ox stomach and other appetising treats.

Yancheng Village

Despite the high profile of our earlier activities, perhaps the most thought-provoking activity on Sunday was the delegation's visit to Yancheng Village, located approximately ten minutes from Yanqi Lake.

The delegation was hosted in its visit by Ms Bao Kun, a college village official chosen by the Communist Party to assist the village's efforts to promote its successes and virtues, and thus attract visitors and economic activity, particularly from neighbouring regions. Ms Bao Kun was hand-picked by the state, on the basis of her academic achievements at university, under a programme designed to give leading students experience in government operations.

The delegation was informed that revitalisation efforts, such as those seen in Yancheng in recent months, have occurred throughout China and that officials have been pleased with progress made, so much so, that the Communist Party saw fit to bestow upon the Yancheng Village the distinct honour of 'five star' status.

Yancheng was a hive of activity on the day of our visit. Dozens of construction workers and tradespeople were busy applying themselves to the task of revitalising the streetscape and preparing new retail space. No doubt the village's administrators will make efforts to attract tenants and residents to occupy these new spaces in the coming months, as the all-important APEC meetings approach.

Monday, 28 July 2014

Meeting with representatives of the People's Bank of China

The delegation met with Mr Jia Yamdong, who led the team of research analysts from the People's Bank of China (PBC). Mr Jia introduced delegates to the research and policy objectives of the PBC. More than 700 people work in research and monitor the progress of various policies from the central government. Given economic growth is given such a priority, the role of the PBC is vital for China's national interest.

A major focus of current workings of the PBC is producing the key economic indicator forecasts. The delegation had a keen interest in these indicators and their effect on Australia. The delegation sought information on:

- Expected growth outlook;
- Regional Chinese development;
- Special economic zones;
- Inflation targets;
- Future policy;
- Policies that will affect growth;
- Currency manipulation;
- Future interest rates;
- Micro-loan policies;
- Australian agricultural and mining investment;
- Domestic house prices; and
- Policy of US bonds.

The PBC were keen to promote that expected GDP growth should be 7.5 per cent. While it may differ by 0.1 per cent either way, they doubt any greater variation. There is a key focus to move from the high energy sector to eco friendly, which places challenges on growth.

There is great disparity in growth but in order to promote economic freedom, the PBC focuses on undeveloped regions. They promote lending to these regions which makes investment more profitable.

There are plans for two more special economic zones (the maritime and land silk roads). These are not just focused on creating jobs in those regions but on bringing investment further inland to combat isolated economic growth on the coast.

The PBC promotes growth through stable pricing (interest rates). The key levers to achieve policy objectives are discounting or raising cost of lending which affects the profitability of businesses.

There is a timetable to a floating currency in the domestic market. Once this has been achieved then currency conversion that is directed by the market internationally will become a focus.

The PBC was keen to let us know that the loan rate is already set by the market. The intention is to raise the deposit rate cap in order to improve consumption. This will be a slow process as there is concern about financial institutions risk management.

Australian mining and agriculture is a focus because of its reliability and strategic necessity. China's US bonds will be held long term. There is a plan to diversify foreign reserves so that the proportion of US bonds decreases. That being said, there are no plans to create instability in US bond prices. It is reasonable to hold the large US bond rates as it is their largest trading partner.

Overall the PBC came back to a key theme-over the last two decades too much has been spent on expansion. The policies going forward are to improve domestic consumption. The two to three per cent of GDP surplus is unsustainable.

Meeting with representatives of the Ministry of Commerce

The Ministry of Commerce's counterpart in Australia is the Department of Trade and Investment. Our economies complement each other well, and other than Hong Kong, Australia is the second largest strategic location of foreign investment.

The delegates were given a run through of impressive statistics from the Ministry. There was also an acknowledgement that the double digit growth of the past has caused issues - so now is a period of strategic economic opportunity.

China is now in a middle income period like Korea and Japan have been in the past. There is still opportunity through the inequality of wealth between the east and the west. The recent slow-down is due to three key factors:

1. Global slowdown effects heavy reliance on exports;
2. Restructuring; and
3. Deliberate slow-down to solve the problems caused by high speed development.

The Ministry is very confident with the 7.5 per cent target. The objective of the central government is to double income by 2020.

Key challenges include:

- Tourism - they expect 500 million Chinese to travel internationally;
- East/West GDP growth;
- Agriculture - annual growth in consumption of Australian products of more than sixteen per cent;
- Investment - it is difficult to invest in China; and
- Exports – sixty per cent of the economy is biased to exports.

Visit to West Changan Street

The delegation was greeted by Mr Zhang Ding, Director of the West Changan Street. After the greeting we visited the local community office which houses local tools that the community may need, including sewing, keys and the internet.

We were invited into the home of Mr Nie Lian Zhong where he lives with his daughter. The home is simple but he is happy and has lived there a long time. Following the house visit we were shown a local workshop in which Mr Sun makes clay figurines and sells them to his neighbours.

The community also houses a clinic and a music room. Though not being used at the time of our arrival, the clinic is fully staffed and operates a pre-screening programme with more serious issues taken to the hospital.

We were treated with traditional Chinese music in the music room. The enthusiasm and energy of the ninety year old man who sang his favourite song was heart warming.

Finally we visited the Library and Church. Wan Song Lao Ren Tower is an ancient tower that was originally built as a tomb. It now sits at the centre of Zheng Yang library. The neighbouring Church is beautifully built. It was visited by former President George Bush and is a testament to the opening up of religious life.

Introduction to the All-China Youth Federation (ACYF)

Mr Zhou, the Vice-President of the ACYF was in another meeting but decided to join us given the special relationship between our two organisations. He expressed gratitude to the great visit he had to Australia in 2005 with the Australian Political Exchange Council.

We were introduced to the workings and objectives of the ACYF. A firm commitment was given to maintaining the relationship with the Australian Political Exchange Council and the good work the two organisations do together.

Further discussions were had over dinner that evening which was hosted by Mr Wan Xuejun, Assistant President of the ACYF.

Tuesday, 29 July 2014

Liaoning Provincial Youth Federation

The delegation met with representatives from the Liaoning Provincial Youth Federation, an organisation founded in 1952 under the leadership of the Communist Youth League and which is still a very important affiliate of the Youth League.

The roles of the Federation include engaging young people in politics and economic development as well as building relationships and cooperation with international youth organisations.

The President of the Liaoning Provincial Youth Federation, Mr Tian Ye, outlined the current economic conditions in the Liaoning Province. He explained that the current growth rate of CPI is 2.4 per cent, the unemployment rate is 4.3 per cent and that the incomes of both the urban and rural populations are growing fast.

Our delegation leader Cr Milton Dick emphasised the great importance and value of the relationship between the Australian Political Exchange Council and the ACYF as well as the strong multi-party support within Australia for the Free Trade Agreement between Australia and China to be concluded.

In detailed discussions, we learned further that:

- As the Liaoning Province was traditionally the centre of Chinese heavy industry, the young people there today are largely the children of factory workers. An important challenge is developing the skills of these young people so that they can participate in the modern economy.
- President Xi Jinping's policy of expanding trade from Liaoning Province has resulted in six new international ports opening there with another four to open in 2015. This has allowed an increase in trade between the Province and Japan, as well as Korea. Australian iron ore imported to China also arrives through these ports.
- The ACYF plays an important consultative role with the Provincial Government in Liaoning and assists the Government with the implementation of its policies in areas such as health and education.
- The Liaoning Provincial Youth Federation makes use of the core socialist principles as a guide to the conduct of the young people who make up its membership.

The delegation also visited the Shenyang Imperial Palace and General Zhang Zuolin's Residence and was then hosted for dinner by the Liaoning Provincial Youth Federation.

Wednesday, 30 July 2014

Industrial Museum of China

The Industrial Museum of China in the Tiexi district of Shenyang demonstrated the advance of heavy industry in the Liaoning province since 1905, when the area was then part of Japanese occupied Manchuria. The museum occupies the site of a decommissioned factory, with one of the key highlights being a life size model of a Chinese tank completely made out of bullets produced in Shenyang.

The museum demonstrated the area's rich industrial history, beginning with the development of the railways in the early twentieth century, followed by an expansion in the number of factories from the 1930s to the 1960s which saw tools such as the radial drilling machine, centre lathe and outdoor power transformers being produced in China for the first time.

The museum also highlighted the ability of local industry to maintain its productivity through the damaging years of the Cultural Revolution. Of particular note were the significant industrial advancements since the 1980s following Deng Xiaoping's economic reforms which have seen the Liaoning province move from basic manufacturing to opening highly specialised facilities, producing everything from cars, military weapons, space craft and mining equipment which has been exported to numerous countries including Australia.

Northern Heavy Industries

The delegation had the opportunity to visit Northern Heavy Industries (NHI), which is an impressive plant in Shenyang covering 1.41 million square metres, employing 12,800 employees and holding more than \$1 billion in assets. NHI is a state owned corporation which is one of the top 500 enterprises in China which also operated research and exploration centres in France and Germany, following its merger with a French company in 2007.

On our tour of the NHI showroom, the delegation saw models of its large scale products which include metallurgy, tunnelling, construction and environmental and forging equipment, which has been exported to over eighty countries. Many of NHI products have been exported to Australia, including tunnel boring machines used to create railway tunnels in Sydney and a vast array of heavy machinery used by Australia's coal mining industry.

Chicago International English Institute

The Chicago International English Institute is a privately run organisation which helps Chinese students improve their ability to read, write and converse in the English language and prepares them to study at universities in Australia, the United States and the United Kingdom.

Students who attend the Institute do so on a part time basis, on top of their already extensive school hours. The delegation had an opportunity to speak to a number of students from the Institute and learnt about the high value placed on opportunities to study at universities and eventually work in countries such as Australia.

Shenyang Imperial Palace

The delegation had the opportunity to visit the Shenyang Imperial Palace, which was built in the seventeenth century by emperors of the Ming and Qing Dynasties. The palace has a fascinating history, and was particularly important during the early seventeenth century when Shenyang was temporarily the capital of China under the Ming dynasty, before being used as a summer palace by latter emperors.

The Imperial Palace has an area of 60,000 square meters, containing over twenty courtyards and hundreds of rooms containing a vast collection of Chinese paintings, sculpture and historical relics. Along with the Forbidden City in Beijing, it is one of few remaining palaces in China and was listed as a UNESCO world heritage site in 2004.

Thursday, 31 July 2014

Standing Committee of Liaoning Provincial People's Congress - meeting with Leaders of Congress

The delegation met with the Deputy Speaker of the Liaoning Provincial People's Congress, Mr Dou Mingyang, the Director of the Administration Office of the Standing Committee, Mr Ning Guogang, as well as Congressmen representing food processing and agriculture, and metals and mineralogy.

Since opening up the economy over three decades ago, China's priority has clearly been economic development. Liaoning Province in particular, as a home of heavy industry, has significant economic ties with Australia. These ties are centred mainly on manufacturing industries, particularly steel, but also through growing the number of students in Liaoning who are electing to study in Australia.

Liaoning Province consists of diverse landscapes, including coast, mountainous areas and plains. China's "coastal economic zone" began in six cities in Liaoning, and is now an international strategy as coastal cities are best primed for foreign imports. Liaoning Province processes twenty per cent of the total crude oil that China imports, and specialises in the production of large equipment for mining, agriculture, military and transport.

The Congress stressed to the delegation that they would like to promote bilateral relationships at a local government level with local Australian legislators in a similar nature to the cultural and art exchanges recently commenced between Liaoning and Utah, USA.

The Deputy Speaker outlined the function of the Congress as a body that included industry leaders from manufacturing, food processing and agriculture. As state-owned enterprise continue to decline in China, private enterprise now accounts for sixty per cent of the region's economy. With a population of forty-three million and the highest urbanisation rate in the country (fifty-three per cent), the Congress made it clear to the delegation that Liaoning Province is one to watch as an innovative leader.

The delegation was given the opportunity to participate in a question and answer session with the Congressmen. Cr Darcy Byrne asked about the carbon pollution reduction plan for such a large industrial province. The Congress responded that environmental protection is on the agenda for the standing committee, discussion of potential programs to reduce pollution is ongoing and an environmental report must be submitted at every meeting.

Across the country, standards are centrally regulated by government and caps can't be breached without repercussions. In the 1970s, the city of Shenyang was very heavily polluted and air quality has improved markedly in recent years. Carbon emissions are reducing in conjunction with the reduction of state owned enterprises, and over 1,000 industrial chimneys were abolished each year for three years in the early 2000's.

The Liaoning Province's "blue sky, green mountain, clean water" project also applies to rural areas, and includes subsidies available for recycling and other sustainable practices. This is very conducive for local farmers, particularly during a time of rapid urbanisation.

Ms Claire Coulton asked about women's involvement in politics, as there are few women in the political public eye in China. The Deputy Speaker responded that the status of women in Chinese society has improved drastically in terms of equal pay and equal rights.

Whilst there are only a few examples across the country of female involvement in the upper echelons of politics, there are targets for involvement which are strictly implemented. The Congress' constitution regulates that an "appropriate portion" of female delegates must be active in all levels of government under the "law of women's legitimate rights and interest protection".

Before departing for Beijing, the delegation was hosted by the President of the Liaoning Provincial Youth Federation, Mr Tian Ye, for a sumptuous banquet featuring local dishes from the Province.

Conclusion and Acknowledgements

The delegation would like to acknowledge the ACYF and thank them for their generous hospitality while in China. Without the support and guidance of ACYF, it would have been impossible for the delegation to explore such a range of issues, visit important locations of cultural and business significance and meet with distinguished officials.

In particular, the delegation would like to thank Ms Suzy Domitrovic, Executive Officer from the Australian Political Exchange Council for her assistance to the delegation in the lead up, during and following the visit and the Honourable Alan Ferguson, Chairman of Australian Political Exchange Council for his continued support of the programme.

This report has been authored by the delegation members and is based on collective notes and personal impressions of the trip.