



Belt and Road Initiative Commercial Relevance to the Australian Agriculture Sector

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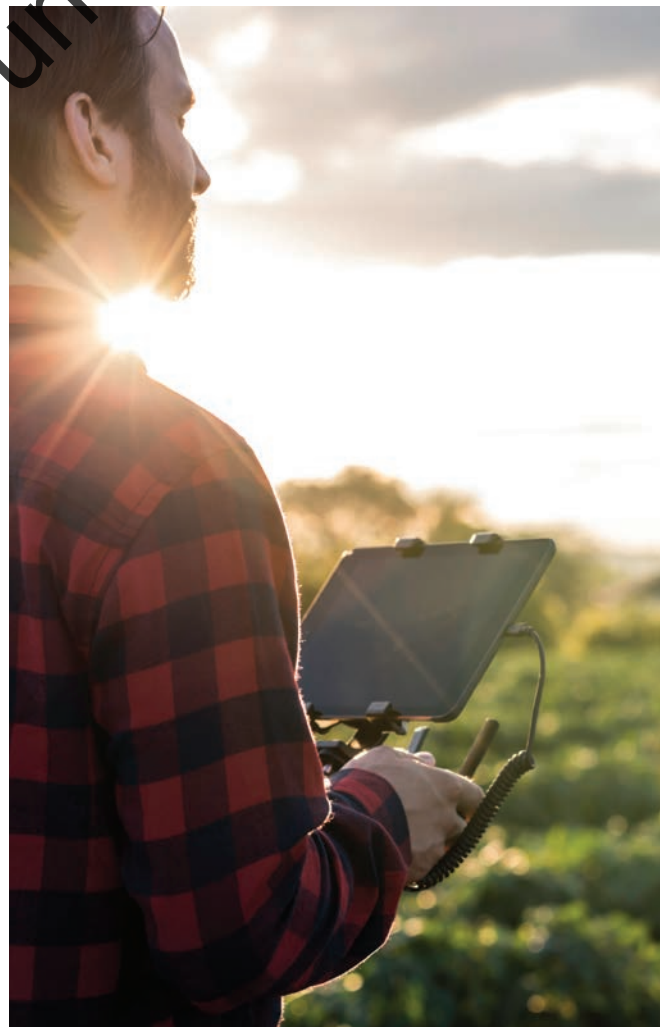
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Foreword from Mr Mark Allison



Why is it important for the Australian agriculture sector to understand the Belt and Road Initiative (the B&R)?

The Belt and Road Initiative is an enormous program of infrastructure development and trade facilitation. It will have far-reaching impact for not only Australia's immediate region, but for a significant portion of global trade. Australia's agriculture sector is largely export dependent – with the goal to grow to a \$100 billion (AUD) sector by 2030. This growth imperative will require export growth to be sustained at a minimum and increase to over and above the current baseline. Understanding the implications of the B&R should therefore be of critical interest to Australian agricultural businesses with an interest in how the agriculture sector will grow.



THE B&R MAY IMPACT DEMAND AND THE TOTAL FLOW OF INTERNATIONAL TRADE

Given its scale and significant infrastructure development plan, the B&R has the potential to have a profound economic and trade effect on Australia's immediate economic region as well as on a large portion of global trade.

The 65 countries along the B&R routes collectively account for 63 percent of the world's population.¹ It is estimated that the world population will grow to 9.7 billion by 2050, with this growth largely generated from countries on the B&R routes.² It is forecast that the demand for food is expected to continue to grow as a result of population growth and rising incomes. According to the Food and Agriculture Organisation, by 2050 agricultural production will have to rise by 70% to meet projected demand. By way of example, this means that cereal production will have to grow by almost a billion tonnes annually and meat production by over 200 million tonnes each year to reach a total of 470 million tonnes in 2050. Up to 72% of this increased production is likely to be consumed in developing countries.³ This represents significant export opportunities for Australian agriculture products.

Notwithstanding this, growth in demand will not in isolation lead to massive growth in the value of the Australian agriculture sector. Investment in supply channels, specifically global logistic networks, is also required to improve the volume of product the Australia exports.

A World Bank study noted that the transport projects that are being constructed under the scope of the B&R will have a systemic impact on shipping times across the world, with the East Asia Pacific region having the largest gains. Results show that shipping times are expected to decrease by an average of 1.2% across all country pairs in the world. Globally decreased shipping times will result in substantial cost reductions for certain goods, impacting demand and total flows of international trade.

The breadth and depth of the B&R is viewed as having the potential to expand infrastructure investment and reduce global trade impediments. Therefore, understanding how the B&R could impact Australia's agriculture sector should be of critical interest to Australian agricultural businesses and participants.

A GREATER UNDERSTANDING OF THE BENEFITS OF THE B&R NEEDS TO BE NURTURED

Even though it is expected that the B&R will boost trade and Gross Domestic Product (GDP) growth in certain countries on the B&R routes, the realisation of the benefits of the B&R needs to be fostered and encouraged by the Australian agriculture sector. It requires businesses to understand where collaboration opportunities exist and the specific capabilities that are required to take advantage of those opportunities. Businesses need to gain an appreciation of the B&R, to recognise how it can be used as a mechanism to engage with China and the B&R en-route countries.

IT IS IMPORTANT TO EVALUATE THE BUSINESS CASE AND RISK OF ALL OPPORTUNITIES UNDER THE B&R

Coverage of the B&R regions means the number of participating countries will be many and varied. Not only will this involve a diverse range of communities and cultures, but also different market maturities, regulatory environments and compliance standards. It is imperative that individual businesses wishing to engage with the B&R understand and assess the risks and returns associated with related projects before engaging with any of the B&R related project approval processes.



Mark Allison
Chairman, Agribusiness Australia



Introduction

WHAT IS THIS REPORT SETTING OUT TO ACHIEVE AND WHY IS IT IMPORTANT?

This report provides a perspective of how the B&R relates to the Australian agriculture sector and potential opportunities that can be realised by the sector.

The messages contained within this report are intended to provide representatives of Australia's agriculture sector with a better understanding of current agriculture-specific and trade related development opportunities associated with the B&R. It is all intended to be used as a reference for the sector to better determine how its capability may be relevant to the B&R and what actions are needed to be taken to respond to potential opportunities and challenges.

The B&R aspires to increase regional cooperation and economic development with countries along the B&R routes. China views the B&R as an inclusive framework, where participation will not be limited to a particular country or region, but rather offer a global model for international engagement.

Therefore, if appropriately curated and understood by both Australia and China, there will be avenues for Australian agriculture businesses to take part and benefit from the implementation of the B&R. More specifically, Australian agriculture businesses could use the B&R as a framework to partner with Chinese enterprises in projects beyond Australia – both in China and the B&R en-route countries.

To participate however, Australian agriculture businesses need to further capitalise on a strong trading relationship with China. This requires building on the strengths of traditional agriculture products and services, coupled with using the scope of the B&R to determine where and how businesses can deliver a comparative or competitive advantage over their competitors.

WHAT TO CONSIDER WHEN READING THIS REPORT?

The information contained within this report will provide an overview of the B&R and emphasise areas of application and relevance to the Australian agriculture sector and businesses within this. In doing so, businesses can start to consider and evaluate the commercial importance of the B&R. This report concludes by raising some questions, asking the representatives of Australian agriculture sector to reflect on and challenge why and how they should engage with the framework.



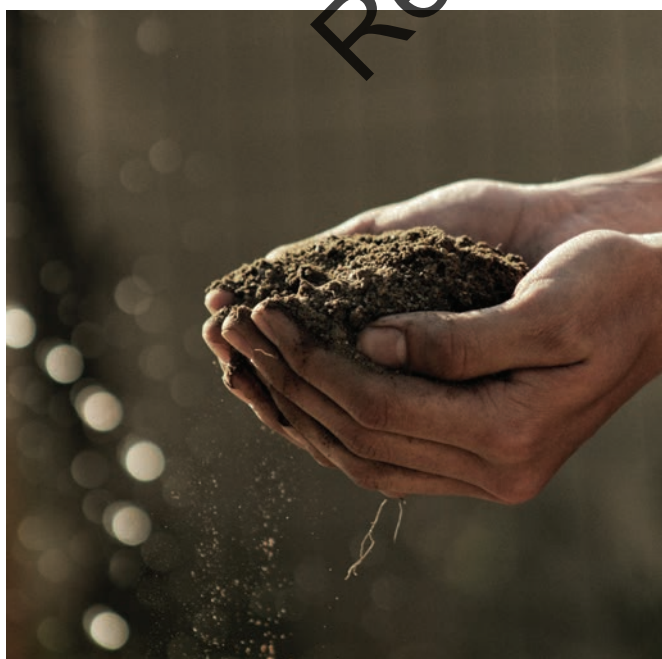
As a leading Australian agriculture business, what aspects of the B&R do we need to become familiar with before any engagement with potential Chinese commercial partner?



Do we need to adjust how we currently view Chinese related trade and investment opportunities, using the B&R as an overarching commercial framework?



Can the B&R, through its investment policies and financial channels reduce the risk of engaging with China as a trade and investment partner?



WHAT ARE THE NEXT STEPS FOLLOWING THIS REPORT?

It is important for Australian agriculture businesses to invest in understanding the applicability of the B&R to their company. It is equally important for the leaders of these businesses to clearly outline and demonstrate competencies and experience equivalent to those of potential Chinese enterprise partners.

The perspectives shared by business leaders in both Australia and China will play a vital role in helping to shape and inform viable trade and investment partnership opportunities – aligned with the regional priorities of the B&R. In doing so, Australia will continue to hold its competitive trade foothold.

A key next step is to provide a platform for Australian and Chinese agriculture business leaders to engage in a dialogue about practical and feasible trade and partnership opportunities which are aligned to the framework of the B&R.

The critical outcomes of this engagement should be shaped around:



Understanding where information on B&R related issues can be accessed, ensuring this information is current;



Identification of organisations that are focused on improving business participation in the B&R;



The start of engagement with potential Chinese commercial partners relating to agriculture that are participating in the B&R.



B&R Overview

WHAT IS THE B&R AND WHAT IS IT SETTING OUT TO ACHIEVE?

The ancient Silk Road was a network of routes used to link commerce and trade between the East and the West. The Silk Road pre-dates modern history. It is thought to have been established around the 2nd century (BC), with the Silk Road routes used until the 14th century (AD). Along with trade, the vast network paved by the Silk Road brought about the transmission of knowledge, ideas and cultures.⁴

Throughout this period, the Silk Road Spirit – ‘peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit’ – promoted the progress of civilisation and contributed greatly to the prosperity and development of countries along the Silk Road.⁵

When Chinese President Xi Jinping visited Central Asia and Southeast Asia in September and October of 2013, he outlined a bold vision for regional development, founded on the principles of the Silk Road trade model.

In his speech, he raised the concept of jointly building a modern Silk Road Economic Belt and 21st Century Maritime Silk Road.⁶

Six years on, this vision is now recognised as one of China’s most important economic development strategies. The Belt and Road Initiative or the B&R as it is now referred to, presents a collaborative and inclusive framework for strengthening and improving the efficiency of trade and investment (on both land and sea) between countries spanning Asia, the Middle East, Africa and Europe.⁷

At its core, the B&R is aspiring to promote greater long-term regional cooperation and physical connectivity between China and its trading partners. This will require significant investment directed toward strategic capital projects in and between countries, supported by appropriate and understood policy and regulatory settings, commercial partnerships and social support systems to facilitate mutually beneficial outcomes.⁸

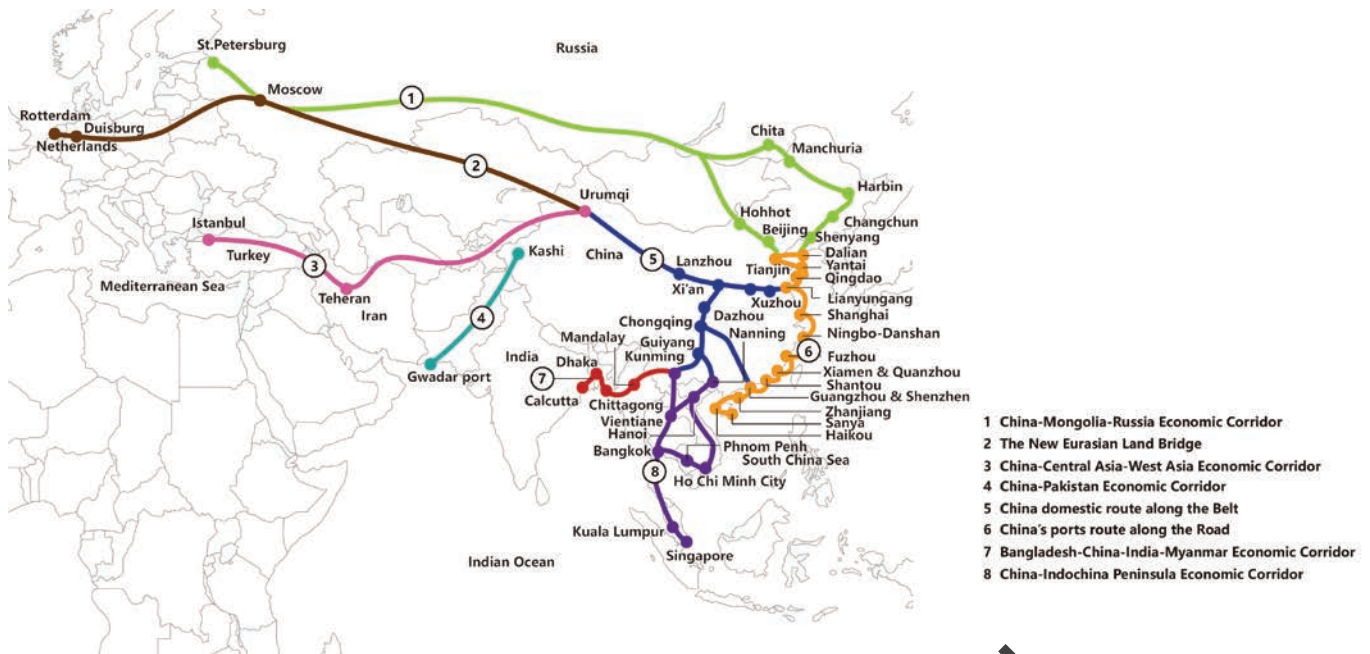


Figure 1: The B&R Six Economic Corridors

WHAT IS THE GEOGRAPHIC FOCUS AND SCALE OF THE B&R?

A significant proportion of investment and economic development activity associated with the B&R is currently being coordinated through six economic corridors.

- On land, the focus of the B&R is to jointly build a new Eurasian Land bridge and the economic corridors which encompass China-Mongolia-Russia, China-Central Asia-West Asia and the China-Indochina.⁹
- At sea, the B&R will focus on building the China-Pakistan and the Bangladesh-China-India-Myanmar economic corridors.¹⁰

The B&R aims to strengthen infrastructure, trade, and investment links between China and over 65 other countries that account collectively for¹¹:



Over 30% of global GDP



63% of worlds' population



75% of known energy reserves

An important note: Can Australian businesses get involved?

Although the B&R corridors outline a geographic focus for the B&R, the framework aims to be an inclusive economic development strategy. This means extending the opportunity for countries such as Australia, who are not physically positioned on these corridors, to participate equally in the B&R's capital development projects and/or benefit from expanded trade and investment pathways.

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The B&R is not just about roads and infrastructure

The B&R, importantly, has a very broad focus – based around the economic fundamentals that underpin global trade and investment – not just roads and infrastructure.

These fundamentals are known as the 5 'connections' of the B&R and include:



Policy coordination



Financial integration



Facilities connectivity



People-to-people bonds



Unimpeded trade

Enhancing Policy Coordination

Enhancing intergovernmental *policy coordination* is viewed as vital to achieve long-term political and investment cooperation.

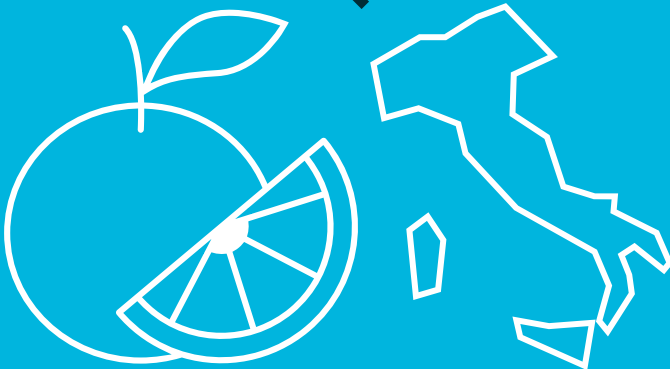


x 173

From 2014 to March 2019, China reached 173 B&R specific cooperation agreements with 125 countries and 29 international organisations.¹² These agreements provide a political and legal framework for China and those countries' long-term economic cooperation.



In 2017, a memorandum of understanding (MOU) of third-party cooperation relating to the B&R was signed between China's National Development and Reform Commission and the Australian Department of Foreign Affairs and Trade, encouraging a boost in bilateral trade and investment and enhancing commercial cooperation in third markets.¹³

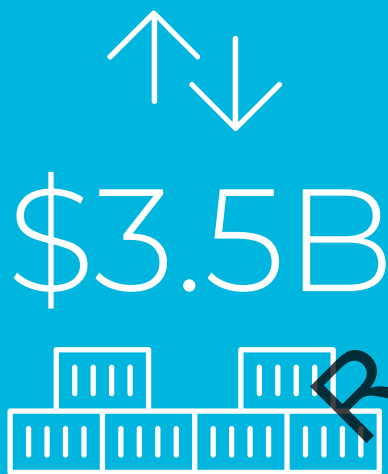


In March 2019, Italy and China signed a MOU to jointly advance the construction of the B&R. As part of the MOU, both parties agreed to facilitate better custom clearance and facilitate the channels for export of Sicilian oranges and other quality farm product exports to China.¹⁴

Promoting Facilities Connectivity

Promoting *facilities connectivity* will lead to improved regional infrastructure - establishing a secure and efficient network of land, sea and air passage.

The flagship project under the B&R “facilities connectivity” is the Yiwu - Madrid railway line. This railway line connects the Chinese city of Yiwu to the Spanish city of Madrid (13,000 kilometers) and is the longest in the world.¹⁵



Between opening in Nov 2014 and Oct 2018, the total number of import and export trades directly generated by the rail line was more than \$3.5 billion (USD).¹⁶ Over this period, the export volume of Spanish products to Yiwu increased from less than US\$1.6 million in 2014 to US\$10.105 million in 2017.¹⁷

The Yiwu-London rail line has reduced the journey time from Yiwu to London from over 30 days (by maritime transport) to less than two weeks and costs approximately half of the equivalent air freight journey.¹⁸



Facilitating Freer Trade

Opening up economies to *freer trade* will incentivise long-term economic cooperation and reinforce business to business relationship.

FTA

Since 2013, China has signed or updated 4 free trade agreements with 12 of the B&R en-route countries, including the China-Maldives Free Trade Agreement (FTA) and China-Georgia FTA signed in 2018, and China-ASEAN FTA and China-Singapore FTA updated in 2015 and 2018 respectively.¹⁹ Together, they are accelerating the construction of a high standard free trade network.²⁰

\$6T



82 x



As of the end of 2018, China had signed a total of 82 cooperation documents with the Customs Departments of several B&R en-route countries to reduce customer clearance times and provide better trade facilitation.²¹

From 2013 to 2018, goods traded between China and related B&R countries has exceeded \$6 trillion (USD).²²

Facilitating Financial Integration

Greater levels of *financial integration* and harmonisation will provide more efficient access to capital and appropriate cross-border funding instruments.

\$90B 

From 2013 to 2018, Chinese direct investment into B&R en-route countries exceeded \$90billion (USD).²³

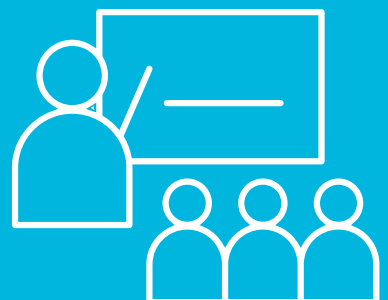


From 2013-2018, Chinese outbound investment in the agriculture sector also grew quickly, with 657 projects launched. Investment has exceeded \$9.44bn (USD), up 70% from 2013 when the B&R was initiated.²⁴ The investment industry is dominated by food and cash crops, including rice and corn, soy beans, natural rubber, palm, oil, cotton and livestock products.

Strengthening People to People Bond

Strengthening of *people-to-people bonds* will ensure community-driven outcomes are prioritised, alongside significant economic development projects.

The Chinese Ministry of Agriculture and Rural Affairs has outlined a plan to foster farmer-focused capacity building and non-governmental exchange activities. This plan will jointly provide vocational education and training to empower farmers with necessary skills and competencies. The plan will collectively build an international shared training capability to train agricultural talent and encourage the development of leaders within the sector.²⁵



The implication of the B&R to the Australian agriculture sector

The introduction of the B&R 6 years ago has seen a significant increase in the amount of goods and services China is demanding from its trading partners. There are several reasons for this demand growth - from the economic structural reforms underway in China and the rise of the middle class, to the empowerment of China's western provinces and B&R en-route countries.

THE B&R HAS ENHANCED CHINA'S GLOBAL PURCHASING POWER

Under the B&R's unimpeded trade principle, the Chinese President announced that "in the next 15 years, China's imports of goods and services are expected to exceed \$30 trillion (USD) and \$10 trillion (USD) respectively."²⁶

China is transforming into a significant import economy

In recent history, exports have been the key driver for China's rapid economic growth, with the country being referred to as the 'world's factory'. However, of late, net exports have been relatively insufficient to drive China's economic growth. Since 2009, the contribution of net exports to GDP has slid to a net negative impact. According to the National Bureau of Statistics, the contribution of net exports of goods and services accounted for -8.6%. Therefore, China is gradually reducing its reliance on exports to stimulate the Chinese economy.²⁷

The current economic structural reform underway within China is helping transform the country to a consumption and import focused economy. In 2018, consumption expenditure contributed 76.2% of GDP and has become the key driving force for economic development.²⁸ This level of reform, coupled with an increase in the welfare of the Chinese middle class, has led to a strong demand for imported goods.

According to the Chinese Ministry of Commerce's "Investigation and Analysis Report on the Supply and Demand of Major Consumer Goods", in 2018 over 20% of Chinese consumers spent more than 30% of their total expenditure on imported goods.²⁹

According to a statement from the General Administration of Customs (GAC), Chinese consumption demand for imported food has been growing steadily, as the standard of living in China has improved. Meat, oil, dairy and seafood are among the most popular food imports in China. Data from GAC also shows that China's total food imports amounted to \$58.28 billion (USD) in 2017, up 25% year-on-year, while the annual average growth rate over the previous five years was 5.7%.³⁰

Increasing imports and encouraging consumption to drive economic growth is the new focus of the Chinese government – specifically along the B&R en-route countries. At the 2018 China International Import Expo, Chinese President Xi Jinping announced that, over the next 15 years, "China's imports of goods and services are expected to exceed \$30 trillion (USD) and \$10 trillion (USD) respectively".³¹ This growth comes off the back of a 2017 Chinese global import base of \$17 trillion (USD) in goods and \$5 trillion (USD) in services. The extent of this growth will provide new opportunities for global trade.³²



China's western regions are the leading importers under the B&R

China's western regions represent a significant opportunity for Australia's agriculture sector – servicing new market opportunities in the previously underdeveloped regions of China.³³

One of the key domestic focus areas of the B&R is increasing GDP growth in China's less developed western regions. If these growth rates are achieved, domestic consumption rates will also increase, particularly for goods and services in the agricultural sector. This represents a significant opportunity for Australia's agriculture sector – servicing new market opportunities in the previously underdeveloped regions of China. In 2018, GDP growth in the western region was 7.4%, 0.6 percentage points higher than the national growth rate.³⁴

A key pillar of the domestic B&R western region growth focus is to invest in necessary infrastructure. Director Xiao Weiming of the National Development and Reform Commission's Western Development Department noted, since 2013, 152 key projects for the development of the western region have been launched, with a total investment scale of \$540 billion (USD). By the end of 2017, 52 out of the 152 key projects have been completed.³⁵ According to the plan, all projects will be completed by the end of 2023. After completion, the western region will see an addition of 8751 kilometers railway mileage, 3,219 kilometers of highways mileage, and 18.78 million kilowatts installed power generation capacity. This level of investment, alongside greater demand for goods and services, is expected to stimulate GDP growth in the region.³⁶



Complementing local infrastructure investment and domestic demand growth is the geographical location of China's western region, as it borders a number of neighbouring B&R en-route countries. China is keen to take advantage of this by further encouraging its western region to develop hubs for commercial trade, foreign logistics and transport between China and the B&R en-route countries. Of particular focus is Central Asia, South Asia and West Asia.³⁷

THE B&R EN-ROUTE COUNTRIES ARE SHARING IN AN ENHANCED PURCHASING POWER ENVIRONMENT

By 2050, the growth in GDP of the B&R en-route regions are expected to represent 80% of Global GDP growth and increase the global middle class by 3 billion people.³⁸

Hard infrastructure investment

From 2013 to 2018, China's direct overseas investment into the B&R en-route countries exceeded \$90 billion (USD).³⁹

According to McKinsey & Co, by 2050, the GDP growth resulted from China's infrastructure investment in B&R en-route countries is expected to represent 80 percent of global GDP growth and will increase the global middle class by 3 billion people. This investment involves a combination of hard and soft infrastructure to help drive up consumption rates, including that of agricultural goods and services.⁴⁰ Hard infrastructure refers to physical infrastructure, including ports, airports, roads, and rail.⁴¹ Soft infrastructure refers to public institutions required for maintaining society, notably legal and judicial systems, health and education systems, and financial systems.⁴²

A World Bank study noted that improved transport infrastructure and connectivity can facilitate trade expansion, attract foreign direct investment,⁴³ enable more efficient production networks, and accelerate the process of economic growth and poverty reduction.⁴⁴ Another World Bank study further shows the implementation of transport projects under the scope of the B&R will have a systemic impact on shipping times across the world. Results show that shipping times are expected to decrease by an average of 1.2% across all country pairs in the world.⁴⁵

B&R en-route countries are expected to experience a decrease in shipment times, ranging between 1.7-3.2%. South and East Asia Pacific regions are expecting the largest gains, approximately 12% on average.⁴⁶

Decreased global shipping times, are expected to result in substantial cost reductions for certain goods and impact mode choices and total flow of international trade.⁴⁷

Soft infrastructure investment

Besides the growing network of port, pipeline, rail, and road infrastructure projects, the *Digital Silk Road* is also under way.⁴⁸ The *Action plan on the China-proposed Belt and Road Initiative*, released in 2015, proposes to advance the construction of cross-border optical cables and other communication trunk line networks, improving international communications connectivity across B&R en-route countries.

Through the B&R, many Chinese enterprises, such as Alibaba and JD.com, are aiming to improve their connectivity and presence in other countries, to expand their global reach.⁴⁹ This investment from Chinese Government and Chinese enterprises will further capitalise on the approximately existing 30 million online shopping consumers along the B&R en-route countries.⁵⁰ This number of online shopping consumers is expected to continuously grow at a rate of 26% per year as a result of growth in wealth and improved access to internet facilities.⁵¹ China has also set up the Digital Silk Road e-commerce cooperation system with 17 B&R en-route countries.⁵² The expansion of these digital channels provides further opportunity to access and purchase Australian agricultural products and for Australian brands to improve their reach accordingly.



Job creation and employment opportunities

Apart from infrastructure investment, the B&R also has potential to help create local and international employment opportunities. Expanding levels of employment are expected to improve income levels and, hence, translate into increased purchasing power and demand for food and premium food.⁵³

Alongside investment in the infrastructure supporting the logistics sector, creation of job opportunities is also being realised through the construction of industrial parks within B&R en-route countries. From 2013-2018, Chinese companies and partner enterprises had established 75 industrial cooperation zones in 24 B&R en-route countries. This translated to the creation of 300,000 jobs for local communities. Most of the zones are for trade logistics, agriculture processing and manufacturing. This represents a cumulative investment of \$30billion (USD) and 82.9% of total investment in China's overseas industrial zones.⁵⁴



75 industrial cooperation zones in 24 B&R en-route countries



Zones are trade logistics, agriculture, processing and manufacturing.



300,000 jobs for local communities



Investment of \$30billion (USD) and 82.9% of total investment in China's overseas industrial zones

QUESTIONS FOR THE AUSTRALIAN AGRICULTURE SECTOR TO REFLECT ON:



1. As a leading Australian agriculture business, is there a commercial benefit from engaging with the B&R and is this aligned with our strategic direction?



2. What characteristics of current and planned B&R agriculture-related investment opportunities can we investigate? What business cases do we need to use to assess viability for us?



3. Do we currently trade with B&R en-route countries and can we use the B&R as a framework to expand the level of our agriculture exports?



4. Do we have the ability to service growing demand for agriculture products and services to B&R en-route countries without compromising the quality of our production?



5. How can the Australian agriculture sector meet increasing demand from China and B&R en-route countries?

EMERGING DEMAND FOR AGRICULTURE
RELATED SERVICES IN THE B&R EN-ROUTE
COUNTRIES

Agriculture accounts for 20% or more of GDP in many B&R en-route countries.⁵⁵ 60% of B&R en-route countries are in transition from traditional agriculture toward more advanced practices.⁵⁶





Agriculture plays an important role in the national economic system of many B&R en-route countries because the sector accounts for a relatively high proportion of GDP.⁵⁷ For countries like Afghanistan, Pakistan, Nepal, Laos and Cambodia, agriculture accounts for 20 percent or more of GDP.⁵⁸ These countries, as well as countries such as Russia and those in Central and Eastern Europe, are rich in agricultural resources and have relatively large areas of arable land per capita.⁵⁹ Despite this advantage, productivity levels in these countries are relatively low. Both productivity per unit area of farming and intensity of land use are lower than that of developed countries, such as Australia, the United States and Canada.⁶⁰ Factors that influence these productivity rates include financing difficulties, inadequate water irrigation facilities, little investment in agricultural science and technology, and a low degree of agricultural mechanisation.






Consequently, 60% of the B&R en-route countries are in a transition period – with a focus on improving productivity and capacity building to expand the economic fabric of their local agricultural sector.⁶¹ Currently, approximately 40 of B&R en-route countries, including China, India, Indonesia, Laos, Nepal, Myanmar, Bhutan, and Afghanistan, have a very traditional agricultural focus.⁶² This is characterised by under-utilised cultivated land and low income for farmers. The level of grain per hectare in these countries is very low, and one-half to two-thirds of the economically active population is still tied to the land – highlighting dependency on the agricultural sector for economic survival. Agricultural employment accounts for 66.45% of total employment in Laos, 64.33% in Nepal, 57.63% in Myanmar, 54.49% in Bhutan, and 52.95% in Afghanistan. This is in stark contrast to the world’s major food exporting countries, the United States, Australia, and Canada, where agricultural employment represents 2%, 2.79% and 2.11% respectively.⁶³ The agricultural sector in these countries is characterised by high levels of industrialisation and intensive agricultural development.⁶⁴

Total national employment in agriculture industry:

Under-utilised
cultivated land
and low income
for farmers

	66.45% in Laos
	64.33% in Nepal
	57.63% in Myanmar
	54.49% in Bhutan
	52.95% in Afghanistan

High levels of
industrialisation and
intensive agricultural
development

	2.79% in Australia
	2.11% in Canada
	2% in USA

The level of transition underway in many countries close to Australia's border provides the Australian agriculture sector with the opportunity to harness its expertise and innovative practices, exporting this capability to B&R en-route developing countries.

DEMAND FOR AUSTRALIAN CAPABILITIES IS LIKELY TO INCLUDE:

- | | |
|--|--|
|  Technology research, development and extension |  Sustainable supply chain management and advisory |
|  Water saving irrigation management |  Traceability advisory and systems |
|  Agribusiness education and training |  Farm management and productivity practices |
|  Quality assurance and safety processes |  Best practice agricultural storage capacity |

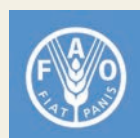
EXAMPLE: AGRICULTURE KNOWLEDGE AND SERVICE COOPERATION UNDER THE B&R

It is important for the Australian agriculture sector to be aware of the opportunities to export knowledge and services to B&R en-route countries, such as in the examples provided below. This presents a practical overview of how to identify pathways to partner with Chinese companies.



Over the last 6 years since the B&R was established in 2013, China has invested more than \$9.44bn (USD) in 657 agriculture projects in many of the

B&R en-route countries.⁶⁵ Owing to this investment, the Chinese Academy of Agricultural Sciences has introduced 61 agricultural products and technologies to countries along the B&R. China has invested in the China-Kazakhstan Modern Agriculture Innovation Park pilot project in Almaty, established in 2015 by the Yangling Modern Agriculture Demonstration Park. The project has introduced new crop varieties and technology to Kazakhstan, resulting in an increase in output of 82%.⁶⁶



In 2018, China and the United Nations Food and Agriculture Organization launched the “FAO-China South-South Cooperation Program”, and

China promised to contribute \$80 million (USD) to the program. Through this program, China has successfully transferred more than 450 practical agricultural technologies to countries participating in the program, which represents more than 30,000 farmers and agricultural technicians.⁶⁷



Protection of intellectual property associated with agricultural service and technology implemented by China's B&R

When discussing technology and knowledge collaboration, intellectual property (IP) protection is one of the most important factors to consider.

In March 2018, Chinese President Xi Jinping announced that “China will strengthen intellectual property right protections, as they are the biggest boost to enhancing the competitiveness of the Chinese economy and opening more opportunities for foreign partnership”.

According to the 2019 U.S. Chamber International Intellectual Property Index, China scored 21.45 (out of 45) in IP protection, ranking 25 of 50 economies (illustrated in Figure 2).

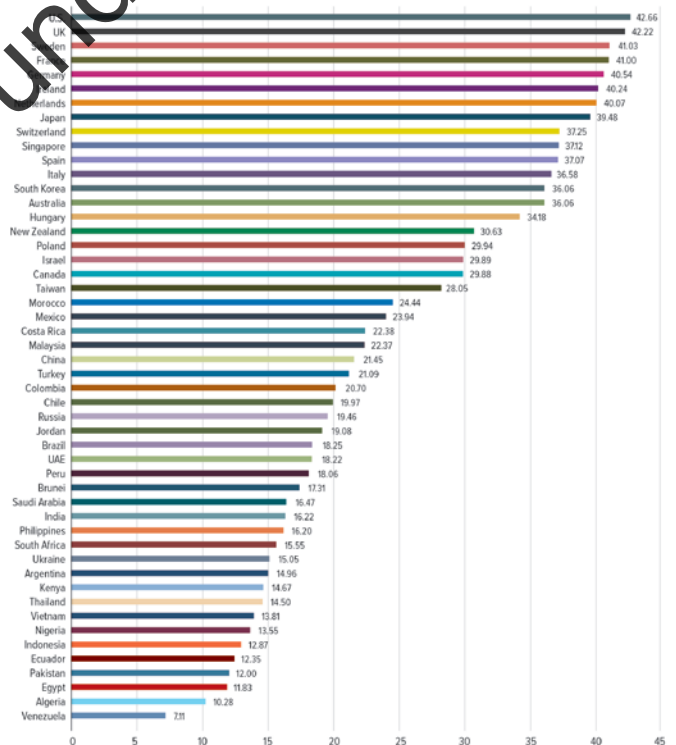


Figure 2: 2019 U.S. Chamber International Intellectual Property Index



Over the course of the past 6 years, rights holders have seen real and substantial improvements to the national IP environment in China. It should be noted that a new e-commerce law entered into force as of January 2019. Under the new legislation e-commerce platforms that fail to take “necessary measures” against infringing goods sold on their websites of which “they are or should be aware” will incur a fine of up to approximately \$300,000 (USD).⁶⁸ Meaningful changes have been made to the Chinese legal code, and enforcement efforts.⁶⁹ Even though great progress has been made in China on the matter of IP protection, still more progress is needed. Areas requiring protection and enforcement include technology transfer and licensing.⁷⁰

Alongside China, IP protection is also a challenge for many B&R en-route countries, especially those that are less developed. As with other international expansion opportunities, Australian agricultural businesses need to pay attention to and understand IP protection in these countries and factor this risk into any business case.

QUESTIONS FOR THE AUSTRALIAN AGRICULTURE SECTOR TO REFLECT ON:



1. What are the specific capabilities we can leverage to gain competitive advantage to secure a Chinese B&R commercial partner?



2. Why are these capabilities considered a strength and a comparative advantage for Australian companies and what experience demonstrates this?



3. What B&R related agriculture extension programs exist? How do we as an Australian business become a participating education partner?



4. Do changes in IP legislation in China reduce the risk of doing business and how do we evaluate these risks when engaging B&R related entities?

OPPORTUNITIES TO DEVELOP THE COMPETITIVE ADVANTAGES OF THE AUSTRALIAN AGRICULTURE SECTOR

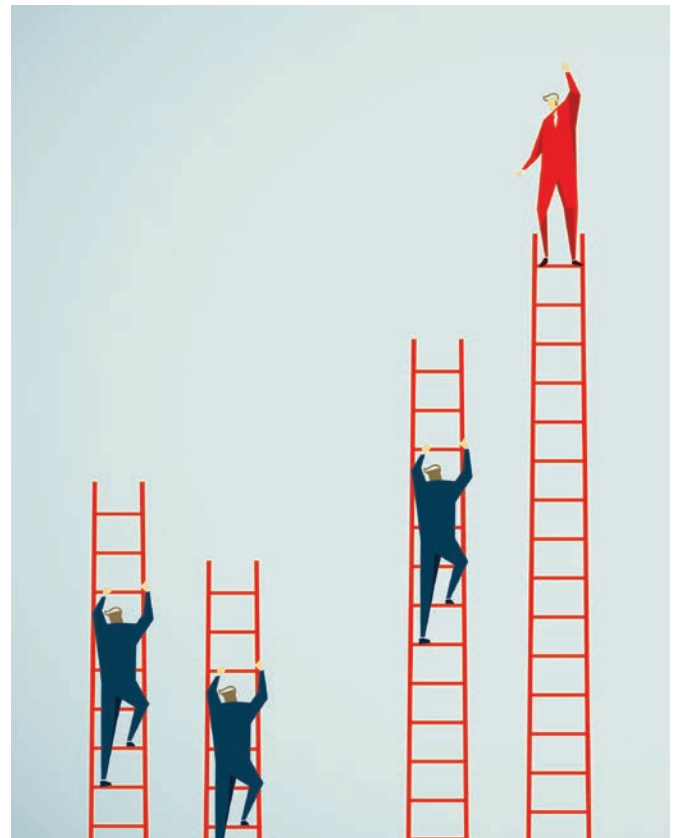
Total trade volume between China and B&R en-route countries has soared, surpassing \$6 trillion (USD) between 2014 and 2018.⁷¹ Australia has an opportunity to take advantage of policy incentives and a dedicated import quota with B&R en-route countries. In so doing, it will help to insure the sector against reduction in demand for certain Australian agriculture products resulting from global competition.

China is focussed on increasing its volume of trade with the B&R en-route countries, which affects global demand and supply of agricultural products and services and, therefore, price.

The Australian agriculture sector needs to be aware of how to utilise this as an opportunity to further develop their niche produce and global competitive advantage, thereby ensuring an expansion of the sector (globally). This includes understanding how the Australian agriculture sector can continue to compete on quality and productivity.

By August 2018, China had become the largest merchandise trading partner of 25 B&R en-route countries.⁷² Vice Minister of Commerce, Qian Keming, noted merchandise trade with B&R en-route countries had surpassed \$6 trillion (USD) between 2014 and 2018, with an annual average growth of 1.1% against an otherwise falling world trade.⁷³

In 2017, China released a paper titled 'Vision and proposed actions outlined on jointly enhance agriculture cooperation under Belt and Road Initiative'. This paper identified provinces in western China that will enter into collaborations with businesses in Central Asia on grain, animal husbandry and cotton; northern provinces that will work with far eastern Russian regions on grain and vegetables; and southern provinces that will grow grain and tropical cash crops in collaboration with businesses in Southeast and South Asian countries.⁷⁴



EXAMPLE: B&R INCREASED KAZAKH WHEAT EXPORT TO CHINA

It is important for the Australian agriculture sector to be aware of the increased export from the B&R en-route countries enabled by the B&R, such as the example provided below. This represents a practical overview of potential impact on demand for certain Australian agriculture products resulting from increased competition.

China is the world's top wheat producer, but still imports approximately 4 million tonnes of grain each year.⁷⁵ According to the International Grains Council, the Black Sea region's share of the international wheat market climbed to approximately 37% in 2017/18, comfortably topping the United States and Canada combined.⁷⁶

The B&R has played a key role in the growth of Kazakh wheat. China aims to further diversify agricultural products in this region, and the B&R en-route countries are considered to have strong potential to export "land-intensive agricultural products".⁷⁷

There is also preferential government support for Chinese businesses trading in Kazakh wheat.⁷⁸ Accordingly, Kazakh wheat can be relatively cheaper

and has quicker access to China by road and rail through B&R related infrastructure investment.

This concertation of trading with B&R en-route countries, in products such as Kazakh wheat, affect the levels of Australian wheat imports to China. Harnessing Australia's reputation for "clean and green" products will be imperative to maintaining demand for Australian agricultural products in a B&R focussed environment.

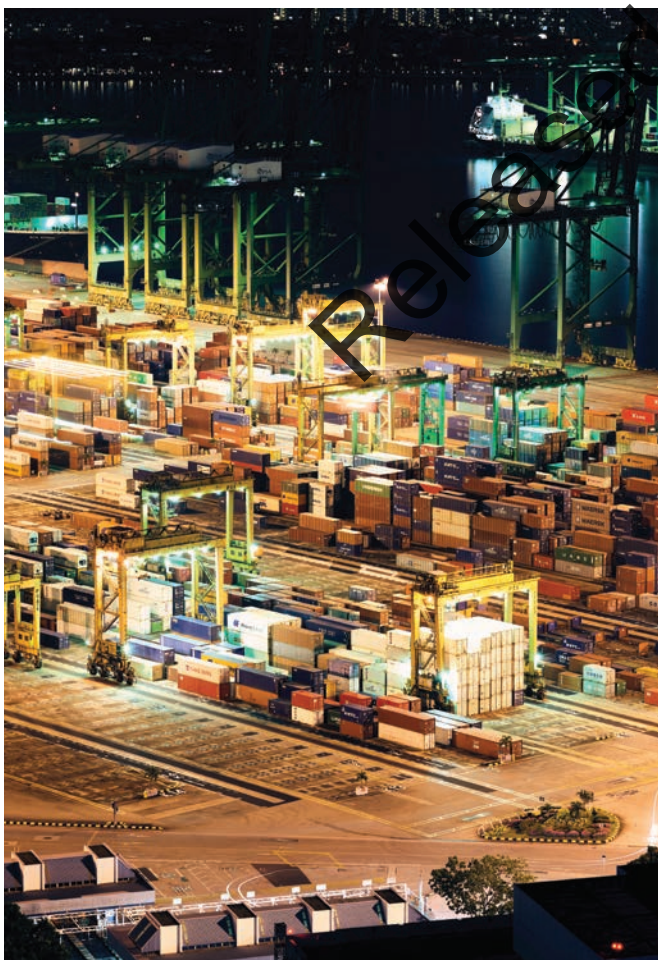
In this vein, it is important to focus on niche products and services, clearly articulating and promoting Australia's global competitive advantage. This includes continuing the Australian agriculture sector's focus on the growth of quality products and level of innovation in agricultural services and practices.⁷⁹



CHINA IS FOCUSED ON IMPROVING TRADE FACILITATION TO HELP REINFORCE THE ECONOMIC BENEFITS OF THE B&R

Under the “unimpeded trade” principle within the B&R, China is taking action to improve the efficiency of customs and trade facilitation operations.

As an example, in 2017, China’s national customs and trade became 95% paperless. This action increased the efficiency of customs clearance for imports and exports by 78% and 86% respectively. China also adopted a streamlined approach to standardise and consolidate customs reporting requirements. This action led to cargo project declaration rates reducing by 30%. China has also built a nationwide customs clearance integration system. This enables companies to complete customs declarations, tax payments and other customs formalities at any customs office in the country. In 2017, customs clearance times for imported goods nationwide was 15.9 hours, a decrease of 9.2 hours (36.8%) compared to 2016.⁸⁰



The World Bank conducted an analysis by creating a new database of transport projects linked to the B&R and applying it to analyse the effects on trade. The analysis combines econometric estimations on the impact of trading times on exports and geographical information system analysis to compute the bilateral trade time between countries on the B&R en-route before and after the proposed intervention. The results shows that when countries combine faster trade times gained through B&R projects with improvements in other areas, such as border efficiency, tariff reductions, deeper trade agreements and better market access, trade levels are likely to increase even further.⁸¹

FOR INSTANCE:

- Improved trade times combined with more efficient borders has increased trade by 16.6% in Central and Western Asia, and 12.4% in the Middle East and North Africa.⁸²
- Improved trade times combined with improvements in trade route management has improved trade between 6.9% and 8.9% in countries from Sub-Saharan Africa, the Middle East, North Africa, Central and Western Asia.⁸³
- Improved trade times combined with halved tariffs has increased trade among the B&R economies by 12.9%. On average, exports from low- and lower-middle income countries increased by 38%.⁸⁴

EXAMPLE: CHINA'S APPROACHES TO REDUCE NON-TARIFF BARRIERS

It is important for the Australian agriculture sector to be aware of the activities China is undertaking to reduce non-tariff barriers, such as the examples provided below. This represents a practical overview of how to take advantage of those activities to gain greater trade benefits.

To unleash the trade potential with the countries along the B&R routes, China has invested significant effort to reduce non-tariff barriers. By 2018, China had directed significant effort toward reducing non-tariff barriers. Since 2014, China has signed a total of 82 cooperation documents with Customs Departments of several countries and signed Authorised Economic Operator (AEO) agreements with 35 countries to provide legal and institutional frameworks for improving customer clearance.

Between 2014 and 2017, China signed the “AEO System Mutual Recognition Arrangement” with the European Union and Israel. China is currently conducting AEO mutual recognition consultations with key B&R en-route countries such as Russia, Kazakhstan, Malaysia, Turkey and Mongolia. According to statistics, these AEO mutual recognition arrangements are expected reduce the proportion of customs clearance inspections by 60%- 80%, reducing customs clearance time and cost by more than 50%.⁸⁵

QUESTIONS FOR THE AUSTRALIAN AGRICULTURE SECTOR TO REFLECT ON:



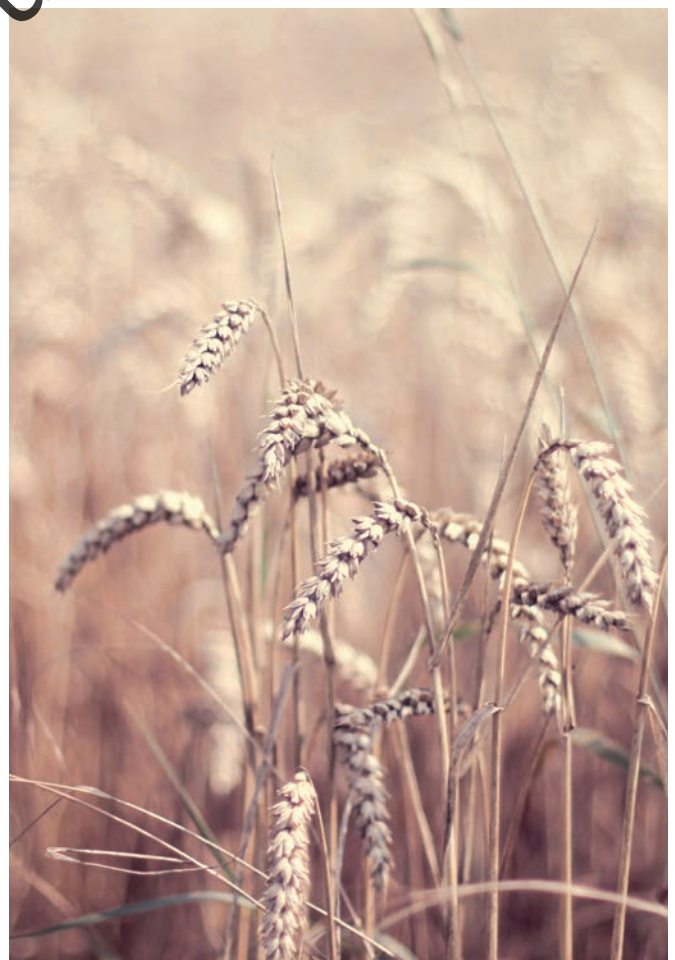
1. How concerned should we be about developments in other B&R en-route countries? In particular, the grain and wheat sector?



2. As a leading Australian agriculture business, are we able to take advantage of the improvement in customs policy with China and related B&R en-route countries?



3. What are the specific niche capabilities we can leverage to gain a competitive advantage in market, such as wheat, to secure a Chinese B&R commercial partner?



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