
The Parliament of the Commonwealth of Australia

Report of the Australian Parliamentary Delegation to

China and Mongolia

7-19 April 2005

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Canberra

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Membership of the Delegation

Leader	Hon David Hawker MP, Speaker of the House of Representatives
Deputy Leader	Senator the Hon Nick Bolkus (Australian Labor Party) Senator for South Australia
Members	Senator the Hon Judith Troeth (Liberal Party of Australia) Senator for Victoria Senator Linda Kirk (Australian Labor Party) Senator for South Australia Hon Peter Slipper MP (Liberal Party of Australia) Member for Fisher (Queensland) Mrs Margaret May MP (Liberal Party of Australia) Member for McPherson (Queensland) Luke Hartsuyker MP (National Party of Australia) Member for Cowper (New South Wales)
Secretary	Mr Richard Selth Table Office, House of Representatives
Senior Adviser to the Speaker	Mr Christopher Paterson

The Delegation was accompanied by Mrs Penny Hawker, Ms Inge Jane Hall and Mr David May

Introduction

Aims and objectives of the Delegation

- 1.1 This report presents the details of the activities and observations of a delegation from the Parliament of Australia which visited China and Mongolia in April 2005. The Delegation's program is included as Appendix A to the report.
- 1.2 The Delegation agreed on the following aims and objectives, which were formulated with advice from the Parliamentary Library and the Department of Foreign Affairs and Trade.

In China:

- Renew contacts and dialogue with the National People's Congress including the promotion of regular contacts between the NPC and the Australian Parliament;
- Gain an enhanced understanding of China's internal political, social and economic challenges;
- Gain Chinese perspectives on prospects for security and stability in East Asia, including avenues for alleviating tensions on the Korean peninsula, and China's approach towards Asia-Pacific regional cooperation, particularly in relation to APEC and the ASEAN plus Three process;
- Review recent developments in China's external economic relations, including its process of implementation of commitments to the World Trade Organisation; and
- Review the prospects for further enhancement of Australia's economic relations with China, including prospects for negotiations of a Free Trade Agreement.

In Mongolia:

- Renew contacts with the Mongolian parliament;
- Gain an enhanced understanding of Mongolia's internal political and economic challenges;
- Assess Mongolia's perspectives on Asia-Pacific security issues, including the evolution of the roles of the United States, China and Japan and prospects for peaceful cooperation to resolve sources of potential tensions;
- Review the progress of Australia's bilateral relations with Mongolia and explore the potential for the further development of economic cooperation between Australia and Mongolia.

Overview

- 1.3 The aims and objectives of the Delegation were clearly met. In a busy and varied program, Delegation members had the opportunity to inform themselves of developments in China and Mongolia in a range of areas, and to explore the possibilities for developing further the existing links between Australia and the two countries. Members welcomed the opportunity to meet senior members of the parliament and government in both countries; the level of access given to the Delegation in both countries was particularly pleasing.
- 1.4 The visits were interesting and informative, providing the opportunity to see one country which has undergone the transition to liberal democracy and a market economy and another which has transformed its economy in the context of its existing political structures. The Delegation appreciated the opportunity to witness the efforts made to deal with the very significant and different challenges faced by the two countries.
- 1.5 The restructuring of the economies of the two countries, China's since 1978 and Mongolia's since 1990, has been remarkably successful, although at times it has been at a certain cost. Mongolia experienced soaring inflation and high unemployment in the early 1990s, and this inevitably meant hardships for some. China is still responding to the domestic impact of the development of its economy and is seeking ways to spread the benefits more widely. The challenge facing the governments in both countries now is to deliver increasing certainty and improving living standards for their people while continuing the necessary restructuring which will provide the basis of long term prosperity.
- 1.6 The Delegation examined very keenly the opportunities for greater Australian trade and investment links in the region. There are strong people to people links with both countries, and a great deal of goodwill.

The Delegation believes that there are significant areas for possible investment or joint ventures that have not been fully explored.

- 1.7 The Delegation was impressed by the language skills of Australian embassy staff in China, and found those skills to be invaluable on a number of occasions. They also noted the very positive impression that the ability and willingness of embassy staff to speak the language of the country made on members of the Chinese community, and the benefit that language skills can offer in exploring possible trade and investment opportunities.

Acknowledgments

- 1.8 The Delegation wishes to express its appreciation of the efforts of all those who contributed to the success of its visit. In particular, the Delegation wishes to acknowledge the following contributions:

Canberra

- 1.9 The Delegation received oral and written briefings from officers of the Department of Foreign Affairs and Trade and the Department of the Parliamentary Library prior to its departure. The Delegation wishes to record its thanks to all staff who contributed to these briefings and assisted with administrative arrangements for the visit.
- 1.10 The Delegation wishes to thank the staff of the Parliamentary Relations Office, in particular Ms Brenda Herd, for her administrative assistance prior to departure.

Australian Embassy, Beijing

- 1.11 The Delegation wishes to thank H.E. Dr Alan Thomas, Australian Ambassador to China and Mongolia, and other Embassy staff, for their comprehensive briefings and invaluable assistance throughout the period of the Delegation's visit. Ms Catherine Simmons accompanied the Delegation during the visit to China, and Ms Alice Cawte and Ms Aviva Gulley accompanied the Delegation in Mongolia, giving informed and focused advice and ensuring that the program ran smoothly. In Shanghai the Australian Consul-General, Mr Sam Gerovich, gave valuable support and advice.

China

- 1.12 The Delegation wishes to record its appreciation of the National People's Congress, Chairman Wu Bangguo, Vice-Chairman Mr Redi and other members of the NPC for the warm welcome and hospitality extended to

the Delegation during its visit, and for the time taken by the leaders of the NPC to meet the Delegation to discuss a range of issues. In particular, the Delegation thanks Mr Jiang Yunbao, Vice-Chairman of the China-Australia Friendship Group of the NPC, who accompanied the Delegation throughout its visit. The Delegation also thanks Chairman Jia Qinglin of the National Committee of the Chinese People's Political Consultative Conference for the opportunity to meet and discuss a range of issues with him. The Delegation appreciated the opportunity to exchange views and information on matters of mutual interest and to receive positive affirmation of the good relations between Australia and China.

- 1.13 The Delegation wishes to record its thanks to officers of the National People's Congress for the excellent administrative support provided to the Delegation during the visit to China, and for their assistance on a range of matters. In particular, the Delegation thanks Mr Chen Guomin, Director-General of the Foreign Affairs Bureau of the Standing Committee of the NPC and Mr Yang Yongyi, also of the Foreign Affairs Bureau.
- 1.14 In addition, the Delegation wishes to express its appreciation of the hospitality and briefings given to it by members of various government departments, municipal and provincial representatives and many others who contributed to the success and enjoyment of the visit, in particular Mr Gong Xueping, Chairman of the Standing Committee of the Shanghai Municipal People's Congress, Mr Lei Xiping, Chairman of the Standing Committee of the Guilin Municipal People's Congress and Mr Sui Lintao, First Vice-Chairman of the Standing Committee of the Shaanxi Provincial People's Congress.

Mongolia

- 1.15 The Delegation wishes to record its appreciation of the hospitality and courtesy extended to it by the State Great Hural of Mongolia, the then Chairman, His Excellency President Nambaryn Enkhbayar, the Vice-Chairman, Mr Danzan Lundeejantsan, the Head of the Mongolia-Australia Parliamentary Group, Mr Nyamaa Enkhbold and other members of the State Great Hural during the Delegation's visit, and for the warmth of their welcome. The Delegation was grateful for the opportunity to discuss matters of mutual interest and to confirm the good relations between Australia and Mongolia.
- 1.16 The Delegation also wishes to thank senior members of the Mongolian Government who made themselves available for meetings with the Delegation. These included the then President His Excellency Natsagiyn Bagabandi, the Prime Minister, Mr Tsakhiagiyn Elbegdorj, the Foreign Minister, Mr Tsend Munkh-Orgil and the Minister for Trade and Industry, Mr Sukhbaatar Batbold.

- 1.17 The Delegation wishes to record its thanks to officers of the State Great Hural for the excellent administrative support provided to the Delegation during the visit to Mongolia, and for their assistance on a range of matters. In particular, the Delegation thanks Mr Markhaaj Choidorj, Head of the Foreign Relations Department of the State Great Hural and Mr L Enkhbold, also from the Foreign Relations Department, for their invaluable advice and assistance.

Bilateral visit to China

China at a glance

Official Name	People's Republic of China
Form of State	Republic
Head of State	H.E. President Mr Hu Jintao
Head of Government	H.E. Premier of the State Council Mr Wen Jiabao
National Legislature	National People's Congress, a unicameral parliament of approximately 3000 members elected by provincial, regional and municipal congresses for five-year terms.
Executive	State Council, appointed by the National People's Congress
Capital	Beijing, population of greater urban area - 14.9 million
Language	Mandarin
Population	1.3 billion
Area	9.56 million square kilometres
GDP	US\$1600 billion (2004)
GDP per capita	US\$1232 (2004)
GDP growth	9.5% (2004)
Current Account Balance	US\$55.1 billion surplus (2004)
Inflation	3.9% (2004)
Unemployment	9.8% (2004)



Background

- 2.1 China is the third largest country in the world, occupying 9.6 million square kilometres. With land boundaries of 22,000 kilometres it shares borders with fourteen countries: Russia in the north-west and north-east (3645 km), Mongolia in the north (4677 km), North Korea in the east (1416 km), Kazakhstan (1533 km), Kyrgyzstan (858 km) and Tajikistan (414 km) in the north-west, Afghanistan (76 km), Pakistan (523 km), India (3380 km), Nepal (1236 km) and Bhutan (470 km) in the west and south-west and Burma (2185 km), Laos (423 km) and Vietnam (1281 km) in the south. It has a mainland coastline of approximately 15,000 kilometres on the Pacific Ocean, including the Yellow Sea, the East China Sea and the South China Sea. Its territory includes more than 5000 islands.
- 2.2 China's complex and varied topography can be broadly described as three regions: the south-western mountains including the Tibetan Plateau, the north-western uplands and the predominantly low-lying eastern region. Three great rivers drain the country from west to east. In the north the Hwang-Ho, or Yellow River, has a length of 5464 kilometres and its valley

- is considered the cradle of Chinese civilization. Further south the 6300 kilometre Yangtze is the world's third longest river, with a catchment of 1.8 million square kilometres. The Hsi (Pearl) River drains southern China.
- 2.3 Han Chinese comprise 91.9 per cent of the population, the remaining 8.1 per cent consisting of a variety of ethnic groups. Twenty-one per cent of the population is under 15 years, 71 percent is between 15 and 64, and 8 per cent is 65 and over. China is officially an atheist state, although there are Christian, Muslim, Buddhist and Daoist minorities.
 - 2.4 China is the oldest continuous major world civilization, with records dating back nearly 4,000 years. Successive dynasties developed a system of bureaucratic control which gave the agrarian-based Chinese an advantage over neighbouring nomadic and hill cultures. Chinese civilization was further strengthened by the development of a Confucian state ideology and a common written language that bridged the country's many local languages and dialects. The Chinese were united for the first time during the Qin dynasty (221-207 BC), which standardised the writing system and completed construction of the Great Wall. The last dynasty was established in 1644, when the nomadic Manchus overthrew the native Ming dynasty and established the Qing dynasty with Beijing as its capital.
 - 2.5 The Portuguese arrived in China in 1516, and by 1760 other powers had gained secure access to Chinese markets. During the 19th century China suffered massive social strife, economic stagnation, explosive population growth and Western penetration and influence. Chinese resistance to Britain's desire to continue its opium trade with China resulted in the Opium War. China lost the war and Britain and other Western powers forcibly occupied 'concessions' and gained special commercial privileges.
 - 2.6 The Chinese imperial system came to an end in 1911, when the Qing (Manchu) dynasty was overthrown and China was proclaimed a republic. The country then entered a period of warlordism. In the 1920s, Sun Yat-sen set out to unite the nation. With Soviet assistance, he organized the Kuomintang (KMT, or Chinese Nationalist People's Party), and entered into an alliance with the Chinese Communist Party (CCP), founded in 1921. After Sun's death one of his protégés, Chiang Kai-shek, succeeded in bringing most of south and central China under KMT rule. He established a central government in Nanjing and in 1927 turned on the CCP. In 1934 CCP forces embarked on a 'Long March' across China to the northwest, where they established a base at Yanan in Shaanxi Province. During the Long March the Communists reorganized under a new leader, Mao Zedong (Mao Tse-tung).
 - 2.7 In 1931 the Japanese invaded Manchuria and by 1939 had overrun most of eastern China. The struggle between the KMT and the CCP continued

through the fourteen-year Japanese occupation. Both groups opposed Japan but in 1945 after the defeat of the Japanese civil war broke out. CCP forces under Mao Zedong defeated the KMT and on 1 October 1949 Mao proclaimed the foundation of the People's Republic of China (PRC). Chiang Kai-shek fled to Taiwan.

- 2.8 The period between 1949 and Mao's death in 1976 was characterised by an ambitious political and economic restructuring program which involved the collectivisation of industry, the establishment of communes and the redistribution of land. The Great Leap Forward, launched in 1958 and aimed at rapidly modernising the economy, was a major economic disaster. The Cultural Revolution from 1966-1976 brought enormous upheaval in the political system and Mao had to rely on the armed forces to maintain order and exercise control.
- 2.9 Following Mao's death in 1976 China embarked on a period of cautious and controlled modernisation. In December 1978 the CCP, led by Deng Xiaoping, launched a wide-ranging program of economic and social reform which sought to modernise the economy, develop China's external relations, especially with the West, and implement a gradual and limited liberalisation of Chinese society. Political opposition to the more liberal reforms forced periods of retrenchment and in June 1989, following the suppression of pro-democracy demonstrators in Beijing, political control was assumed by more conservative elements within the CCP. Party General Secretary Zhao Ziyang was replaced by Jiang Zemin, who was also appointed President in 1993. Jiang's leadership charted a new course based on economic growth, while also seeking to improve China's standing in the international community: overseeing the admission of China into the World Trade Organisation in 2001 and guiding Beijing to success in the 2008 Olympics bid. This period also saw the return of Hong Kong to Chinese sovereignty in 1997 after 156 years of British rule.
- 2.10 In November 2002 Vice-President Hu Jintao replaced Jiang as Communist Party General Secretary, and in March 2003 as President. Hu has introduced new, if cautious, reforms. His priority, as with the previous leadership, is economic growth and restructuring. He is paying comparatively more attention to rural and western regions, in the light of income disparity that could spark social unrest. Other key figures in the new leadership are Premier Wen Jiabao and Chairman of the National People's Congress, Wu Bangguo.

The National People's Congress and State Council

- 2.11 China's Constitution stipulates that the organs through which the people exercise state power are the National People's Congress (NPC) and the

local people's congresses at different levels. Deputies to the NPC are elected for five years by the provinces, autonomous regions and municipalities directly under the central government, and by the armed forces. Deputies to the people's congresses of the provinces, autonomous regions, municipalities etc are elected by the people's congresses at the next lower level. Deputies to the people's congresses at county and township levels are elected directly by their constituents.

- 2.12 The NPC is the highest organ of state power. It has the power to amend the Constitution and supervises its enforcement. It enacts laws and elects the leaders of the highest state bodies, including the President and Vice-President, the Premier and other members of the State Council and the Chairman and other members of the Central Military Commission. It approves plans for national economic and social development and examines and approves the state budget. The NPC is elected for a term of five years. It meets in session during the first quarter of each year and is convened by the NPC Standing Committee.
- 2.13 The number of delegates to the National People's Congress is decided in accordance with the proportion of the population in each province, autonomous region and municipality directly under the central government. No less than fifteen delegates are allocated to a province or an autonomous region with a small population. At the same time, the allocation should ensure that there is appropriate representation of all ethnic groups, people from all walks of life and all political parties within the NPC.
- 2.14 The permanent body of the National People's Congress is its Standing Committee, which is responsible to the NPC. The Standing Committee has about 150 members and is composed of the Chairman, Vice Chairmen, the Secretary-General and other members who are elected from among the deputies at the first session of every National People's Congress. Executive meetings of the Chairman, Vice-Chairmen and Secretary-General handle the important day-to-day work of the Standing Committee.
- 2.15 The State Council is the highest state administrative body. It carries out the laws enacted and decisions adopted by the NPC and its Standing Committee. It is responsible to the NPC and its Standing Committee and reports to them on its work. The State Council has about 50 members and is composed of the Premier, vice-premiers, state councilors, the heads of the various ministries and commissions, the auditor-general and the secretary-general.
- 2.16 As the chief administrative body of government, the State Council's main functions are to formulate administrative measures, issue decisions and orders and monitor their implementation, draft legislative bills for

submission to the NPC or its Standing Committee and prepare the economic plan and state budget for deliberation and approval by the NPC.

Economic overview

- 2.17 In 1949 when the Communist Party came to power China was one of the world's poorest countries. The CCP aimed at developing China into a modern industrial state but it was not until after the death of Mao Zedong in 1976 and the introduction of wide ranging reforms in 1978 that significant progress was made in moving a sluggish, centrally planned system towards becoming a more dynamic market oriented economy.
- 2.18 Since 1978 GDP has quadrupled. From 1978 to 1986 it grew by more than 10 per cent annually. In that period industrial output doubled and per capita peasant income tripled. By 1986 China had become the largest coal producer in the world and the fourth largest steel producer. From 1950 to the mid-1980s the value of foreign trade per capita grew 25 times. Stock markets opened in Shanghai and Shenzhen in 1989. There are approaching 100 million Internet users.
- 2.19 China is now the world's sixth-largest economy and among the fastest growing. In 2004 China accounted for 13 per cent of world output. GDP officially grew by 9.5 per cent, the fastest for eight years, and has averaged above 8 per cent growth over the last decade. This rapid increase is partly a function of growing from a low base, but also derives from China's considerable and ongoing economic reforms, including its 2001 WTO accession. In November 2004 China signed a landmark trade agreement with ten south-east Asian countries.
- 2.20 GDP is expected to grow by 8.1 per cent in 2005, the slowdown led by an easing of investment growth. Consumer prices are expected to rise by 2.5 per cent in 2005, having reached 5.1 per cent at the end of 2004, due to increases in food and energy prices. The current account surplus will narrow and significant inflows of foreign direct investment are expected to continue.
- 2.21 Foreign investment is a strong element in China's economic growth. In 2004 foreign direct investment amounted to US\$60 billion. China's leadership responded to significant increases in investment in 2003 and early 2004, and the dangers of an overheating economy, by limiting excess credit and steering investment from the steel, aluminium and property sectors. So far, the leadership has been successful in averting a 'hard landing' of China's economy, as envisaged by a number of international economic commentators. Despite continuing risks a 'soft landing' for the economy looks likely.

- 2.22 In March 2004 Premier Wen Jiabao announced that Government policy on future GDP growth would also emphasise the promotion of social development, including in rural areas and the poorer western region.
- 2.23 The Chinese currency, the *renminbi* or *yuan*, has been pegged to the US dollar since 1994 around the rate US\$1 = RMB 8.28. US pressure on the Chinese authorities to alter the currency regime has subsided as China's economic growth has moderated but there has been growing international speculation that the People's Bank of China would widen the band within which the RMB moves. In July 2005, three months after the Delegation's visit, China revalued the currency, pegging it to a basket of currencies rather than just the US dollar.
- 2.24 Chinese policy makers face considerable challenges in maintaining strong growth and providing higher living standards over the next decade. Four major and interlinked problems are reform of the financial sector, reform of state owned enterprises, the need for a functioning social security system, and infrastructure development. Agricultural reform also remains a key challenge.
- 2.25 China's rapid economic growth is severely stretching China's domestic freight and logistics capabilities, leading to bottlenecks in the movement of goods and basic resources. In addition, inadequate electricity production and distribution capacity is a limit on China's manufacturing capacity. While power generation capacity has doubled in the last ten years (with the equivalent of Australia's total annual power output added to the network in 2004) demand is still outstripping supply.

Bilateral relations between Australia and China

- 2.26 The Australian Government recognised the People's Republic of China in 1972, and an improved political and trading relationship with China has been a priority for successive Australian Governments. In recent years bilateral relations have reached a new level of maturity. The Prime Minister has visited China five times since coming to office in 1996, most recently in April 2005, immediately after the Delegation's visit. In 1999 President Jiang Zemin visited Australia, the first visit by a Chinese head of state. President Hu Jintao visited Australia in October 2003.
- 2.27 People to people links are a vital part of the relationship and there are regular ministerial and parliamentary visits. Parliamentary exchanges are an important part of the expanding political dialogue. Australian parliamentary delegations visited China in 2000, 2002 and 2004. Chairman of the National People's Congress Wu Bangguo visited Australia in May 2005. Various other study and friendship exchanges also occur on a regular basis.

- 2.28 These visits build on the friendship and understanding developed over more than thirty years of diplomatic relations. The Australian Government's approach to the relationship with China is to pursue constructive and friendly relations on the basis of mutual respect and recognition both of shared interests and of differences. Chinese leaders accept Australia's approach as realistic, sustainable and healthy to the overall relationship. This approach has been endorsed by successive high-level Chinese visitors.
- 2.29 Australia enjoys strong and wide-ranging economic complementarities with China, which bolster economic and trade ties. China is Australia's third-largest merchandise trading partner and during the 2003-04 financial year moved ahead of the United States to become Australia's second-largest merchandise export market. Services exports to China are also growing. The Trade and Economic Framework (TEF) signed in October 2003 during President Hu's visit provides a basis and benchmark for the further development of the trade and economic relationship over the next decade.
- 2.30 Importantly, the TEF included a commitment by both governments to undertake a joint Free Trade Agreement (FTA) feasibility study, which was completed in March 2005. The study concluded that the negotiation of an FTA would result in significant economic benefits for both Australia and China. On 18 April in Beijing Prime Minister John Howard and Premier Wen Jiabao of China agreed that Australia and China would commence negotiations on a Free Trade Agreement, and the first round of negotiations was held in Sydney on 23 May 2005.
- 2.31 Australia is a source of development assistance and advice to China. Aid is focused on rural poverty and health problems in under-developed areas such as Tibet and Xinjiang. Another important component of the aid program is to lend advice on aspects of economic planning and governance. For example, Australia is providing advice to China in relation to developing a modern, comprehensive social security system.
- 2.32 The Australia-China Council plays an active role in promoting links between the two countries. Its current priorities are the Youth Exchange Programs, which encourage young Australians to develop their interest in China, and the Australian Studies Program, which provides funding to Australian Studies centres in Chinese universities.
- 2.33 Issues which have the potential to cause difficulty are Taiwan and human rights. Australia adheres to a one China policy, which means that it does not officially recognise Taiwan but continues unofficial contacts, primarily to promote legitimate economic, trade and cultural interests there. Senior Chinese officials have acknowledged Australia has been clear and

consistent in its Taiwan policy. Australia has consistently stated that cross-straits differences should be managed peacefully through dialogue.

- 2.34 Australia's approach to human rights in China is constructive and based on dialogue rather than public confrontation. Human rights technical assistance aims to enhance China's legal system and advance human rights at a practical level. Australia has acknowledged that Chinese people enjoy a greater degree of personal freedom than before, but views on human rights still differ.

Commercial relations

- 2.35 Merchandise and services trade between Australia and China in 2004 was worth A\$31.2 billion. China is Australia's third-largest trading partner and second-largest merchandise import and export market. Total merchandise exports grew to A\$11 billion in 2004, 20.6 per cent higher than the previous year, driven by a 41 per cent increase in iron ore exports, a 72 per cent increase in coal exports and a 33 per cent increase in wool exports. This growth is remarkable given that these commodities were already among Australia's largest exports to China. Merchandise imports from China totalled \$18 billion in 2004.
- 2.36 Resource commodities account for around three-fifths of total goods exports to China, worth around A\$6.5 billion. Iron ore (\$2.4 billion in 2004), wool (\$1.2 billion), crude petroleum, coal and other ores are the major exports. From 2006, Australia also will begin exporting between \$700m and \$1 billion of liquid natural gas annually to the Guangdong LNG project, over a 25 year period, with prospects for further large-scale energy deals in the near future. China is also an important market for Australian agricultural products. In manufactures, Australian products largely supply Chinese businesses with production inputs.
- 2.37 Major Australian imports from China are clothing (A\$2.6 billion in 2004), computers (\$1.7 billion), toys, games and sporting goods (\$982 million) and telecommunications equipment (\$924 million).
- 2.38 Australia's service exports to China totalled \$1.3 billion in 2004, and service imports from China \$1.1 billion. Education and tourism dominate, accounting for around two-thirds of services exports in recent years. The number of Chinese student enrolments was 68,857 in 2004. In 2003, Chinese students comprised approximately 20 per cent of the total number of foreign students in Australia. In addition, around 20,000 Chinese students studied and/or received training at Chinese institutions linked to Australia, particularly through course content and teaching staff. Around 1000 Australian students were studying in China in 2003.

- 2.39 In 2003, 176,100 Chinese travelled to Australia compared with 42,600 in 1995. Chinese visitors now make up nearly four per cent of overseas visitors to Australia, and the Australian Bureau of Tourism forecasts that Chinese visitor numbers could rise to around one million by 2012, driven by growing disposable incomes, the priority given to international travel by prosperous Chinese, and government-to-government arrangements to facilitate group international travel such as the extension of 'approved destination status' to more areas within China.

The Australian Chinese community

- 2.40 Chinese Australians have made a very significant contribution to the cultural and economic development of Australia, and there are many Chinese Australians prominent in business and in professional, scientific and academic fields.
- 2.41 There is evidence for Chinese trading contact with the northern shores of Australia as early as the tenth century. After European colonisation of Australia some Chinese were living in Sydney in the 1820s but it was the cessation of convict transportation to New South Wales in 1840 that prompted employers to bring in cheap labour from China.
- 2.42 The discovery of gold in 1851 saw a significant increase in the number of Chinese and by 1858 there were more than 42,000 Chinese in Victoria, where the majority were located. The population peaked at 50,000 in 1888 and over the next fifty years declined to little more than 10,000. Resentment of Chinese by European diggers on the gold fields and later more widespread resentment and fear of the undercutting of European labourers led to a series of Acts restricting Chinese immigration. With the decline of the gold fields Chinese were principally involved in market gardening and cabinet making.
- 2.43 The Chinese Australian population has grown steadily since World War Two, from 12,000 in 1947 to 27,000 in 1966 and 172,000 in 1986. The current population of Chinese Australians is 560,000, of whom 210,000 were born in China, including Hong Kong. Many have also come from other parts of Asia where there are significant Chinese populations. Approximately half live in New South Wales.

The Delegation's program

- 2.44 In a crowded program the Delegation visited four cities and had meetings with a range of local and national officials. Key issues which were raised were China's rapid growth in recent years and the challenges and opportunities associated with that growth, and the proposed Free Trade Agreement between Australia and China. Other issues which came up in

discussion were the increasing disparity in development and prosperity between China's different regions, problems facing the environment, human rights and Taiwan. The Delegation found the opportunity to explore these and other issues with Chinese officials, and also with Australian government and business representatives, extremely valuable.

Shanghai, 8-9 April

- 2.45 The Delegation began its program in Shanghai, situated on the Huangpu River on China's eastern coastline, within the Yangtze River Delta. It is the largest city in China with a population approaching 20 million. It has long been a natural trading centre and has been the centre of foreign economic activity since the Treaty of Nanking in 1842. Rapid development began in the 1990s and today the development of Shanghai is a national priority.
- 2.46 The GDP of the Yangtze Delta region accounts for 25 per cent of China's GDP, and in 2004 Shanghai itself had a per capita GDP of US\$5394, compared to the national average of US\$1232. Shanghai's economy grew by 13.6 per cent in 2004, its thirteenth consecutive year of double digit growth. The city's new economic centre, Pudong, has grown from greenfield site to an urban centre of 2 million people in fifteen years, with an average annual growth rate of more than 20 per cent.
- 2.47 Approximately 25 per cent of China's exports pass through Shanghai. Currently the second largest port in the world by tonnage, after Singapore, it will become the largest with the completion of a deepwater port now under construction on an island in Hangzhou Bay. The new port will be connected to the mainland by an eight-lane 32 kilometre bridge. Shanghai's road, rail and airport infrastructure is also undergoing massive upgrading.
- 2.48 Australia has had commercial links with Shanghai for many years, and a Consulate General was established in the city in 1984. At the end of 2004 there were 731 Australian investment projects in Shanghai, representing cumulative foreign direct investment of US\$811 million. The largest Australian investor in the region is BlueScope steel, which has several facilities in Shanghai and a major investment in nearby Suzhou.

Pudong New Area

- 2.49 The Delegation began its Shanghai program with a visit to Pudong and a meeting with Mr Hu Xianxiang, Vice-Chairman of the Standing Committee of the People's Congress of the Pudong New Area. Mr Hu gave the Delegation a comprehensive briefing on Shanghai's recent economic growth and the development of the Pudong New Area.

- 2.50 Pudong lies east of the Huangpu River and Shanghai's central district. Historically it has been largely an agricultural area. In 1990 the central government launched the Pudong Development Zone as a demonstration of its commitment to economic reform, and in 2000 it became a district of Shanghai but with independent jurisdiction.
- 2.51 In the ten years from 1990 to 2000 Pudong grew at an average of 20 per cent per year. In 2004 the growth rate was 16.4 per cent. With a tenth of Shanghai's population and less than a tenth of its land area Pudong now accounts for approximately 25 per cent of Shanghai's GDP.
- 2.52 Mr Hu noted that business costs in Shanghai were relatively high in comparison with other areas of China and commented that there was little advantage for labour intensive industries. The most suitable areas for investment in Shanghai are high-technology industries and finance. The tertiary sector grew from 20 per cent of Shanghai's economy in 1990 to 48 per cent in 2004. Information technology is currently 11 per cent of the city's GDP and finance and insurance 10 per cent.
- 2.53 Mr Hu also told the Delegation that there was a need to balance the remarkable growth of Shanghai with appropriate environmental management and the preservation of some open space. He indicated that there are business opportunities in this area and that Australian involvement would be welcomed.
- 2.54 Delegation members were impressed with the astonishing growth and modernisation that Shanghai has experienced in the last fifteen years. They noted the uneven nature of infrastructure development and the continuing efforts to provide the infrastructure necessary in all areas of the city's economy in order to allow further growth and increasing efficiency and productivity. Members also noted the significant opportunities for Australian companies.

Maglev train

- 2.55 The Delegation travelled to the Maglev Longyang Station. The maglev line connects the Shanghai Metro Line 2 to the Pudong International Airport. The line is 30 kilometres long and the maglev is the world's fastest commercially operating train, averaging 250 kilometres per hour and reaching a maximum speed of 430 kph on its seven minute journey. The Delegation rode the maglev from Longyang Station to Pudong International Airport and returned.
- 2.56 The Shanghai line is the first commercial application of the German maglev technology and cost US\$1.2 billion. It began regular operations in 2004. The high speeds are possible because there is no friction; rather than conventional steel wheels on rails, the maglev train uses electromagnetic

levitation to glide just above the guide rails. Delegation members were impressed with the speed and the smoothness of the ride.

China Textile Resources Corporation

- 2.57 The Delegation was welcomed by Mr Tong Jianfeng, General Manager of China Textile Resources Corporation (CTRC). A representative from BWK Elders Australia, also attended. Mr Tong told the Delegation that CTRC is the largest single buyer of wool in the world and the largest importer of woollen products in China, with 28.3 per cent of import volumes. Its sales revenue in 2004 was US\$330 million. He noted the advantage of low production costs and a very large consumer market. CTRC and Elders cooperate in the promotion and sale of wool products.
- 2.58 Delegation members discussed a range of matters with Mr Tong, including the possible impact of a Free Trade Agreement, cost structures, marketing and quality control. In relation to the increasing competition from cotton and synthetics, it was noted that the proportion of wool in garments is very sensitive to wool prices. It was also noted that ironically, an issue for wool sales is the durability of woollen garments, which therefore don't turn over as quickly as synthetics.
- 2.59 Delegation members found the meeting very useful, particularly as some members had relevant electorate interests or policy experience. As primary producers and manufacturers Australian and Chinese interests understandably have different perspectives and the meeting was a valuable opportunity to explore a range of important issues. Australia exports A\$2.4 billion of wool to China and imports \$2.6 billion of clothing and footwear, a combined total of 17.6 per cent of all merchandise trade between the two countries. The opportunity to discuss aspects of such an important element of bilateral trade was greatly appreciated by the Delegation.

Shanghai Urban Planning Museum

- 2.60 The Delegation was given a guided tour of the Shanghai Urban Planning Museum, which provided an interesting overview of recent and future developments associated with Shanghai's growth as a major economic centre.

First China Property Group

- 2.61 The Delegation met Mr Richard David, Chief Executive Officer of the First China Property Group. Mr David gave the Delegation another perspective on Shanghai's development and outlined the growth of the residential market in recent years. First China is a joint venture between Macquarie Bank and a US property fund. It is the only non-Asian developer of

residential real estate operating in Shanghai and Beijing with local buyers as its target market.

- 2.62 The residential property market has undergone significant change since 1997. Until then the market was overwhelmingly dominated by state owned enterprises acquiring property for staff, who in turn would pay a nominal rent. However, in 1997 the government rescinded this policy, leaving the buying decision to individuals. Quality, location, design and amenities became critical factors in the buying decision as did the purchaser's capacity to pay.
- 2.63 Mr Richard told the Delegation that the average living space in Shanghai had grown from 4.3 square metres per person in 1979 to 11.7 square metres in 2000 and an expected 17 square metres in 2007. Seventy per cent of residents own their home. Demand for consumer goods is increasing and most families have a home computer.

Oriental Pearl Tower and Shanghai City Development Museum

- 2.64 The Delegation visited the Oriental Pearl Tower. Completed in 1995 the tower is 468 metres high and is the highest television tower in Asia and the third highest in the world. It provides spectacular views of Shanghai. In the base of the tower is the Shanghai City Development Museum, which has a comprehensive display of the city's history.

Standing Committee of the Shanghai Municipal People's Congress

- 2.65 The Chairman of the Standing Committee of the Shanghai Municipal People's Congress, Mr Gong Xueping, officially welcomed the Delegation to Shanghai. Mr Gong commented on the city's recent economic development and outlined the role of the Standing Committee. The city is a special municipality under direct control of the central government, giving it the status of a province. In the discussion that followed Delegation members raised a number of issues raised by their meetings during the day. They were able to explore these further with various officials at the subsequent dinner hosted by Mr Gong.

The Bund

- 2.66 The Delegation was given a tour of the HSBC Building on the Bund. Formerly a towpath on the Huangpu river, the Bund gets its name from the Anglo-Indian term for the embankments used to prevent flooding. The Bund began as a British settlement and became a major financial hub of East Asia. It has dozens of historic colonial buildings that once housed banks and trading houses. The HSBC building was the headquarters of the Hong Kong and Shanghai Banking Corporation, which was established in

1865 to finance the growing trade between China and Europe. The present building was completed in 1923.

Shanghai Museum

2.67 The Delegation ended its visit to Shanghai with a tour of the Shanghai Museum. The museum has a collection of more than 120,000 items of historical and cultural significance and one of the world's finest collections of Chinese art. The museum's eleven galleries and three exhibition halls cover most of the major categories of Chinese art and provide a rich record of Chinese civilisation over nearly 4000 years. The Delegation was very impressed with the collection and pleased to note that in the context of Shanghai's rapid development and modernisation there has been a major effort to preserve and display the record of the history of China and the Shanghai region.

Australian business representatives

2.68 Before leaving Shanghai the Delegation met representatives of Australian businesses in Shanghai at a lunch hosted by the Australian Consul General, Mr Sam Gerovich. Representatives of ANZ, BHP Billiton, BlueScope Steel and Elders briefed the Delegation on a range of issues associated with developing business opportunities in China. Delegation members found the briefing very valuable, giving them another perspective on the implications of the economic development of Shanghai and China.

Guilin, 9-10 April

2.69 From Shanghai the Delegation flew to Guilin in southern China. Guilin is a city of 600,000 on the western bank of the Li River in the Guangxi Zhuang Autonomous Region, 520 kilometres north west of Hong Kong. In 1981 the city was listed by the State Council as one of four cities where the protection of historical and cultural heritage, as well as natural scenery, should be treated as a priority project.

2.70 The Delegation was welcomed by Mr Lei Xiping, Chairman of the Standing Committee of the Guilin Municipal People's Congress. At a meeting with the Standing Committee and subsequent dinner hosted by Mr Lei Delegation members had the opportunity to explore issues of interest. Guilin has experienced strong tourism growth in recent years but is also focusing on the development of its agricultural and high technology industries. There are many joint ventures operating in the region.

- 2.71 A major tourist attraction in Guilin and significant contributor to the local economy is the Li River and geological formations. The Delegation travelled by boat to Yangshuo and returned to Guilin by bus.

Xian, 11-12 April

- 2.72 Xian is the capital of Shaanxi province, located in the southern part of the Guanzhong Plain in central China. The city has a population of 3 million and is approximately 1000 kilometres south-west of Beijing. Xian is one of the oldest cities in China. In the city's 3000 year history eleven dynasties placed their capitals there. During the Tang Dynasty (7th-9th centuries) Xian was the largest city in the world and the starting point of the famous Silk Road trading route. Xian is a gateway between the eastern and western regions of China.
- 2.73 The Delegation began its program with a tour of the ancient city wall and Bell Tower. The wall was built in the 14th century, during the Ming Dynasty, and is the most complete city wall that has survived in China. The perimeter of the wall is 13.7 kilometres with a deep moat surrounding it. It stands 12 metres tall, is 12-14 metres wide at the top and 15-18 metres thick at the bottom. The Bell Tower was built in 1384 and marks the geographical centre of the ancient capital. The wooden tower, which is the largest and best-preserved of its kind in China, is 36 metres high.

Standing Committee of the Shaanxi Provincial People's Congress

- 2.74 The Delegation was officially welcomed to Xian by Mr Sui Lintao, First Vice-Chairman of the Standing Committee of the Shaanxi Provincial People's Congress. Shaanxi Province covers an area of 205,000 square kilometres and has a population of around 37 million people. The Shaanxi Provincial People's Congress is the provincial legislature and has 565 deputies. It meets in session once a year. The Standing Committee, comprising 57 members, is the principal governing body of the province and meets once every two months.
- 2.75 Mr Sui explained some of the Standing Committee's priorities for the province, which include its electronics and high technology industries. Education is also a key focus for the region. The provincial government welcomes foreign investment, which is a key component of economic development in the region. Tourism is also a major industry, the province attracting 800,000 foreign and 34 million domestic tourists annually. Delegation members explored these issues further at the subsequent dinner hosted by Mr Sui.

- 2.76 Following the dinner the Delegation attended the Tang Dynasty Show, a performance of Changan music and dances that originated in the Tang Dynasty.

Xian High-tech Industrial Development Zone

- 2.77 The Delegation visited the Xian High-tech Industrial Development Zone (XHTZ) and was briefed on the development and activities of the XHTZ and shown plans for future expansion. The XHTZ is a 34 square kilometre development five kilometres from the centre of Xian. Established in 1991, the XHTZ has ten science and technology parks and is one of 53 national high-tech zones.
- 2.78 The major industries located in the XHTZ are information technology (39 per cent of sales revenue) and optical engineering and biomedical. In 2001 the XHTZ was classified as one of five national demonstration high-tech industrial development zones, and in 2002 the United Nations Industrial Development Organization nominated the XHTZ as one of the six most dynamic industrial areas of China.
- 2.79 Xian has a highly developed education sector, including international schools, and a range of universities, technical colleges and research centres to support industries locating in the XHTZ. Other services and amenities have been developed to a high standard to attract international companies.
- 2.80 Following the briefing the Delegation met Dr Jian Chen, the General Manager of Netec Pty Ltd, an Australian-Chinese joint venture computer software company and discussed issues relating to conducting business in China on a joint venture basis.

Terracotta warriors

- 2.81 The Delegation visited the museum of the terracotta warriors. When Qin Shi Huang, the first Emperor of China, ascended the throne in 246 BC he had work begun on his mausoleum. In 1974 a group of peasants digging a well at the northern foot of Mt. Lishan, 35 kilometres from Xian and 1.5 kilometres east of the Qin Mausoleum, made what was to become one of the greatest archaeological finds of the modern era when they unearthed fragments of a life sized terracotta warrior.
- 2.82 Excavation revealed thousands of warriors and their horses, an entire army designed to follow its emperor into eternity. The terracotta army was found in three underground timber-lined vaults. The Qin Terracotta Army Museum, a hangar-like building constructed over Pit 1, the site of the original discovery, opened in 1979. Pit 2 opened to the public in 1994. The site was included on the UNESCO World Heritage List in 1987 under

four separate criteria, including as 'a masterpiece of human creative genius' and as 'a unique or at least exceptional testimony to a cultural tradition or to a civilization which is living or which has disappeared'.

- 2.83 There is no doubt that the terracotta warriors are one of the exceptional cultural monuments of the world. Excavation and research continues and the site is also a major attraction for tourists. Delegation members were impressed by the steps taken to preserve and study the warriors and also by the quality of the museum.

Beijing, 13-14 April

Meeting with Assistant Minister, Ministry of Commerce

- 2.84 The Delegation met Mr Yi Xiaozhun, Assistant Minister of the Ministry of Commerce. Mr Yi welcomed the Delegation and noted the significant growth in bilateral trade in 2004. Discussion of negotiations for a Free Trade Agreement between Australia and China was a focus of the meeting. China is also in the process of negotiating agreements with Pakistan, Chile and New Zealand and has recently launched a feasibility study for an agreement with India.
- 2.85 Mr Yi commented that an agreement would create a positive climate for two way investment and stated that increased investment into China was one of the benefits China was hoping would come from an agreement. Discussion of restrictions on investment by foreigners, and of the exchange rate followed. Mr Yi noted that restrictions on investment levels remained in only a few areas, including the car industry and life insurance.
- 2.86 Mr Yi noted the possible threat posed by unrestricted trade to customary Chinese practices such as wool growing by minority populations and traditional fishing methods.
- 2.87 In response to a question from the Delegation Mr Yi acknowledged that environmental issues were becoming an increasing concern in China, and also acknowledged the very successful program of Australian assistance with environmental protection.

The Forbidden City

- 2.88 The Delegation was given a brief tour of the Forbidden City. Located at the exact centre of the ancient city of Beijing and covering 74 hectares, it was the imperial palace during the Ming and the Qing dynasties, from 1420 to 1911, and is the world's largest palace complex. It is listed by UNESCO as the largest collection of preserved ancient wooden structures in the world and was declared a World Heritage site in 1987. The

Forbidden City remains a symbol of Chinese sovereignty and the image of its entrance gate appears on the seal of the People's Republic of China. It is one of the most popular tourist attractions in the world.

Lunch hosted by the Delegation

- 2.89 The Delegation hosted a lunch for members of the China-Australia Friendship Group of the National People's Congress, including the Chairman, Mr Zhou Zhengqing and the Vice-Chairman, Mr Jiang Yunbao. The Speaker expressed the Delegation's thanks to Mr Jiang, who had accompanied the Delegation throughout its visit and provided valuable advice and assistance.

Meeting with Vice-Minister, Ministry of Foreign Affairs

- 2.90 The Delegation met Mr Qiao Zonghuai, Vice-Minister of the Ministry of Foreign Affairs. The discussion covered a range of issues, including the proposed Free Trade Agreement, Taiwan, China's relationship with India, the East Asia Summit, human rights, tensions on the Korean peninsula and the United Nations.
- 2.91 Mr Qiao noted Australia's \$50 million of aid to China, which is mainly focussed on rural poverty and health in under-developed areas. There is genuine concern in China about the increasing gap between the living standards of those in the prosperous coastal cities and people living in regional areas, particularly in the west. It is recognised that a significant effort is required to develop China's western provinces.
- 2.92 Mr Qiao also referred to China's environmental problems. Major issues are air and water quality, desertification and salinity. Mr Qiao noted that China has sixteen of the world's twenty most polluted cities.

Meeting with Chairman, National Committee of the Chinese People's Political Consultative Conference

- 2.93 The Delegation met His Excellency Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC). The CPPCC is a political advisory body and holds a yearly meeting at the same time as plenary sessions of the National People's Congress.
- 2.94 Mr Jia spoke about the growth in trade between Australia and China and expressed his expectation of positive outcomes from the meetings between Prime Minister Howard and Chinese leaders about to take place. Other subjects discussed included anti-Japanese protests in China, the recent visit to India by Premier Wen Jiabao and tensions on the Korean peninsula.

- 2.95 One focus of the meeting was Taiwan. Mr Jia noted that tensions across the straits had eased recently but that the situation remains complicated. He expressed his appreciation of Australia's adherence to a one China policy and noted that in March 2005 the Australian Senate had rejected a motion opposing China's anti-secession law. In response, the Speaker expressed the Delegation's hopes for a peaceful resolution of problems between Taiwan and the People's Republic.
- 2.96 In response to questions from Delegation members about challenges facing the Chinese economy Mr Jia listed disparities in urban and regional development, development in eastern and western regions and income distribution as major issues, as well as energy and the environment.

Meeting with Chairman, Standing Committee of the National People's Congress

- 2.97 The Delegation met His Excellency Wu Bangguo, Chairman of the Standing Committee of the National People's Congress. Mr Wu welcomed the Delegation and commented on China's wish to further strengthen the existing good relations between China and Australia. The Delegation and Mr Wu then engaged in a wide-ranging discussion of a number of issues that had been raised during the Delegation's visit. Principal among these was China's economic development, the complementarity of trade between the two nations and the proposed Free Trade Agreement. Other issues discussed included tourism links, Chinese students in Australia, parliamentary visits, the exchange rate, terrorism and regional security, and Taiwan.
- 2.98 In relation to Taiwan Mr Wu noted that the recent anti-secession law was designed largely to facilitate cross-straits relations and expressed regret that attention had focussed so much on those provisions which dealt with last resort measures. He pointed out that there is US\$78 billion of trade across the straits, that there are nearly 4 million cross-straits visits each year and that nearly one million Taiwanese business people and their families live on the mainland.
- 2.99 Mr Wu reiterated the point made in a number of discussions that regional disparities were considerable and presented a major challenge. He noted that west of Xian this was particularly significant. Income gaps were widening as the reform process led to increasing prosperity in only some areas. China's rapid development was also placing pressure on resources and a scientific approach was needed to achieve balanced development. Mr Wu stated that the aim was to realise social harmony and a balance between man and nature as development continued, and that China valued the experience and expertise of other countries.

- 2.100 The Speaker thanked Chairman Wu for the hospitality shown to the Delegation during their visit, and presented him with an invitation from the Australian Parliament for China to send a parliamentary delegation to Australia in the near future. Mr Wu thanked the Speaker, noting his own visit to Australia in 1986 and his forthcoming visit in May 2005. Following the meeting Chairman Wu hosted the Delegation at a dinner in the Great Hall of the People.



The Delegation meeting Chairman Wu Bangguo in the Great Hall of the People

The Great Wall of China

- 2.101 The Delegation travelled to the Badaling section of the Great Wall of China, 70 kilometres north-west of Beijing. Badaling is the best-preserved section of the Great Wall, which extends 3,000 miles across northern China. As early as the 7th century BC rival kingdoms built walls around their territories for self-protection, laying foundations for the present Great Wall. When Qin Shi Huang unified the country in 221 BC the existing walls were linked up and new ones added to counter attacks by the remnants of the defeated states. The undertaking of such a huge project over difficult terrain at that time, without any machinery, was an extraordinary feat. Subsequent dynasties continued to strengthen and extend the Wall. It was declared a World Heritage site in 1987. While on the Wall the Delegation enjoyed meeting a party of students from two Adelaide schools.

Australian Embassy

- 2.102 The Australian Ambassador, Dr Alan Thomas, hosted a lunch for the Delegation at which Delegation members discussed a range of issues with senior embassy staff.

Meeting with Vice-Chairman, Standing Committee of the National People's Congress

- 2.103 The Delegation met Mr Redi, Vice-Chairman of the Standing Committee of the National People's Congress, and discussed a range of issues. Mr Redi emphasised the desire of the People's Republic for peaceful reunification with Taiwan and expressed his appreciation of Australia's one China policy. He noted the assistance being given by Australian companies in the development of Beijing's Olympic facilities and recalled his own visit to the Sydney Olympic facilities. Following the meeting Mr Redi hosted a dinner for the Delegation.

Conclusions

- 2.104 During the course of the visit to China members of the Delegation were impressed by China's long and rich history. More immediately, they were forcefully struck by the enormous strides taken since 1978 in developing the nation. They were also made aware of the challenges which still face the country. The commitment of the government in facing those challenges made a strong impression on Delegation members.
- 2.105 In a very busy program the Delegation had the opportunity to explore a number of important issues in discussions with members of the National People's Congress and national and local officials. Delegation members found these discussions to be instructive and stimulating.
- 2.106 A particular feature noted by the Delegation was the successful transformation of the Chinese economy and its rapid growth in recent years. China has become a vigorous economy with high levels of foreign investment and strong growth. The achievement to date has been remarkable. Continuing reforms, including reform of the financial sector and further development of infrastructure and energy capacity, will consolidate gains and further strengthen the economy.
- 2.107 In relation to energy supply, the Delegation noted that while energy supply constraints put pressure on the sustainability of China's growth they also provide a significant export opportunity for Australia as a reliable energy supplier.
- 2.108 Disparities in development between regions of the country and in the distribution of wealth also remain a concern. Poverty and under-development in rural areas and the western provinces are major

challenges to economic and social stability. Average rural incomes, which twenty years ago were more than half of city incomes, are now less than one third of the US\$1000 per capita average in the cities. The drift of population to the cities is a major issue; the percentage of the population living in cities has doubled to around 40 per cent in the last twenty years and 300 million people are expected to move from rural to urban areas over the next fifteen years. China already has 166 cities with a population of more than one million.

- 2.109 Environmental problems are a major concern which was noted by Chinese officials in a number of meetings. As well as the continuing impact on the environment itself, the World Bank estimates that environmental degradation robs China of up to 12 per cent of its GDP. Australian expertise in managing the environment and responding to problems could provide valuable assistance.
- 2.110 Bilateral trade between Australia and China is expanding rapidly, now worth more than \$30 billion. The Trade and Economic Framework signed in October 2003 will help to consolidate the developments of recent years and facilitate further expansion of trade, to the mutual benefit of Australia and China. The Delegation was made aware of the great opportunities for merchandise trade and for investment and joint ventures in China, both in the resources and services sectors.
- 2.111 There is a mutual friendship and respect between the two countries, and a depth of goodwill, based on the acknowledgement of complementarities and of differences. This goodwill was clearly evident in meetings the Delegation had with a range of officials and NPC members.
- 2.112 During his meeting with the Delegation Chairman Wu Bangguo indicated the desire of the National People's Congress to strengthen and expand the relationship with the Parliament of Australia through a formal program of exchanges. The Speaker noted that the bilateral relationship with China is a very high priority for the Australian Parliament and that there are now regular exchanges of official parliamentary delegations, visits by Presiding Officers and an increasing number of parliamentary visits organised through other channels. At the same time as the Delegation was in China another group from the Australian Parliament, hosted by the International Department of the Central Committee of the Chinese Communist Party, was also visiting. The Speaker agreed to look at opportunities to further increase formal contact.
- 2.113 The Delegation concluded that the aims of the visit had been fulfilled. The Delegation appreciated the opportunity to travel beyond Beijing and Shanghai in order to gain a wider perspective on a range of matters. Delegation members were very appreciative of the hospitality they

received and the warmth of the welcome given to them, not only in the capital but also in Shanghai, Guilin and Xian. Delegation members wish to record their sincere thanks to all those who contributed to the success of the visit. More detailed acknowledgments appear at the beginning of this report.

Bilateral visit to Mongolia

Mongolia at a glance

Official Name	Mongolia
Form of State	Parliamentary Republic
Head of State	H.E. President Natsagiyn Bagabandi (at time of visit) H.E. President Nambaryn Enkhbayar (since 22 May 2005)
Head of Government	Prime Minister Tsakhiagiyn Elbegdorj
National Legislature	State Great Hural, a unicameral assembly, consisting of 76 members, elected to serve four-year terms.
Capital	Ulaanbaatar (population 840,000)
Official Language	Halh Mongol
Population	2.8 million
Area	1.57 million square kilometres
GDP	US\$1.3 billion (2004)
GDP per capita	US\$512
GDP growth	5.6% (2004)
Current Account Balance	US\$42 million deficit (2004)
Inflation	5.0% (2004)
Unemployment	14.2% (2003)



Background

- 3.1 Mongolia is a large landlocked country in central Asia, between Siberia in the north and China in the south. Slightly smaller than Queensland, it comprises about half of the vast inner Asian region known throughout history as Mongolia. It shares land boundaries of 8220 kilometres with China (4677 km) and Russia (3543 km).
- 3.2 Mongolia is one of the highest countries in the world, with an average elevation of 1580 metres. The terrain is one of mountains and rolling plateaus. Overall, the land slopes from the high Altai Mountains of the west and north to plains and depressions in the east and south. The country's rivers drain north to the Arctic Ocean, east to the Pacific or south to the deserts and the depressions of inner Asia. The productive regions are in the north, which is well drained by numerous rivers, including the country's major river system, that of the Selenge-Moron. In the south a large part of the Gobi Desert lies in Mongolia.
- 3.3 Until the twentieth century, most of the peoples who inhabited Mongolia were nomads, and even in the 1980s a substantial proportion of the rural population was essentially nomadic. In recent years there has been an increasing drift towards the capital, which now contains more than a third of the population. Mongols comprise nearly 90 per cent of the population, the rest consisting of Kazakh (5.3 per cent), Chinese (2 per cent), Russian (2 per cent) and other minorities. The predominant religion (96 per cent) is Tibetan Buddhism (Lamaism). The remaining 4 per cent is made up largely of Muslims, primarily in southwest. There are Mongolian minorities in China (3.5 million) and Russia (1 million). Twenty-nine per

cent of the population is under 15 years, 68 percent is between 15 and 64, and 4 per cent is 65 and over.

- 3.4 By the first millennium BC bronze-working peoples lived in Mongolia, and by the eighth century BC nomadic Indo-European, Mongol and other tribes were scattered throughout the area. With the appearance of iron weapons, by the third century BC the inhabitants of Mongolia had begun to form tribal alliances and to threaten China. Nomadic tribes that periodically plundered agriculturally based China from the west are recorded in Chinese history more than 2000 years ago. It was to protect China from these marauding peoples that the Great Wall was constructed in 221 BC.
- 3.5 In 1206 a single Mongolian state was formed based on nomadic tribal groupings under the leadership of Chinggis Khan. Under Chinggis and his immediate successors the Mongols conquered a huge Eurasian empire that stretched from Korea to Hungary and encompassed nearly all of Asia except the Indian subcontinent and parts of south-east Asia. Chinggis created sophisticated military and political organizations. His grandson Kublai Khan, who conquered China and established the Yuan dynasty (1279-1368), gained fame in Europe through the writings of Marco Polo.
- 3.6 The Mongol Empire was the largest contiguous land empire in the history of the world. In their increasingly sophisticated administrative systems, the Mongols employed Chinese, Iranians, Russians, and others. Mongolia and its people have thus had a significant and lasting impact on the historical development of nations such as China and Russia, and have influenced the entire Eurasian continent. After the death of Chinggis Khan the empire was divided into several powerful Mongol states, but these broke apart and Mongolia again became a land of warring nomadic tribes.
- 3.7 The Mongol dynasty in China was overthrown in 1368. The Manchus, a tribal group which conquered China in 1644 and formed the Qing dynasty, were able to bring Mongolia under control in 1691 and it became part of the Manchu Empire. From the late seventeenth century to the early twentieth century Mongolia was a major focus of Russian and Manchu-Chinese rivalry for predominant influence in north-east Asia. In the process, Russia absorbed those portions of historical Mongolia to the west and north of the present Mongolia and China absorbed those regions to the south-west, south and east that are now included in the People's Republic of China. As Chinese power waned in the nineteenth and early twentieth centuries Russian influence in Mongolia grew.
- 3.8 After the fall of the Manchus in 1911 a group of Mongol princes ousted the Manchu governor and proclaimed an independent Mongolia. The new state was reoccupied by the Chinese in 1919. With Soviet help, a

revolutionary government seized power in 1921 and in November 1924 the Mongolian People's Republic was established. The nobility and Buddhist priesthood were dispossessed. The new republic was a satellite of Moscow, and between 1932 and 1945 anti-communist uprisings were suppressed with Soviet help. Stalinist one-party rule by the Mongolian People's Revolutionary Party (MPRP) lasted until 1990. The new People's Republic of China recognised Mongolia in 1949, although relations were strained during the Sino-Soviet tensions of the 1960s.

- 3.9 In 1989 the Mongolian democratic revolution began. After a series of demonstrations calling for political and economic reform free elections held in July 1990 produced a multi-party government, although it was still largely communist. In 1992 a new constitution came into effect and there were elections for a new unicameral legislature, the State Great Hural. In 1993 the first direct presidential election took place and in 1996 the parliamentary elections resulted in the peaceful transition of power from the former communist party to a coalition of democratic parties.
- 3.10 Following a downturn in the economy, Natsagiyn Bagabandi, the MPRP candidate, won a decisive victory in the 1997 presidential elections. From 1998 to 2000, as the impact of Mongolia's transition became apparent and the reform process aroused increasing controversy, there were four prime ministers and a series of cabinet changes. In early 2000 the democratic coalition was dissolved and the elections held in July resulted in victory for the former communist MPRP and the formation of a new government by Prime Minister Nambaryn Enkhbayar. President Bagabandi was re-elected in 2001.

The State Great Hural

- 3.11 Mongolia is governed under the Constitution of 1992. The President, elected directly for four years, is head of state, and the Prime Minister is head of government. Legislative power is vested in the 76-member unicameral parliament, the State Great Hural, which is elected by universal adult suffrage every four years. Following legislative elections, the leader of the majority party or majority coalition is usually elected Prime Minister by the parliament. Cabinet is appointed by the parliament on the recommendation of the Prime Minister.

Recent political developments

- 3.12 The June 2004 parliamentary elections resulted in a hung parliament and two months of political deadlock. In August the MPRP and the Opposition agreed to form a unity government, and Democrat Tsakhiagiyn Elbegdorj

became Prime Minister. He had previously held the office for seven months in 1998.

- 3.13 The transition to democracy and a market economy continues to be difficult, but Mongolia remains committed to the process and retains donor confidence. A key difficulty is the economy, where the transition to a market system has yet to make inroads on poverty and unemployment levels.
- 3.14 In May 2005 Nambaryn Enkhbayar the candidate of the Mongolian People's Revolutionary Party, the former Communist Party, was elected President with 53.4 per cent of the vote. Enkhbayar was Prime Minister from 2000 to 2004.

Economic overview

- 3.15 Until the 1940s the vast majority of Mongolians lived a life of nomadic subsistence agriculture. Since then there has been dramatic growth in education, urbanisation and industrialisation, together with a substantial expansion of arable farming. There are wide disparities in incomes between regions. The southern part of the country, where animal herding is the dominant economic activity and water resources are relatively scarce, has developed more slowly than the north, which has the major industrial complexes and abundant water resources. Many rural communities lack electricity, water and sewerage. Poor road and rail infrastructure and different rail gauges used by China and Mongolia exacerbate transport problems.
- 3.16 Prior to 1990 Mongolia was very heavily subsidised by the Soviet Union, and the collapse of the USSR was a massive shock for Mongolia's centrally planned economy. Production was disrupted, inflation soared and fuel oil and petrol were rationed. In April 1991 the government made an international appeal for emergency food aid. Under the UN Development Program Mongolia obtained loans and grants of approximately US\$200 million per year.
- 3.17 Mongolia faced the post-Cold War world hoping to open its economy and expand ties with developed economies. In 1991 it joined the International Monetary Fund, the World Bank and the Asian Development Bank. Initial steps towards the introduction of economic reforms were cautious and included the introduction of a degree of decentralisation from central ministries. This was followed by price reforms and the gradual privatisation of state-owned enterprises. In 1992, Mongolia opened its first stock exchange.

- 3.18 The hyperinflation of the early 1990s began to come under control in 1994-1995. The government elected in 1996 pursued a much stronger program of reform and austerity. Mongolia joined the World Trade Organisation in 1996 and was admitted as a member of the ASEAN Regional Forum in 1998.
- 3.19 Mongolia's main exports are copper, gold, cashmere products and other animal products. About 80 per cent of the country's land is suitable for nomadic pastoralism; traditional herds include cattle, horses, camels, goats and sheep. Intensive crop cultivation is limited by the short growing season and sharp fluctuations in temperature. Mongolia ranks among Asia's richest countries in terms of volume and variety of mineral resources, though it has yet to establish the viability of developing much of this natural wealth. Mongolia's mineral resources include coal, iron, tin, copper, gold, silver, tungsten, zinc, fluorspar and molybdenum, as well as semi-precious stones.
- 3.20 The Mongolian Government has won international praise for its commitment to economic reform and its success at reining in inflation. The Government appears committed to pushing through with fundamental reforms, particularly further price reform and privatisation. The private sector is increasingly dynamic and over 90 per cent of enterprises are in private hands. Privatisation of larger enterprises still in government hands continues.

Bilateral relations between Australia and Mongolia

- 3.21 Australia's Ambassador to Mongolia is resident in Beijing, as is Mongolia's Ambassador to Australia. Australia established diplomatic relations with Mongolia in 1972. Since the democratic revolution in 1990 there have been several high-level visits in both directions, including reciprocal visits by the Mongolian and Australian foreign ministers in 1993 and 1994. Governor General Bill Hayden visited Mongolia in 1994 and President Ochirbat of Mongolia visited Australia in 1997. The Parliamentary Secretary for Foreign Affairs, Mrs Chris Gallus, visited Mongolia in 2003. In September 2005 Prime Minister John Howard and President Enkhbayar had a meeting at the United Nations World Summit.
- 3.22 Bilateral trade with Mongolia is modest, totalling A\$17 million in 2004, largely comprising the temporary import of exploration equipment by Australian companies operating in Mongolia. There may be some scope for a modest expansion in trade in the areas of telecommunications, building, construction and design and food processing. There are significant investment prospects in mining and infrastructure development as Mongolia moves towards developing its vast mineral resources.

- 3.23 Australia's development assistance program to Mongolia began in 1991 when Australia provided \$300,000 under the United Nations Development Program to support an Agricultural Management Development Project. The goal of the development cooperation program with Mongolia is to strengthen human and institutional capacity for long-term sustainable development and to assist Mongolia's transition to a modern market-based economy. In 2003-2004 development assistance was \$2.9 million.
- 3.24 The program will continue to build the skills base of key government agencies and provide Australian Development and Distance Education Scholarships to develop specialised expertise and qualifications in areas such as public sector financial management, government administration, education and employment policy, social welfare and legal and judicial fields.
- 3.25 The program also funds selected small-scale community and good governance activities. Australia also responds to appeals for emergency assistance. An unprecedented series of drought/winter cycles in recent years has devastated the livelihoods of vulnerable nomadic herders who rely on animals for their survival. Since April 2000, Australia has provided \$550,000 in emergency assistance.



The Delegation on arrival in Mongolia: from left, Peter Slipper MP, Senator Judith Troeth, Luke Hartsuyker MP, Margaret May MP, Speaker David Hawker MP, Senator Nick Bolkus, Senator Linda Kirk

The Delegation's program

3.26 The Delegation was fortunate to have meetings with senior figures in Mongolia's parliament and government: the Chairman of the State Great Hural (now President), the then President, the Prime Minister, the Foreign Minister and the Minister for Trade and Industry. Recurrent topics were the development of Mongolia's mineral resources, capacity building and governance issues, and education. Great importance was attached to Australia's sponsorship of Mongolian students in Australian universities, and the contribution that returning graduates had made.

Ulaanbaatar, 15-19 April

Meeting with Chairman of the State Great Hural

3.27 The Chairman of the State Great Hural, His Excellency Nambaryn Enkhbayar, welcomed the Delegation. As a Member of the State Great Hural since 1992, a Cabinet Minister 1992-1996, Prime Minister 2000-2004 and Chairman of the State Great Hural since 2004 Mr Enkhbayar was well placed to brief the Delegation on Mongolia's transition to democracy and the challenges still facing it.

3.28 Mr Enkhbayar thanked Australia for its support during Mongolia's transition to parliamentary democracy and a market economy. He and the Delegation discussed a number of issues associated with the transition, including administrative reform within government bureaucracy and tax reform. As reforms have been introduced there has been a degree of economic hardship for some. Poverty and unemployment are issues that need to be addressed if the reforms are to win general acceptance.

3.29 Mr Enkhbayar referred to the potential for mineral development in Mongolia and the economic benefits which could result. He noted the value of involving a range of international companies and said that Chinese and Japanese companies, as well as Australian companies, have expressed interest in the relevant opportunities. However, he also expressed concern at the environmental problems facing the country and the need for sensitive development.

3.30 The Chairman also referred to the reform of Mongolia's school system, which had previously been modelled on the Soviet system of ten classes but had since been changed to eleven classes, with consideration of moving to twelve. Mr Enkhbayar told the Delegation that Mongolia was a generally well educated country, and that there were 130,000 students studying at a large number of universities and colleges, but that there was a pressing need for consistent standards in those institutions and for more

technical graduates and more vocational education. He also emphasised the importance of English language teaching.

- 3.31 The Speaker, Mr Hawker, acknowledged the difficulties facing Mongolia in its reform process and expressed the Delegation's support for the efforts of the Mongolian people in working through the problems associated with the transition to a market economy. He noted Australia's sponsorship of a number of Mongolian students studying in Australia. He also spoke of the positive approach of Australian mining companies and their very high standard of environmental management.
- 3.32 In May 2005, shortly after the Delegation's visit, Mr Enkhbayar was elected President of Mongolia. Delegation members are very appreciative of Mr Enkhbayar taking time from his election campaign to meet the Delegation. Delegation members congratulate him on his election victory and wish him well for his term as President.

Meeting with President of Mongolia

- 3.33 The Delegation was welcomed by the President, His Excellency Natsagiyn Bagabandi. In welcoming the Speaker, Mr Hawker, the President noted that in 1992 after the first elections under the new Constitution he had been the first Chairman of the new assembly, the State Great Hural. The President thanked Australia for its support during the years of transition and spoke of the importance of working in international parliamentary forums, noting that Mongolia and Australia could work together on issues of regional stability.
- 3.34 The President spoke of the enormous potential of Mongolia's coal and other mineral deposits and welcomed the interest of Australian companies in helping to develop those resources. He also cited the textile industry as another area where Australian expertise would be useful; cashmere is a major Mongolian export. The President noted the value of the educational links between Mongolia and Australia.
- 3.35 The President thanked Australia for its support in reintroducing the Przewalski horse into the wild in Mongolia. The Przewalski horse is the only surviving genuine wild horse in the world but became extinct in the wild in the 1960s. In June 1995, five mares from Western Plains Zoo in New South Wales, along with others from Australia and Europe, were reintroduced to Mongolia.

Gobi cashmere factory

- 3.36 The delegation visited the Gobi Corporation's cashmere factory. Cashmere is an important industry for Mongolia. It produces about 3000 tons of raw cashmere each year, from 13 million goats, approximately 20 per cent of

the total raw cashmere of the world. It is the second largest producer after China, which produces 10,000 tons.

- 3.37 Cashmere provides important cash income to herders, accounting for nearly 20 per cent of agricultural gross domestic product. Processing firms provide urban income by processing raw cashmere and manufacturing clothing and textiles for export to the luxury clothing market. Altogether, the three stages of production, processing, and manufacture account for about 15 per cent of Mongolia's gross domestic product.
- 3.38 Cashmere wool comes from the downy undercoat that grows on goats from midsummer to winter. The long hair on goats protects the cashmere down from the elements. It is removed each spring by shearing or gradual combing of the goats hair. Goats produce about three to eight ounces of cashmere per year.
- 3.39 In the years following the collapse of communist rule, Mongolia's new governments looked to cashmere as a big earner of foreign currency. In 1994 the government, hoping to encourage the development of a cashmere processing industry, banned the export of raw cashmere. Mongolian processors and manufacturers did well during the period of the ban and foreign investment expanded the industry. In 1996 the ban was lifted at the urging of the Asian Development Bank and other international aid and lending institutions. Much of the raw cashmere in Mongolia is now exported to China.
- 3.40 The primary Gobi production facility has an annual processing and production capacity of 1000 tons of raw cashmere, 200 tons of raw camel wool and 40 tons of yak or sheep wool. Delegation members were impressed by the quality of the products made from the factory's cashmere but noted the need for modernisation of the equipment used to process the raw cashmere.

Dinner hosted by Chairman of the State Great Hural

- 3.41 The Chairman of the State Great Hural hosted a dinner for the Delegation. The Speaker thanked the Chairman for the hospitality of the State Great Hural in hosting the Delegation's visit and presented him with an invitation from the Australian Parliament for Mongolia to send a parliamentary delegation to Australia in the near future.

Tour of Gandantegchilen Monastery

- 3.42 The Delegation was given a tour of the Gandantegchilen Monastery by the Deputy Abbot, Yo Amgalan. Mongolia is an important centre of Buddhism and the monastery is the centre of Buddhism in the country. Buddhism first gained influence with the Mongols after Chinggis Khan

conquered Tibet at the beginning of the 13th century. In 1578 Altan Khan invited the head of the rising Yellow Sect of Tibetan Buddhism to a summit. Altan gave the Tibetan leader the title of Dalai Lama, which his successors still hold. Within a short period almost all of the Mongolian nobility was converted.

- 3.43 At the beginning of the twentieth century there were hundreds of monasteries and temple complexes, and monks made up about one-third of the male population. Yihe Huree, as Ulaanbaatar was then known, was the seat of the pre-eminent living Buddha of Mongolia, the Jebtsundamba Khutuktu, who ranked third in the ecclesiastical hierarchy, after the Dalai Lama and the Panchen Lama. With the end of Chinese rule in 1911, the Buddhist church and its clergy provided the only political structure available, and the newly independent state thus took the form of a weakly centralized theocracy, headed by the Jebtsundamba Khutuktu.
- 3.44 When the revolutionary government took power in 1921 it began a program of curtailing Buddhist influence. During the 1930s all religious activities were banned. All but six monasteries in the country were destroyed. Monks were executed, jailed and disrobed all over Mongolia. By 1938, following ruthless purges, Buddhism in Mongolia was practically eliminated.
- 3.45 The first temple of Gandantegchilen Monastery was established in 1835 and became the centre of Buddhist learning in Mongolia. Many prominent Buddhist scholars in Mongolia as well as in Buddhist world were educated and trained by its various colleges and their works became the most authoritative and accurate Buddhist texts. The monastery was closed in 1938 and reopened in 1944 as the only functioning monastery in Mongolia.
- 3.46 Following the democratic revolution in 1990, with the support of the Mongolian people the few remaining monasteries re-opened and new temples were built. 140 monasteries and temples have been re-established and Gandantegchilen Monastery has again become a centre of Buddhist teaching. Currently it has over 400 monks, three temples for Buddhist services, a Mongolian Buddhist University and a number of colleges. Students from all over Mongolia and the rest of the world study in the university.
- 3.47 The Deputy Abbot briefed the Delegation on the activities of the monastery and the resurgence of Buddhist activity in Mongolia in recent years. The Delegation was impressed by dedication and commitment of the monks and by the range and scale of activities sponsored by the monastery. Members were pleased to note that freedom of worship had led to the reinvigoration of Buddhism in the country.

Meeting with Prime Minister of Mongolia

- 3.48 The Prime Minister, Mr Tsakhiagiyn Elbegdorj, welcomed the Delegation. Mr Elbegdorj spoke of the challenges in forming a government following the 2004 elections, which had resulted in the MPRP and the Democratic Coalition winning an equal number of seats.
- 3.49 Delegation members and the Prime Minister discussed the possibility of Australian involvement in developing Mongolia's mineral resources. The Prime Minister spoke of the favourable political and economic conditions for foreign investment in the mining industry and said that the Government wanted to see a long-term commitment from project partners.
- 3.50 The Prime Minister referred to the importance of education in Mongolia's development and the benefit that the Education Ministry was receiving from the capacity building program sponsored by the Australian Government. Priorities for education include English language teaching and IT.
- 3.51 Other issues discussed included privatisation and the funding of infrastructure development, reform of the bureaucracy and the legal system. The Prime Minister noted that after seventy years of a centrally planned economy major changes were necessary and the impact on the community could be very significant. He said that for political parties it was a challenge to support the necessary reforms without jeopardising their political support, but that after fifteen years of political tussle the national benefit required a common approach.

Mini Naadam Festival

- 3.52 The Vice-Chairman of the State Great Hural, Mr Danzan Lundejantsan, hosted the Delegation at a lunch and mini-Naadam festival. The Nadaam festival, or *eriyn gurvan nadaam*, is the biggest festival of the year for Mongolians. The festival's name invokes the 'three manly sports'. It runs for three days in July in all parts of the country and consists of competitions in horse racing, archery, and wrestling, Mongolia's most popular sports. Women participate in archery and horse racing. Delegation members enjoyed the exhibition of traditional Mongolian sports.

Visit to Terelj Resort

- 3.53 The Delegation travelled to Terelj Resort in the Gorkhi Terelj National Park, 80 kilometres north-east of Ulaanbaatar. The park lies on the edge of the Khentii mountains where Genghis Khan was born and is the most popular destination and the third largest protected area in Mongolia.

There is significant potential for tourist development in the region but also a need for appropriate infrastructure development. The number of tourists visiting Mongolia increased by 25 per cent in 2004, and development of suitable infrastructure and services is increasingly necessary to exploit the potential for continuing growth in the industry.

Meeting with nomad family

- 3.54 While at Terelj the Delegation visited the camp of a nomadic family. A geographical characteristic of Mongolia that has shaped its economy and culture is the steppe, the vast grassland zone which, in spite of adverse climatic conditions, has made the country particularly apt for extensive animal husbandry. Nomadic pastoralism has been the Mongolian way of life and main economic activity for centuries. About 40 percent of the population continue to live a traditional nomadic pastoral lifestyle today, tending 30 million livestock. Traditional herds include cattle, horses, camels, goats and sheep.
- 3.55 By the early 1950s animal husbandry was still the main economic activity of most of Mongolia's population. In spite of the collectivization of agriculture which occurred at that time, important features of production in the pastoral economy varied little from the past: herding remained pastoral and nomadic and groups of one to three families formed the basic stock-breeding unit.
- 3.56 In a strict sense, Mongolian herders are semi-nomads: they practise only small-scale movements with reference to a permanent settlement and within an established area. Even before collectivisation, nomadic movements were not made over large distances. However, movements also include the transport of the dwelling unit. In order to cope with the harsh steppe environment Mongolians have developed simple but effective technologies over the centuries. Transportable shelters are essential to a nomadic, pastoral way of life and in the freezing cold of Mongolia are a matter of survival. The Mongolian gerh, or yurt, is superbly adapted to this. It is a demountable, portable round tent, usually made of felt, which can accommodate a family of four to eight members.
- 3.57 In spite of being a geographically large country with vast pasturelands, the carrying capacity of the Mongolian steppe is limited. Even a modest increase in the size of the national herd may exceed the carrying capacity of the grasslands and cause significant ecological degradation.
- 3.58 The Delegation welcomed the opportunity to meet the family and to discuss aspects of the nomadic lifestyle, including the logistics of moving their settlement, changes over the years and educational facilities for children.

Tour of the Museum of Mongolian Natural History

- 3.59 On return to Ulaanbaatar the Delegation was given a tour of the Museum of Mongolian Natural History. The museum covers the geology, zoology, botany, anthropology and palaeontology of Mongolia. The palaeontology exhibits include dinosaur skeletons and eggs unearthed in Mongolia. Some of the world's most important discoveries of dinosaur fossils have been made in Mongolia.

Mongolian traditional song and dance ensemble

- 3.60 The Delegation attended a concert of traditional Mongolian song and dance. The concert included a performance of Mongolian throat singing. Throat singing is a vocal art that allows a singer to sing simultaneously with up to six voices. A rich throat singing tradition survives in western Mongolia and southern Siberia. Throat singers constrain the part of throat called false vocal chords and vary the shape of their pharynx and tongue to produce overtones of various kinds. As a result a number of distinct tones can be heard. As the fundamental tone remains constant, melodies are sung with the highest overtone, resembling the sound of a flute.

Meeting with Minister for Foreign Affairs

- 3.61 The Minister for Foreign Affairs, Mr Tsend Munkh-Orgil, welcomed the Delegation and provided a comprehensive briefing on a range of foreign policy issues. He noted that in recent years Mongolia's foreign policy focus had shifted from Europe, to which it had been drawn by its association with the former Soviet Union, to a greater identification with the Asia-Pacific region. The Minister noted that 2006 would mark 800 years of Mongolian statehood, and that Mongolia understood the need for good relations with its giant neighbours Russia and China. Today it had good relations with both countries and with other neighbours such as North and South Korea and the central Asian republics.
- 3.62 The Delegation discussed a range of matters with Mr Munkh-Orgil, including regional stability issues, the opportunity for international participation in Mongolia's economy and development assistance. In relation to the latter, Mr Munkh-Orgil returned to a theme of the Delegation's meetings with Mongolian leaders – that Mongolia needs assistance in human resources and capacity development, and that Australian expertise is highly valued. The Australian Development and Distance Education Scholarships provided under Australia's aid program are seen as particularly valuable, and capacity building of that kind as the best assistance that Australia can give. The Minister said that he would like to see that assistance expanded to include skills in policy development and analysis, and legal and economic expertise.

- 3.63 The Minister noted Mongolia's commitment of troops to Iraq, both to support the effort to rebuild Iraq and as a response to the support given to Mongolia by the international community in the years of transition after 1990, particularly by the United States and Japan.
- 3.64 Delegation members and the Foreign Minister discussed the recent rapid growth of the Chinese economy and its implications for Mongolia. The growing Chinese demand for reliable energy supplies offers significant opportunities for Mongolia in the development of its coal resources. Australia is well placed to provide technical expertise in the development of the Mongolian mining industry and to assist in infrastructure development, but Australian companies are not alone in pursuing the opportunities available and need to be prepared to make a long-term commitment.
- 3.65 The Delegation was grateful for the opportunity to have such a frank and comprehensive discussion with the Minister of major issues of interest to both countries.

Meeting with Mongolia-Australia Parliamentary Group and Mongolian-Australian Friendship Association

- 3.66 The Delegation met the Mongolia-Australia Parliamentary Group of the State Great Hural. The Head of the Group, Mr Nyamaa Enkhbold, welcomed Delegation members and said that the Mongolia-Australia Parliamentary Group had started in the 1990-1992 parliament, the first freely elected parliament. He said that group members and members of the State Great Hural generally were very enthusiastic about expanding the good relations between Mongolia and Australia.
- 3.67 Members of the Delegation and the Parliamentary Group discussed a range of possible means by which the two parliaments could strengthen ties, and the Australian Parliament provide assistance to the State Great Hural, including in the areas of parliamentary committees and parliamentary education. The Delegation was told that the State Great Hural has a program of parliamentary education and that civics is taught in schools but that both programs need to be further developed.
- 3.68 In August 2005, as a result of the Delegation's visit and the meeting with the Mongolia-Australia Parliamentary Group of the State Great Hural, the Australia-Mongolia Parliamentary Group was formed in the Australian Parliament.
- 3.69 Members of the Mongolian-Australian Friendship Association joined the Delegation and the Mongolia-Australia Parliamentary Group. The Friendship Association includes Mongolians who have studied in Australia, and are known as 'Maussies', a term in which they take great

pride. Many of them have significant positions in government administration and are using skills and knowledge gained in their Australian studies to contribute to the development of Mongolian institutions and policy. The 'Maussies' expressed great enthusiasm for the Australian Development and Distance Education Scholarships provided under Australia's aid program, and supported the comments made in a number of meetings in relation to the value of the program. They urged that the number of scholarships be increased.

- 3.70 The current scheme has been running since 1998 and has supported 54 students. A further 29 students were supported from 1995 to 1997 under previous schemes. Eight Australian universities are currently involved and 26 students are undertaking courses that include public administration, commerce, law, business administration, education, environmental management and development studies.

Meeting with Minister for Industry and Trade

- 3.71 The Minister for Industry and Trade, Mr Sukhbaatar Batbold, welcomed the Delegation. Mr Batbold and senior officials of his department gave the Delegation a briefing on a range of issues, principally in relation to the development of southern Mongolia's mineral resources. A number of major development projects are under way or being planned and there is an inter-departmental working group guiding the strategic development of the southern Gobi region. The government is hoping that a range of international companies will assist in the development of the region and is involved in discussions with possible investors.
- 3.72 Development of the south Gobi coal, copper and gold resources will be a major element of the expanding Mongolian economy. There is a favourable climate for foreign investment and the government is seeking stability agreements with companies to ensure long-term commitments. It also wants companies to help develop infrastructure such as roads, railways and power plants. The southern region of Mongolia is one of the poorest areas of the country; it is underdeveloped and lacks physical and social infrastructure. Any development should lead to local value adding, sustainable water resources and the prevention of environmental degradation.
- 3.73 South Gobi holds a deposit of 6 billion tonnes of metallurgical and thermal coal, known as Tavan Tolgoi, and a copper and gold deposit known as Oyu Tolgoi, possibly the world's largest copper deposit. These deposits, worth more than US\$385 billion, could produce more than \$1 billion of minerals per year. They are controlled by a Canadian company, Ivanhoe Mines. Ivanhoe is exploring the potential for the joint development of the two projects, which would produce a number of long-term benefits for the

region, including roads, railways, reliable power and water supplies and border access to Chinese markets.

- 3.74 Tavan Tolgoi has the potential to supply thermal coal to generate electricity for local minerals processing and for supply to Ulanbaataar, 400 kilometres north, and to China. It also has the potential to develop into a major supplier of metallurgical coal that could be processed at the site and transported to steel mills in China. The deposit is within 150 kilometres of Mongolia's border with China. As the world's largest consumer of metallurgical and thermal coal, and largest steel producer, China's expanding economy provides significant opportunities for Mongolia. Energy consumption in China is also soaring and there is high demand for electrical power.
- 3.75 In May 2005 Ivanhoe Mines announced a joint-venture partnership with BHP Billiton to use BHP Billiton's proprietary airborne gravity gradiometer system to explore approximately 28,000 square kilometres of Ivanhoe's non-core exploration ground in southern Mongolia. The new joint-venture, called the Falcon Gobi Project, provides BHP Billiton the right to earn up to 50 per cent of all minerals found on the project, other than coal, by spending US\$8 million in exploration costs. BHP Billiton is exploring other opportunities in the region.
- 3.76 The Minister also referred to the growth potential of the tourism industry but said that development of appropriate infrastructure and promotion was needed. More than 200,000 foreign tourists visit Mongolia each year, nearly half of them from China. They bring in US\$150 million. Australia provides 1.1 per cent of tourists to Mongolia. Adventure tourism currently constitutes 11 per cent of the tourist market but has great potential for further development. The Delegation later met an Australian, Graham Taylor, who runs an adventure tour business in Mongolia.
- 3.77 As had a number of his colleagues, the Minister referred to the need for international assistance in capacity building and policy development. One of the areas in which Mongolia is seeking to develop expertise is the analysis and evaluation of major infrastructure projects, and the associated policy development. Australia has a high level of the relevant expertise in both the private and public sector and is well placed to provide such assistance.

Targeted Capacity Building and Small Activity Facility program

- 3.78 The Delegation was briefed by locally contracted AusAID staff on the Targeted Capacity Building and Small Activities Facility. The program was launched by AusAID in August 2003. The then Parliamentary Secretary for Foreign Affairs, Mrs Chris Gallus, visited Mongolia in

September 2003 and signed a Memorandum of Understanding in relation to the program. Australia will contribute \$5.8 million over two and a half years.

- 3.79 The goal of the facility is to contribute to poverty alleviation by strengthening the human resource capacity of Mongolian Government agencies to implement their government's Action Program in priority areas of good governance reform and by supporting community development activities.
- 3.80 The facility provides targeted Australian Development and Distance Education Scholarships and capacity building in support of Mongolian government agencies' human resource development programs. In addition, the Facility provides funding for small-scale community and good governance activities.
- 3.81 The Delegation then visited an English language training project and two small community development projects.

Dinner hosted by the Delegation

- 3.82 The Delegation hosted a very successful reciprocal dinner to thank the Mongolian parliament for its hospitality. A number of members of the State Great Hural, led by the Vice-Chairman, Mr Danzan Lundeejantsan, attended, as well as representatives of the Mongolian-Australian Friendship Association and representatives of the Australian business community in Mongolia.

Australian Youth Ambassadors

- 3.83 Among those invited to the dinner hosted by the Delegation were four Australian Youth Ambassadors just beginning their year of volunteer work in Mongolia, whom the Delegation had met by chance on the flight from Beijing to Ulaanbaatar. Daniela Gavshon, David Green, Joanna Harrison and Bradley Hiller are working in the fields of human rights, community and youth development, communications and land resources.
- 3.84 The Australian Youth Ambassadors for Development Program is funded through AusAID. It aims to strengthen mutual understanding between Australia and countries of the Asia-Pacific region and to make a positive contribution to development. The program places skilled Australians aged eighteen to thirty on assignments relevant to their skills and qualifications in developing countries.
- 3.85 Youth Ambassadors work with Australian organisations and their overseas counterparts in a broad range of areas that include health, the environment, rural development, gender, governance, justice, education and infrastructure development. They use their skills and expertise to

contribute to international development, gain an increased understanding of the development needs of our neighbouring countries and broaden their experience by living and working in a cross-cultural environment.

- 3.86 Delegation members were very impressed by these four young Australians. Their skills, enthusiasm and commitment will make an important contribution to their host organisations, and their engaging personalities will win friends in Mongolia for themselves and for Australia. Since returning from Mongolia the Delegation has had positive reports of their initial experiences and wishes them well for the future.

Farewell and press conference

- 3.87 The Delegation had a farewell meeting with the Vice-Chairman of the State Great Hural, Mr Danzan Lundeejantsan. The Speaker, Mr Hawker, thanked the Vice-Chairman again for the hospitality of the State Great Hural and for the genuine warmth with which Delegation members had been received. He expressed appreciation for the access the Delegation had been given to senior members of the State Great Hural and the Mongolian Government and noted the value of the briefings the Delegation had received. Following the meeting the Speaker and the Vice-Chairman gave a joint press conference.

Tour of the National Museum of Mongolian History

- 3.88 Delegation members were given a tour of the National Museum of Mongolian History. The museum presents Mongolian history and culture from the time of early humans to the present day. A special gallery exhibits the clothing and accessories of Mongolia's different ethnic groups.

Visit to orphanage

- 3.89 In response to interest expressed by Delegation members a visit was arranged to the Lotus Children's Centre, an orphanage in one of the poorer areas of Ulaanbaatar. The orphanage is run by an Australian, Didi Kalika, who came to Mongolia twelve years ago. Initially, she started helping street children in Ulaanbaatar, leading eventually to the establishment of the orphanage, which cares for 120 children from newborn infants to 18 year-olds.
- 3.90 The orphanage is supported by the Direct Aid Program, a flexible, small grants scheme for development assistance activities addressing humanitarian hardship, administered by the Australian Embassy in Beijing. The Embassy has had a long association with the orphanage. In 1997 the Australian Government, through AusAID provided a grant of US\$50,000 from the Small Activities Scheme to fund the construction of the orphanage's main building.

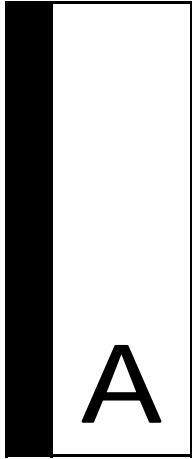
- 3.91 Since then, the Embassy's staff and families have 'adopted' the orphanage, regularly donating clothing and toys for the children and collecting money to support the orphanage's operation. Children of Embassy staff have visited the orphanage and family members have volunteered to help with painting and repairs.

Conclusions

- 3.92 During the course of the visit to Mongolia Delegation members were impressed by the enormous strides taken since 1990 in rebuilding the nation politically, socially and economically, and by the resilience and enthusiasm of the Mongolian people in the face of the significant challenges of the last fifteen years.
- 3.93 In particular, the Delegation noted the transformation of the Mongolian economy. A flagging, centrally planned system has undergone major reforms and is developing as a vigorous, free market economy. While certain structural weaknesses remain, and while a great deal of work still needs to be done, the achievement to date has been remarkable. Continuing reforms will further develop and strengthen the economy.
- 3.94 Although significant challenges still face the country, there are many positive opportunities for growth and development. Among these are the potential benefits to be derived from the development of the vast mineral deposits of southern Mongolia. International participation in the exploitation of these resources will bring investment, expertise and much needed infrastructure development. The Delegation noted the very considerable opportunities for Australian companies to participate in the extraction of the minerals and in the associated infrastructure development and value-adding processes.
- 3.95 A recurring theme of the Delegation's meetings with senior members of the Mongolian Government was the need for capacity development, for the building of knowledge and expertise to fuel continuing reforms and effective management. This is particularly true in the public sector, which has already seen important reforms but which is still in the process of significant restructuring. Australian assistance is focussing on this area. The Australian Development and Distance Education Scholarships were singled out for positive comment in a number of meetings.
- 3.96 Other areas, however, reflect the same need for development of expertise, as well as infrastructure. Mining and tourism are good examples. Both are areas where Australia has highly developed and efficient industries, and there is considerable scope for Australian involvement for the mutual benefit of both countries.

- 3.97 The Delegation noted that the success of the Government in reforming the economy had not been without some social cost. Reform of the public sector and privatisation of state enterprises has caused hardship for some. Poverty is an issue which needs to be addressed in building a stable society, something which was acknowledged by Mongolian officials. Disparities in development between regions of the country also remain a concern.
- 3.98 The Delegation concluded that the aims of the visit had been fulfilled. Delegation members were very appreciative of the warmth of the welcome given to them and wish to record their sincere thanks to all who contributed to the success of the visit. More detailed acknowledgments appear at the beginning of this report.

David Hawker MP
Speaker
Leader of the Delegation



Appendix A

Delegation Program 7-19 April 2005

Thursday 7 April – Shanghai

2125 Arrival at Shanghai Pudong International Airport

Friday 8 April – Shanghai

0900 Meeting with Mr Hu Xianxiong, Vice-Chairman of the Standing Committee of the People's Congress of the Pudong New Area

1020 Round-trip travel on Maglev train

1110 Meeting with Mr Tong Jianfeng, General Manager, China Textile Resources Pudong Limited

1400 Tour of Shanghai Urban Planning Museum

1445 Meeting with Mr Richard David, CEO, First China Property Group

1705 Tour of Oriental Pearl TV Tower and Shanghai City History Development Museum

1800 Meeting with Mr Gong Xueping, Chairman of the Standing Committee, Shanghai Municipal People's Congress

1830 Dinner hosted by Mr Gong Xueping

2020 Tour of Xintiandi

Saturday 9 April – Shanghai, Guilin

1000 Brief tour of the Bund and former HSBC building

1040 Tour of Shanghai Museum

- 1200 Lunch hosted by Mr Sam Gerovich, Consul General of Australia
- 1450 Departure from Shanghai for Guilin, Guangxi Zhuang Autonomous Region
- 1710 Arrival in Guilin
- 1900 Meeting with Mr Lei Xiping, Chairman of the Standing Committee of the Guilin Municipal People's Congress
- 1930 Dinner hosted by Mr Lei Xiping

Sunday 10 April – Guilin

- 0930 Boat trip to Yangshuo
- 1330 Arrival at Yangshuo
- 1430 Return to Guilin by bus
- 1500 Tour of the Reed Flute Cave

Monday 11 April – Xian

- 1125 Departure from Guilin for Xian, Shaanxi Province
- 1315 Arrival at Xian
- 1500 Tour of the southern section of the ancient city wall
- 1605 Tour of the Bell Tower
- 1800 Meeting with Mr Sui Lintao, First Vice-Chairman of the Standing Committee of the Shaanxi Provincial People's Congress
- 1830 Dinner hosted by Mr Sui Lintao
- 2000 Tang Dynasty Show at Tangyuegong Theatre

Tuesday 12 April – Xian, Beijing

- 0915 Tour of the Xian New and High-tech Development Zone
- 1330 Tour of the Museum of Terra-Cotta Warriors and Horses
- 1620 Departure from Xian for Beijing
- 1750 Arrival in Beijing
- 1900 Embassy briefing

Wednesday 13 April – Beijing

- 0900 Meeting with Mr Yi Xiaozhun, Assistant Minister of the Ministry of Commerce
- 0950 Tour of the Forbidden City
- 1215 Return hospitality function hosted by the Delegation
- 1430 Meeting with Mr Qiao Zonghuai, Vice-Minister of the Ministry of Foreign Affairs
- 1600 Meeting with HE Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference
- 1700 Meeting with HE Wu Bangguo, Chairman of the Standing Committee of the National People's Congress
- 1800 Dinner hosted by HE Wu Bangguo

Thursday 14 April – Beijing

- 1000 Tour of Great Wall Badaling Section
- 1230 Lunch hosted by HE Dr Alan Thomas, Australian Ambassador to China
- 1730 Meeting with Mr Redi, Vice-Chairman of the Standing Committee of the National People's Congress
- 1800 Dinner hosted by Mr Redi

Friday 15 April – Ulaanbaatar

- 0900 Departure from Beijing for Ulaanbaatar
- 1215 Arrival in Ulaanbaatar
- 1530 Meeting with HE Nambaryn Enkhbayar, Chairman of the State Great Hural
- 1610 Viewing of the Session Hall, State Great Hural
- 1630 Meeting with HE Natsagiyn Bagabandi, President of Mongolia
- 1715 Tour of Gobi Corporation cashmere factory
- 1900 Dinner hosted by HE Nambaryn Enkhbayar

Saturday 16 April – Ulaanbaatar, Terelj

- 0940 Visit to the Gandantegchilen Monastery
- 1100 Meeting with HE Mr Ts. Elbegdorj, Prime Minister of Mongolia

1300 Lunch hosted by Mr D. Lundeejantsan, Vice-Chairman of the State Great Hural, and Mrs. D. Oyuntsetseg

1400 Mini Naadam Festival

1610 Departure for Terelj, overnight at the Terelj Resort

Sunday 17 April – Terelj, Ulaanbaatar

1000 Visit local nomad family

1100 Departure for Ulaanbaatar

1500 Tour of the Museum of Mongolian Natural History

2000 Concert of Mongolian traditional song and dance

Monday 18 April – Ulaanbaatar

0930 Meeting with Mr Ts. Munkh-Orgil, Minister for Foreign Affairs

1010 Meeting with Mongolia-Australia Parliamentary Group members of the State Great Hural

1100 Meeting with the Mongolian-Australian Friendship Association and representatives of alumnae from Australian universities

1145 Meeting with Mr S. Batbold, Minister for Industry and Trade

1430 Meeting with staff of Targeted Capacity Building and Small Activities Facility

1600 Visit to small aid projects supported by Targeted Capacity Building and Small Activities Facility

1900 Return hospitality function hosted by the Delegation

Tuesday 19 April – Ulaanbaatar

1000 Farewell meeting with Mr D. Lundeejantsan, Vice-Chairman of the State Great Hural

1020 Press conference by Mr D. Lundeejantsan and Hon David Hawker

1300 Tour of the National Museum of Mongolian History

1500 Visit to Lotus Children's Centre orphanage

2400 Departure from Ulaanbaatar