

Australian businesses need to be more China-savvy in interpreting changes in government regulations, such as the recently introduced “e-commerce” laws. These laws are not so much a “crackdown”, as closing a loop-hole in regulation by applying import duties to goods shipped through free-trade areas.

The laws affect one of Prime Minister Malcolm Turnbull’s key beneficiaries from the recent [China-Australia Free Trade Agreement](#): services firms that use the internet. These “agile” firms are exactly the kinds of enterprises that Turnbull wants to encourage. So there is likely to be some pressure on Turnbull to raise these new regulations in his meetings with Chinese leaders.

But Turnbull will be unable to do anything about the regulations. The major decisions were made months ago, and can only be overturned by Chinese President Xi Jinping. Moreover, the new regulations are likely to affect other countries more than Australia.

The description of the new rules as “e-commerce” laws is not quite right. Firstly, they are not laws, they are regulations. Secondly, the new regulations are actually the application of duties that were previously waived or reduced for goods that went through China’s free-trade areas.

Australia, while a major trader through free-trade areas, is not the biggest. The most imported products are clothes, bags, and shoes, which mainly come from countries other than Australia.

As of 8 April, goods that are bought and sold online through the free-trade areas will be subject to new duties. Some food and drug suppliers, such as milk powder providers, will also need to have their products licensed or re-licensed by China’s food and drug regulators. Many Chinese e-commerce or duty-free services firms, unsure about how the regulations will be applied, removed products that on which the future duties to be applied were unclear (such as milk powder) from their metaphorical online shelves.

Australia’s strong reaction to this makes sense in some ways — milk powder and vitamins are popular products sold online in China. Australian firms and services providers have been keen to take advantage of the massive Chinese market for high-end, reliable, clean food and herbal

products. This market will only grow as China's middle- and upper-class consumption spending grows.

Affected Australian businesses are sanguine about the changes. Murray Goulburn, a major dairy co-operative, for example, didn't expect the new regulations to change its overall business, and said that they had anticipated the new rules ["for some time"](#).

Murray Goulburn has a point – the new regulations are just the latest in a series of measures aimed at regulating China's booming e-commerce market.

In September last year, the State Council, China's cabinet, announced that it would be more stringently implementing the 2010 Customs and Duties Law. This announcement already made many e-commerce sites in China (or e-commerce services providers who supply Chinese customers) [wary of stocking foreign goods](#). [Chinese newspapers praised the decision](#), arguing that it would benefit Chinese domestic firms.

In the medium-term, Australian products will almost always be more expensive to Chinese consumers than domestic alternatives, as China's cost of production is lower. A 10-20% increase in the price of Australian goods, as mooted in the new regulations as applying to milk powder, is unlikely to deter Chinese consumers from buying a guaranteed clean and reliable product. Following a number of deaths from tainted milk powder, Chinese consumers are unlikely to trust Chinese dairy products for many years.

In the longer term, having some parts of China with lower duties than other parts of China was always going to be unsustainable. It leads to business loopholes that can be taken advantage of by savvy Chinese consumers and service providers. Therefore some form of rule change was inevitable.

So Australian trade will not suffer significant damage due to these new regulations. The image of foreign products as being cleaner and greener, and the many food safety scandals in China, makes it hard to see Chinese customers switching to domestic alternatives, no matter the price rise. While the price of Australian milk powder and vitamins will rise, so too will the price of our competitors' milk powder and vitamins.

While it is hard to support any increase in taxes or charges, these new rules seem to be aimed at making China's tax regime consistent, rather than aimed at increasing protectionism.

The bigger worry is that we keep over-reacting to regulatory changes or treating every regulatory change as being something that Australia needs to do something about. There are many Chinese regulations that it would be in Australia's interests to change, particularly around Australians investing into China. E-commerce regulations that affect all foreign nations exporting into China are not the most important topics for the Prime Minister to raise.

Once upon a time, Australia described itself to China as a country with which China could have a "model relationship", as a country whose own experiences of reform could be used by China to reform itself. As China reforms its economy, perhaps it is time to go back to that formulation.

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