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A Free Trade Agreement between Australia and China

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Abstract

The main aim of this thesis is to give a general overview of the bilateral, economic and foreign relationship between Australia and China by reflecting their positions in the international environment. In this case study a great emphasis is put on the prospective Free Trade Agreement between Australia and China and the impact such an agreement could have.

In support of the examination of this thesis, articles, books and the internet were used when analyzing the prospective FTA. To expand the scope of the study A.T. Kearny Globalization Index 2007 was used to measure how globalized Australia and China are. After an examination of the economic background of the countries and their international context it became clear that the prospective FTA will benefit both countries. Apparently a comprehensive bilateral FTA will also deliver benefits faster to the parties involved, and beyond what can be achieved through the WTO; therefore both research questions were answered in an affirmative way.

All aspects of the case study reached consensus to the effect that the prospective FTA would be the most beneficial step for Australia and China in their FTA speculations. It can be stated with a reasonable degree of certainty that such an agreement would strengthen and develop the diplomatic and economic relations between Australia and China.

Preface

This 15 credit/30 ECTS thesis in International Relations at the University of Iceland has been written under the supervision of Silja Bára Ómarsdóttir, adjunct lecturer in Political Science at the University of Iceland.

I would like to express my gratitude to all those who made it possible for me to complete this thesis. I especially want to thank my supervisor Silja Bára Ómarsdóttir for her guidance and for helping me overcome various challenges.

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1. Introduction

International relations (IR) are becoming increasingly important in a rapidly changing world, and foreign affairs and global issues among states have become more obvious within the international system. Foreign trade has existed for a long time, even long before real money came into being. Its economic, social, and political importance has increased in recent centuries, mainly because of industrialization, advanced transportation and globalization. Globalization is often used to refer to economic globalization which is the integration of national economies through trade, Foreign Direct Investment (FDI), capital flows, migration, and the spread of technology.

Several international organizations have risen in response to globalization, many trying to control what happens in international society. When it comes to international trade, the World Trade Organization (WTO) plays a key role, interfering, for example, with the Free Trade Agreements (FTAs) which have become such an important tool for countries to improve their positions in the international trade or financial environment. FTAs have developed rapidly as an approach to regional economic cooperation, facilitating free trade and investment. To find out if an FTA is beneficial for the parties involved, a comprehensive feasibility study and broad analysis of the countries' backgrounds, relationships and economies is required. Whether free trade should be negotiated multilaterally through WTO or bilaterally, as in the case of Australia and China, depends on various issues which are raised in this paper.

Australia and China share a strong and rapidly growing trade and economic relationship. That relationship goes back to 1973 when the Trade Agreement between the Government of Australia and the Government of the People's Republic of China was signed. Since then, the Trade Agreement has served as the basis for

their blossoming bilateral trade and strong economic relationship. Strengthening and deepening this relationship has been a major priority for both countries. On October 24, 2003, the Australia-China Trade and Economic Framework was signed by the Prime Minister John Howard and President Hu Jintao. It was a re-affirmation of the Trade Agreement of 1973. As part of the Framework, Australia and China agreed to undertake a joint feasibility study of a possible bilateral free trade agreement: a study that explored the potential opportunities and challenges, and served as a basis for deciding whether or not to enter into FTA negotiations. The study was completed March 2005, and showed that such an agreement would have significant economic benefits for both Australia and China. On 18 April 2005, Australia and China agreed to commence negotiations on a free trade agreement. The first formal negotiations began May 23, 2005 in Sydney, and by the first half of 2008, eleven negotiation rounds had been held. At the time of writing (August 2008) they are ongoing.

The main aim of this thesis is to give a general overview of how closely linked Australia and China are in the international society, with a special emphasis to the prospective free trade agreement between the countries. The more focused aim of this thesis is to study if such an agreement would benefit both countries, and if a comprehensive bilateral FTA would deliver benefits faster or beyond what can be achieved through multilateral negotiations at the WTO. The results are important to Australia and China for evaluating their ongoing and future FTA-speculations. The results should also be of benefit to all governments and regions that may be considering forming a free trade agreement, especially those countries comparable to Australia or China in size, culture or composition of GDP.

After describing the methodology used, a short description of international relations and globalization as liberalization is given. Additionally, neo-liberalism is presented because it is the most appropriate theory to relate with the main context of this thesis. The sub-chapters of chapter three thus include a general discussion of the two neo-liberalist organizations that are strongly linked to the main topic, the World Trade Organization and the Asia-Pacific Economic Cooperation (APEC). A general

discussion of free trade agreements is, as a matter of course, included in that discussion. Prior to that, a more general discussion of the three alternatives for creating free trade (unilateral, multilateral and bilateral/regional negotiations) is presented. Chapter four then gives a general discussion of the barriers and tariffs that hinder free trade with a special focus on the Australian and Chinese processes of tariffs elimination.

To give a good understanding of the positions of the Australian and Chinese economies in the global environment, chapter five demonstrates graphically how the A. T. Kearny/Foreign Policy Globalization Index 2005 ranks Australia and China using its four key components of global integration. To give a better and more focused understanding of their independent status in the international environment, the discussion of chapter five is directed towards the FTAs that their governments have concluded with other countries, as well as focusing on their economies and foreign trade in US dollars.¹ Taking this further, chapter six concentrates on how the Australian and Chinese economies are integrated in the international environment with special emphasis on their bilateral relationship and their trade, largely in goods, services and investment. In support of the conclusion of this thesis, the last subchapter of chapter six gives an overview of the feasibility study that was conducted prior to the FTA negotiations and which predicted that FTA would be in the interest of both countries.

The key element of the thesis is chapter seven. Not only does it give an overview of the ongoing FTA negotiations between Australia and China, it further reveals the outcome of the case study. That is, it presents the findings and answers to the research questions posed prior to the case study. Those research questions addressed the possible benefits of an FTA for both countries, and whether a comprehensive

¹All prices in this thesis are stated in US dollars and are based on the AUD-USD exchange rate June 1, 2008. The prices may therefore not be perfectly accurate but their purpose is more or less limited to provide an idea of the amount of trade involved in order to make a comparison between years or between countries. The change in the exchange rate of the USD to the AUD from January 1, 2005 to June 1, 2008 is shown in annex I.

bilateral FTA would deliver benefits faster or beyond what can be achieved through multilateral negotiations at the WTO. The overall outcome of the thesis will be given in chapter eight with formal conclusions and recommendations. That part, though no less the other chapters of the thesis, is a valuable reading for parties considering the establishment of free trade. Since there are many options for establishing free trade background reading and analysis are a very important way to study what is the best way to accomplish it. Moreover, as mentioned before, this information is important to the Australian and Chinese governments as a benchmark for their ongoing FTA process as well as for their future ones.

2. Methodology

Most scientific fields have their own specific methods, which are supported by appropriate methodology. The study of international relations is a branch of political science, and in response to increased economic interdependence and other profound changes in the international system during the last few decades, the analysis of international relations has developed in new directions.²

Case study is a qualitative method that social scientists, in particular, have widely used to examine contemporary real-life situations, and that has been used as a methodology in this thesis.³ Robert K. Yin defines the case study research method as: “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.”⁴ Many well known researchers have written about case study research and suggested techniques for organizing and conducting the research successfully. A strong point of the case study method involves using multiple sources and techniques in the data-gathering process. Prior to the case study the researcher determines what evidence to gather and what analytical techniques to use with the data to answer the research questions. The data which is gathered is normally largely qualitative, but the tools applied to collect data can include interviews, surveys, documentation review, observation and even the collection of physical artifacts.⁵ The tools used for collecting data for this project include comprehensive review of documentation and broad observation.

² Sprinz & Nahimias, 2004: <http://www.uoregon.edu/~rmitchel/resume/2004-SprinzWolinskyMitchellBernauer.pdf>.

³ Yin, 2003

⁴ Yin, 1984, p. 23

⁵ Soy, 1997

Most chapters in this thesis utilize the case study method to support their arguments. While each one of these chapters focuses on a distinct issue, collectively they are aimed at illuminating the answers to the two research questions proposed. In other words, even though these chapters may differ from one another in their substantive and analytic focus, they are all organized around the research questions, aiming to shed light on them. In order to gain a comprehensive understanding of the expected impact of the free trade agreement for Australia and China, the following research questions were proposed prior to the case study:

Research question 1: Will a comprehensive bilateral FTA between Australia and China benefit both countries?

Research question 2: Will a comprehensive bilateral FTA deliver benefits faster or beyond what can be achieved through multilateral negotiations at the WTO?

Methodology is most beneficial when it is accompanied by a theory for the advancement of knowledge. Methodology or theory that stands alone can give only limited information. In response to that, the next chapter will contain and explain the most appropriate international theory in the context of this thesis.

3. Theories in International Relations and Trade

The field of international relations (IR) is a part of political science that concerns the study of foreign affairs and global issues among states within the international system. Its functions include the roles of states as well as inter-governmental organizations (IGOs), non-governmental organizations (NGOs), and multinational corporations (MNCs). It seeks to analyze and formulate the foreign policy of particular states. It can be an academic or public policy field as well as being either positive or normative. Apart from political science, IR represents fields as diverse as economics, law and cultural studies as well involving a different range of issues such as globalization and its impacts on societies.⁶ To prevent misunderstanding, it is worth noting at this point that this thesis focuses on the Australian and Chinese economic foreign policies but not on their behavior in the international arena in general. Foreign policy is located within the wider field of international relations and explains what governments do in the international arena such as the positions governments adopt on international issues, the treaties they sign and ratify and the trading arrangements they enter into.⁷ The Australian and Chinese foreign economic policies receive special discussion later in this paper.

Theories in IR that refer to the topic of this thesis are important for the focus and the main aim of the paper. Globalization is a concept that can't be excluded from that. Globalization can be defined in multiple ways, but Scholte (2005) draws up four very interesting definitions with distinctive focus drawn from ideas of internationalization, liberalization, universalization and westernization. Only the liberalization definition will have its discussion in this chapter, where it will provide a debate and definition of neo-liberalism. Those two concepts are the most appropriate for the content of this

⁶ Griffiths & O'Callaghan, 2002

⁷ Firth, 2005

thesis as they correspond to Australia's and China's positions and relations in the international environment.

When globalization is interpreted as liberalization, it stands for a process of removing officially imposed constraints on movements of resources between countries in order to form an open and borderless world economy. That is precisely the progression taking place between Australia and China. More specifically, the process can be explained as authorities reducing or abolishing regulatory measures such as trade barriers, foreign-exchange restrictions, capital controls and visa requirements.⁸ This definition of globalization, which applies especially well to this thesis, can also be seen as a debate about contemporary neo-liberalist macroeconomic policies. As the name suggests, "neo"-liberalism advances a new line on an old story. Neo-liberalism builds on the *laissez-faire* convictions of classical liberalism, which promise that unconstrained market forces will naturally bring prosperity, liberty, democracy and peace to society.⁹ Neo-liberalism is the most common label for the economic theory and practice that has swept the world since the early 1970s displacing, for example, communism in China. Neo-liberalism's proclaimed purpose is to reduce global poverty, and to achieve that by allowing international trade and capital to flow unrestrictedly.¹⁰

Liberal trade theorists have argued since the 17th century that state borders should not form an artificial barrier because of tariffs and other officially imposed restrictions to the efficient allocation of resources in the world economy.¹¹ Between the 1930s and the 1960 intellectual exponents of neo-liberalism (including Friedrich von Hayek and Milton Friedman), and again since the 1970s, neo-liberalists have revived classic liberal arguments for "free markets" in relation to an economy that is becoming increasingly global. According to the neo-liberalist ideology, globalization should be approached with extensive removal of official interventions. Neo-liberalists have

⁸ Scholte, 2005

⁹ Scholte, 2005

¹⁰ Shaikh, 2007

¹¹ Scholte, 2005

indeed fought for the abolition of most state-imposed limitations on movements of money, goods, services, capital and such like between countries.¹² It has nevertheless always been inconsistent in its ideology and practice; so one can't say that neo-liberalist policies have been fully and consistently implemented. According to its ideology it should, for example, also promote unrestricted cross-border movements of labor; but in practice this has rarely occurred. Many powerful states, such as China, have moreover refused the "free market" approach when it has not been in their favor. In spite of these inconsistencies, neo-liberalism has remained the dominant orientation of policy towards globalization for the past quarter-century.¹³

When it comes to deregulation, neo-liberalists have required the deduction of various state controls, as well as urging for a shift from government agencies to the private sector. Neo-liberalists have furthermore claimed tight controls regarding government spending in order to limit public sector debt and reduce tax rates.¹⁴ This may be interpreted as the neo-liberal approach to globalization disallowing any role to the state or other governmental institutions; however, that is not the fact. Neo-liberalism recognizes the need for laws and institutions that support markets and uphold their efficient operation.¹⁵ Most governments and in particular those of the major states, have adopted a neo-liberalist orientation toward globalization over the past quarter-century. Global institutions, agencies such as the International Monetary Fund (IMF), the WTO, the APEC and the Organization for Economic Cooperation and Developments (OECD) have repeatedly equated globalization with liberalization, and since the 1990s UN agencies have also largely come to a neo-liberalist orientation.¹⁶

There are thousands of international organizations in the world and a great many of them concern free trade. To expand the understanding of Australia's and China's relations in the international environment, two neo-liberal international organizations, with their functions closely linked to the topic of this paper, will now be discussed.

¹² Gamble, 2001

¹³ Scholte, 2005

¹⁴ Scholte, 2005

¹⁵ Gamble, 1994

¹⁶ Scholte, 2005

3.1 World Trade Organization (WTO)

The World Trade Organization is the only global international organization dealing with global rules of trade between states. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible by helping producers of goods and services, exporters and importers to conduct their business. To be able to evaluate if Australia and China made the right decision in negotiating bilaterally or if they should have taken the FTA negotiation process through the WTO, a brief introduction of the WTO and its procedures is now given.

The WTO is the successor to the General Agreement on Tariffs and Trade (GATT), which was the forum for negotiating lower customs duty rates and other trade barriers on goods from 1947 to 1994. The Uruguay Round that commenced September 1986 and continued until April 1994 transformed the GATT into the WTO that came fully into being by 1995.¹⁷ WTO has 152 members¹⁸ that account for over 97% of world trade, and there are another 30 countries currently negotiating membership.¹⁹

Even though the multilateral trading system is more than 50 years old, WTO is one of the youngest international organizations. GATT and the WTO have helped to create a strong and prosperous trading system contributing to exceptional growth in world trade. The following figures underline this: in 50 years, merchandise exports grew at an annual average of 6%, and the level of total trade in 1997 was 14 times that of 1950.²⁰ Since WTO came into being, the GATT has served as a base for its regulatory system because in its annexes one can find rules that declare, for example, how to deal with specific sectors and issues.

The Most Favored Nation (MFN) principle is, for example, one of the core foundations of the WTO system. This principle was embedded in the first Article of the GATT back in 1948, and is the cornerstone of multilateral liberalization efforts. It

¹⁷ World Trade Organization, 2008d: http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

¹⁸ on 16 May 2008

¹⁹ World Trade Organization, 2008c: http://www.wto.org/English/thewto_e/whatis_e/tif_e/org6_e.htm

²⁰ World Trade Organization, 2008d

requires that members of the WTO treat all other members of the WTO the same.²¹ Originally these principles of freer and fairer trade only applied to trade in goods, but now various service sectors can also enjoy them where those principles appear in the new General Agreement on Trade in Services (GATS).

To enforce the rules that ensure trade flows smoothly it is important that WTO's procedures for resolving disputes between trading partners are efficient. WTO agreements are very important within the organization because through those agreements WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country promises that imports into its own markets will be treated fairly and consistently, and receives in return a guarantee that the same counts for its exports to another country's markets.²²

All WTO agreements contain special provisions for the developing or least-developed countries that represent over three quarters of all WTO members. That special provision includes, for example, longer time periods to implement agreements, commitments and technical standards. The Doha Development Round which recently collapsed did, for example, set out tasks that included negotiations for a wide range of issues concerning developing countries. Agriculture and subsidies are matters that can't be excluded from a discussion of the Doha Round.

In some cases subsidies can play a large role in distorting trade, but there have been big conflicts towards subsidies and the Doha Round in general from its beginning to its end. Subsidies are provided directly to a domestic producer to increase their competitiveness against all foreign producers equally. Since it is difficult to provide a general subsidy that discriminates against some foreign competitors but not others, subsidies are often considered to be a multilateral issue.²³ Many countries have been opposed to Doha, because a reduction of subsidies will increase the GINI coefficient,

²¹ Humphreys & Stoeckel, 2005

²² World Trade Organization, 2008b: http://www.wto.org/English/thewto_e/coher_e/coher_e.htm

²³ Humphreys & Stoeckel, 2005

or in other words, increase the gap between rich and poor countries.²⁴ As is discussed further in chapter 6.1, both Australia and China were committed to Doha negotiations as the highest priority of their trade policy until the negotiations collapsed. Because of Doha's collapse it is probable that both governments will start to concentrate more on bilateral or regional agreements in the future.

Multilateral negotiations through the WTO are a common procedure for negotiations between more than two parties. There are different opinions about what is the most efficient way of negotiating. FTAs can either be negotiated under the supervision of the WTO or bilaterally/regionally between only the parties involved. The question, which is more efficient in Australia's and China's case, will be answered further on. The discussion in this paper is firstly directed towards unilateral, multilateral and bilateral/regional agreements in general. Then a narrower yet general discussion of the FTA concept takes place followed by other relevant topics to broaden the base of the case study. In that way the latter research question can be answered in the most effective way in chapter 7.2.

3.1.2 Unilateral, Multilateral and Bilateral/Regional Agreements

The fundamental question for the future of trade policy is how trade should be liberalized. There are three alternative ways of achieving free trade: unilaterally, multilaterally or regionally/bilaterally. When a country liberalizes unilaterally, trade reform can be pursued as domestic policy, and a country can liberalize without regard to the policies of other nations.²⁵ The other two alternatives for countries to establish free trade are to liberalize trade on a multilateral basis through WTO or by liberalizing bilaterally or regionally by forming free trade agreements with one or more countries. Unilateral liberalization has been one of the most effective methods of liberalization and in the past two decades many countries have benefited a great

²⁴ Watkins, 2003:

[http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Watkins/\\$File/WATKINS.PDF](http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Watkins/$File/WATKINS.PDF)

²⁵ Humphreys & Stoeckel, 2005

deal from unilaterally reducing trade restrictions, including Australia. But since the research questions focus on bilateral versus multilateral negotiations, the unilateral ones do not have further coverage in this thesis.

Since it would be more beneficial if all countries gave up their trade restrictions and liberalized at the same time, multilateral liberalization should be the best alternative for creating free trade.²⁶ However, multilateral liberalization through the WTO has attracted a significant amount of protest both from people opposed to trade and people who disagree with how the WTO works. Some people protest that the greater freedom to trade (in effect, globalization) has adverse impacts on wages, jobs and the environment. Nevertheless, the more relevant problem is that the WTO multilateral trade talks progress slowly because the WTO has difficulty getting a consensus between all its member economies. As the unilateral and bilateral/regional liberalization can bypass this problem it is gaining popularity as a process towards free trade.²⁷

Bilateral or regional agreements reduce trade restrictions only for member countries. This approach is in fact preferential rather than free, as it discriminates against countries that are not members of the agreement. Consequently, bilateral and regional agreements such as FTAs can be referred to as Preferential Trade Agreements (PTAs).²⁸ Before the discussion is narrowed to FTAs, the concept of PTAs (regional and bilateral agreements) has a brief explanation.

In general, PTAs are easier to negotiate than WTO liberalization because they involve fewer participants and also because they tend to provoke less domestic political opposition. However, in some situations PTAs may not actually provide a net benefit to member countries. Unlike unilateral and multilateral liberalization, it is possible for regional and bilateral trade agreements to do more harm than good.²⁹ The research

²⁶ Humphreys & Stoeckel, 2005

²⁷ Humphreys & Stoeckel, 2005

²⁸ Humphreys & Stoeckel, 2005

²⁹ Humphreys & Stoeckel, 2005

question: will a comprehensive bilateral FTA between Australia and China benefit both countries, i.e. will it do more good than harm, is examined throughout this thesis and the findings are presented in chapter 7.1.

The WTO defines free trade agreements as one of two components of Regional Trade Agreements (RTAs). The other one is Customs Unions (CUs), and both can be described as actions by governments to facilitate trade. RTAs must follow WTO rules that govern such agreements. A key rule of the multilateral trade system is that reductions in trade barriers should be applied to all WTO members so that no member is discriminated against by another member's trade regime. Since RTA's reductions in trade barriers apply only to parties to the agreement, they do in effect violate the MFN principle. However RTAs are an important exception to this rule.^{30,31} Those rules also require that parties to an RTA must have established free trade on substantially all goods within the regional area within ten years. The WTO rules are very important and make sure that an RTA is beneficial to all parties in the multilateral system. To guarantee that those rules are respected The Committee on Regional Trade Agreements (CRTA) monitors the consistency of RTAs with the WTO Rules so that regional agreements do not undermine the multilateral system.³² There are about 400 RTAs scheduled to be implemented by 2010. Of these RTAs, free trade agreements and partial scope agreements account for over 90%, while customs unions account for less than 10%.³³ Because of that proportion and since the main focus of this thesis concerns free trade agreements, customs unions are not discussed further in this paper.

³⁰ For trade in goods this exception is allowed under Article XXIV of the GATT and for trade in services this exception is allowed in Article V of the GATS as well as in the Enabling Clause.

³¹ Australian Government. Department of Foreign Affairs and Trade, 2008e: http://www.dfat.gov.au/trade/negotiations/wto_agreements.html

³² Australian Government. Department of Foreign Affairs and Trade, 2008e

³³ World Trade Organization, 2008a: http://www.wto.org/english/tratop_e/region_e/region_e.htm

3.1.1 Free Trade Agreements (FTA)

A Free Trade Agreement, such as the one that is under negotiation between Australia and China, is a contractual agreement between two or more parties to eliminate tariffs on substantially all trade between them, thereby giving each other preferential market access.^{34,35} The agreement must be under WTO rules and apply to substantially all the trade in goods and services as well as other non-tariff issues. Modern FTAs generally go beyond eliminating tariffs to include commitments on services, customs cooperation, IP and foreign investment. In recent years FTAs have been developing rapidly as an approach towards regional economic cooperation. Throughout the world, many governments are either under FTA negotiations, have signed FTAs, or are contemplating new FTAs. According to Business Roundtable of March 2007 there are approximately 300 FTAs negotiated globally informing the fact that 50% of world trade occurs through FTAs.³⁶ Even though bilateral FTAs are made between two countries these agreements must be seen in a global context as steps towards full integration into a global free market economy.

FTAs can be very different in scope. Some cover only partial issues of trade while others are much more comprehensive and cover other issues including services and investment. The comprehensive ones usually take the existing WTO agreements as a benchmark and strive to go further than what is set out in the WTO rules.³⁷ Such a statement leads us again to the latter research question that enquires if such an FTA would deliver Australia and China benefits either faster or beyond what they could have achieved through the WTO. (See findings in chapter 7.2).

FTAs are a part of the modern trading environment that open up a new range of opportunities and challenges. The main purpose of FTAs is to facilitate free trade and investment by removing its barriers through the creation of a free flow of goods,

³⁴ Goode, 2003

³⁵ Australian Government. Department of Agriculture, Fisheries and Forestry, 2008: <http://www.daff.gov.au/market-access-trade/fta#What>

³⁶ Bilaterals.org, 2008: http://www.bilaterals.org/rubrique.php?id_rubrique=30

³⁷ Bilaterals.org, 2008

services, investment and people.³⁸ Eliminating restrictions between FTA partners can lead to greater integration of economies and to mutual benefits including more export opportunities and product choices in the importing country.³⁹ Australia and China have different priorities dictated by their respective national interests which explain to some degree why their FTA negotiation process is slow. Both parties have to debate which of a wide range of barriers will be the subject of negotiations and which will not.⁴⁰

Since it seems to be a common economic opinion that free trade is a good thing, then it should be logical to think that FTAs should also be a good solution. That is nevertheless not always the case. In reality, FTAs create a sub-class of economies that are neither wholly protectionist nor wholly liberalized, but suspended between the two. As in the case of the eastward expansion of the European Union, FTAs can be heavily influenced by factors other than trade, such as strategic, political and cultural factors which complicate the trade relationship.⁴¹

Moreover, FTAs may not always be beneficial because in reality they discriminate against countries not included in the agreement. The discrimination is both against countries not involved in bilateral agreements or RTAs, and against trade in agriculture, which is often left out of such agreements. FTAs can also sometimes result in more costs than benefits, so do not necessarily make either country better off. Costs that could result in negative results from an FTA include industry, customs and quarantine restructuring.⁴² This has to be assessed for each FTA, and findings regarding this matter for the Australia-China FTA, as mentioned before, will be presented in chapter 7.2.

Australia and China are both members of several trade liberalization initiatives at the multilateral, regional and bilateral levels. Multilaterally, the countries are active

³⁸ Bilaterals.org, 2008

³⁹ Goode, 2003

⁴⁰ Leahy, MacLaren, Morgan, Weatherall, Webster, & Yong, September 2007

⁴¹ Parliament of Australia, 2002: <http://www.aph.gov.au/Library/pubs/rn/2002-03/03rn16.htm>

⁴² Humphreys & Stoeckel, 2005

members of WTO and OECD; and regionally they participate in, for example, the APEC and the Association of Southeast Asian Nations (ASEAN) Free Trade Area. At the bilateral level, Australia and China are parties to a number of agreements, but this is discussed further in chapters 5.1.1 and 5.3.1.

3.2 Asia-Pacific Economic Cooperation (APEC)

To be able to compare multilateral negotiations (other than the ones at the WTO) to the bilateral ones between Australia and China, a short discussion of the Asia-Pacific Economic Cooperation is given. APEC has been chosen as a benchmark for WTO since Australia and China are both active members and APEC's goals are similar to the WTO but on a much smaller scale. This creates a better chance for evaluating which alternative would deliver Australia and China faster and better results in their FTA negotiations. It is, moreover, interesting to see if the negotiations process slows down or gets more complicated when the number of negotiating members increases. Today, there are 21⁴³ APEC members including Australia and China, both of whom are enjoying a close and cooperative relationship both within and without APEC.

It was the Australian Prime Minister, Bob Hawk, who initiated the convening of a ministerial meeting on economic cooperation in the Asia-Pacific region during his visit to Seoul, Republic of Korea, January 1989. After consultations with relevant countries, the first ministerial meeting (of 12 members) was held in Canberra, Australia, November of that same year. Two years later, November 1991, the Seoul APEC Declaration was set with the objectives of interdependence and common interests for developing and strengthening the open multilateral trading system and reducing regional barriers to trade.⁴⁴

⁴³ Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Mexico; Malaysia; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Chinese Taipei; Thailand; United States; Viet Nam.

⁴⁴ Asia-Pacific Economic Cooperation, 2008:
http://www.apec.org/apec/about_apec/achievements_and_benefits.html

APEC member-economies work together to sustain this economic growth through a commitment to open trade, investment and economic reform.⁴⁵ By progressively reducing tariffs and other barriers to trade, APEC member economies have become more efficient, and exports have expanded dramatically. Since 1989 the APEC region has consistently been the most economically dynamic part of the world, and in their first ten years, member economies of APEC generated nearly 70% of global economic growth.⁴⁶

Despite APEC having been very beneficial in many ways it has also, on some occasions, experienced complications with its internal negotiations. By scanning through APEC's different negotiation processes at different times, it can be spotted that complication and inefficiency in the negotiations process increased when the number of members increased. It can therefore be argued that there is a correlation between the involvement of fewer members and the efficiency of the negotiations process.

⁴⁵ Asia-Pacific Economic Cooperation, 2008

⁴⁶ Asia-Pacific Economic Cooperation, 2008

4. Barriers and Tariffs Hindering Free Trade

Until the 1980s, tariffs were the main tool used by states to restrict imports from other states and to protect domestic industries. A tariff is a tax imposed on imported goods, as distinct from taxing comparable goods within the country. Import tariffs may be levied on an *ad valorem* basis or a specific basis. An *Ad valorem* tariff means that a certain percentage of the estimated market value of the imported item is levied on the goods; while a specific tariff is a fixed amount on each unit imported. Tariffs are a relatively efficient and easy tax for a small or poorly organized government to collect, and are mainly imposed to raise revenues. In developed industrial states tariffs give domestic producers an advantage over their foreign competitors. This is usually at the expense of domestic consumers of the product, while domestic producers enjoy higher prices, a bigger market share, and higher profits.⁴⁷

Since the 1980s, significant progress has been made in lowering tariffs through successive rounds of negotiations under the 1947 GATT. In 1947 the weighted average of import tariffs levied on industrial products by the major industrial countries was around 50% of product value but was reduced to around 5% by the end of the 20th century. Seeking alternatives, states have developed a host of non-tariff barriers (NTBs) to achieve the same goals as tariffs. Many NTBs are now regulated by the successor to GATT, the WTO. While NTBs vary enormously across the international system, there are four main types, including quantitative restrictions such as quotas; product regulation, which is demanded by domestic governments; subsidies, which governments use to protect particular industries; and dumping exports on overseas markets which is the export of goods at an unfairly low price.⁴⁸

⁴⁷ Griffiths & O'Callaghan, 2002

⁴⁸ Griffiths & O'Callaghan, 2002

The tariff level is relatively high in China compared with Australia; but China's tariff policy is to promote economic reform and the opening of its economy as witnessed in recent years. Before entering the WTO in 2001, China's average tariff level was 15.3% but was reduced to 11% in 2003, then further down to 10.4% in 2004 and then 9.9% in 2005. Both countries apply trade restrictions with relevant international agreements such as the Convention on International Trade in Endangered Species and the Nuclear Non-Proliferation Treaty⁴⁹ but the overall impact of the elimination or reduction in tariffs and non-tariff measures is expected to deliver positive results for both the Chinese and the Australia's economy.

Meanwhile, China's simple average tariff in 2005 was 9.9% for all products and 15.3% for agricultural products. Australia had a low overall average applied tariff of 3.5%. Furthermore, over 85% of Australian tariff rates vary between 0% and 5%. Where the tariff rate exceeds 5% (which is mainly the case with textiles, clothing and footwear, and motor vehicles) policies are in place to reduce these levels to 5% through future tariff reductions.⁵⁰ China employs three types of import duty rates: general rates, MFN rates and preferential rates. Preferential rates are applied to imports originating in countries and regions with which China has concluded reciprocal preferential tariff agreements, whereas MFN rates are applied to imports from WTO members, and general rates are applied to imports from other sources.⁵¹

In addition, there are other common elements that further reduce the liberalizing effects such as exclusions, safeguards and Rules of Origin (RoO). Exclusions cover politically sensitive products while safeguards allow a country to re-introduce protection if certain things happen.⁵² This will not be discussed any further but Rules of Origin needed an explanation in this thesis as they are a required feature of a free trade agreement between Australia and China. They are, in fact, a required feature for all free trade areas where member countries retain their own systems of trade regulation. Nevertheless, little attention has been paid to RoO in Australia - and

⁴⁹ Australian Government & The Chinese Ministry of Commerce, 2005

⁵⁰ All of the applied tariff rates are ad valorem with few exceptions.

⁵¹ All of the applied tariff rates are ad valorem with few exceptions

⁵² Humphreys & Stoeckel, 2005

actually in most parts of the world - even though China is relatively strict on these rules.⁵³ RoO are put in place to determine the nationality of the goods and to make sure that only goods originating from the stakeholders of the FTA can benefit. The main principle behind the concept of RoO is that the country of origin must be the last country where substantial transformation of manufactured products goods took place. RoO are effectively barriers to trade and they can increase the cost of production and reduce trade.⁵⁴

⁵³ Australian Government & The Chinese Ministry of Commerce, 2005

⁵⁴ Humphreys & Stoeckel, 2005

5. The Australian and Chinese Economies in the Global Environment

Comparing the Australian and Chinese economies and their behavior in the international environment is very interesting as the two countries are at markedly different stages of economic and social development. The Australian and Chinese economies are strongly complementary, and both are important economies in the Asia-Pacific region as well as globally. According to the CIA World Factbook (2007), China was the 4th largest economy in the world based on its Gross Domestic Product (GDP) while Australia ranked 14th.

Before presenting in a graphical way how the A. T. Kearny/Foreign Policy Globalization Index 2005 ranks Australia and China, Scholte's other three definitions of globalization and the correlation to Australia and China are outlined to provide a necessary explanation and understanding of the globalization concept. For the conclusion of the thesis, both the globalization concept and the A. T. Kearny/Foreign Policy Globalization Index rankings of Australia and China give a good presentation of where the countries stand in the international environment, both in comparison to the rest of the world and to each other. Consequently it gives an idea of the marginal gains from an FTA to both countries, which in turn gives greater feasibility to find the most valid answer to research question 1.

Globalization, which is a combination of economic, technological, socio-cultural and political forces, can be defined in many ways. In chapter three, globalization is defined as liberalization which is very descriptive of the content of this thesis. Scholte (2005) came up with three other definitions that also coincide with the content of this thesis and are therefore beneficial to the perception of the main topic. For example, when globalization is interpreted as universalization, it describes a

process of dispersing various objects and experiences to people in all inhabited parts of the earth. Often, globalization as universalization is assumed to cause homogenization or standardization with worldwide cultural, economic, legal and political factors.⁵⁵ This can be seen in many places of the world when particular goods and services become the same. China is an excellent example as most of the manufactured goods in the world are made in there. In many different places in the world, people could be wearing the same clothes and children playing with the same toys all of which could have been made by the same manufacturer in China.

If globalization is defined as westernization it describes a particular type of universalization that refers to when social structures of modernity such as capitalism, industrialism, rationalism, urbanism, and individualism are spread across the globe with the intention of destroying, for example, the existing cultures.⁵⁶ This definition of globalization is popularly interpreted as Americanization because of the obvious impact of American culture in many societies around the globe. Australia, which is considered a western society and sometimes referred to as “Little America,” is a good example of this. Many international students, for example, come to live in Australia to take advantage of the country’s good educational service. In many cases they adjust to the country’s culture and habits which they bring back to their home country thereby affecting their own culture.

The fourth and the last conception of globalization is defined by Scholte (2005) as internationalization, a term that refers to a growth of transactions and interdependence between countries. From this perspective, a more global world is one where more messages, ideas, merchandise, money, investments, pollutants and people cross borders between national-state-territorial units.⁵⁷ When attempts have been made to quantify globalization, like the globalization indexes issued by A. T. Kearny, then globalization has tended to be interpreted as internationalization.

⁵⁵ Bradford & Lawrence, 2004

⁵⁶ Petras & Veltmeyer, 2001

⁵⁷ Scholte, 2005

Globalization can be measured in different ways, and globalization indexes issued by A. T. Kearny are just one very interesting way of doing it. The 2005 Globalization Index tracks and assesses changes in 72 countries that account for 97% of the world's GDP and 88% of the world's population. It has 12 variables which are further grouped into four key components of global integration. The results provide an evaluation of how much countries are opening up and connecting with others. The top 20 most globalized countries are, in descending order: Singapore, Hong Kong, Netherlands, Switzerland, Ireland, Denmark, United States, Canada, Jordan, Estonia, Sweden, United Kingdom, Australia, Austria, Belgium, New Zealand, Norway, Finland, Czech Republic and finally Slovenia. Australia is in this line ranked 13th but China is ranked 66th. The indexes have largely been calculated with regard to the amount of cross-border activity between countries; but the scores are mainly related to FDI, international travel, membership in international organizations and international telephone traffic.⁵⁸

The four main components that affect the scores are: economic integration, personal contact, technological connectivity, and political engagement.⁵⁹ Further on, with the latest comprehensive and detailed data available, Australia's and China's ranking in 2005 as well as their progress from 1998 to 2005 is presented in a graphical way. To be able to see where Australia and China stand in comparison to the rest of the world provides a deeper understanding of the topic of the thesis since the Australia-China FTA is just one step in their processes to open up to the outside world and become more globalized. To get the most descriptive results, the variables are compared to the countries' populations and their GDP in 2005. The difference between the countries is large, both in population and GDP. Australia's population in 2005 was around 20.160.000 when China's great population was calculated to be 1.315.840.000. Australia's GDP in the same year was also much less than in China, measuring 712.436.000.000 but 2.243.688.000.000 in China. In annex IV the same figures are presented as total results instead of a proportion.

⁵⁸ A.T. Kearny, 2005: http://www.atkearney.com/shared_res/pdf/2005G-index.pdf

⁵⁹ Foreign Policy, 2008: http://www.foreignpolicy.com/story/cms.php?story_id=3995&page=9

The first component, economic integration, combines data on trade and FDI, inflows and outflows. A comparison of Australia and China in that relationship is shown in figures 1 and 2.

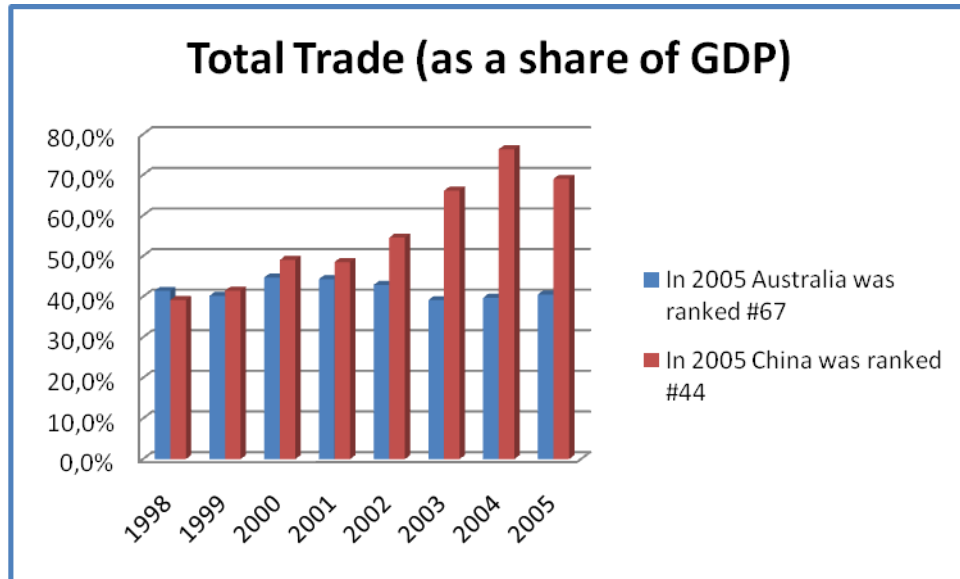


Figure 1: Australia's and China's Total Trade (% of GDP)

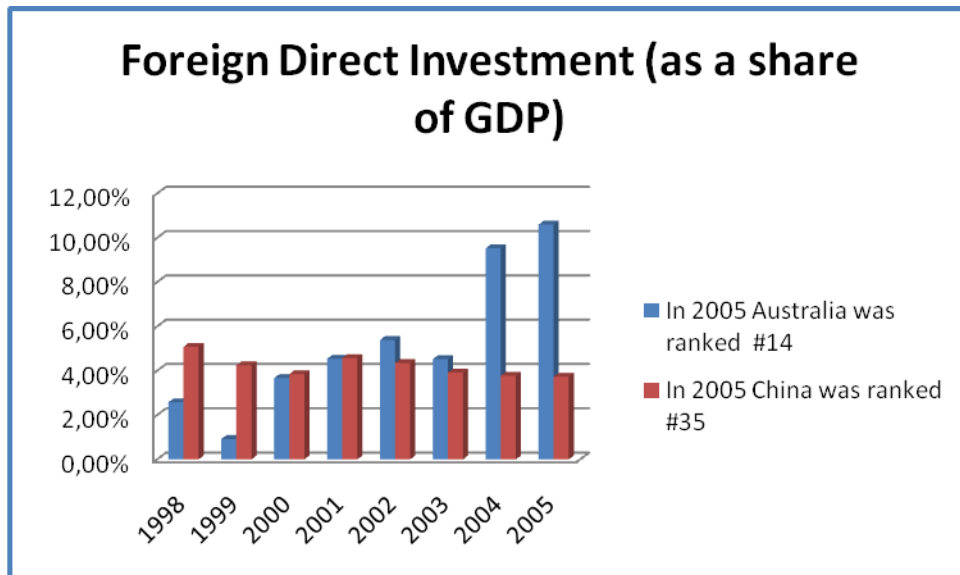


Figure 2: Australia's and China's FDI (% of GDP)

Economic integration in Australia and China is quite different: China was ranked the 44th (considering total trade as a share of GDP in the year 2005) but Australia, the 67th. China's total trade was 69% of its GDP while in Australia the rate was 40.6%. In terms of FDI as a share of GDP, Australia was ranked the 14th (with its FDI 10.6% of its GDP) while China was 35th (with FDI 3.73% of its GDP).

The second component (personal contact, tracks international travel and tourism, international telephone calls, cross-border remittances and personal transfers) includes worker remittances, compensation to employees, and other person-to-person and nongovernmental transfers. Australia's and China's ranking in 2005, as well as progress from 1998 to 2005, is shown in this context in figures 3-5.

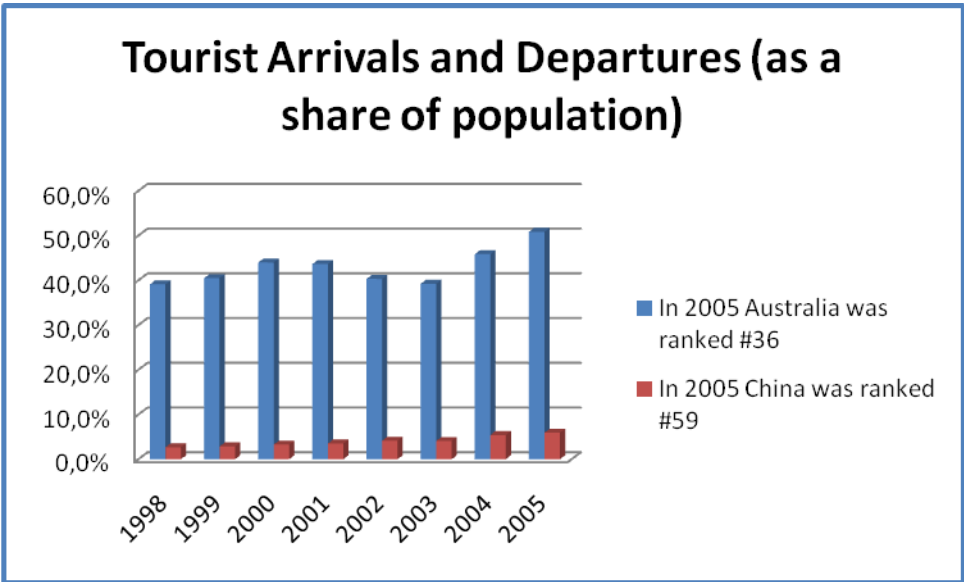


Figure 3: Tourist Arrivals/Departures in Australia and China (% of population)

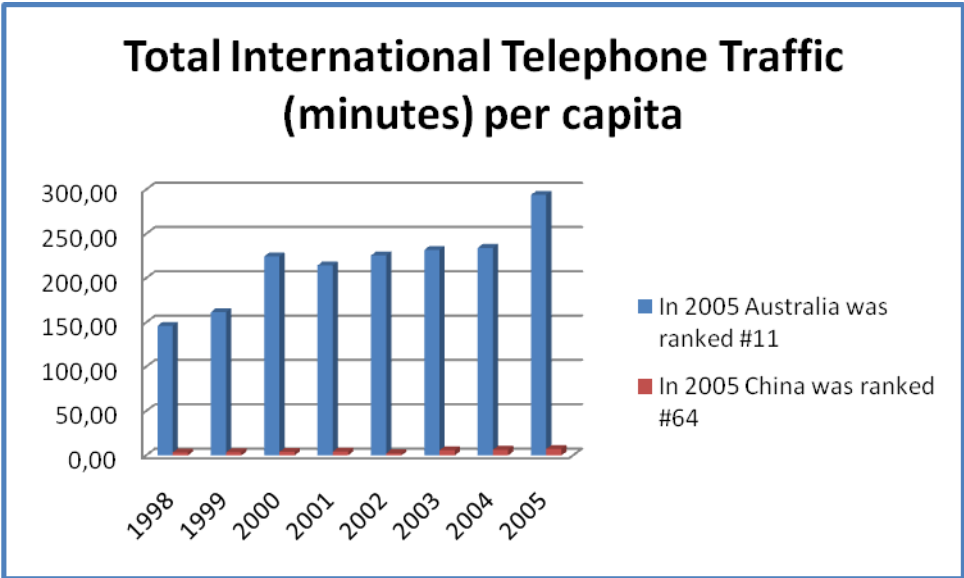


Figure 4: Australia's and China's International Telephone Traffic per capita

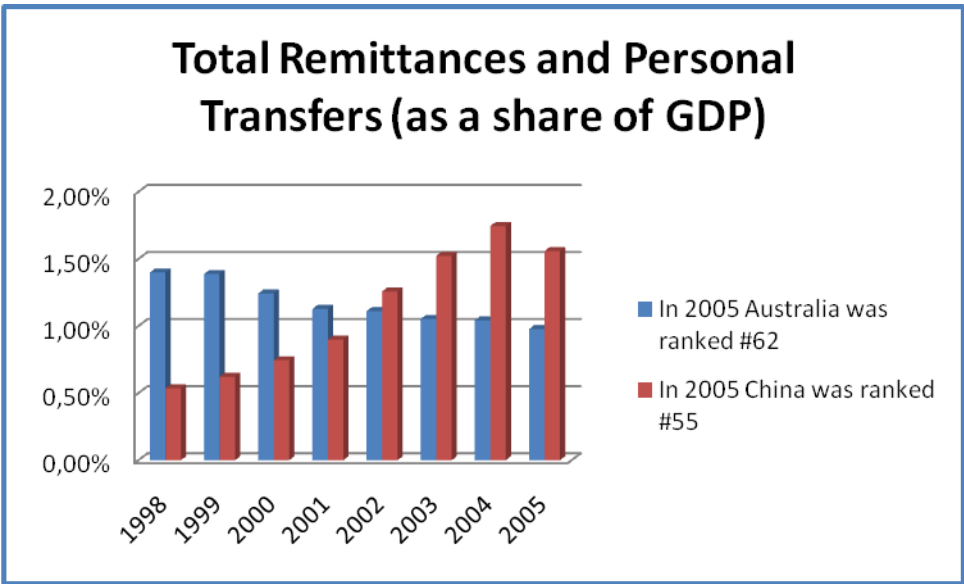


Figure 5: Australia's and China's Remittances & Personal Transfers (% of GDP)

The personal contact component is a good indicator of how the countries are opening up. As can be seen from figure 3, China's tourist arrivals and departures in 2005 (as a share of population) were 5.9% incurring a ranking of 59th while Australia was ranked the 36th with total tourist arrivals and departures 50.8% of its population. Comparing international telephone traffic, Australia was also ranked higher than

China in 2005 as 11th while China was 64. The Australians were calculated to have spent 293.99 minutes per capita making international telephone calls while in China the same was measured at 7.25 minutes. Looking at total remittances and personal transfers in 2005, China was 55th with 1.56% of its GDP while Australia was 62nd with 0.98% of its GDP. Those figures confirm what is mentioned elsewhere in this paper: that Australia has opened up much more to the outside world than China has. It will be interesting to see how these figures will evolve.

The technological connectivity component counts the number of internet users, internet hosts, and secure servers through which encrypted transactions are carried out. This is shown in figures 6-8.

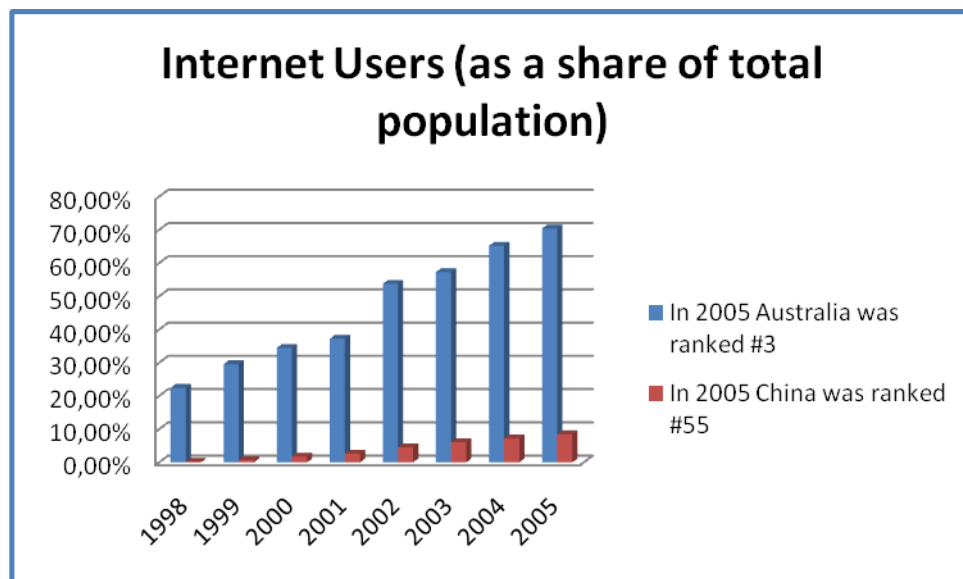


Figure 6: Australia's and China's Internet Users (% of total population)

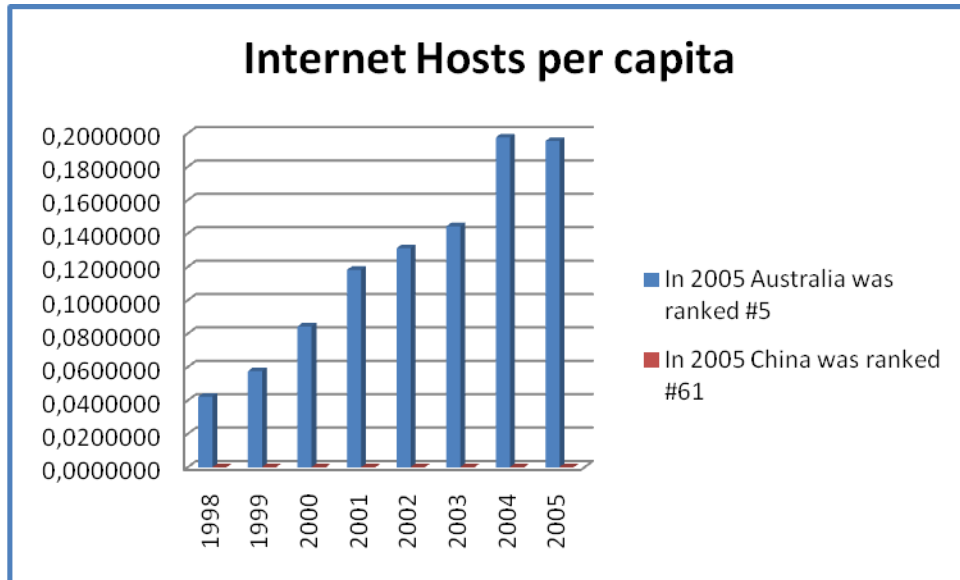


Figure 7: Australia's and China's Internet Hosts per capita

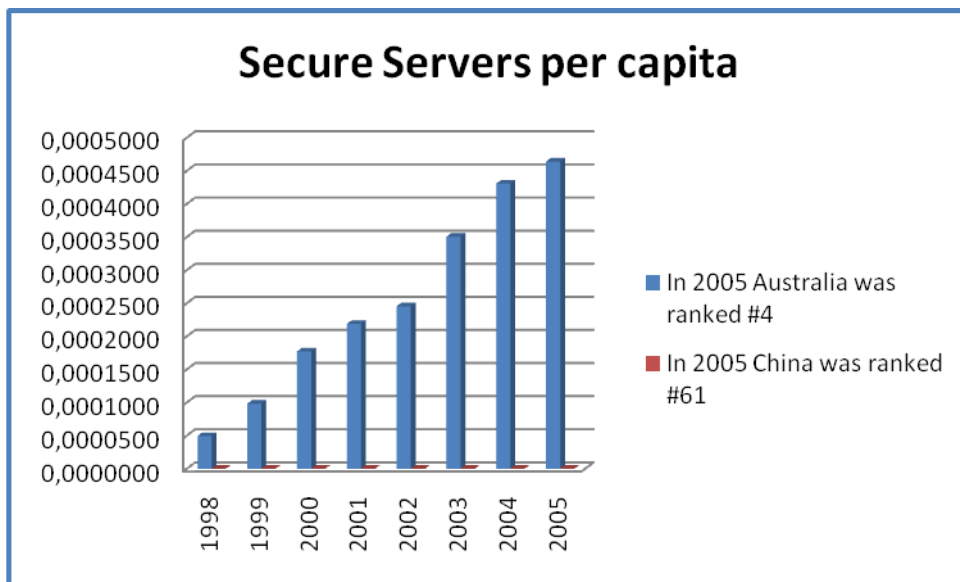


Figure 8: Australia's and China's Secure Servers per capita

The technological connectivity component shows that the number of Internet users as a share of total population is quite different in Australia and China. In 2005 Australia was ranked the 3rd with 70.39% users of total population while China was a long way back, or 55th, with 8.4% internet users of total population. Regarding internet hosts per capita, the difference was still big: Australia was 5th and China 61st. Australia had

0.1954028 internet hosts per capita while China had only 0.0001237. The difference between the countries was also huge when it came to secure servers per capita: Australia was 4th with 0.0004640 secure servers per capita, but China 61st with 0.0000003 secure servers per capita. As the technological connectivity component is closely linked to personal contact the results are not surprising. This has also been obvious through the comprehensive documentation review and a broad observation of this case study. Access to Australian websites and the amount of information available is so big that it is barely comparable.

Finally, the political engagement factor with respect to Australia and China is presented in figures 9-12. It includes each country’s membership in a variety of representative international organizations, financial contributions to the UN peacekeeping missions, ratification of selected multilateral treaties, as well as the amounts of governmental transfer payments and receipts.



Figure 9: Australia’s and China’s Memberships in International Organizations

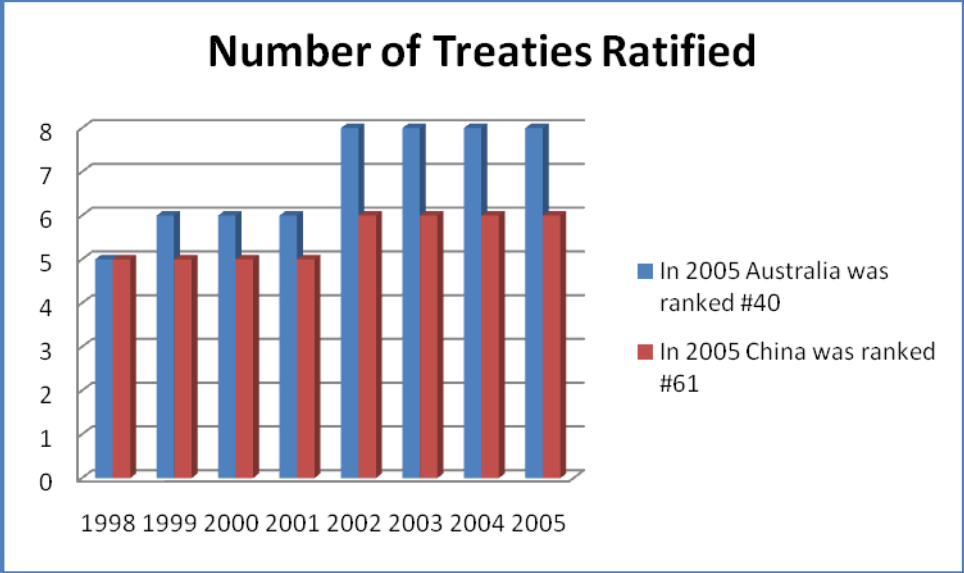


Figure 10: Australia's and China's Number of Treaties Ratified

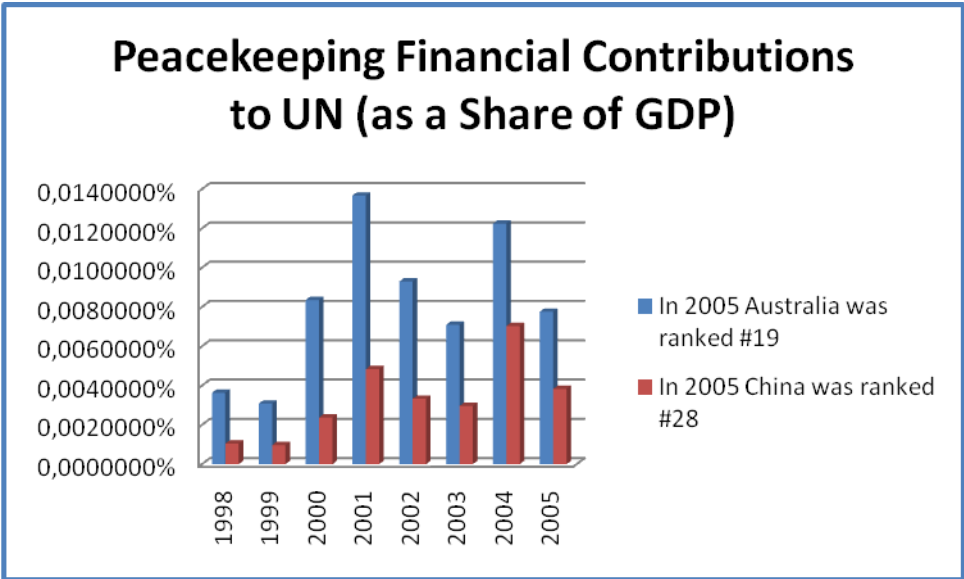


Figure 11: Australia's and China's Financial Contributions to UN (% of GDP)

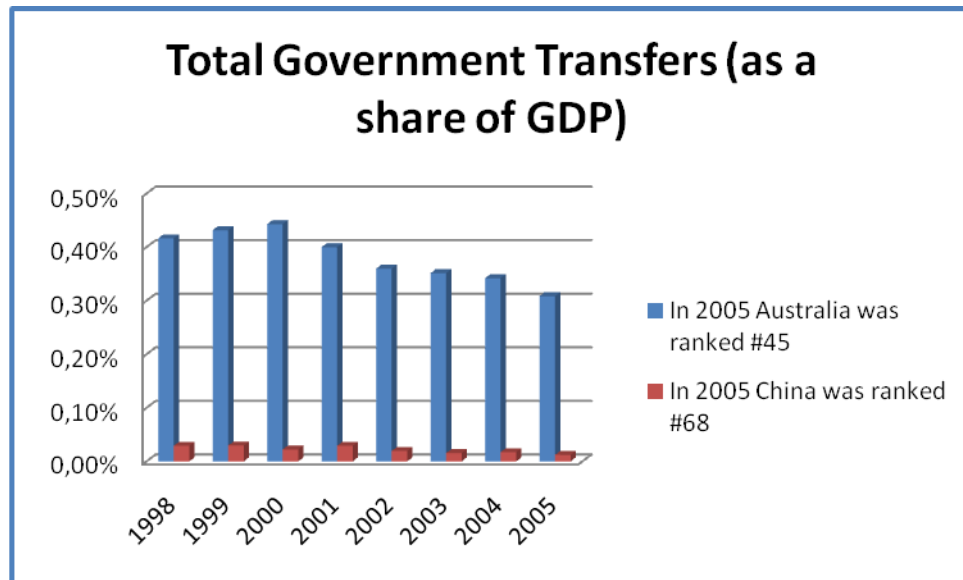


Figure 12: Australia's and China's Total Government Transfers (% of GDP)

The political engagement factor presents more differences between the countries; however, membership in selected international organizations in the year 2005 is the same in both countries. In 2005 Australia and China were both ranked 42nd in participation in ten selected international organizations. The number of treaties ratified is also similar. Eight ratified treaties in Australia in 2005 put the country in 40th place while China was in 61st place with six treaties ratified. Regarding financial contributions to UN peacekeeping, Australia was 19th with a contribution of 0.0077570% of its GDP while China was 28th with 0.0038295%. The last variable is total government transfers, and in that context Australia is ranked the 45th and China 68th. Australia's total government transfers were 0.31% of its GDP while China's percentage rate was only 0.01.

As can be seen from the figures above, the Globalization Index tracks and assesses different changes applicable to Australia and China. Those four key components of global integration which are further divided into twelve variables of global integration give a reliable evaluation of how much those two countries are opening up and connecting with others. As mentioned earlier the overall outcome in 2005 ranked Australia 13th and China 66th. Australia is therefore considered to be more globalized and more willing to open up to other countries than is China. This can be noted in

their differing degrees of eagerness in the FTA negotiation process (see chapter 7) and it also underlines what is displayed in this paper about the countries' differing degrees of neo-liberalistic view and practice.

Before presenting the Australian-Chinese international context and their economic relationship, it is important to overview each of their trade positions in the world, and their relevant statistics. This positioning is very informative and gives a better opportunity to compare the degree of trade between Australia and China to their trade relationships with the rest of the world. Moreover, a better evaluation of their bilateral trade relationship's significance is made possible. Subsequent to that and after coverage of other relevant topics, the first research question (if a bilateral free trade agreement is feasible for both countries) can be answered. When an answer to the first one is achieved, an answer to the second research question (which speculates whether comprehensive bilateral negotiations will be more beneficial for Australia and China than negotiations on a multilateral basis at the WTO) ensues.

5.1 Australia in the International Environment

Neo-liberalism has determined economic policy in Australia since the early 1980s, and in Australia is sometimes called economic rationalism. All Australian governments, Labor or Coalition, have been neo-liberal in economic policy to a greater or lesser extent since 1983. Australian neo-liberals believe that the route to prosperity lies in a radically minimal role for government and in embracing the free market in almost every area of economic life. At the international level, they think financial markets work best either entirely without or at least with a minimal level of government regulation or government control of the exchange rates of national currencies.⁶⁰

⁶⁰ Firth, 2005

Australia is member of 64 international organizations including the UNESCO, IMF, UN, OECD, APEC and WTO.⁶¹ (See annex II for all Australia's international organization participation (abbreviations)). Australia seeks to build bilateral and regional strategic partnerships through FTAs or other mutual agreements for trade facilitation and cooperation. On January 1, 1948, Australia signed and became a member of the GATT, the predecessor to the WTO.⁶² One of the government's recent trade focuses was multilateral trade liberalization and reform through the Doha Round of negotiations in the World Trade Organization.⁶³ Successful outcomes to these international negotiations would have resulted in more open overseas markets for Australian goods and services, and improved the competitiveness of Australian exports. It would also have resulted in tougher constraints on subsidies and protectionist practices that distort trade flows. The Australian Bureau of Agricultural and Resource Economics estimated that the successful conclusion of the Doha Round could have increased Australia's agricultural exports from 3% to 15% which would be worth over 1 billion US dollars a year to farmers.⁶⁴ Instead, the recent collapse of the Doha Round will have cost approximately 6.5 billion US dollars to the Australian economy, which is obviously a big disappointment for Australia.⁶⁵

Australia also works closely with the APEC partners to enhance economic cooperation and encourage liberalization within the region. Australia's key priority in APEC is to bolster trade and investment by harnessing APEC member support for a successful outcome to the Doha Round of multilateral trade negotiations. The Australian Government also aims to advance APEC's human security agenda that includes food security, disaster response and counter-terrorism.⁶⁶

⁶¹ The World Factbook, 2008c: <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html#Issues>

⁶² World Trade Organization, 2008e: http://www.wto.org/English/thewto_e/gattmem_e.htm

⁶³ Australian Government. Department of Foreign Affairs and Trade, 2008a: http://www.dfat.gov.au/facts/bilateral_and_regional_trade.html

⁶⁴ Australian Government. Department of Foreign Affairs and Trade, 2007c: http://www.dfat.gov.au/facts/trade_fast_facts.html

⁶⁵ Lateline Business, 2008: <http://www.abc.net.au/lateline/business/items/200807/s2319590.htm>

⁶⁶ Australian Government. Department of Foreign Affairs and Trade, 2008a

5.1.1 Australia's Free Trade Agreements

From 1996-2007, when the Howard government was in power, it was believed that Australia was being systematically excluded from East Asia's preferential trade arrangements. Therefore the government decided to start negotiating preferential trade arrangements of its own with trading partners who wished to cooperate. Decision was made that included Australia's continuing to play a part in multilateral trade negotiations through the WTO while at the same time working towards bilateral FTAs.⁶⁷

In early 2008, the Australian Government announced a comprehensive review of Australia's export policies and programs. The research on Australia's FTAs which will be undertaken includes the development of benchmarks to guide its approach to future FTA negotiations.⁶⁸ Comprehensive FTAs are consistent with Australia's multilateral objectives as being important vehicles for gaining market access, generating new trade and investment opportunities and improving business conditions for Australians by liberalizing all sectors.

Australia has concluded FTAs with New Zealand, Singapore, Thailand and the United States. Besides China, FTAs negotiations are under way with Malaysia, Japan, Chile and the Gulf Cooperation Council; and at the same time Australia and New Zealand are jointly under negotiations with the ten ASEAN countries^{*69}. Feasibility studies on FTAs are also currently being undertaken with Indonesia, the Republic of Korea, and India. Pacific Island trade ministers have also agreed to consult on a way forward for a free trade area in the Pacific region.⁷⁰

Australia has benefited from its FTAs in many ways. The Closer Economic Relations Trade Agreement between Australia and New Zealand (ANZCERTA) has delivered an increase of over 600% (\$14.5 billion in 2006-07) in total trade in goods since it

⁶⁷ Firth, 2005

⁶⁸ Australian Government. Department of Foreign Affairs and Trade, 2008a

* The Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia

⁶⁹ The Association of Southeast Asian Nations: <http://www.aseansec.org/64.htm>

⁷⁰ Australian Government. Department of Foreign Affairs and Trade, 2008a

came into force in 1983.⁷¹ It was the successor to a more limited FTA between the two countries that dates back to the 1950s. ANZCERTA is a comprehensive FTA arrangement covering almost all aspects of the bilateral trade and economic relationship between the two countries. It is also a model FTA in many respects, most notably because both countries have simultaneously lowered their MFN tariffs in parallel with the reduction in preferential rates.⁷²

The Singapore–Australia Free Trade Agreement that came into force in July 2003 offers practical trade and investment benefits for Australia in the professional, financial and educational service sectors. The benefits of the agreement are, however, largely concentrated in the services sector and in investment, as Singapore has virtually no tariffs. In the three years before 2006–07, Australia’s services exports to Singapore increased by 36% to almost 3 billion in 2006–07.⁷³

The Thailand–Australia Free Trade Agreement, which came into force in January 2005, established new opportunities for Australia to work towards greater economic integration with the second-largest economy in South-East Asia.⁷⁴ As a result, more than three-quarters of current Australian exports receive tariff-free access to the Thai market.⁷⁵ Two-way trade grew to \$13.3 billion in 2006–07 and Australian exports to Thailand rose from 3 to almost 5 billion US dollars over the same period. More than half of Thailand’s 5000 tariffs, accounting for nearly 80% of Australian exports, were eliminated when the agreement came into force. Tariffs that were not immediately eliminated are being phased down and virtually all Thai tariffs on Australian imports will be eliminated by 2015.⁷⁶

The Australia–United States Free Trade Agreement, which also came into force in January 2005, aims to boost Australia’s trade relationship with the world’s largest and most dynamic economy, and covers goods, services, investment, government

⁷¹ Australian Government. Department of Foreign Affairs and Trade, 2007c

⁷² Australian Government. Department of Foreign Affairs and Trade, 2008a

⁷³ Australian Government. Department of Foreign Affairs and Trade, 2007c

⁷⁴ Australian Government. Department of Foreign Affairs and Trade, 2008a

⁷⁵ Australian Government. Department of Foreign Affairs and Trade, 2007c

⁷⁶ Australian Government. Department of Foreign Affairs and Trade, 2008a

procurement, competition-related matters and other issues. In 2006–07, the United States was Australia’s third largest two-way trading partner and third largest export market. Two-way goods and services trade grew by 8% to approximately 47 billion US dollars in 2006–07⁷⁷ and inward and outward investment grew by 18% to reach \$766 billion. Since the FTA came into force, Australian exporters have secured over \$100 million worth of US government procurement-related contracts.⁷⁸

As pointed out above, Australia has gained greatly from its current FTAs with different countries; so it is a logical step for Australia to seek for more FTAs. Currently Australia is under negotiations with six parties including China, as stated above, but these are not given any special discussion other than in chapter seven where the negotiation process with China will be traced as well as a description of the status of current negotiations given.

5.2 Overview of the Australian Economy

The Australian economy is open, competitive, vibrant and is one of the strongest economies in the world.⁷⁹ It has very low reliance on trade taxes, a fully floating exchange rate regime and strong market-oriented policies. Australia's emphasis on reforms, low inflation, a housing market boom and growing ties with China have been the economy’s key factors since 1992.⁸⁰ During these 16 years of expansion, Australia’s standard of living has risen substantially and its economy has grown in real terms by an average of around 3.3% a year.^{81,82}

⁷⁷ Australian Government. Department of Foreign Affairs and Trade, 2007c

⁷⁸ Australian Government. Department of Foreign Affairs and Trade, 2008a

⁷⁹ Australian Government. Department of Foreign Affairs and Trade, 2008c:
http://www.dfat.gov.au/aib/competitive_economy.html

⁸⁰ The World Factbook, 2008b: <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html#Econ>

⁸¹ Australian Government. Department of Foreign Affairs and Trade, 2008c

⁸² Australian Government & The Chinese Ministry of Commerce, 2005

According to data which was published April 2008 by the IMF for its members⁸³, Australia is the 15th most productive country in the world based on nominal GDP per capita (USD 43.312), and ranks the 19th most productive country in the world based on GDP at purchasing power parity (USD 36.258).⁸⁴ Australia's strong economic growth has been coupled with low inflation and low unemployment and a highly favorable budget position compared with most other OECD countries. The IMF has even commented that the budget surplus, which has been applied to eliminate the net central government debt, is an impressive milestone that few countries have been able to achieve.

With its low tax structure, low barriers to trade and investment, high education levels and strong knowledge-based economy, Australia provides an excellent climate for enterprise and innovation; and accordingly information and communications technology (ICT) is a key driver of Australia's economic growth. Australia is a strong candidate for businesses that seek new locations for their international operations as reflected in the country's ranking by the World Bank as the second easiest economy in which to start up a business.⁸⁵

5.2.1 Foreign Trade in Australia

It was in the 1990s when the Australian government began to abandon the multilateral route to trade liberalization and to explore the potential of bilateral trade agreements with specific countries such as Singapore, Thailand and USA.⁸⁶ Today, Australia pursues a comprehensive and ambitious trade agenda to improve international market conditions for its exporters. According to the comprehensive review of Australia's export policies and programs made by the Australian Minister for Trade, Hon Simon Crean MP, the government's trade priorities in 2008 included a review of Australia's existing FTAs to determine how well their performance has met

⁸³ plus the Hong Kong Special Administrative Region

⁸⁴ International Monetary Fund, 2008: <http://imf.org/external/ns/cs.aspx?id=29>

⁸⁵ Australian Government. Department of Foreign Affairs and Trade, 2008c

⁸⁶ Firth, 2005

expectations. Australia's trade policies and programs will also be reviewed with the aim of ensuring that Australian businesses are able to meet the challenges of an increasingly competitive global market.⁸⁷

According to the Australian government's Department of Foreign Affairs and Trade, Australian goods and services exports grew by 10% in 2006-07 and added up to approximately \$211 billion while imports were valued at approximately \$220 billion. Australia's largest markets for merchandise exports in 2006-07 were Japan, China, the United States, the Republic of Korea, and New Zealand.⁸⁸ This is presented graphically in figures 13 and 14.

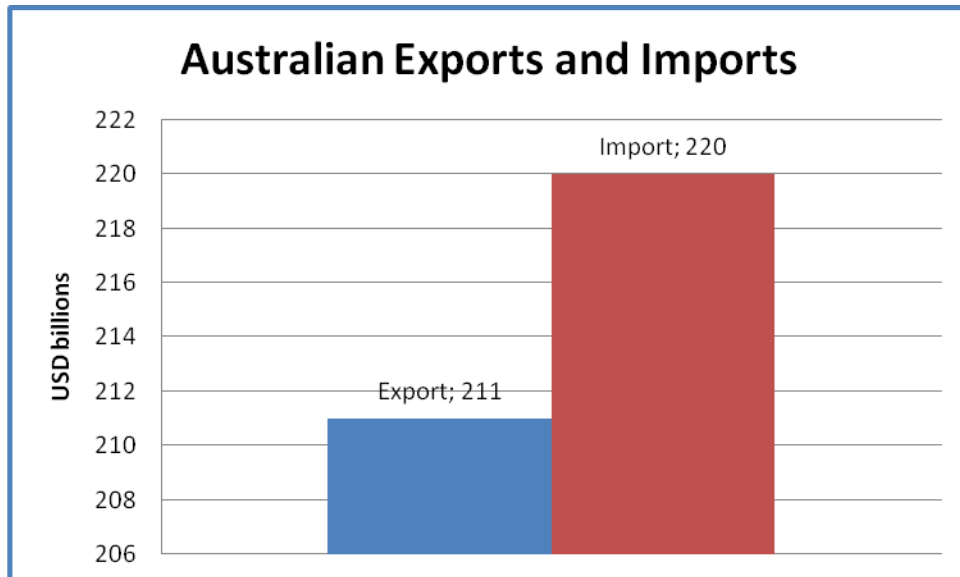


Figure 13: Australian Exports and Imports

⁸⁷ The Hon Simon Crean MP. Australian Minister for Trade, 2008:
http://www.trademinister.gov.au/releases/2008/sc_018.html

⁸⁸ Australian Government. Department of Foreign Affairs and Trade, 2008d:
http://www.dfat.gov.au/aib/trade_investment.html

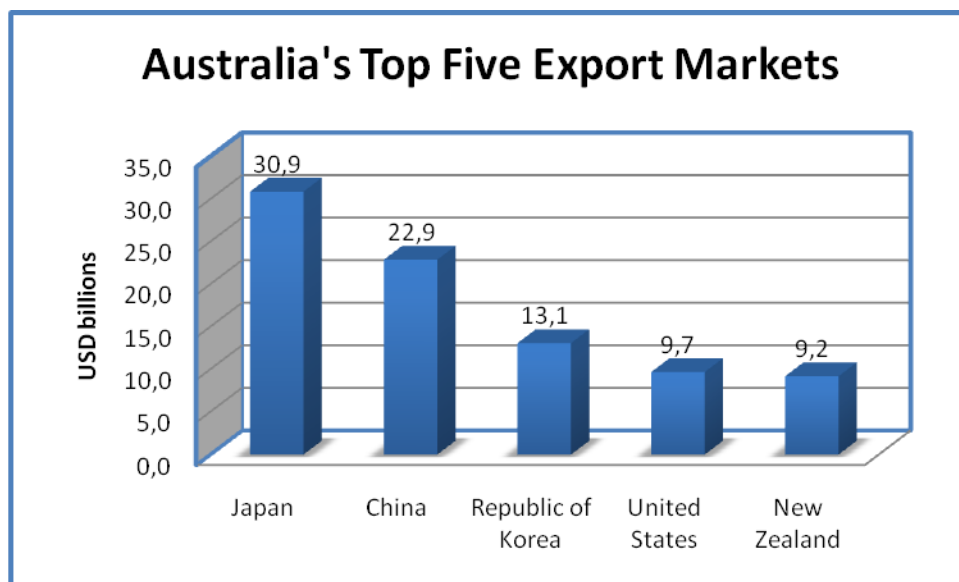


Figure 14: Australia's Top Five Export Markets in 2006-07

Australia's competitive businesses are quite diversified. Australia has long been a major exporter of agricultural, mineral and energy commodities but more recently it diversified into new services and sophisticated manufacturing export markets.⁸⁹

Australia's two-way trade in goods and services in 2006-07 accounted for about 1% of world trade.⁹⁰ In 2007, Australia was the world's largest exporter of coal and wool, and the second largest exporter of iron ore, beef, and barley.⁹¹ The value of mineral and energy exports rose by 10% in 2006-07 in response to rapid growth in global demand, particularly from emerging economies such as China.⁹² Merchandise exports to China increased by 15.8% but China was Australia's largest source of merchandise imports, followed by the United States and Japan.

Australia's service sector has also grown rapidly in past decades, making services account for approximately 71% of Australia's GDP. In 2007 Australia's service export was led by education, which is Australia's 3rd largest export after coal and iron

⁸⁹ Australian Government. Department of Foreign Affairs and Trade, 2008d

⁹⁰ Australian Government. Department of Foreign Affairs and Trade, 2008d

⁹¹ Australian Government. Department of Foreign Affairs and Trade, 2008d

⁹² Australian Government. Department of Foreign Affairs and Trade, 2008d

ore. Exports of travel services in 2007 were the 4th largest,⁹³ but the number of international visitors in Australia reached 5.6 million in 2006-07.⁹⁴

Australia welcomes foreign investment as it plays an important role in boosting economic growth, developing competitive industries, creating jobs and increasing exports.⁹⁵ Australia's natural resources with its associated mining, oil, and gas companies is the most attractive industry factor for investors, but Australia's services industry is also attracting more investors.⁹⁶ In the A.T. Kearney's 2007 Foreign Direct Investment Confidence Index, Australia was ranked as the 11th most attractive destination in the world for FDI (see table 1). Unlike the A.T. Kearny Globalization Index the survey tracks the impact of likely political, economic, and regulatory changes on FDI intentions and preferences of executives of the world's leading companies. Australia was among a selected group of countries rated highly by companies in Asia, Europe and North America.

Country	Rating (*)	Ranking
China	2,21	1
India	2,09	2
United States	1,86	3
United Kingdom	1,81	4
Hong Kong SAR	1,78	5
Singapore	1,75	7
Germany	1,70	10
Australia	1,68	11
France	1,67	13
Canada	1,65	14
Japan	1,63	15
Malaysia	1,62	16
Indonesia	1,58	21
Korea	1,57	24

Table 1: Australia's Ranking on FDI Confidence Index, 2007⁹⁷

⁹³ Australian Government. Department of Foreign Affairs and Trade, 2007d:
http://www.dfat.gov.au/publications/stats-pubs/australias_trade_2007.pdf

⁹⁴ Australian Government. Department of Foreign Affairs and Trade, 2008d

⁹⁵ Australian Government. Department of Foreign Affairs and Trade, 2008d

⁹⁶ A.T. Kearney, 2007:

http://www.atkearney.ro/pdf/fdici_2005.pdf?PHPSESSID=938a70942d121ceb62138ca167d1aff3

⁹⁷ A.T. Kearney, 2007

According to table 1, China is on the top as the most attractive destination in the world for FDI. Prior to a deeper discussion in that matter, the discussion is directed to China's overall position in the international environment.

5.3 China in the International Environment

It was in the end of the 1970s when China began to adopt the policy of reform and to open to the outside world. That time marked the beginning of China's transition into a market economy. China's foreign economic policy has undergone a transformation to become more pluralized and more transparent. Now lobbying patterns in China are becoming increasingly similar to those observed in advanced industrialized states.⁹⁸ China's accession into WTO is arguably the most important and comprehensive foreign economic decision made during China's reform era. China's WTO membership signifies China's full integration into the global economy from the position of a previously isolated and planned economy.⁹⁹ It is nonetheless complicated to estimate to what degree China has internalized the liberal norms of WTO. Particularly in the area of security affairs it is questionable whether China has a status quo power or a revisionist power. Furthermore, China's Communist system has had to go through a series of formal institutional changes and expend extra efforts to adapt to the changing international economic environment which has made China's policymaking process more transparent, streamlined, and professional.¹⁰⁰

In addition to WTO, China is a member of 70 international organizations, including UNESCO, IMF, the UN, the UN Security Council, ASEAN, and APEC.¹⁰¹ (See annex II for all of China's international organization participation (abbreviations)). In 1948, China was one of the 23 original signatories to the GATT, but after China's revolution in 1949, the government in Taiwan announced that China would leave the

⁹⁸ Zeng, 2007

⁹⁹ Zeng, 2007

¹⁰⁰ Zeng, 2007

¹⁰¹ The World Factbook, 2008e: <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html#Issues>

GATT system although the government in Beijing never recognized the decision to withdraw. Nevertheless, nearly 40 years later (1986) China notified GATT of its wish to resume its status as a GATT contracting party. In 2001, when China became a member of WTO, a substantial part of China's accession process involved bilateral negotiations between China and WTO members.¹⁰² An important contextual change brought about by China's entry into WTO is the shift from bilateralism to multilateralism enhancing China's integration into the world economy.¹⁰³

5.3.1 China's Free Trade Agreements

Since the beginning of the 21st century, China's economy has been increasingly integrated into the world at large. As a response to the needs of an open market economy in a globalized world, the Chinese government has been exploring, negotiating, and establishing FTAs with 28 different countries and regions. China has signed FTAs with ASEAN, Chile, and Pakistan to date¹⁰⁴ along with a partial agreement with Thailand. Furthermore, a Closer Economic Partnership Arrangement (CEPA) has been implemented both with Hong Kong and Macao.¹⁰⁵

The Chinese assistant minister of the Ministry of Commerce, Chong Quan stated in the online news service Xinhua 17 September 2006 that bilateral free trade agreements and the multilateral ones at the WTO were both important channels to facilitate global trade and liberalize investment. He further stated that China would not shy away from using bilateral or regional FTAs to facilitate trade since they were a vital way for China to accelerate economic reform and open-up to the outside world.¹⁰⁶ Those remarks came after the director general of the WTO, Pascal Lamy, had warned China against pursuing separate bilateral and regional FTAs as it would harm its long-term commercial interests. In response to that, Chong said that the

¹⁰² World Trade Organization, 2001: http://www.wto.org/english/news_e/pres01_e/pr243_e.htm

¹⁰³ Zeng, 2007

¹⁰⁴ Business Roundtable, 2007: http://trade.businessroundtable.org/cant_stand_still.pdf

¹⁰⁵ Ministry of Commerce of the People's Republic of China, 2007b

¹⁰⁶ The Economic and Commercial Counsellor's Office Of the Embassy of the People's Republic of China in the Federal Republic of Nigeria, 2006: <http://nigeria2.mofcom.gov.cn/aarticle/chinanews/200609/20060903179202.html>

development of free trade areas were in keeping with the trend of regional economic integration and pointed out that China had already achieved substantial progress in this regard.¹⁰⁷

China is moving into new bilateral trade agreements mainly in the Asia-Pacific region with numerous parties, such as the Gulf Cooperation Council,¹⁰⁸ the Southern Africa Customs Union,¹⁰⁹ and countries like Iceland, New Zealand, and Australia.¹¹⁰ Additionally, it is trying to initiate discussions with Brazil, India, Japan, Peru, Singapore, and South Korea.¹¹¹ The European Union, which is party to more FTAs than any other economy in the global trading system, has also identified China as a possible FTA candidate.¹¹²

The two most important objectives of China's FTAs can be related to the fact that the country is becoming the manufacturing center of the world. That fact is leading to an increased demand for energy and raw materials impelling China to find ways to secure its long-range energy supply (including crude oil and natural gas) as well as natural resources such as iron ore, copper, and lumber. The search for energy and resources has encouraged China to sign FTAs with many resource and energy rich countries such as Australia and New Zealand as well as with ASEAN. In addition to the objective of acquiring energy and natural resources from countries through FTAs, China's other objective is to expand its manufacturing exports to those countries. As well as being a way to pay for its importation of oil and other resources, as well as being a solution to the increasing protectionism China has been facing from the United States.¹¹³

China uses bilateral FTAs to achieve a market economy status at a global level with its trading partners, a status it would not have enjoyed until 2015 in the framework of

¹⁰⁷ The Economic and Commercial Counsellor's Office Of the Embassy of the People's Republic of China in the Federal Republic of Nigeria, 2006

¹⁰⁸ Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE

¹⁰⁹ South Africa, Botswana, Lesotho, Swaziland, Namibia

¹¹⁰ The Economic and Commercial Counsellor's Office Of the Embassy of the People's Republic of China in the Federal Republic of Nigeria, 2006

¹¹¹ Business & Trade Policy, 2008

¹¹² Business Roundtable, 2007

¹¹³ Asia Pacific Research Network, 2007

the WTO. The benefits of China's FTAs are obvious and can be noted just from its FTA and its all-round tariff reduction process with ASEAN. Only three months after the 7000-item tariff reduction program was implemented, trade volumes between China and ASEAN increased by 25.96%. In addition to that, tariffs on 500 farm products have been reduced since the China-ASEAN FTA entered into force.¹¹⁴

5.4 Overview of the Chinese Economy

In the last two decades China has claimed a position as a major center of global trade and manufacturing activities.¹¹⁵ The Chinese economy has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Since China opened up to the outside world, its economic development has been spectacular. The Chinese economy has demonstrated unprecedented growth which is also due to its national policy of reform.¹¹⁶ Capital, labor service, and technology markets have appeared one after the other in China; and now China has transformed its planned economy system into an initial socialist market economy system.¹¹⁷ China is now the single largest contributor to global growth and the third-largest merchandise importer in the world. The country is also the world's second largest producer and consumer of energy after the United States. To ensure its future energy supplies, China has been actively pushing outward investment in energy and resources projects around the world including in Australia.¹¹⁸

The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP in the last 20 years (or since 1978). In the 1980s its GDP increased at an average annual rate of 9.7%, 10.7% in the 1990s, and during

¹¹⁴ Bilaterals.org, 2006: http://www.bilaterals.org/article.php3?id_article=3779

¹¹⁵ Zeng, 2007

¹¹⁶ Zeng, 2007

¹¹⁷ Ministry of Foreign Affairs of the People's Republic of China, 2000a: <http://www.fmprc.gov.cn/eng/ljzg/zgjk/3582/t17865.htm>

¹¹⁸ The World Factbook, 2008d: <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html#Econ%20%96>

the period between 2000 and 2007 its annual growth has been 10%.¹¹⁹ Despite this growth, China's GDP per capita remains relatively low. China's manufacturing industry accounts for the major part of the country's economic growth which can be explained by China's relatively low labor cost but high labor skills, as well as social stability and favorable market conditions.¹²⁰ In April 2008 the IMF published a list of its members that included the Hong Kong Special Administrative Region. Of 179 countries on the list, China ranks 105th among the most productive countries in the world based on nominal GDP per capita (USD 2.461), and 99th based on GDP at purchasing power parity (USD 5.292).¹²¹

Since the beginning of the 21st century, China has been associated with relatively stable prices, substantial increases in employment, a pegged exchange rate, and surging growth in foreign trade. China's economic successes are based on effective macro and micro-economic management, and China's transition to a market economy. Rapid integration into the world economy combined with strong growth in investment and domestic consumption are factors that should continue to sustain China's rapid economic growth and development over the long-term.¹²²

To be able to better evaluate the importance of the Chinese-Australian trade relationship, an overview of the country's world trade position is given. China's economy is quite diversified but it faces the long-term challenge of rebalancing its economy away from its current pattern of growth led by exports and investment to a more sustainable growth such as is achievable by giving the service sector a greater role.¹²³

¹¹⁹ Australian Government & The Chinese Ministry of Commerce, 2005

¹²⁰ Asia Pacific Research Network, 2007:

<http://www.aprnet.org/index.php?a=show&t=journals&c=Volume%2015%20June%202007&i=44>

¹²¹ International Monetary Fund, 2008

¹²² Australian Government & The Chinese Ministry of Commerce, 2005

¹²³ Australian Government. Department of Foreign Affairs and Trade, 2007b:

http://www.dfat.gov.au/GEO/china/cb_index.html

5.4.1 Foreign Trade in China

The omnipresent words “made in China” exemplify how integrated the Chinese economy is with the rest of the world. Over the past 50 years, China's trade and economic relations with other countries and regions has been developing constantly, especially in the last 20 years in which China’s import and export trade volume has risen rapidly at an average annual rate of 15%.¹²⁴ In 2007 Chinese imports were valued at \$955.8 billion while Chinese exports amounted to \$1221 billion.¹²⁵ Over 220 countries and regions entertain trade contacts with China. China’s key trade partners in 2007 were EU, U.S.A., Japan, ASEAN, Hong Kong, Republic of Korea, Taiwan, Russia, and Australia.¹²⁶ Those facts are set out graphically in figures 15-16.

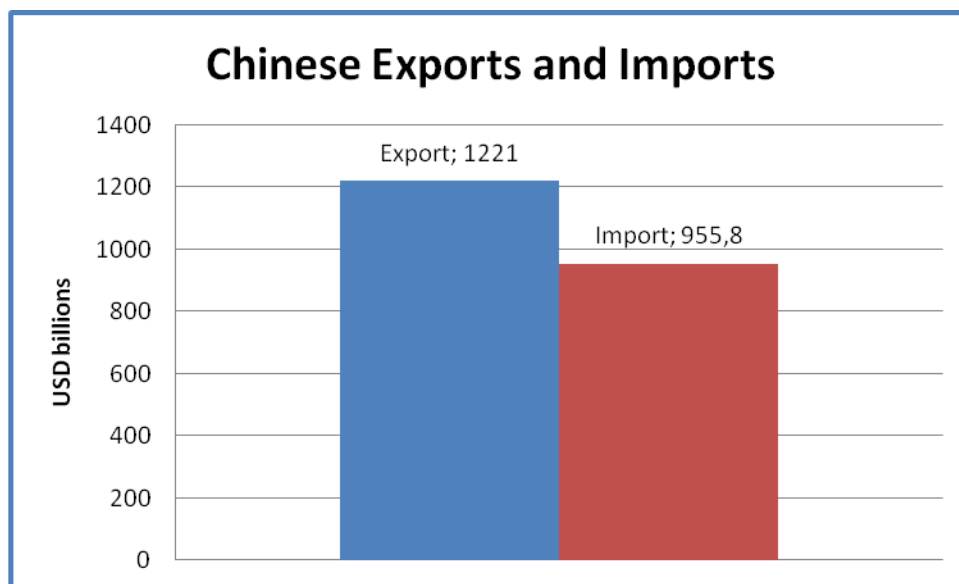


Figure 15: Chinese Export and Import

¹²⁴ China Economic Net, 2006: http://en.ce.cn/Insight/200603/09/t20060309_6313114.shtml

¹²⁵ Ministry of Commerce. People's Republic of China, 2007c: <http://english.mofcom.gov.cn/column/statisticsie2007.shtml>

¹²⁶ Market Avenue, 2007: http://www.marketavenue.cn/Database_2.asp?id=1268



Figure 16: China's Top Trading Partners in 2007

China has for year after year been the country exporting the largest quantity of labor-intensive products; but since China opened up to the outside world the fish and marine sector has also grown dramatically and become one of the fastest growing sectors in China. An increasing number of Chinese industrial products have also been entering the world in recent decades, and in 1996 China overtook Japan as the world's biggest steel producer.¹²⁷

After WTO accession, the Chinese government made a commitment to opening up the service sector making the service industry a new hotspot for foreign investment. According to a report on the foreign trade situation in China in 2006, the total volume of China's service trade reached \$187 billion. As a part of that figure, export accounted for approximately 3.2% of the world's total services export; and import for approximately 3.8% of the world's total services import.¹²⁸

Foreign Direct Investment is another aspect of China's integration into the world economy. As pointed out earlier, the A.T. Kearney's 2007 Foreign Direct Investment Confidence Index puts China in the first place as the most attractive destination in the world for FDI. (See table 2).

¹²⁷ World Trade Organization, 2007: http://www.wto.org/english/news_e/pres07_e/pr472_e.htm

¹²⁸ Ministry of Commerce of the People's Republic of China, 2007

Country	Rating (*)	Ranking
China	2,21	1
India	2,09	2
United States	1,86	3
United Kingdom	1,81	4
Hong Kong SAR	1,78	5
Singapore	1,75	7
Germany	1,70	10
Australia	1,68	11
France	1,67	13
Canada	1,65	14
Japan	1,63	15
Malaysia	1,62	16
Indonesia	1,58	21
Korea	1,57	24

Table 2: China's Ranking on FDI Confidence Index, 2007¹²⁹

China's absorption of foreign investment is an important element of China's fundamental principle to open up to the outside world. Cumulative FDI in China is more than \$750 billion, exceeding by far any other emerging market economy.¹³⁰ The manufacturing sector accounts for the majority of FDI but investment in services will grow rapidly with further market liberalization.

¹²⁹ A.T. Kearney, 2007

¹³⁰ Ministry of Commerce of the People's Republic of China, 2007a:
<http://xxhs2.mofcom.gov.cn/aarticle/commonnews/200708/20070805038361.html>

6. The Australian-Chinese International Context and Bilateral Relationship

According to the Australian Department of Foreign Affairs and Trade (2007), Australia and China pursue constructive and friendly relations on the basis of mutual respect and recognition of both their shared interests and their differences. China's importance to Australia, and vice versa, has grown with China's increasing economic, political, and strategic weight. Australia and China maintain a number of bilateral dialogues that cover many topics to advance cooperation. Trade ties and economic cooperation are a key asset in the relationship, covering topics such as resources, aid, defense, regional security and disarmament, human rights, and consular matters.¹³¹ The strength and importance of the bilateral relationship between Australia and China can be noted in the frequency of recent visits and agreements between leaders of the two countries.

The Trade and Economic Framework (TEF) that was signed October 2003 provides the basis for the further development of trade between Australia and China. It focuses on strengthening and expanding the economic relationship, closer cooperation, and developing strategies to promote business opportunities in areas of high potential. The TEF included a commitment by Australia and China to undertake a joint free trade agreement feasibility study, which was completed March 2005 and concluded that the negotiation of an FTA would result in significant economic benefits for both Australia and China. In April 2005, both countries agreed to commence negotiations on a free trade agreement. Since then eleven rounds of negotiations have been held, most recently June 16 - 20, 2008 in Beijing. The progress of the negotiations, as mentioned before, will be set out in chapter seven.

¹³¹ Australian Government. Department of Foreign Affairs and Trade, 2007b

During the visit by Premier Wen Jiabao to Australia April 2006, Australia and China signed a Nuclear Transfer Agreement and a Nuclear Cooperation Agreement. Opening up this export opportunity with China is consistent with the growing trade and economic relationship between the two countries.¹³² Australia's position as a secure supplier of energy resources rests on an estimated 40% of the world's low-cost uranium resources. China is the world's second largest energy consumer and its electricity demand is growing. Diversifying from fossil fuels to uranium will result in lower greenhouse gas and particulate emissions in China.¹³³ Environmental issues have become increasingly important in the Australian-Chinese relationship and according to the International Energy Agency Corporation; China will become the world's largest greenhouse gas emitter in 2007 or 2008. Cooperation to combat climate change is now a priority issue for both countries.¹³⁴

Political risk is one of the most important non-trade issues associated with trade deals. The concept involves the chance that government behavior will affect the profits of a business. A trade agreement may have an impact on political risk which can lead to significant consequences for trading partners.¹³⁵ Foreign trade forms a crucial part of relationships between countries. A closer trade relationship between countries means a stronger interest in the success and stability of each other as trading partners. Moreover it increases understanding and lowers the probability of conflict. Negotiations that aim to build an important relationship will at the same time link the two economies closer together and increase the importance of good political relationships.¹³⁶ Both the Australian and Chinese governments must be aware of those facts since the following text reflects their intentions to foster and encourage their overall bilateral relationship.

The bilateral political engagement is extensive and significant to both countries. It covers some sensitive political issues which require careful management, including

¹³² Australian Embassy, China, 2008b: <http://www.china.embassy.gov.au/bjng/relations2.html>

¹³³ Media Release, 2005: http://www.foreignminister.gov.au/releases/2005/fa100_05.html

¹³⁴ Australian Government. Department of Foreign Affairs and Trade, 2007b

¹³⁵ Humphreys & Stoeckel, 2005

¹³⁶ Humphreys & Stoeckel, 2005

Taiwan and human rights. Australia does not, for example, recognize Taiwan as a country or the 14th Dalai Lama as a political leader, yet regularly expresses its concerns about human rights in Tibet to China. To look after and to encourage the growing trade and economic relationship between the countries it is important to support all sides of the bilateral relationship. Australia seeks to help China to implement international human rights standards through, for example, the Australia-China Human Rights Dialogue, the most recent round of which took place in Beijing July 30, 2007.¹³⁷

Other important facets of the bilateral relationship include aid to China. Australia's development assistance to China is focused on rural poverty and health problems in under-developed areas such as Tibet and Xinjiang. Australia also provides training assistance to China in trade and economic matters that improves China's capacity to participate in FTA negotiations.¹³⁸ All these aspects are important to their overall bilateral relationship, and have contributed to Australia and China enjoying bilateral success for over a decade, with only modest interruptions from domestic, regional and global economic shocks.¹³⁹

6.1 Bilateral Trade between Australia and China

The Australia-China trade relationship has grown significantly in scale and depth for more than a decade. China is currently ranked as Australia's 2nd largest trading partner, and Australia as China's 11th largest trading partner,¹⁴⁰ and this two-way trade and commercial relationship has been growing rapidly at an average of 20% over the past five years.¹⁴¹ It reflects comparative economic strengths and a growing investment relationship or more generally a closer bilateral economic cooperation. A potential bilateral FTA could strengthen this existing relationship and cooperation even further

¹³⁷ Australian Government. Department of Foreign Affairs and Trade, 2007b

¹³⁸ Australian Government. Department of Foreign Affairs and Trade, 2007b

¹³⁹ Australian Government & The Chinese Ministry of Commerce, 2005

¹⁴⁰ Australian Embassy, China, 2008b

¹⁴¹ Australian Embassy, China, 2008a: <http://www.china.embassy.gov.au/bjng/relations1.html>

The Doha multilateral trade negotiations in WTO were, as mentioned before, the countries' highest priority in their trade policy, as they were a crucial step to ensure sustainable long-term economic growth in both countries. Australia, for example, exports around two thirds of its agricultural production by value, so access to world markets is crucial to the fortunes of Australian farmers.¹⁴² Australia as well as China put considerable effort into reducing the high barriers to agricultural trade, but the Chinese government claimed that China supported the Doha Round on the basis of full consideration of the interests and reasonable requirements of developing countries.¹⁴³ As the Doha Round has collapsed, it is very likely that both governments will put a greater emphasis on reducing barriers to trade by establishing new bilateral and regional trading arrangements with other countries. Another reason Australia and China have been moving towards bilateral agreements or RTAs could be that the multilateral negotiations in the WTO are going slow. When there is a break in the multilateral negotiations, then bilateral and regional agreements become an attractive alternative for further economic and trade development. Moreover, FTAs can be far easier to negotiate as trade disputes are more easily remedied, and also subsequent implementation may be far less onerous.¹⁴⁴

Australia and China are at noticeably different stages of economic and social development. China's per capita GDP is around 5.7% of Australia's in current US dollar terms. Around two-thirds of China's total population remains in rural areas and agriculture contributes around 12% of China's GDP. In Australia, 3.6% of the population is occupied in the agricultural sector, producing around 4% of GDP. Manufacturing is the key driver of China's economic growth and development and contributes around 49% of GDP while services contribute 39%; whereas in Australia, manufacturing accounts for 25% of GDP and services for 71% of GDP. Although such differences could be a challenge in the FTA negotiations, they indicate that an

¹⁴² Humphreys & Stoeckel, 2005

¹⁴³ Embassy of the People's Republic of China in Jamaica, 2005:
<http://jm.chineseembassy.org/eng/dsjh/t210680.htm>

¹⁴⁴ Zhao, Malouche, & Newfarmer, 2008

FTA could increase the scope for trade creation and deliver benefits to each economy.¹⁴⁵

The Australia-China commercial relationship reflects their comparative economic strengths. Australia predominantly exports unprocessed rural and resource commodities and some high-value manufactured goods and services to China. Australian businesses also invest in a variety of high-value manufacturing and service industries in China. China in turn predominantly exports labor-intensive or processing-derived manufactured goods to Australia and invests in a variety of Australian resource, processing, manufacturing, and services ventures. This expanding commercial relationship is also encouraging commercial interest in new areas. Australian firms are active in China in niche areas including architecture, medical and health services, agricultural consulting, technologies and machinery, minerals technology, and environmental products and services. Chinese firms are similarly active in Australia in areas such as agricultural and resource processing, tourism, and technology supply. These developments demonstrate both countries' strengths outside traditional areas of trade and investment, and highlight a broad new area of opportunity for the bilateral commercial relationship.¹⁴⁶

6.2 Australia-China FTA Joint Feasibility Study

In 2005 Australia and China agreed to start the joint free trade agreement feasibility study which was completed March that same year. The feasibility study showed that a free trade agreement between the countries would result in significant economic benefits for both Australia and China. It further concluded that an FTA would be expected to intensify further bilateral trade and economic cooperation in areas such as trade and investment promotion, customs facilitation, sanitary and phytosanitary measures, technical regulations and standards, temporary entry, IP rights, electronic

¹⁴⁵ The World Factbook, 2008a: <https://www.cia.gov/library/publications/the-world-factbook/>

¹⁴⁶ Australian Government & The Chinese Ministry of Commerce, 2005

commerce, small and medium size business cooperation, transparency, trade remedies, capacity building, government procurement, and competition policy.¹⁴⁷

The main aim for any FTA study is to provide an assessment of the prospect for the liberalization of bilateral trade and investment by establishing a free trade agreement between the countries in question. It is further considered in terms of the minimum standards laid down by the WTO and includes the requirements of the GATT and the GATS. Further objectives of the study can be found in annex III.

The above-mentioned study indicates that although trade in goods plays an important role in promoting economic development in Australia and China there are some tariff and non-tariff measures that currently impede trade and impact the profile of exports between the two countries. The tariff level is relatively high in China compared with Australia, and both countries apply trade restrictions according to relevant international agreements. Apart from tariffs, Australia and China have implemented other policies to assist with foreign trade administration. These include, for example, RoO regimes, tariff rate quotas, import licensing regimes, technical barriers to trade, and trade remedies.¹⁴⁸ Reaching agreement on a comprehensive free trade agreement would present the potential to take the economic relationship to a new level across merchandise trade, services, and investment.¹⁴⁹

Trade in goods plays an important role in promoting economic development in Australia and China, but tariff and non-tariff measures currently impede trade and have a negative impact on exports between the two countries. Liberalizing trade in goods will be a key component of a possible FTA between Australia and China. Such an agreement would be expected to eliminate tariffs on substantially all trade between the two countries as soon as possible or at least within a ten-year period.¹⁵⁰

¹⁴⁷ Australian Government & The Chinese Ministry of Commerce, 2005

¹⁴⁸ Australian Government & The Chinese Ministry of Commerce, 2005

¹⁴⁹ Australian Embassy, China, 2008b

¹⁵⁰ Australian Government & The Chinese Ministry of Commerce, 2005

Australia's top merchandise exports to China in 2006-07 were iron ore; wool; lead, zinc, manganese and copper ores; and coal. These are shown in figure 17.

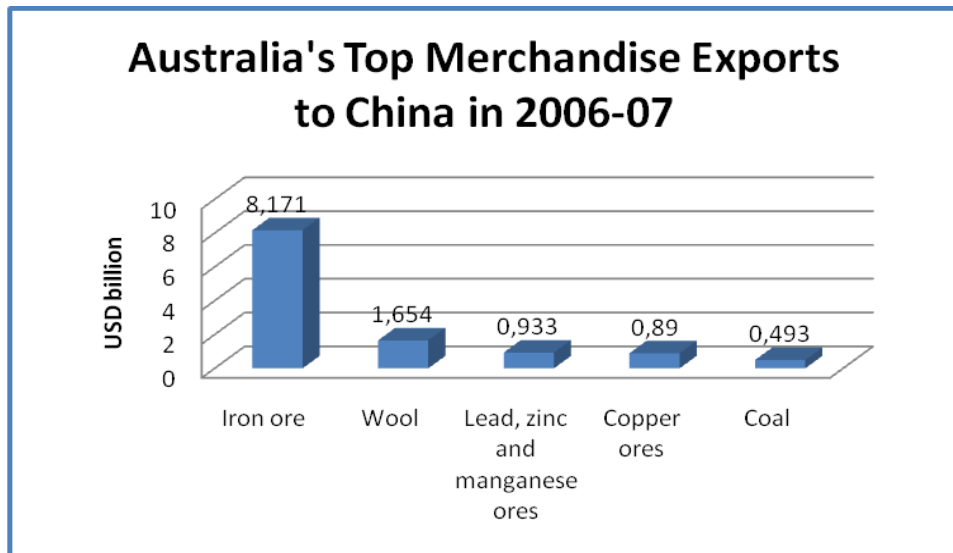


Figure 17: Australia's Top Merchandise Exports to China in 2006-07

China's top merchandise exports to Australia in the same period were clothing, computers, telecommunications equipment, toys, games, sporting goods, and furniture. These are shown in figure 18.

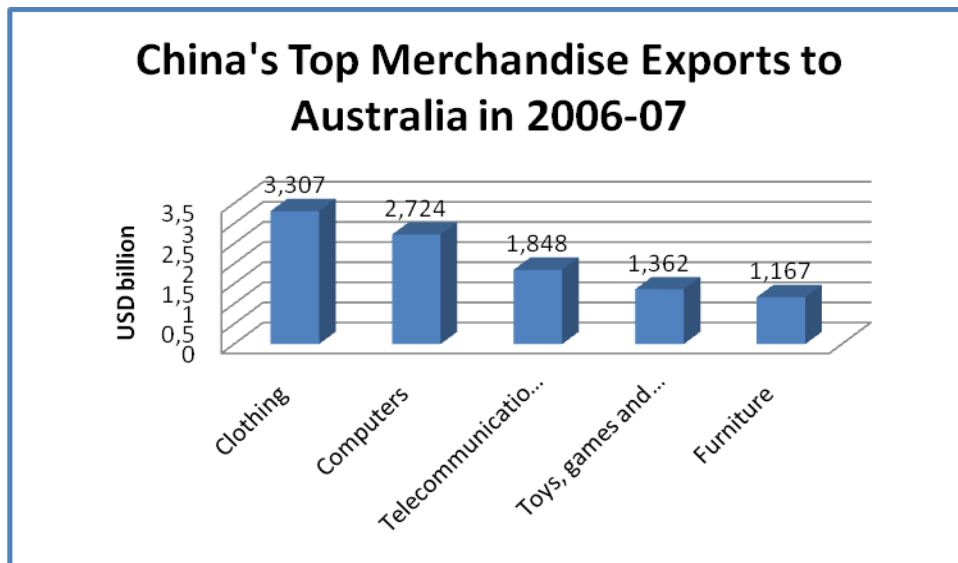


Figure 18: China's Top Merchandise Exports to Australia in 2006-07¹⁵¹

¹⁵¹ Australian Government. Department of Foreign Affairs and Trade, 2007b

The service sector has become increasingly important in both countries' current economies. The combination of rising real incomes and reform of the service sector is significantly boosting trade in services and investment between China and Australia. Education and travel dominate Australia's service exports to China, accounting for around 80% of services exports in recent years. China is, for example, Australia's largest market for international student enrolments, providing 24% of all enrolments¹⁵² and Australia's fifth largest source of international visitors were Chinese visitors comprising 6% of the 5.6 million people who visited Australia in 2006-07. According to Mark Vaile, the Australian Minister for Trade, Australia will be seeking a very strong outcome on services in its FTA negotiations with China. Australian companies have already made significant gains in China's services sector, and by making it easier for Australian firms to work in China, it will create jobs, boost Australian exports, and introduce new ideas and skills into China's economy.¹⁵³

Service industries tend to develop on a large scale after agricultural and manufacturing sectors have reached a certain stage of development. That was also China's case as its services sector has been a late starter compared to other countries. Since 1979, China's economic reform program has been focused on agriculture and manufacturing products but the proportion contributed to the GDP by services tends to rise with the level of income. This focus towards the service sector is likely to change greatly in China's relationship with Australia if a bilateral FTA between the two countries comes into being.

Bilateral foreign investment has remained fairly modest relative to the overall growth in bilateral trade between Australia and China but it is nevertheless growing. In 2006 China was the 17th largest investor in Australia with total investment of 3.3 billion while China was Australia's 21st largest investment destination with total investment of approximately 3 billion. China's largest investments are in the resources sector, reflecting China's development demands and its aim to secure upstream resources for

¹⁵² 29% if Hong Kong is included

¹⁵³ Media release, 2006: http://www.trademinister.gov.au/releases/2006/mvt008_06.html

its ongoing rapid industrialization. Australia, on the other hand, focuses on manufacturing; mineral exploration; and legal, banking and educational services.¹⁵⁴

China's new 'go-global' policy is encouraging overseas investment which is expected to result in more Chinese investment in Australia.¹⁵⁵ China has approved some 5000 Australian investments and the potential for greater investment growth strengthens as China liberalizes its services sector.¹⁵⁶ China's potential benefits from Australia are its strong economic credentials, backed by a highly skilled and multilingual workforce, a dynamic services sector, sophisticated telecommunications and IT systems as well as an open regulatory environment. On the other hand, Australia will benefit from China's large market and fast growing economy which continues to improve its overall investment climate through regulatory, legal, financial, and taxation reforms.¹⁵⁷

A free trade agreement between the two countries could considerably stimulate the current and above mentioned trade in merchandise, and services, as well as foreign investments, for both countries. The joint feasibility study supports this argument as it concludes that there would be significant economic benefits for both Australia and China through the negotiation of an FTA.¹⁵⁸ Following consideration of the joint FTA Feasibility Study both countries agreed to commence negotiations on a free trade agreement April 18, 2005.

¹⁵⁴ Australian Government. Department of Foreign Affairs and Trade, 2007b

¹⁵⁵ Australian Embassy, China, 2008b

¹⁵⁶ Australian Government. Department of Foreign Affairs and Trade, 2007b

¹⁵⁷ Australian Embassy, China, 2008b

¹⁵⁸ Australian Government & The Chinese Ministry of Commerce, 2005

7. Negotiations for the Australian-China FTA

April 18, 2005, the Australian Prime Minister, John Howard, and the Chinese Premier, Wen Jiabao, agreed to commence negotiations on a free trade agreement after the joint FTA Feasibility Study concluded that it would be of considerable economic benefit for both countries.¹⁵⁹ Since then eleven rounds of negotiations have been held to date, most recently last month in Beijing (or June 16 to 20, 2008). The twelfth negotiating round is scheduled to be held in the in the first half of September 2008.¹⁶⁰

The first round of talks between the two countries was held in Sydney, May 2005, but the progress has been slow for a number of reasons. The first three rounds concentrated on an exchange of information about each country's trade and investment regime. The following three rounds discussed the shape and draft provisions of the proposed FTA. At the seventh round, Australia and China exchanged market access offers on goods and some services. At the eighth round, useful market access discussions on trade in services continued, and talks began on barriers to trade in investment. Progress was also made in discussion of some technical areas of the proposed FTA but negotiations on tariffs were put on hold. Negotiations on various non-tariff barriers to trade in goods did nonetheless continue, and Australia continued to raise the matter of non-tariff impediments to trade. Requests for non-tariff measures have now been tabled with China covering wool, iron ore, wine, mining equipment, and kangaroo meat, as well as general issues affecting trade. Work continued at the ninth round on the chapter of the proposed FTA concerning trade in goods. Most of the text for this chapter has now been

¹⁵⁹ Australian Government. Department of Foreign Affairs and Trade, 2007a: http://www.dfat.gov.au/geo/china/fta/071101_subscriber_update.html

¹⁶⁰ Australian Government. Department of Foreign Affairs and Trade, 2008b: <http://www.dfat.gov.au/geo/china/fta/>

agreed, although China's automatic import licensing system appears to impede Australia's trade in some instances. Reasonable progress was also made on the text of the FTA chapter dealing with Rules of Origin, although some issues relating to the methodology to be used in an FTA remain unresolved. Australia prefers a change of tariff classification approach while the Chinese side prefers a regional value-added method.¹⁶¹

The tenth round of negotiations continued to be slow compared to the overall negotiations process, but they managed to narrow their differences on some issues that made useful changes to the proposed text of the agreement. Still, market access negotiations on goods, including agriculture, remained on hold pending an improved offer by China. From the ninth round Australia continued their requests to China on a range of non-tariff measures identified by Australian producers as trade impediments, but they needed to provide more information to allow China to consider their requests further. Discussion of trade in goods and agriculture were quite efficient as the two countries narrowed their differences on trade in goods, rules of origin, customs procedures, technical barriers to trade, and sanitary and phytosanitary issues. Subjects sensitive for China, such as government procurement, were discussed in the tenth round without any apparent result. Also, no results were achieved on IP, as China requested that all talks on the matter be put on hold until the eleventh round. Discussions on services were limited to cross-border trade in services and mutual recognition agreements in engineering, architecture, and construction.

With the intention of influencing the outcome in various sectors in the FTA negotiations, several visits were arranged between Australia and China for different parties. This can be spotted in the eleventh round of negotiations in Beijing June 16 to 20, 2008, where the process was much faster and many differences were considerably narrowed. . For instance, the progress on the joint study on wool came near to completion, and it was agreed to intensify discussions in coming months on priority product areas, particularly agriculture. Good progress was also made on the

¹⁶¹ China Australia Business, 2008: <http://www.chinaaustraliabusiness.net/article.php?article=1,022>

chapters covering sanitary and phytosanitary issues, and technical barriers to trade. At this round the countries started to work on the Rules of Origin schedule, using the change of tariff classification as the principal methodology; nevertheless part of the negotiations is foreseen to take some time. A constructive discussion on customs procedures continued, and Australia has now discussed with China the full range of issues affecting trade in goods. Australia continued, for instance, to advocate their proposed approach on a range of non-tariff measures affecting trade, including mandatory re-testing of wool and automatic import licensing.

There was a constructive exchange on the draft electronic commerce chapter tabled by Australia, and agreement has been reached on some key elements. In financial services, there were also some constructive discussions although it was clear that China would prefer outcomes which require less regulatory change. China nevertheless agreed to seek further clarification or to consider the Australian proposals concerning education and training that include important areas for Australia.

On the matter of investment, China repeated its earlier expressed interest in Australia's foreign investment screening and also outlined its interest in the Australian infrastructure access regime, particularly relating to minerals and energy. Australia explained to China that it welcomes foreign investment, and assesses all relevant foreign investment applications on a non-discriminatory basis.

In the eleventh round, Australia was moreover able to restart negotiations on the intellectual property (IP) chapter after China's request to not discuss IP at the tenth round. There were two days of constructive, detailed discussions on the text of the IP chapter and now the countries have put in place a detailed forward work plan to intensify negotiations over the next few rounds.

As is obvious from the above, the eleventh round of negotiations in Beijing started a new faster phase where Australia and China managed to narrow their differences

considerably on many issues. Differences in the countries' eagerness to reach an agreement in various sectors and thereby complete the FTA can nonetheless be noted. Australia seems to have more initiative and more determinedness to come to terms while China seems to be the one that sets back the process more frequently. However, cultural difference is a factor that can strongly affect how countries negotiate. Australia and China have very different cultural backgrounds, and their behavior in the negotiation process can therefore also be explained by different cultural variables. The cultural concept and its speculations concerning negotiations are nevertheless far too extensive to be included in this thesis. Such speculation will therefore be left for other researchers, although it is important to bear in mind that cultural factors have a big impact on negotiations, especially when such different cultures as Australia and China are involved. As many cultural speculators have mentioned, eastern and western cultures have been misunderstanding each other for centuries and still are.¹⁶² Therefore it is important that both parties have members on board who truly know and understand the culture of the other party because that may speed up the negotiation process considerably. It is however clear that the overall FTA negotiations process is moving much faster than it did in the beginning and seems to be much closer to the end. It will be interesting to see how it progresses in the twelfth round which is expected to be held in the first half of September 2008. At that time this paper will have been completed so the results cannot be presented in this thesis.

¹⁶² Nachman & Associates, 2008: <http://www.visaserve.com/CM/Articles/Articles5.asp>

7.1 Australia-China FTA - Yes or No?

After taking a deep look into both the Australian and Chinese positions in the international environment, investigating their economies, bilateral trade, and international integration, a conclusion is reachable. The benefits of an FTA for Australia and China will be significant. It is nonetheless clear that both sides have to exercise caution in the process of negotiations for an FTA as both countries must satisfy a number of conflicting domestic interests. Some may stand to benefit greatly from free trade while others may see little or no change, or worse, be negatively affected. As a rule with agreements in general it is unlikely that an FTA will completely satisfy the demands of all parties involved. However, in general an FTA will allow the two nations to develop and strengthen their economic relations and improve their competitive positions with the rest of the world.

One of the immediate benefits of an FTA will be the rapid reduction or elimination of tariffs as the agreement is expected to eliminate tariffs on goods and services within ten years. This will, for example, benefit consumers with lower prices and more choices. Service providers as well as investors will also receive important benefits in both markets where both countries enjoy greater market access. The free trade agreement will undoubtedly strengthen the already close commercial ties between Australia and China, and improve their competitive positions in the commercial world.

Coming to this conclusion generates the next research question: would it be better for Australia and China to negotiate the FTA on a comprehensive bilateral basis or through multilateral negotiations at WTO.

7.2 Bilateral FTA versus Multilateral at the WTO

A deep look into two neo-liberalist international organizations that deal with free trade, and an analysis of their negotiations process, generates an idea of the answer to the latter research question that asks if a comprehensive bilateral FTA would deliver benefits faster or beyond what can be achieved through multilateral negotiations at WTO. Moreover, by studying Australia's and China's participation in WTO, a conclusion is reachable as to whether a comprehensive bilateral free trade agreement would be more successful for Australia and China than would negotiations on a multilateral basis at WTO. This conclusion will be supported with four arguments.

The first argument supports it with the simple notion that negotiations usually become more complicated and slower as the number of participants increase. Multilateral negotiations at WTO, involving 152 members from diverse developmental stages, cultures, and political economies can be problematic. Negotiations have also proven to be difficult at smaller forums such as APEC, which has only 21 members. Negotiations involving a small number of participants are easier and are further enhanced when they share common political, cultural, and economic systems.

The fact that a country's transition to wider and more comprehensive liberalization is easier if it first becomes accustomed to limited liberalization leads to the second argument for why Australia and China should prefer to negotiate on a bilateral basis. By negotiating the Australia-China FTA bilaterally the countries could prepare better for wider liberalization in the future. The third argument concerns costs related to an FTA. Such costs could include industry, customs, and quarantine restructuring which could be seen as negative aspects of an FTA; but once these costs are met in an FTA there is no need to address them again in multilateral negotiations. Accordingly, states already participating in FTAs will more readily negotiate multilateral trade liberalization.

The fourth and the last argument for supporting the conclusion that Australia and China should negotiate on a comprehensive bilateral basis rather than on a multilateral basis at WTO, is that a comprehensive bilateral FTA may liberalize trade further or beyond what is possible through WTO, thus setting the pace for future multilateral negotiations. The presentation of these four arguments draws the final conclusion that Australia and China FTA negotiations are on the right path; and that, if possible, they should be directed to a faster phase. In that way the two countries will start to receive sooner the economic, political, and cultural gains that a bilateral FTA would bring them.

8. Conclusion and Recommendations

This thesis provides a general overview of the Australian and Chinese bilateral relationship as well as their economies and foreign trade along with their positions in the international environment. The analysis also gives an introduction to WTO and APEC. Such discussion is given to be able to better clarify the second set of research questions (given prior to the study) that ask if a comprehensive bilateral FTA will deliver benefits faster or beyond what can be achieved through multilateral FTA negotiations at WTO. The other research question asks if a comprehensive bilateral FTA between Australia and China will benefit both countries. To be able to support the answer to that, the various options of dealing with free trade are emphasized, with a special focus on FTAs in general. In support of that answer the conclusion of the joint feasibility study that was conducted prior to the FTA negotiations, is presented. A summary of the current FTAs of Australia and China along with their benefits is set out; and an overview of the ongoing FTA negotiations between Australia and China is traced.

After an examination of Australia's and China's current FTAs, the prospective FTA, and Australian and Chinese foreign trade in general, it became clear that the introduction of such an agreement would benefit both countries and would deliver benefits faster or beyond what can be achieved through WTO. So the case study answers both research questions 1 and 2 in an affirmative way with the following precise answers:

Research question 1: Will a comprehensive bilateral FTA between Australia and China benefit both countries?

The case study gives an affirmative answer to research question 1 where all the case study's factors lead to a consensus that the prospective FTA would undoubtedly be beneficial both to Australia and China as an overall agreement, as well as strengthening cooperation in most areas of their economy. The case study nevertheless has its limitations. Even though all aspects of the case study imply that an FTA would be beneficial for the countries it is difficult to assess the exact impact that the prospective FTA would have on a quantitative basis. The case study, however, showed clearly that the benefit to China of a fully liberalizing FTA with Australia would be to boost China's GDP. Being China's first FTA with a major developed economy, it would be a big challenge for China to negotiate that sort of comprehensive, high-quality FTA with Australia.

It offers China an opportunity to liberalize sectors of its economy on an experimental basis with an economy that is big and sophisticated enough to provide the skills and inputs needed to help China without threatening its industries. An FTA with Australia would provide many other advantages for China. Australia is, for example, a reliable supplier of the minerals and energy necessary to fuel China's massive construction and industrialization programs; and at the same time China could try to obtain better access to investment in the Australian resources sector.

The case study showed furthermore that the benefit for Australia would be to provide Australian companies with improved access to the rapidly expanding Chinese market. Benefits would include greater trade and investment flows across all sectors.¹⁶³ These perceived benefits for Australia include higher economic growth and greater trade and investment flows across all sectors resulting in more jobs, higher incomes and therefore better standards of living, at both the national and regional levels.¹⁶⁴

Research question 2: Will a comprehensive bilateral FTA deliver benefits faster or beyond what can be achieved through multilateral negotiations at the WTO?

¹⁶³ China Australia Business, 2008

¹⁶⁴ BNET Australia, 2008: http://findarticles.com/p/articles/mi_m0PAO/is_1_27/ai_n24379879

The case study also answers research questions 2 in an affirmative way as it shows that there is a correlation between bigger components and the more complicated, slower and more limited negotiations. With bigger components, the obstructive potential of cultural, political, and language differences becomes more unmanageable, slowing negotiations and make them less efficient. Even though WTO and APEC are truly important organizations and very efficient in most of their procedures, this case study points out that by completing the bilateral agreement the delivered benefits in Australia's and China's case will come faster or be beyond what can be achieved through multilateral negotiations at WTO.

At this point, no further attempts are made to study or speculate what impact a prospective FTA may have on Australia and China or if the ongoing bilateral negotiations are more efficient than a multilateral ones would be through WTO. Further research in the coming years, after the Australia-China FTA has come into force, would be interesting where it might, for example, establish changes in market access, trade volumes, import and export channels as well as defining the impact of tariff reduction. It could also offer a better opportunity to compare the benefits of multilateral negotiations with bilateral ones on a quantitative basis.

What can be stated at this point with a reasonable degree of certainty is that such a bilateral agreement will be in the interest of both countries, improving their economy and living standards, and the sooner it comes in to force; the sooner benefits will be brought to Australia and China. Having reached the conclusion above, the recommendations for Australia and China are very straight forward and simple. Australia and China should put a greater emphasis on their FTA negotiations for finalizing their bilateral FTA as soon as possible so that they will start achieving the benefits that this prospective FTA can deliver to both countries. To further gain from and speed the process, both countries should place a high priority on building-up a pool of highly trained, skilled, and experienced analysts specialized in Australian/Chinese foreign affairs, and ensuring that current and future needs for such trained people will be met.

9. Annexes

Annex I: AUD and USD Exchange Rates

Annex II: Australia's and China's International Organization Participation

Annex III: Objectives and Structure of the Australia China FTA Feasibility Study

Annex IIII: 2005 A.T. Kearny Globalization Index. Australia and China Total Results

Annex V: Summary of Australia's and China's Existing Bilateral Trade and Economic Agreements

Annex I

AUD and USD Exchange Rates

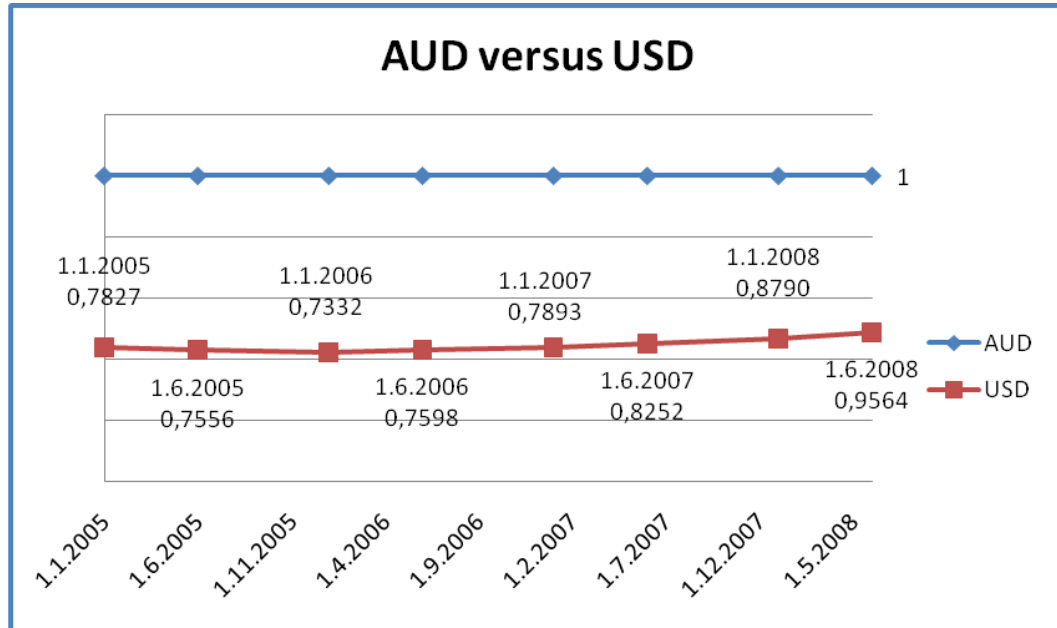


Figure 19: The AUD-USD Exchange Rate¹⁶⁵

All prices in this thesis are stated in current US dollars and are based on the AUD-USD exchange rate June 1, 2008. Figure 19 shows how the currency rate has changed from 1.1.2005 to 1.6.2008.

¹⁶⁵ FXTrade Forex Trading, 2008: <http://www.oanda.com/convert/fxhistory>

Annex II

Australia's and China's International organization participation^{166*}

Australia:

ADB, ANZUS, APEC, ARF, ASEAN (dialogue partner), Australia Group, BIS, C, CP, EAS, EBRD, FAO, IAEA, IBRD, ICAO, ICC, ICCt, ICRM, IDA, IEA, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, MIGA, NAM (guest), NEA, NSG, OECD, OPCW, Paris Club, PCA, PIF, Sparteca, SPC, UN, UNCTAD, UNESCO, UNFICYP, UNHCR, UNMIS, UNMIT, UNRWA, UNTSO, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC

China:

ADB, AfDB, APEC, APT, Arctic Council (observer), ARF, ASEAN (dialogue partner), BIS, CDB, EAS, FAO, G-24 (observer), G-77, IAEA, IBRD, ICAO, ICC, ICRM, IDA, IFAD, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM (observer), IPU, ISO, ITSO, ITU, LAIA (observer), MIGA, MINURSO, MONUC, NAM (observer), NSG, OAS (observer), OPCW, PCA, PIF (partner), SAARC (observer), SCO, UN, UN Security Council, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNIFIL, UNMEE, UNMIL, UNMIS, UNMIT, UNOCI, UNTSO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO, ZC

*Australia and China both participate in the ones that are marked in black.

¹⁶⁶ The World Factbook, 2008c

Annex III

Objectives and Structure of the Australia-China FTA Feasibility Study

- To provide an overview of recent trends in bilateral trade and economic relations.
- To assess recent international trade policy developments and the possible implications for Australia-China trade and investment.
- To identify and describe existing barriers to trade and investment flows, covering goods, services and investment and other issues that might be addressed in a free trade agreement.
- To identify possible cooperation measures to promote trade and investment liberalization and facilitation between Australia and China.
- To assess the impact of the removal and/or reduction of existing barriers to goods and services trade and investment.
- To make conclusions and recommendations as regards options for future action.

Annex IV

The 2005 A.T. Kearny Globalization Index

Australia and China Total Results

Those figures present again the results from the 2005 A.T. Kearny Globalization Index. Instead of presenting it as comparison to the Australian and Chinese GDP or population those results are on overall basis to give a better description of the size of different factors within those countries.

The first component, economic integration, combines data on trade and FDI, inflows and outflows. A comparison of Australia and China in that relation is shown in figures 20 and 21.

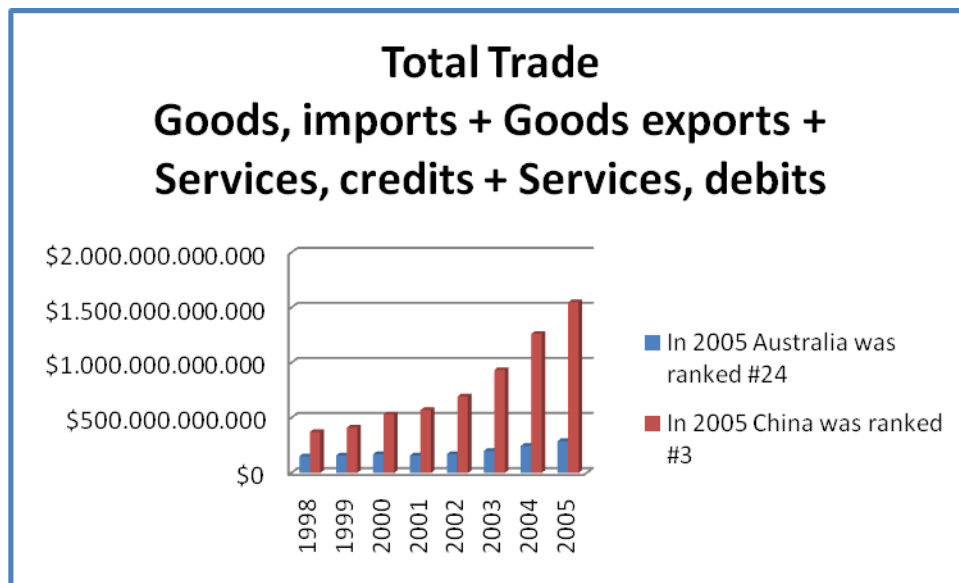


Figure 20: Australia's and China's Total Trade in USD

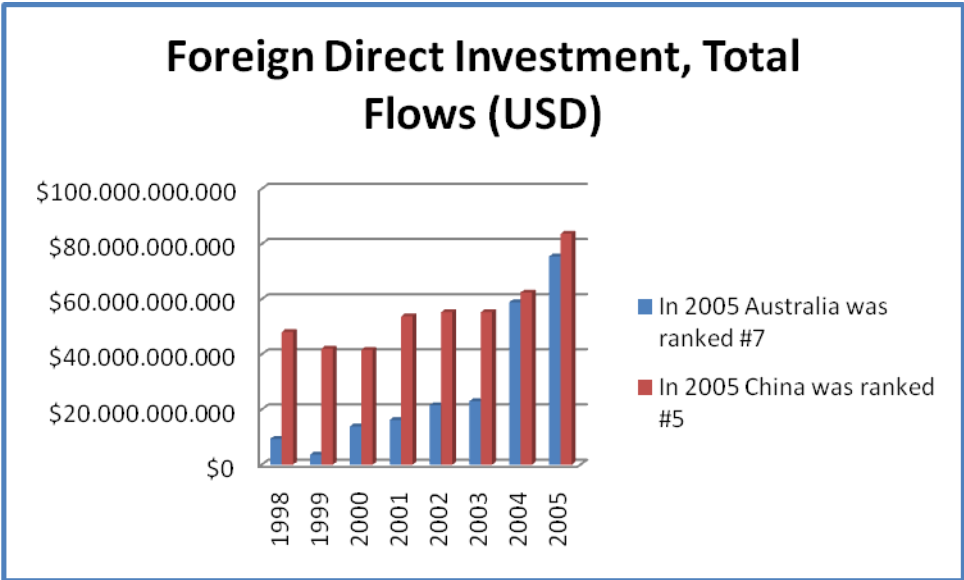


Figure 21: Australia’s and China’s FDI, Total Flows

The second component - personal contact - tracks international travel and tourism, international telephone calls, cross-border remittances and personal transfers. This includes worker remittances, compensation to employees, and other person-to-person and nongovernmental transfers. Australia’s and China’s ranking in 2005 as well as progress from 1998 to 2005 is shown in this context in figures 22-24.

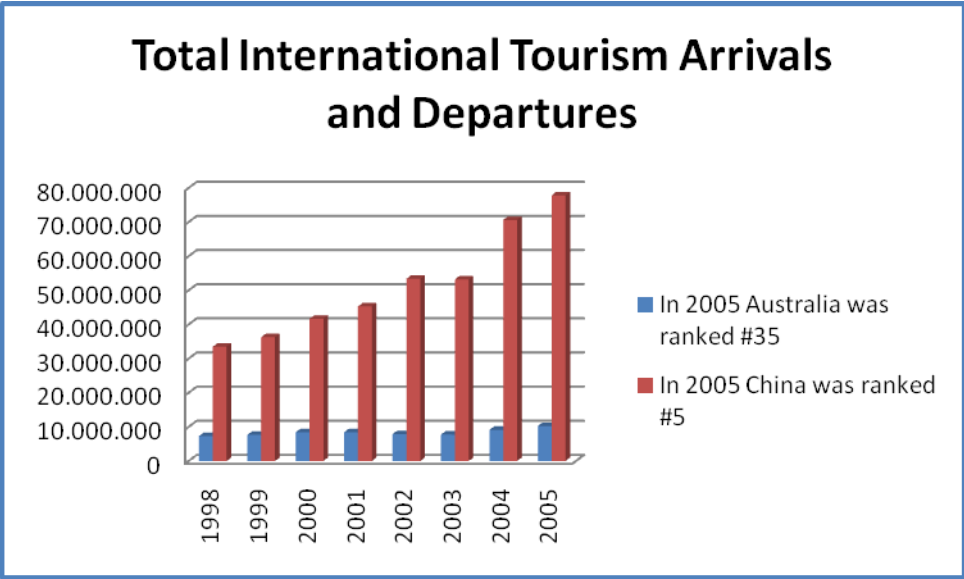


Figure 22: Australia’s and China’s Total International Tourism Arr./Dep.

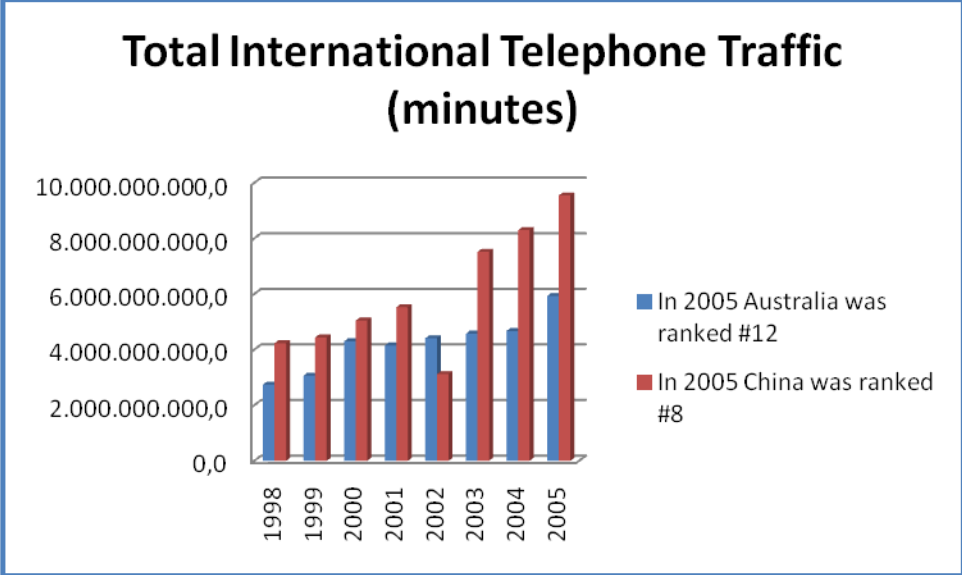


Figure 23: Australia's and China's Total International Telephone Traffic (min)

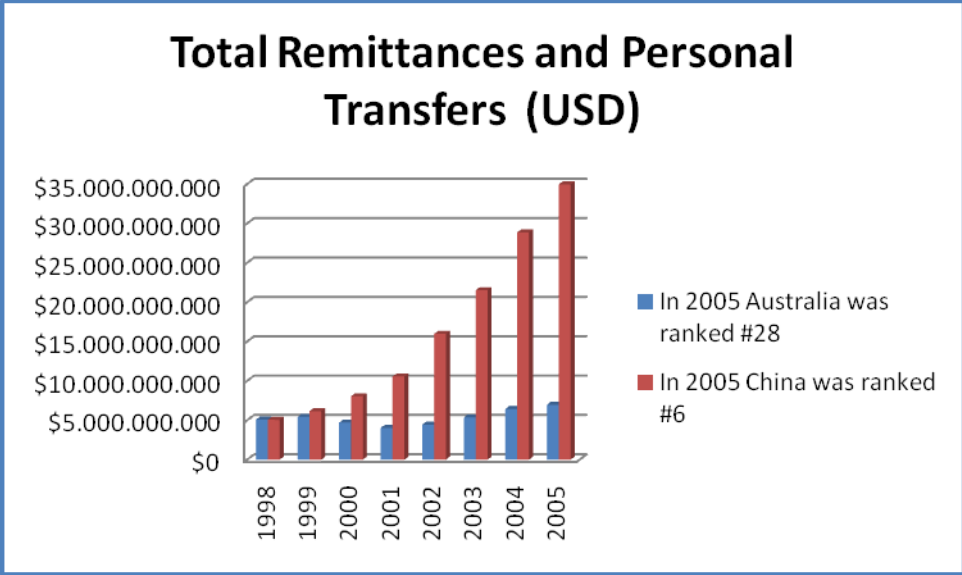


Figure 24: Australia's and China's Total Remittances and Personal Transfers

The technological connectivity component counts the number of internet users, internet hosts, and secure servers through which encrypted transactions are carried out. This is shown according to Australia and China in figures 25-27.

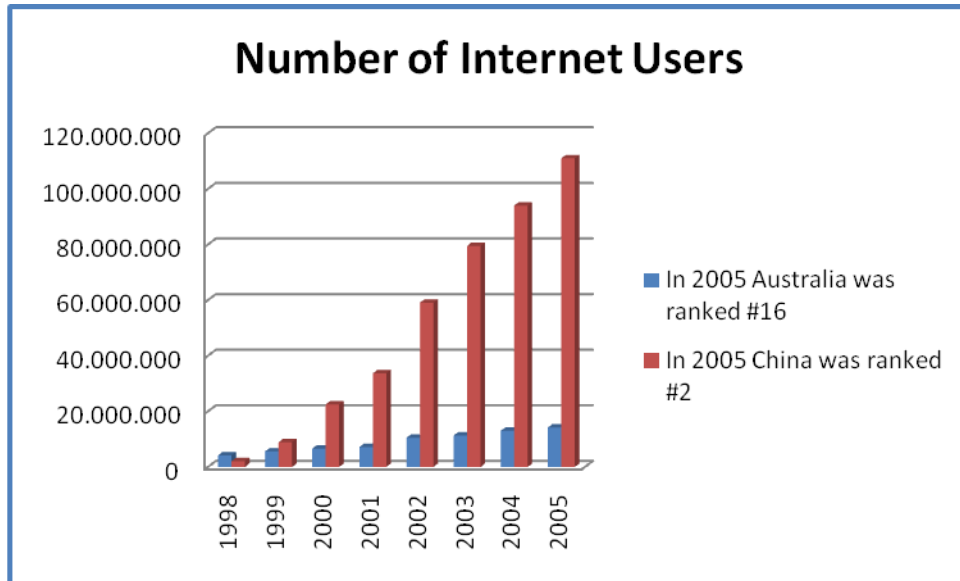


Figure 25: Australia's and China's Number of Internet Users

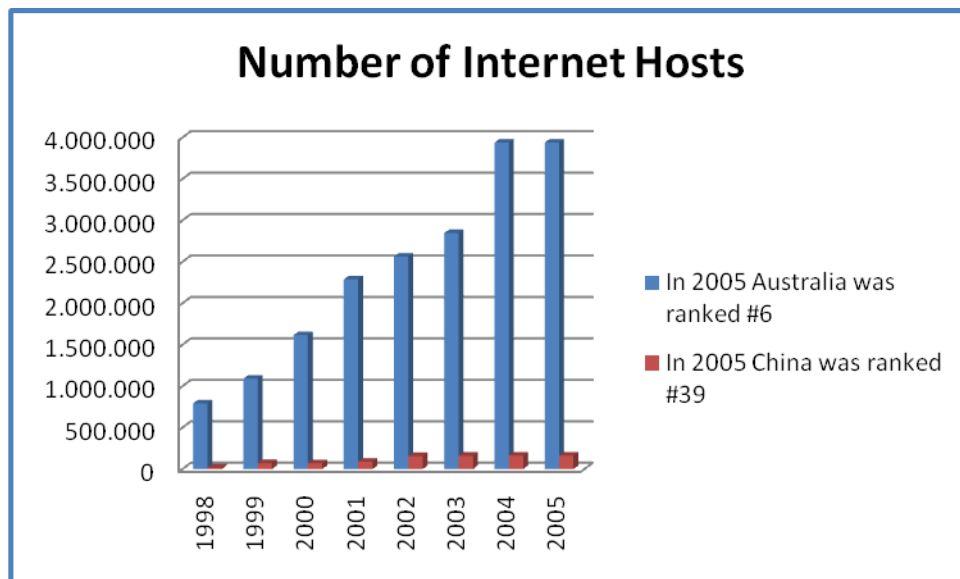


Figure 26: Australia's and China's Number of Internet Hosts

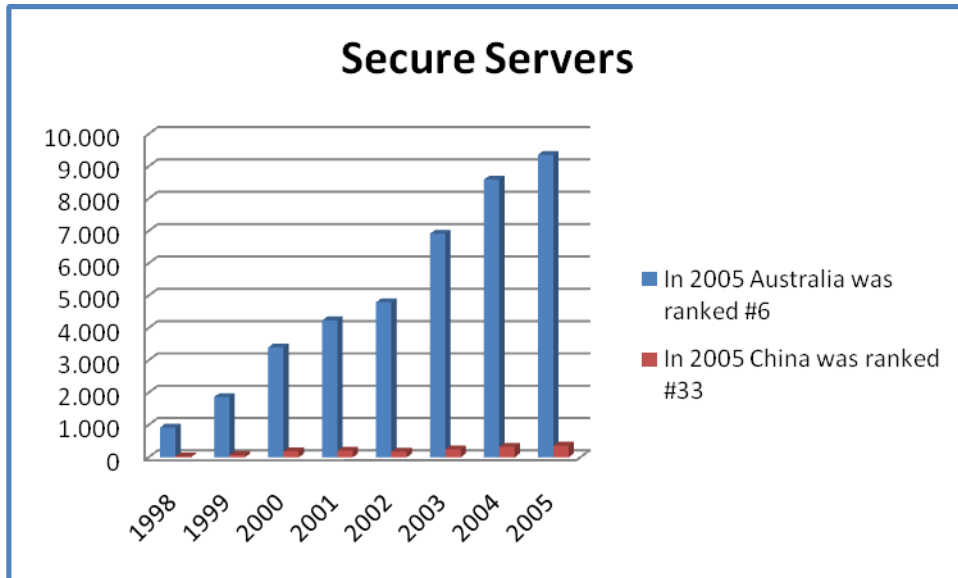


Figure 27: Australia's and China's Secure Servers

Finally the political engagement factor pertaining to Australia and China is presented in figures 28 and 29. It includes financial contributions to UN peacekeeping missions and amounts of governmental transfer payments and receipts.

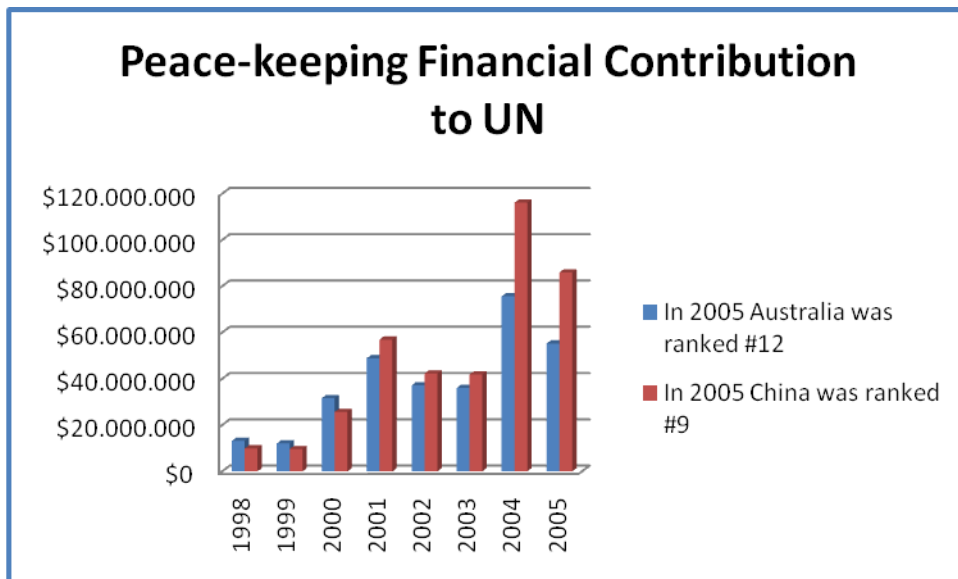


Figure 28: Australia's and China's Peace-keeping Financial Contributions

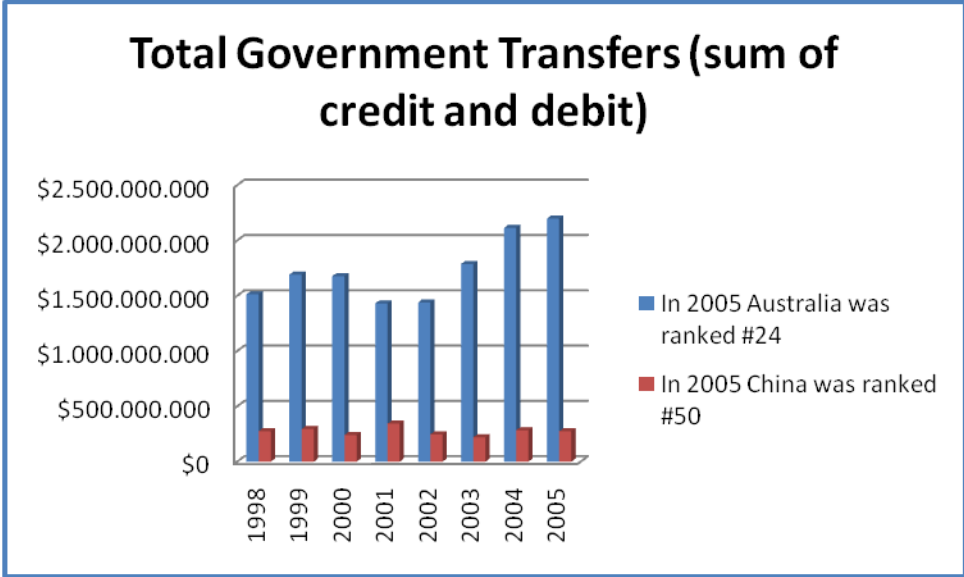


Figure 29: Australia's and China's Total Government Transfers

Annex V

Summary of Australia's China's Existing Bilateral Trade and Economic Agreements¹⁶⁷

- Agreement between the Government of Australia and the Government of the People's Republic of China relating to Nuclear 2006.
- Agreement between the Government of Australia and the Government of the People's Republic of China relating to Air Services 2004.
- Memorandum of Understanding on Two Way Investment Promotion Cooperation Between Austrade, Invest Australia, and the Investment Promotion Agency, MOFCOM of China 2004.
- Memorandum of Understanding on Investment Promotion Cooperation between the National Development and Reform Commission of the People's Republic of China and Invest Australia, the inwards investment agency of the Commonwealth of Australian Government 2004.
- Memorandum of Understanding on Customs Cooperation and Mutual Assistance between Australian Customs and the General Administration of Chinese Customs 2004.
- Trade and Economic Framework between Australia and the People's Republic of China 2003.
- Arrangement on Higher Education Qualifications Recognition between Australia and the People's Republic of China 2003.
- Memorandum of Understanding on the Management and Implementation of the Australia-China Natural Gas Technology Partnership Fund between the Commonwealth, Western Australia and the ALNG consortium, and China's National Development Reform Commission 2003.
- Memorandum of Understanding on Scientific and Technological Cooperation in Food Safety between Food Standards Australia and the Ministry of Science and Technology of the People's Republic of China 2003.

¹⁶⁷ This annex only includes major bilateral trade and economic agreements/arrangements between agencies of the Australian Government and China's Central Government. The annex does not include more technical agreements, including for projects under technical cooperation programs, or records of discussion, joint announcements or implementation programs or arrangements that simply amend or implement previous agreements and other arrangements. The number at the end of each entry represents the year in which the agreement/arrangement entered into force or was last amended.

- Protocol on Australian Wheat and Barley Exports to China between Australia's Department of Agriculture, Fisheries and Forestry and China's Administration of Quality Supervision Inspection and Quarantine 2003.
- Memorandum of Understanding on Sanitary and Phytosanitary Cooperation between Australia's Department of Agriculture, Fisheries and Forestry and China's General Administration of Quality Supervision Inspection and Quarantine 2003.
- Memorandum of Understanding on Cooperative Activities in Water Resources between Australia's Department of Agriculture, Fisheries and Forestry and China's Ministry of Water Resources 2003.
- Memorandum of Understanding relating to Air Services between Australia and the People's Republic of China 2003.
- Memorandum of Understanding on Cooperation on Animal and Plant Quarantine and Food Safety for the 2008 Beijing Olympic and Paralympic Games between Australia's Department of Agriculture, Fisheries and Forestry and China's General Administration of Quality Supervision Inspection and Quarantine 2002.
- Memorandum of Understanding on Cooperation in Education and Training between Australia's Department of Education, Science and Technology and China's Ministry of Education 2002. MOU also signed in 1999 and 1995.
- Memorandum of Understanding between the Department of Transport and Regional Services of Australia and the State Development Planning Commission of the People's Republic of China on Cooperation in the Transport Sector 2001.
- Memorandum of Understanding between the Department of Transport and Regional Services of Australia and the Ministry of Communications of the People's Republic of China on Cooperation in Highway and Waterway Transport 2001.
- Memorandum of Understanding between the Department of Transport and Regional Services of Australia and the Ministry of Railways of the People's Republic of China on Cooperation in Rail Transport 2001.
- Memorandum of Understanding between the Australian Department of Industry, Science and Resources and the State Development Planning Commission of the People's Republic of China on the establishment of a Bilateral Dialogue Mechanism on Resources Cooperation 2000.

- Memorandum of Understanding on Cooperation in the Mining Sector between Australia's Department of Industry, Tourism and Resources and China's Ministry for Land and Resources 1999.
- Memorandum of Understanding between the Department of Communications, Information Technology and the Arts of Australia and the Ministry of Information Industry of the People's Republic of China concerning Cooperation in the Information Industries 1999.
- Exchange of Letters on Approved Destination Status (ADS) Group Tourism Arrangements between Australia and the People's Republic of China 1999.
- Exchange of Letters between the Australian Embassy, Beijing, and the China National Tourism Administration concerning Outward Bound Travel by Chinese Citizens to Australia 1999.
- Memorandum of Understanding between the Department of Industry, Science and Resources of Australia and the State Development Planning Commission of the People's Republic of China on Cooperation on Trade and Investment in the Mining and Energy Sectors 1999.
- Memorandum of Understanding between the Department of Industry, Science and Resources of Australia and the Ministry of Land and Resources of the People's Republic of China on Cooperation in the Mining Sector 1999.
- Memorandum of Understanding between the Department of the Environment, Sport and Territories of Australia and the National Environment Protection Agency of the People's Republic of China on Environmental Cooperation 1995.
- Exchange of Notes constituting an agreement to amend Article 3 of the Agreement between the Government of Australia and the Government of the People's Republic of China on a Program of Technical Cooperation for Development of 2 October 1981 (1990).
- Agreement between the Government of Australia and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income 1990.
- Agreement on Fisheries between the Government of Australia and the Government of the People's Republic of China 1988.
- Agreement with the People's Republic of China on the Reciprocal Encouragement and Protection of Investments 1988.

- Exchange of Notes constituting an arrangement between the Department of Primary Industry of Australia and the Ministry of Forestry of the People's Republic of China on Forestry Cooperation 1987.
- Exchange of Notes constituting an Agreement between the Government of Australia and the Government of the People's Republic of China to amend the Trade Agreement of 24 July 1973 (1986).
- Agreement between the Government of Australia and the Government of the People's Republic of China for the Avoidance of Double Taxation of Income and Revenues Derived by Air Transport Enterprises and International Air Transport 1986.
- Joint Announcement on the formation of the Sino-Australia Joint Ministerial Economic Commission (JMEC) 1986: JMEC meetings were held annually from 1987 to 1993. The 8th meeting was held in 1995, 9th meeting in 1999 and 10th meeting in 2004.
- Memorandum of Understanding between the Government of Australia and the Government of the People's Republic of China regarding Wool Cooperation 1985.
- Joint Communiqué of the Australia-China Joint Agricultural Commission - Inaugural Session 1984.
- Memorandum of Understanding on the establishment of a Legal Exchange Program between Australia's Attorney-General's Department and China's Ministry of Justice 1984.
- Protocol between the Government of Australia and the Government of the People's Republic of China on a Program of Cooperation in Agricultural Research for Development 1984.
- Agreement between the Government of Australia and the Government of the People's Republic of China Relating to Civil Air Transport 1984.
- Agreement between the Government of Australia and the Government of the People's Republic of China on Agricultural Cooperation 1984.
- Understanding relating to Quarantine and Health Requirements for Cattle Exported from Australia to the People's Republic of China 1983.
- Agreement between the Government of Australia and the Government of the People's Republic of China on a Program of Technical Co-operation for Development 1981.

- Protocol on Economic Cooperation with the Government of the People's Republic of China 1981.
- Agreement between the Government of Australia and the Government of the People's Republic of China on Cooperation in Science and Technology 1980.
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