

Bilateral Economic Relations between Australia and China: A Growing Trend*

Mahinda Siriwardana

**School of Business, Economics and Public Policy
University of New England, Armidale**

and

Jinmei Yang

**School of Business, Economics and Public Policy
University of New England, Armidale**



**Center for Contemporary Asian Studies
Doshisha University**

CCAS Working Paper Series disseminates the findings of work in progress to communicate the ideas of Asian issues. The papers are entirely those of the author(s) and do not necessarily represent or reflect the view of Center for Contemporary Asian Studies.

CCAS Working Paper Seriesは、アジアにおける諸問題の速やかな意見交換を促進するために発行されたものである。出版物の権利は全てその著者にあり、現代アジア研究センターの意見を表明・反映するものではない。

Bilateral Economic Relations between Australia and China: A Growing Trend

Mahinda Siriwardana*
Associate Professor
School of Business, Economics and Public Policy
University of New England
Armidale, NSW 2351, Australia
Email: asiriwar@une.edu.au

and

Jinmei Yang
Research Associate
School of Business, Economics and Public Policy
University of New England
Armidale, NSW 2351, Australia
Email: jmyang@une.edu.au

Abstract

Australia and China have a longstanding relationship with a high level of interaction on trade, investment, education and tourism. China is of great significance to Australia as a bilateral, regional and multilateral partner; it is a significant member of the WTO, a major player in APEC, Australia's second-largest trading partner, and a major source of migrants, students and tourists. Australia is also of great importance to China; in 2005 Australia was China's 11th largest merchandise trade partner. As to the two-way investment relations, China was Australia's 22nd largest investment destination (AU\$ 1.2 billion in 2004), focusing on manufacturing, mineral exploration, legal, banking and education services. China also was the 17th largest investor in Australia (AU\$ 2.0 billion in 2004), primarily in the resources and property sectors (DFAT 2006). This paper uses a merchandise trade analysis to show how Australia and China perform in bilateral economic relations and the trend of the trade between them. Findings suggest that trade liberalisation in goods by eliminating tariffs will be a crucial component of a possible FTA between Australia and China.

* Corresponding author.

1 Introduction

Australia and China have a longstanding relationship with a high level of interaction on trade, investment, education and tourism. China is of great significance to Australia as a bilateral, regional and multilateral partner; it is a significant member of the WTO, a major player in APEC, Australia's second-largest trading partner in 2005, and a major source of migrants, students and tourists. Australia is also of great importance to China; in 2005 Australia was China's 11th largest merchandise trade partner. As to the two-way investment relations, China was Australia's 22nd largest investment destination (AU\$ 1.2 billion in 2004), focusing on manufacturing, mineral exploration, legal, banking and education services. China also was the 17th largest investor in Australia (AU\$ 2.0 billion in 2004), primarily in the resources and property sectors (DFAT 2006). Table1 gives an overview of Australian and Chinese economies for a comparison.

This paper uses a merchandise trade analysis to show how Australia and China perform in bilateral economic relations and the trend of the trade between them. Sections 2 and 3 present historical aspects of Australia's trade and China's trade respectively. Section 4 then analyses the trends in two-way merchandise trade between Australia and China. Section 5 gives an overview of the bilateral merchandise trade barriers. Section 6 measures the bilateral investment between Australia and China followed by a brief conclusion in section 7.

2 Statistical Analysis of Australia's Merchandise Trade

During the last two decades, Australia's total merchandise trade rose by 507.9 percent to the value of US\$ 294.8 billion in 2007. Australia exported goods and services valued at US\$ 139.1 billion and imported goods and services worth US\$ 155.7 billion in 2007, up 515 percent and 501 percent respectively compared to 1985. The deficit of goods and services imports over exports, at US\$ 16.5 billion in 2007, was the largest during the

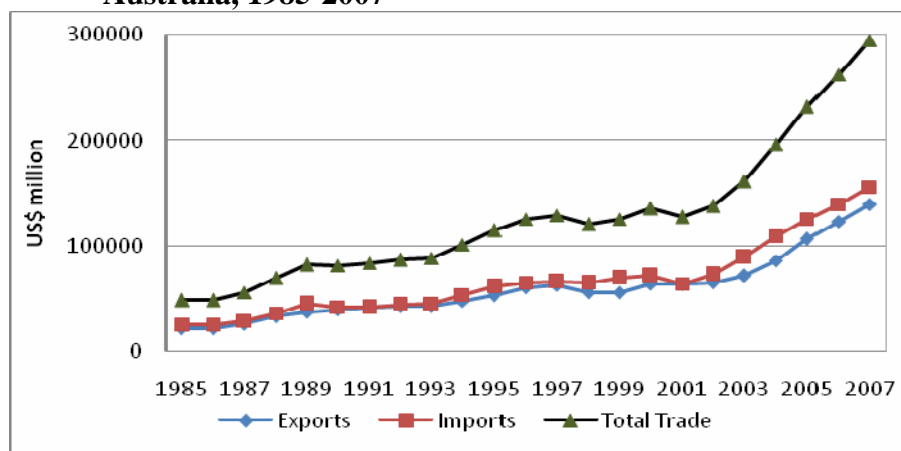
Table 1 Profile of Australian and Chinese Economies (2004)

	Australia	China
Surface land area (million sq.km)	7.69	9.60
Population (million)	20.1	1298.8
GDP (US\$ billion) (current prices)	637.5	1931.6
Real GDP Growth (% change YOY)	3.6	10.1
Per capita GDP (US\$)	31647	6425
Total Export (US\$ billion)	86.4	593.3
Total Imports (US\$ billion)	109.3	561.2
Current account balance (US\$ million)	-40235	68659
Current account balance (% GDP)	-6.3	3.6
Goods & services exports (% GDP)	17.8	34.0
Inflation (% change YOY)	2.3	3.9

Source: Compiled from Australian Bureau of Statistics, National Bureau of Statistics of China, IMF database and various international sources.

period. Only in 1991, was there a trade surplus, worth US\$ 0.2 billion. As shown in Figure 1, a growing trade deficit was experienced in Australia in the past 18 years, with the trend of further broadening.

Figure 1 Total trade (exports plus imports) in goods and services in Australia, 1985-2007



Source: WTO 2008.

Trends in exports

Tabulated by three-yearly intervals data from 1996 to 2005, Table 2 shows Australia's merchandise exports by commodities. Overall, total merchandise exports rose by 66.7 percent up to AU\$ 126.7 billion in 2005. Primary goods show a larger export increase (78.9 percent) than manufactured goods (50.4 percent) during the period considered. The weight of primary goods in the total exports rose from 57.2 percent in 1996 to 61.4 percent in 2005. Among the primary goods the top three export commodities are: Mineral fuels, lubricants and related materials; Crude materials; and Food and live animals. These account for 23.1, 20.3 and 15.4 percent of the total exports in 2005 respectively.

Table 2 Australia's merchandise exports by commodities (three-yearly intervals), 1996-2005, AU\$ million

Commodity (SITC section)	1996	1999	2002	2005	Change % (1996-2005)
Total	76004	86000	121108	126718	66.7
Primary goods	43499	48449	72628	77830	78.9
Food and live animals	15272	15453	22380	19550	28.0
Beverages and tobacco	648	1238	2360	2934	352.8
Crude materials, inedible, except fuels	14752	17219	22448	25717	74.3
Mineral fuels, lubricants and related materials	12590	14162	25130	29300	132.7
Animal and vegetable oils, fats and waxes	237	377	310	329	38.8
Manufactured goods	32503	37552	48481	48888	50.4
Chemical and related products, n.e.s.	3015	3575	5293	5937	96.9
Manufactured goods classified chiefly by material	9844	10117	13572	12335	25.3
Machinery and transport equipment	9720	10324	14160	12426	27.8
Miscellaneous products	2717	3447	4483	4377	61.1
Commodities and transactions not classified elsewhere in the SITC(b)	7207	10089	10973	13813	91.7

Note: Data are on a fiscal year basis, years ending 30 June.

Source: Compiled from International Merchandise Trade, ABS, Australia (5422.0).

Beverages and tobacco (352.8 percent) is the sector with the highest percent change in exports during the period, followed by Mineral fuels, lubricants and related materials (132.7 percent), then Chemical and related products (96.9 percent). The other fast growing commodities in the period include Commodities and transactions n.e.s., Crude materials

(inedible, except fuels) and Miscellaneous products. All sectors have seen increases in exports to varying degrees.

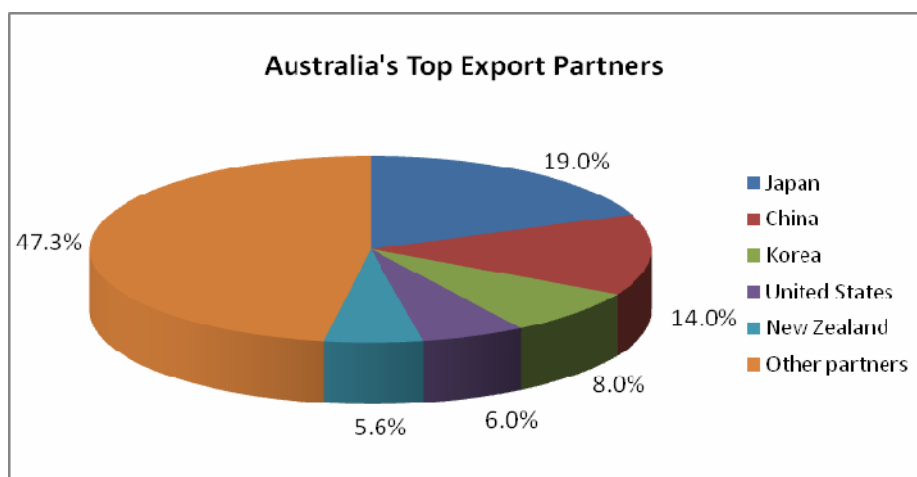
Table 3.3 Australia’s top exported commodities in 2007

Code	Description (Export)	Trade Value US\$ million	Percentage (%)
27	Mineral fuels, mineral oils and products of their distillation	31648	22.7
26	Ores, slag and ash	22808	16.4
71	Natural or cultured pearls, precious or semi-precious stones	10222	7.3
99	Commodities not specified according to kind	8449	6.1
28	Inorganic chemicals	5521	4.0
*	Other commodities	60474	43.5

Source: Comtrade database 2008 (Selected classification: HS2002).

Table 3 shows Australia’s top five exported commodities in 2007 which accounted for more than half (56.5 percent) of Australian total exports. Australia’s export specialisation in primary products is due mainly to the relatively large endowment of resources per worker in Australia (Pomfret 1995: 89).

Figure 2 Australia’s top export partners in 2007



Source: Compiled from Comtrade database 2008. (file name: Data ch2-2)

Figure 2 shows that the top five Australia’s export destinations in 2007 were (in order): Japan, China, Korea, the U.S. and New Zealand. These five countries accounted for more than half (52.7%) of Australia’s exports in 2007. The early statistic show that in 2001

(fiscal year) the top five Australia's export partners were (in order) Japan, U.S., Korea, New Zealand and China, together accounting for 49 percent of Australia's exports. Therefore, since 2000, China moved from fifth place to the second in 2007 while Japan remained in the number one position.

Trends in imports

Table 4 using three-yearly intervals data and percent changes shows how Australian imports by commodities increased from 1996 to 2005. During the period, total merchandise imports rose by 92.2 percent up to AU\$ 149.5 billion in 2005. Primary goods (151.5 percent) have a higher percent change than manufactured goods (83.9 percent). The fastest growing sectors include: Mineral fuels, lubricants and related materials (up 250.7 percent); Beverages and tobacco (up 96.2 percent); and Food and live animals (up 93.3 percent). All sectors experienced varying degrees of increase in imports.

Table 4 Australia's merchandise imports by commodities (three-yearly intervals), 1996-2005, AU\$ million

Commodity (SITC section)	1996	1999	2002	2005	Change % (1996- 2005)
Total	77792	97623	119649	149522	92.2
Primary goods	9554	10909	16552	24024	151.5
Food and live animals	2894	3760	4613	5594	93.3
Beverages and tobacco	504	622	864	989	96.2
Crude materials, inedible, except fuels	1576	1611	1756	1947	23.5
Mineral fuels, lubricants and related materials	4311	4620	9030	15118	250.7
Animal and vegetable oils, fats and waxes	269	296	289	376	39.8
Manufactured goods	68238	86715	103097	125498	83.9
Chemical and related products, n.e.s.	8901	11434	14635	17482	96.4
Manufactured goods classified chiefly by material	11040	12859	14819	17725	60.6
Machinery and transport equipment	36459	45425	53654	67058	83.9
Miscellaneous products	11035	14466	17416	20528	86.0
Commodities and transactions not classified elsewhere in the SITC(b)	803	2531	2573	2705	236.9

Note: Data are on a fiscal year basis, years ending 30 June.

Source: Compiled from International Merchandise Trade, Australia (5422.0).

Although the percent change of manufactured goods in imports is smaller than primary goods during the period, manufactured goods dominate Australia's total imports, accounting for 83.9 percent at the beginning and 88.8 percent at the end of the period. This dominance reflects the nature of Australia's merchandise trade: an exporter of agricultural and resource-based primary goods and importer of manufactured goods from the rest of the world.

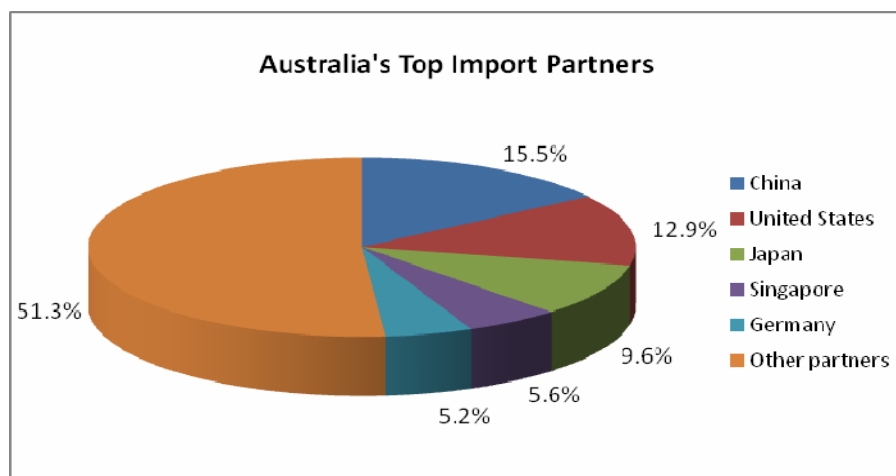
Table 5 Australia's top imported commodities in 2007

Code	Description (Import)	Trade Value US\$ million	Percentage (%)
84	Machinery and mechanical appliances; parts thereof	24865	16.0
87	Vehicles other than railway or tramway rolling stock	20631	13.3
27	Mineral fuels, mineral oils and products of their distillation	20178	13.0
85	Electrical machinery and equipment and parts thereof; sound recorders and r	17153	11.0
71	Natural or cultured pearls, precious or semi-precious stones	6547	4.2
*	Other commodities	66284	42.6

Source: Comtrade database 2008 (Selected classification: HS2002).

Table 5 shows Australia's top five imported commodities in 2007. Figure 3 illustrates that in 2007, among Australia's top import partners, China rocketed to the first place at 15.5 percent, followed by the U.S., Japan, Singapore and Germany whereas the U.S. lost its historical place as Australia's largest import partner.

Figure 3.3 Australia's top import partners in 2007



Source: Compiled from Comtrade database 2008.

3.2.3 Australia's trade direction

Table 6 highlights Australia's two-way trade direction after 1980. Among the single country export markets, Japan remains in the lead although its relative significance has slowly decreased, similar to the experience of the U.S. It is obvious that China and ASEAN are increasingly important as export destinations for Australia's products. New Zealand has a relatively stable position on Australia's export market rankings in the past decade.

Table 3.6 Australia's trade direction after 1980 (percentage of total)

	1980	1985	1990	1995	2000	2005
Exports						
UK	5.0	3.1	3.5	3.4	4.3	3.8
USA	10.9	11.6	10.9	6.9	9.8	7.4
ASEAN	7.5	7.5	10.3	15.4	13.2	11.7
Japan	26.9	26.9	26.1	24.3	19.3	19.7
China	4.5	3.6	2.4	4.4	5.1	10.2
Korea	2.1	3.9	5.5	7.9	7.8	7.7
Hong Kong	1.5	2.8	2.7	3.9	3.3	2.1
New Zealand	4.6	5.2	5.3	7.1	6.9	7.2
All others	37.0	35.4	33.3	26.6	30.2	30.1
Imports						
UK	10.2	6.8	6.5	5.9	5.8	4.0
USA	22.1	22.1	24.1	21.5	20.9	14.2
ASEAN	6.2	5.7	5.8	8.6	14.0	16.4
Japan	15.6	22.7	19.2	17.1	12.8	11.5
China	1.2	1.3	2.4	4.9	6.8	13.3
Korea	0.9	1.6	2.4	2.7	3.9	3.3
Hong Kong	2.3	2.3	1.7	1.2	1.2	0.8
New Zealand	3.4	3.8	4.2	4.8	4.0	3.6
All others	38.2	33.7	33.6	33.3	30.6	33.0

Note: ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

Data are on a fiscal year basis, years ending 30 June.

Source: Australian Bureau of Statistics, International Merchandise Trade (5422.0).

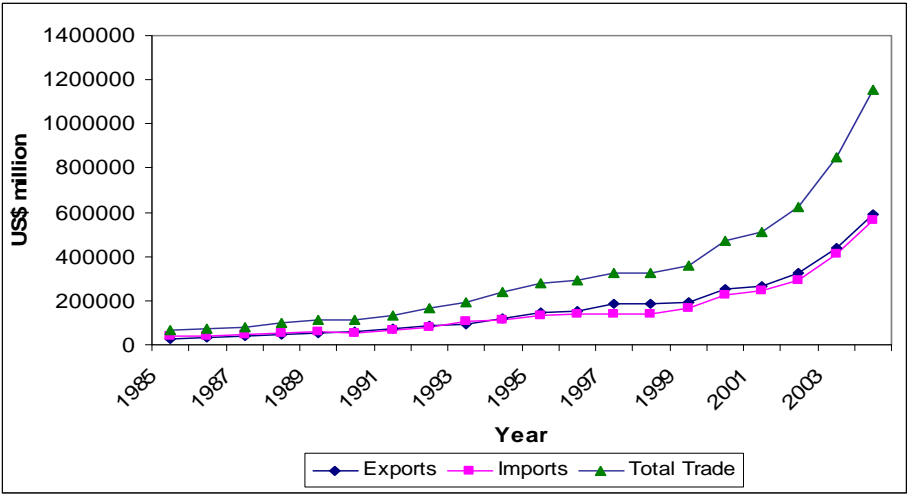
As the source of Australia's imports, China's share has increased remarkably from 1.2 percent up to 13.3 percent of Australia's total imports during the period of consideration. The group of ASEAN countries has larger share in 2005 than at the beginning of the period. But Japan and the U.S. still dominate as the largest sources of Australian imports.

This analysis indicates that Australia’s trade pattern is experiencing a geographical change. China and ASEAN are sharing more of Australia’s market which used to be occupied by Japan and the U.S. This point shows that China as a world powerhouse is gaining more share for its products in Australia’s market.

3 Statistical Analysis of China’s Merchandise Trade

During the last two decades, China’s total merchandise trade rose by 1558.8 percent with the value of US\$ 1154.6 billion in 2004. Total exports increased by 2069.4 percent at US\$ 593.3 billion whereas imports were up by 1228.3 percent at US\$ 561.2 billion in 2004. In the first five years (1985-89) of the period and in the year of 1993, there were trade deficits. From 1994, merchandise trade kept surplus records with the highest value of US\$ 43.5 billion in 1998. It can be seen from Figure 4 that China has strong growth trends in both exports and imports. In contrast to the widening trade deficit experienced in Australia, China’s trade balance has been in surplus since 1994.

Figure 4 Total trade (exports plus imports) in goods and services in China, 1985-2004



Source: WTO 2006.

Trends in exports

During the period of 1992-2004 (see Table 7), total exports in China rose about 600 percent up to US\$ 593 billion in 2004. Manufactured goods show a strongest growth trend, especially: Machinery and transport equipment (up 1929.4 percent); Light and textile industrial, rubber and minerals metallurgical products (up 523.8 percent); and Chemicals and related products (up 506.3 percent). The top three exported goods were the same at the beginning and the end of the period: Machinery and transport equipment; Miscellaneous products; and Light and textile industrial products. Among them, Machinery and transport equipment accounted for 45.2 percent of the total exports in 2004.

Not surprisingly, manufactured goods dominate Chinese merchandise exports, accounting for 93.2 percent of the total exports at US\$ 552.8 billion in 2004 whereas primary goods were only 6.8 percent at US\$ 40.5 billion. This shows that China takes comparative advantage from its large population to produce and export more labour-intensive goods to the world market.

Table 7 China's exports by commodities (three-yearly intervals), 1992-2004, US\$ million

	1992	1995	1998	2001	2004	Change (1992- 2004) %
Total	84940	148780	183709	266098	593326	598.5
Primary goods	17004	21485	20489	26338	40549	138.5
Food and live animals used chiefly for food	8309	9954	10513	12777	18864	127.0
Beverages and tobacco	720	170	975	873	1214	68.6
Non-edible raw materials	3143	4375	3519	4172	5843	85.9
Mineral fuels, lubricants and related materials	4693	5332	5175	8405	14480	208.5
Animal and vegetable oils, fats and wax	139	454	307	111	148	6.5
Manufactured goods	67936	127295	163220	239760	552777	713.7
Chemicals and related products	4348	9094	10321	13352	26360	506.3
Light and textile industrial products, rubber and minerals metallurgical products	16135	32240	32477	43813	100646	523.8
Machinery and transport equipment	13219	31407	50217	94901	268260	1929.4
Miscellaneous products	34234	54548	70200	87110	156398	356.8
Products not otherwise classified	-	6	5	584	1112	-

Source: China Statistical Yearbook 2005a.

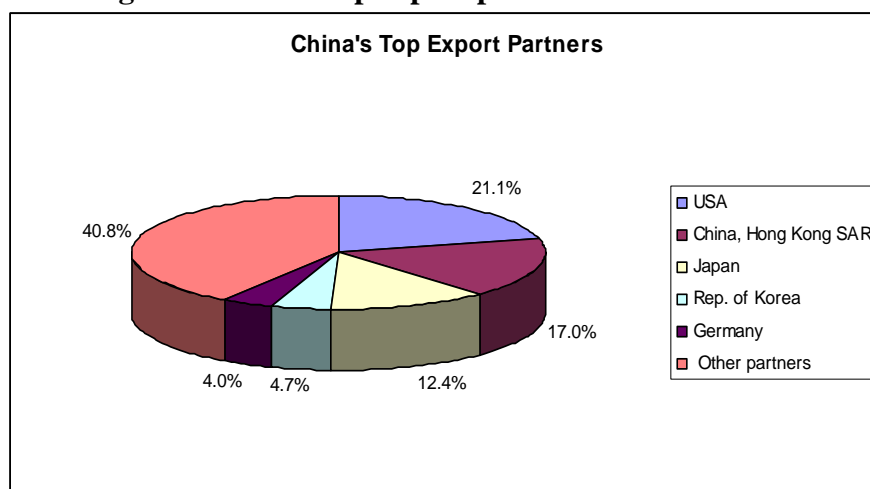
China's top five exported commodities are shown in Table 8, indicating that value added manufactured products are increasing significantly. China's top five export partners in 2004 are shown in Figure 5.

Table 8 China's top exported commodities in 2004

Code	Description	Trade Value US\$ million	Percentage (%)
85	Electrical machinery and equipment and parts thereof; sound recorders	129652	21.9
84	Machinery and mechanical appliances; parts thereof	118132	19.9
62	Articles of apparel and clothing accessories, not knitted or crocheted	28981	4.9
61	Articles of apparel and clothing accessories, knitted or crocheted	25803	4.3
94	Furniture; bedding, mattresses, cushions and similar stuffed furnishing	17319	2.9
	Other commodities	273439	46.1

Source: Comtrade database 2006 (Selected classification: HS2002).

Figure 5 China's top export partners in 2004



Source: Compiled from Comtrade database 2006.

Trends in imports

China's imports show a contrasting trend compared with its exports during the same period of 1992-2004. The import of primary goods grew faster than manufactured goods with 225.3 percent higher, illustrating that China needs more and more raw materials and

energy to satisfy the strong growth of its domestic economy. Although the import of primary goods grew faster, the import of manufactured goods still occupied the dominant position. In 2004, manufactured goods accounted for 79.1 percent of the total imports up to US\$ 444 billion versus primary goods with 20.9 percent up to US\$ 117.3 billion.

The fastest growing imports were (in order, see Table 9): Mineral fuels, lubricants and related materials (up 1244.3 percent); Non-edible raw materials (up 858.6 percent); Miscellaneous products (up 797.3 percent) and Machinery and transport equipment (up 707.5 percent).

**Table 9 China's imports by commodities (three-yearly intervals),
1992-2004, US\$ million**

Commodity (SITC section)	1992	1995	1998	2001	2004	Change (1992- 2004) %
Total	80585	132084	140237	243553	561229	596.4
Primary goods	13255	24417	22949	45743	117267	784.7
Food and live animals used chiefly for food	3146	6132	3788	4976	9154	191.0
Beverages and tobacco	239	394	179	412	548	129.3
Non-edible raw materials	5775	10159	10715	22127	55358	858.6
Mineral fuels, lubricants and related materials	3570	5127	6776	17466	47993	1244.3
Animal and vegetable oils, fats and wax	525	2605	1491	763	4214	702.7
Manufactured goods	67330	107667	117288	197810	443963	559.4
Chemicals and related products	11157	17299	20158	32104	65473	486.8
Light and textile industrial products, rubber and minerals metallurgical products	19273	28772	31075	41938	73986	283.9
Machinery and transport equipment	31312	52642	56845	107015	252830	707.5
Miscellaneous products	5588	8261	8456	15076	50143	797.3
Products not otherwise classified	-	693	754	1676	1529	-

Source: China Statistical Yearbook 2005b.

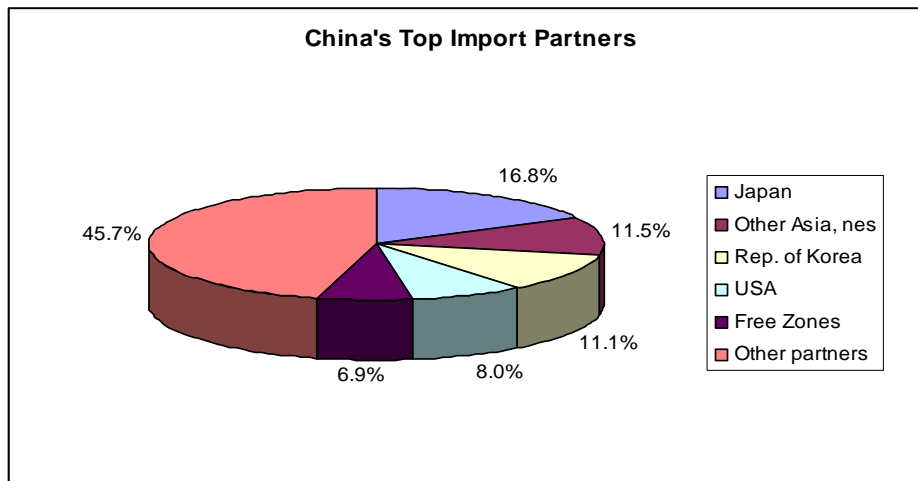
Table 10 shows more details about China's top imported commodities in 2004. Among a number of sources of Chinese imports, Japan, Korea and U.S. still remained dominant in both 2004 and 2005 whereas Australia was China's 9th largest import sources in 2005 (DFAT 2006).

Table 10 China's top imported commodities in 2004

Code Description	Trade Value US\$ million	Percentage (%)
85 Electrical machinery and equipment and parts thereof; sound recorders	142313	25.4
84 Machinery and mechanical appliances; parts thereof	91601	16.3
27 Mineral fuels, mineral oils and products of their distillation	48027	8.6
90 Optical, photographic, cinematographic, measuring, checking, precision, med	40147	7.2
39 Plastics and articles thereof	28056	5.0
Other commodities	211085	37.6

Source: Comtrade database 2006 (Selected classification: HS2002).

Figure 6 China's top import partners in 2004



Source: Compiled from Comtrade database 2006.

4 Trends in Two-Way Merchandise Trade

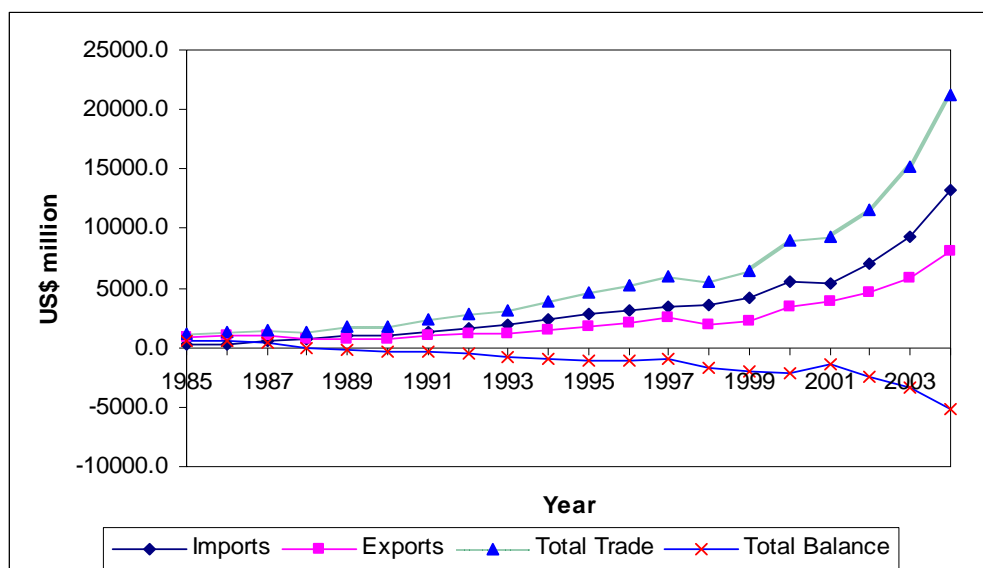
The economies of Australia and China are of significantly different sizes, and at different stages of economic and social development. Yet the Australian and Chinese economies have already shared mutually-beneficial trade and investment relationship largely over the last two decades.

Figure 7 shows the trend of total trade between Australia and China. From 1985 to 2004, the average annual increasing rate of bilateral merchandise trade was 88.8 percent. In 2004, total trade in goods and services between Australia and China reached US\$ 21.2

billion, rising by 1775.7 per cent from the value of US\$ 1.1 billion in 1985. The trade deficit began for Australia in 1989 and widened until the first peak of US\$ 2.1 billion in 2000. Then in 2001 the deficits reached its lowest point in the last seven years (1998-2004) of the same period, at US\$ 5.1 billion in 2004. The trend of trade deficit appears to be further broadening.

In 2005, Australia's trade deficit with China reached AU\$ 6.8 billion, an increase of AU\$ 1.4 billion on the previous year's deficit due to an AU\$ 4.5 billion rise in imports partially offset by an AU\$ 3.0 billion increase in exports. The main commodities contributing to the increase in imports were: Office machines and automatic data processing machines (up AU\$ 0.9 billion); and Telecommunications and sound recording and reproducing apparatus and equipment (up AU\$ 0.7 billion). The main increase in exports was mainly due to Metalliferous ores and metal scrap which were up AU\$ 2.4 billion (Year Book Australia 2006). The sectors which contributed most to the increased deficit were: Mineral fuels, lubricants and related materials; Commodities and transactions n.e.s in the SITC; and Animal and vegetable oils, fats and waxes.

Figure 7 Total trade between Australia and China, 1985-2004



Note: Reporter: Australia; Partner: China.

Source: Comtrade database 2006.

Trade weight between Australia and China

Figure 8 shows China's share in Australian merchandise exports and imports from 1996 to 2005. During the ten-year period, Australia's imports sourced from China increased substantially from 5.15 percent in 1996 to 13.25 percent in 2005, whereas its exports to China rose from 4.97 percent to 10.24 percent. In 2005, China's share in Australia's total merchandise trade was 11.87 percent, valued at AU\$ 32.8 billion, whereas the total value of Australia's merchandise trade with the rest of the world was AU\$ 243.4 billion. Australian merchandise imports from China increased far quicker than its exports to China; and China was Australia's 2nd largest trading partner whereas Japan ranked 1st and U.S. in 3rd in 2005.

Figure 8 China's share in Australian merchandise trade, 1996-2005



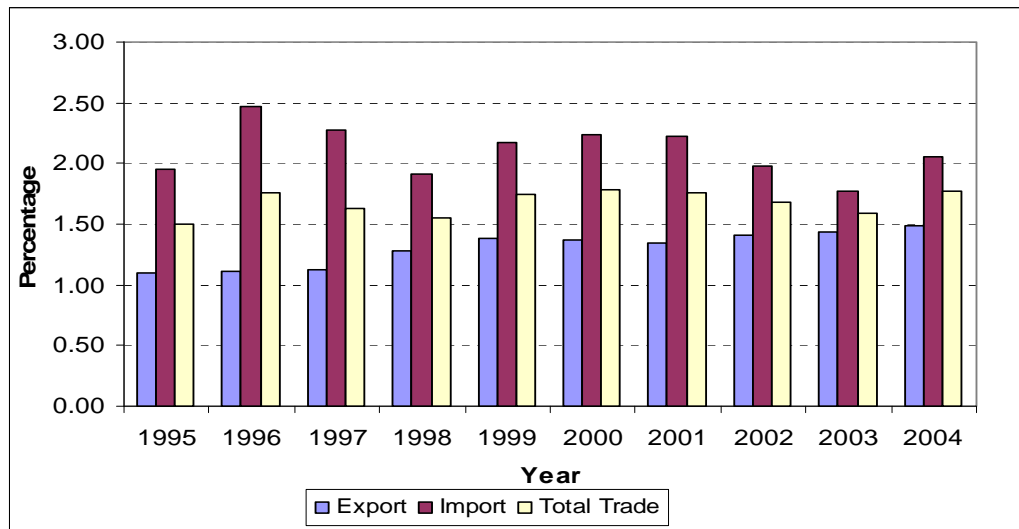
Note: Data are on a fiscal year basis, years ending 30 June.

Source: Year Book Australia (various years), ABS.

On the other hand, Figure 9 demonstrates that Australia's share in China's foreign trade from 1995 to 2004 fluctuated narrowly between 1.5 and 1.77 percent and finally reached its highest at the end of the period. In sharp contrast to Figure 8, Figure 9 indicates that Australia's position in China's merchandise trade is quite stable and modest. China's imports sourced from Australia increased by 347 percent from US\$ 2.58 billion in 1995 to US\$ 11.55 billion in 2004, meanwhile China's exports to Australia kept rising by 443

percent from US\$ 1.6 billion to US\$ 8.8 billion during the same period. In 2004, there was a significant increase in both China's imports from and exports to Australia over the previous year at 58.25 percent and 41.1 percent respectively.

Figure 9 Australia's share in China's foreign trade, 1995-2004



Source: China Statistical Yearbook 2005c (various years).

Combining Figure 8 and Figure 9, it is evident that Australia's merchandise imports from China increased more quickly than its exports to China whereas its own share in China's total foreign trade shows a slight fluctuation during the same period. It is not surprising therefore that China is becoming Australia's second largest merchandise trading partner with AU\$ 32.8 billion in 2005. China is playing an increasingly important role in Australia's merchandise trade compared with the role which Australia plays in China, this is probably due to the huge size of the economy China has in comparison to Australia and their different comparative advantage.

Trade by sector between Australia and China

As two-way trade has been examined in the previous section, we now turn to the detail of which sectors contribute more significantly to the Australia's imports from China and further lead to the considerable increase in the total trade between Australia and China. In this section, for exports, China is the country to which the goods were consigned at the

time of export. For imports, China is the country of origin of the goods where the majority of processing of the goods took place.

Australian exports to China

The fast growth in China's manufacturing sector generates huge opportunities for Australian exporters. Australia's exports to China went up by 12.4 percent from total AU\$ 7.7 billion in 2002 to total AU\$ 8.7 billion in 2003 (see Table 11). Except food and live animals products, all other sectors witnessed the increases of exports to China. They are concentrated in Crude materials, Manufactured products and Mineral fuels, lubricants and related materials. In 2003, Crude materials (inedible, except fuels) products account for 44.7 percent of the total Australia's exports to China, indicating that mineral and energy commodities have benefited most from China's rapid industrialisation. Figure 10 shows the fastest growing Australia's exports to China between the years of 2002 and 2003.

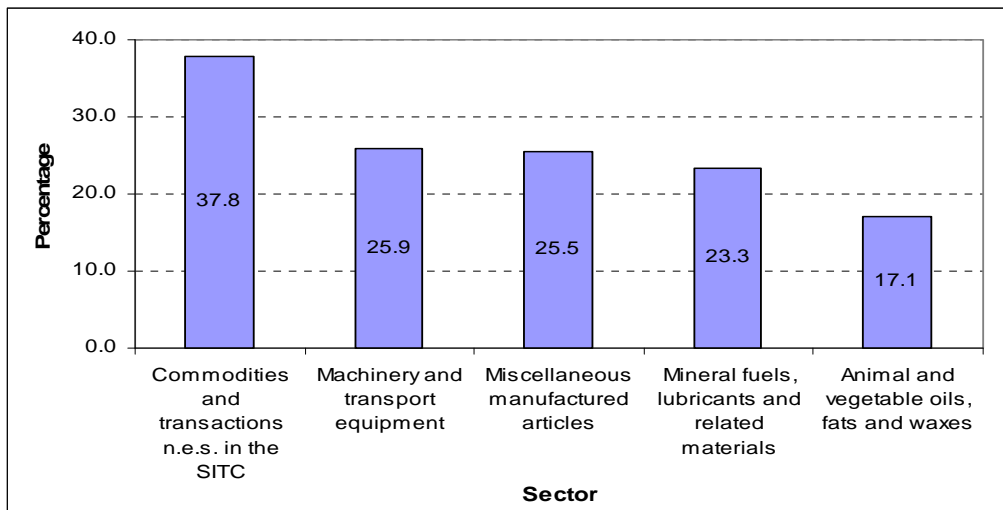
Table 11 Australia's exports by sector to China, 2002-2003, AU\$ million

Section and Division of the SITC Rev3	2002	2003	Change (%)
Food and live animals	636	497	-21.9
Beverages and tobacco	3	3	0
Crude materials, inedible, except fuels	3697	3889	5.2
Mineral fuels, lubricants and related materials	610	752	23.3
Animal and vegetable oils, fats and waxes	82	96	17.1
Chemical and related products, n.e.s.	242	253	4.5
Manufactured goods classified chiefly by material	676	785	16.1
Machinery and transport equipment	263	331	25.9
Miscellaneous manufactured articles	110	138	25.5
Commodities and transactions n.e.s. in the SITC	1426	1965	37.8
Total Australian Exports to China	7745	8709	12.4

Note: Data for 2002 and 2003 are on a year basis ending 30 March.

Source: International merchandise trade, Australian Bureau of Statistics (Cat. No. 5422.0).

Figure 10 Fastest growing Australia's exports to China, 2002-2003



Note: Data for 2002 and 2003 are on a year basis ending 30 March.

Source: Compiled from Australian Bureau of Statistics (Cat. No. 5422.0).

Australian imports from China

Australia imports a wide variety of goods from China. While traditional manufactured products like textile, clothing and footwear (TCF) and toys continue to grow solidly and still account for a significant share of its imports, Australia increasingly imports higher value added products from China, such as computers, telecommunication equipment, electrical machinery and sound and video recorders, which China employs its relatively abundant factor of labour to produce.

Australian imports from China rose to total AU\$ 13.3 billion in 2003, up by 25.1 percent from the previous year (see Table 12), while Australian imports from many other major trading partners such as the U.S. and Japan fell during the same period. Chinese products have competed strongly in the Australian market, ranking the 2nd largest import source for Australia in 2004. Table 12 demonstrates that Miscellaneous manufactured articles are Australia's largest import from China, accounting for 47.3 percent and 42.8 percent in 2002 and 2003 respectively. Other key Australian imports from China include Machinery and transport equipment, Manufactured goods and Chemical and related products.

Imports from China contribute to the Australian economy by lowering costs and offering greater choices to consumers. From 2002 to 2003, except Crude materials (inedible, except fuels), all sectors have seen increases in Australian imports from China. Figure 11 illustrates the fastest growing Australia's imports from China between 2002 and 2003.

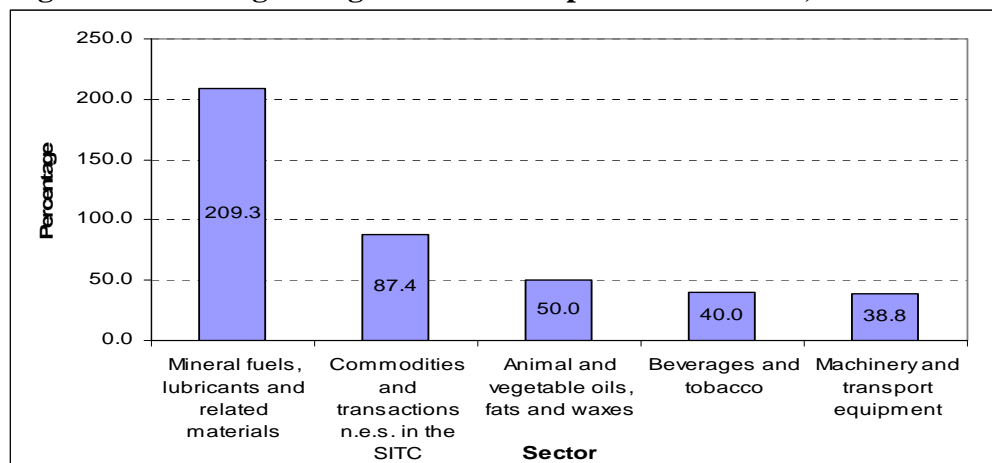
Table 12 Australia's imports by sector from China, 2002-2003, AU\$ million

Section and Division of the SITC Rev3	2002	2003	Change %
Food and live animals	198	238	20.2
Beverages and tobacco	20	28	40
Crude materials, inedible, except fuels	72	71	-1.4
Mineral fuels, lubricants and related materials	86	266	209.3
Animal and vegetable oils, fats and waxes	2	3	50
Chemical and related products, n.e.s.	485	504	3.9
Manufactured goods classified chiefly by material	1698	2215	30.4
Machinery and transport equipment	2933	4070	38.8
Miscellaneous manufactured articles	5046	5707	13.1
Commodities and transactions n.e.s. in the SITC	127	238	87.4
Total Australian Imports from China	10668	13341	25.1

Note: Data for 2002 and 2003 are on a year basis ending 30 March.

Source: International merchandise trade, ABS (Cat. No. 5422.0).

Figure 11 Fastest growing Australia's imports from China, 2002-2003



Source: Compiled from Australian Bureau of Statistics (Cat. No. 5422.0).

Intra-industry trade

From Tables 11 and 12, it is evident that there exists intra-industry trade. For instance, in Australia the fastest growth in exports and imports comes from the same four sectors, including:

- Mineral fuels, lubricants and related materials, imports rose by 209.3%, exports by 23.3%.
- Commodities and transactions n.e.s. in the SITC, imports rose by 87.4%, exports by 37.8%.
- Animal and vegetable oils, fats and waxes, imports rose by 50.0%, exports by 17.1%.
- Machinery and transport equipment, imports rose by 38.8%, exports by 25.9%.

The analysis shows that the traditional trade pattern of Australia exporting primary products in exchange for manufactured goods (inter-industry trade) has increasingly given way to the exchange of goods which are differentiated products and very close substitutes. The statistics of exports and imports between Australia and China in 2002 and 2003 indicate that trade in similar products (intra-industry trade) is increasing heavily between Australia and China. It signals that international trade is playing a changing role of filling gaps in products not produced within the country (inter-industry trade).

3.5 Bilateral Merchandise Trade Barriers

Generally, Australia had a low overall average applied tariff of 3.5 percent as at 1 January 2005, with more than 85 percent of Australian tariff rates varying between zero and 5 percent (Australian Customs Service 2005). The sectors where tariff rates exceed 5 percent are mainly in those such as TCF and motor vehicles. All applied tariff rates are *ad valorem*.

The tariff policy in China aims to encourage economic reform and the opening of its economy. Currently, three kinds of import duty rates are applied in China: 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 for imports from other sources (DFAT 2005). All applied tariff rates are *ad valorem*, except specific rates on some special items.

Agricultural and manufactured products account for a large proportion of Australia-China bilateral trade, in the past decade, bilateral agricultural trade has increased at an average annual rate of 8.8 percent whereas bilateral manufacturing trade has increased at an average rate of 16.8 percent in the past decade. In 2004, bilateral trade in manufactures totalled US\$ 13.79 billion and comprised 30 percent of China's total merchandise imports from Australia and 86 percent of Australia's merchandise imports from China (Comtrade database). Accordingly, both countries have been implementing trade policies for these two sectors.

All Australian agricultural tariff lines are bound under the WTO at rates from zero to 29 percent with most of them applied at rates of between zero and 5 percent. Based on import levels in 2004, Chinese agricultural exporters would face a trade-weighted average applied tariff of 2.1 percent.

Chinese tariffs on agriculture have been reduced gradually since 2001 when China entered the WTO. In 2005, the average import tariff rate (MFN) on agricultural products was reduced to 15.3 percent. The highest tariff rate is 65 percent for Wheat, Maize (Corn) and Rice followed by Sugar (50 percent) and Cotton (40 percent) (Customs Tariff Commission of the State Council 2005). Tariffs in the 5-20 percent range are imposed on 73 percent of all the imported agricultural products. Currently, China applies tariff rate quotas (TRQs) on a number of agricultural products including wheat, corn, rice, edible vegetable oil. Three of China's top 10 agricultural imports from Australia in 2004 are subject to TRQs.

Australia's tariff rates for manufactures comprises applied general tariffs at 5 percent or zero, with the exception of passenger motor vehicles (PMV), including parts and components, for which tariffs are 10 percent, and TCF, for which tariffs currently range

from 5 to 17.5 percent. Australia is currently implementing a further tariff reduction program for these sectors with tariffs falling to 5 percent by 2010 for the PMV sector and 2015 for the TCF sector. Based on 2004 import levels, Chinese manufacturing exporters would face a trade-weighted average applied tariff of 5.6 percent in 2005, with tariffs ranging from zero to 17.5 percent.

The Chinese average tariff rate applied to non-agricultural products was 9.3 percent in 2005. Currently, China applies TRQs on a number of manufactured products, including wool tops and certain chemical fertilizers. Based on 2004 import levels, Australian manufacturing exporters would face a trade-weighted average applied tariff of 6.6 percent in 2005, with tariffs ranging from zero to 45 percent.

Apart from tariffs, both countries have a range of non-tariff trade policies as well, such as RoOs, TRQs, import licensing regimes, customs evaluation and shipment inspection, technical barriers to trade, sanitary and phytosanitary measures and trade remedies. Both countries apply trade restrictions in accordance with relevant international agreements such as the *Convention on International Trade in Endangered Species* and the *Nuclear Non-Proliferation Treaty* (DFAT 2005).

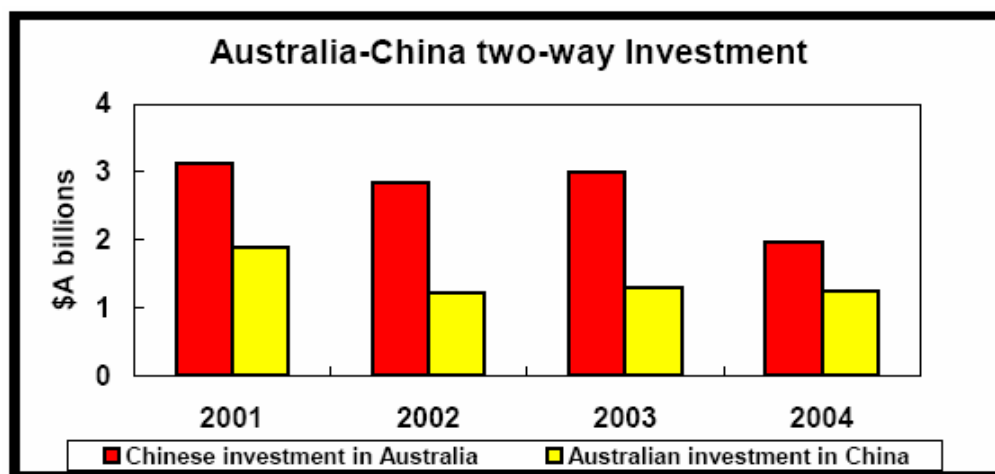
3.6 Bilateral investment between Australia and China

With economic strengths, cultural diversity and stability, Australia is a very attractive business investment destination. This can be seen from the numbers: in 2005, total foreign direct investment (FDI) in Australia reached AU\$ 1214 billion whereas Australian investment abroad with AU\$ 653.8 billion. Meanwhile, Australia is the gateway to the world's fastest growing region — the Asia Pacific. Therefore, Australia has a particular geographic advantage to participate and play an important role in the regional economic development.

Meanwhile, as the fastest growing economy in the world, China has a stronger economic relationship with Australia. This strength is reflected through the continued growth in

merchandise trade and bilateral investment. China was Australia's 22nd largest investment destination (AU\$ 1.2 billion) and 17th largest investor (AU\$ 2.0 billion) in 2004 (DFAT 2006). China's investment in Australia focuses on resources and property sectors while Australia's investment in China focuses on manufacturing, mineral exploration, legal, banking and education services. A recent survey of Australia companies operating in China indicated that Australian investors in China have broadened away from manufacturing and evenly-split between the areas of manufacturing, property and business services, and other sectors including wholesale and retail trade, mining, finance and insurance, education, information services and energy supply (Maitland and Nicholas 1999).

Figure 12 Australia-China two-way investment, 2001-2004



Source: DFAT 2006.

Figure 12 demonstrates the two-way investment between Australia and China from 2001 to 2004. Table 13 further shows that Australian share in China's FDI inflows and in Australian FDI outflows during the period of 1997 to 2004. During the period, the total value of FDI in China rose by 33.97 percent from US\$ 45.26 billion to US\$ 60.63 billion whereas FDI from Australia went up by 111.2 percent with the total value of US\$ 662.63 million in 2004. Although the share of FDI from Australia accounted for a small proportion of the total FDI in China, it does not signify a lack of real interest in the Chinese economy. On the other hand, the relatively low level of Australian direct

investment in China may reflect the complementary nature of Australia and China's production patterns and resource endowments (DFAT 2002).

During the same period, Chinese investment in Australia shows a strong growth trend. According to Chinese statistics, Australia is one of the most popular destinations for Chinese investment abroad (Editorial Board of the Almanac of China's Foreign Economic Relations and Trade 2001). In the fiscal year of 2005, China invested AU\$ 2.0 billion in Australia, ranking the 17th largest investor in Australia (DFAT 2006). China's largest and highest profile Australian investments are in the resources sector. Real estate, including hotels in major metropolitan centres, farming and agricultural processing ventures and a variety of general manufacturing plants are other destinations for Chinese investment in Australia (Invest Australia 2002).

Table 13 Australia's share in China's FDI inflows and in Australia's outflows, 1997-2004, US\$ million

Year	FDI from Australia	Total FDI in China	Percent in China's inflows (%)	Australia FDI abroad	Percent in Australia's outflows (%)
1997	313.74	45257.04	0.69	6431.00	4.88
1998	271.97	45462.75	0.60	3346.00	8.13
1999	263.31	40318.71	0.65	-421.00	-62.54
2000	308.88	40714.81	0.76	3162.00	9.77
2001	335.60	46877.59	0.72	12084.00	2.78
2002	380.70	52742.86	0.72	7876.00	4.83
2003	592.53	53504.67	1.11	15277.00	3.88
2004	662.63	60629.98	1.09	16288.00	4.07

Source: China Statistical Yearbook (various years) and UNCTAD database.

Over the long run, foreign investment may constitute an increasingly important part of the Australia-China economic relationship, but currently two-way FDI is quite modest.

7 Concluding Remarks

In summarising the bilateral economic relations between Australia and China, it is evident that there is a robust and continuing growth trend between the two economies based on a

strongly complementary trading relationship. The relative importance of one to the other is stronger and more significant, especially China's significance to Australia. Primary commodities dominate Australian exports, with China demanding increasing amounts of resource commodities to fuel its industrial expansion. On the other hand, China's manufactured goods occupy a large proportion of Australian imports. The bilateral investment relationship appears relatively less developed.

The most significant trade tariff barriers in Australia apply to agricultural and food products, motor vehicles, and TCF whereas in China, the tariff level is relatively high compared with Australia, with the simple average tariff in 2005 being 9.9 percent for all products and 15.3 percent for agricultural products (DFAT 2005). Therefore, trade liberalisation in goods by eliminating tariffs will be a crucial component of a possible FTA between Australia and China.

References

ABS (Australia Bureau Statistics) 1998, 'International merchandise trade', Cat. No. 5422.0, Australia.

ABS (Australia Bureau Statistics) 2000, 'International merchandise trade', Cat. No. 5422.0, Australia.

ABS (Australia Bureau Statistics) 2004, 'International merchandise trade', Cat. No. 5422.0, Australia.

ABS (Australia Bureau Statistics) 2006, 'International merchandise trade', Cat. No. 5422.0, Australia.

Australia Bureau Statistics (ABS) 1998, 'Merchandise Exports and Imports by Commodity', *Year Book Australia*, Australia.

Australia Bureau Statistics (ABS) 2000, 'Merchandise Exports and Imports by Commodity', *Year Book Australia*, Australia.

Australia Bureau Statistics (ABS) 2004, 'Merchandise Exports and Imports by Commodity', *Year Book Australia*, Australia.

Australia Bureau Statistics (ABS) 2006, 'Merchandise Exports and Imports by Commodity', *Year Book Australia*, Australia.

Australian Customs Service 2005, *Australian tariff rates and Australian Customs Notices*, www.customs.gov.au, accessed April 2006.

CEIC, 2002, CEIC database, Supplied by Econdata, Canberra, accessed October 2002.

China Statistical Yearbook, various years (99, 01, 03, 05), 'Actually foreign investment by country or region', *National Bureau of Statistical of China*, China Statistics Press, Beijing.

China Statistical Yearbook, 2005a, 'Exports value by category of commodities (Customs statistics)', *National Bureau of Statistical of China*, China Statistics Press, Beijing.

China Statistical Yearbook, 2005b, 'Imports value by category of commodities (Customs statistics)', *National Bureau of Statistical of China*, China Statistics Press, Beijing.

China Statistical Yearbook, various years (96, 99, 01, 03, 05), 2005c, 'Volume of Imports and Exports by Countries and Regions (Customs Statistics)', *National Bureau of Statistical of China*, China Statistics Press, Beijing.

Comtrade database (United Nations Statistics Division) 2006, *UN Commodity Trade Statistics Database*, <http://unstats.un.org/unsd/comtrade/>, accessed March 2008.

Comtrade database (United Nations Statistics Division) 2008, *UN Commodity Trade Statistics Database*, <http://unstats.un.org/unsd/comtrade/>, accessed March 2008.

Customs Tariff Commission of the State Council 2005, *Customs Tariff of Import of the People's Republic of China*, the Tax Levy and Administration Department of the Customs General Administration of China, and the Tariff Department of the Ministry of Finance of China.

DFAT (Department of Foreign Affairs and Trade) 2002, 'China embraces the world market', *Commonwealth of Australia*, www.dfat.gov.au/eau, accessed March 2006.

DFAT (Department of Foreign Affairs and Trade) 2005, 'Australia-China free trade agreement: Joint feasibility study', *DFAT, Australia and Ministry of Commerce, China*.

DFAT (Department of Foreign Affairs and Trade) 2006, 'Country, economy and regional information', www.dfat.gov.au/geo/, accessed May 2006.

Editorial Board of the Almanac of China's Foreign Economic Relations and Trade. 2001, *2001 Almanac of China's Foreign Economic Relations and Trade*, China Foreign Economic Relations and Trade Publishing House, Beijing.

Invest Australia, 2002, Information supplied to Economic Analytical Unit, Hongkong, April.

Maitland, E. and S. Nicholas, 1999, 'Australian Multinational Enterprises in China: Motivations, Technology Transfer and Operations', Australian Centre for International Business, University of Melbourne, Melbourne.

Pomfret, R. (edited) 1995, *Australia's Trade Policies*, Oxford University Press. 380.10994 P786a

WTO (World Trade Organization) 2006, *International Trade Statistics*, URL: www.wto.org/english/res_e/statis_e/its2005_e/its05_toc_e.htm, accessed June 2006.

WTO (World Trade Organization) 2008, *International Trade Statistics*, URL: www.wto.org/english/res_e/statis_e/its2007_e/its07_toc_e.htm, accessed April 2008.

Year Book Australia, various years (98, 00, 03, 04, 06), 'Merchandise exports and imports by country and country group', *Australian Bureau of Statistics (ABS)*, Australia.

○○○○○○○○○○○○○○○○○○○○ *Memo* ○○○○○○○○○○○○○○○○○○○○○



**Center for Contemporary Asian Studies
Doshisha University**

Kamigyo-ku, Kyoto 602-8580 JAPAN

Tel: +81-75-251-4695

Fax: +81-75-251-3036

E-mail: rc-ccas@mail.doshisha.ac.jp

URL: <http://ccas.doshisha.ac.jp>