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**Economic and Business Relations
Between Australia and China:
An Overview and an Assessment**

by

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ECONOMIC AND BUSINESS RELATIONS BETWEEN AUSTRALIA AND CHINA: AN OVERVIEW AND AN ASSESSMENT

Abstract

This article highlights trends in the comparative value of Australia's merchandise trade with China and considers the relative importance of Australia for China's international merchandise trade and vice versa. The composition of the merchandise trade between Australia and China is also examined. Trade in services between Australia and China is of increasing importance and its composition and balance is discussed. As a result of global economic reforms, international mobility of capital has increased. China has become the world's major destination for foreign direct investment (FDI) and is now itself an important source of FDI. However, Australia is not a major investor in China nor a major outlet for China's FDI. Reasons for this, and for the other features observed in economic and business relations between Australia and China, are outlined. Prospects are explored for future economic relations between Australia and China, particularly in the light of a proposed Australia-China Free Trade Agreement.

ECONOMIC AND BUSINESS RELATIONS BETWEEN AUSTRALIA AND CHINA: AN OVERVIEW AND AN ASSESSMENT

Introduction

Since the opening up of China to the outside world following its decision in 1978 to start its economic reforms, economic and business exchange between Australia and China has developed rapidly (Tisdell, 1993, Wen and Tisdell, 2002). According to the Economic Analytical Unit (EAU) of the Australian Department of Foreign Affairs and Trade (DFAT), Australia's commercial relations with China have boomed in the last decade or so. It states:

Australia's dynamic commercial relationship with China, based predominantly on trade, boomed over the last decade. Australian exports to China grew very rapidly, in line with China's strong growth and industrialisation; this relationship is likely to grow and broaden over the coming decade, with Australian exports widening to include more manufactured goods and services. Australian FDI, while much smaller, also is likely to increase, especially in the liberalising services sector. Chinese exports to Australia also are growing strongly and Chinese investment in Australia, particularly in resource projects, continues to grow (Economic Analytical Unit, 2002, p.60).

Since that was written, China's imports from Australia have continued to grow strongly but there has not been a boom in China's investment in Australia.

This article provides an overview of trends and features of the merchandise trade between Australia and China as well as the non-merchandise trade between the two countries and considers patterns of foreign direct investment by China in Australia and of Australia in China. After doing this, it assesses the pattern of economic relationships that have emerged between the two countries and considers their future economic business prospects.

2. Australia's Overall Merchandise Trade with China - Trends and Relative Value

China in the space of just over two decades or so has gone from being a very minor trading partner of Australia to being a major trading partner. Table 1 indicates the relative importance of China as a market for the export of Australian merchandise and as a source of Australia's

imports. Before the 1990s, China was a relatively unimportant trading partner for Australia but by the early 1990s, it was amongst Australia's top ten trading partners and from then on, its relative importance continued to rise rapidly. By 2005, China was Australia's second most important trading partner on a country basis. By 2005-06, China had displaced the USA as the main single country source of Australia's imports of merchandise.

Table 1:

The Relative Importance of China as an Outlet for Australia's Merchandise Exports and a Source of Australia's Merchandise Imports, 1970-71 to 2005-06

Year	Exports to China		Imports from China	
	Rank by Country	% of Australian Exports	Rank by Country	% of Australian Imports
1970-71	Very low	1.4	Very low	0.76
1980-81	Low	3.5	Low	1.68
1990-91	10	2.37	8	3.07
2000-01	5	5.7	3	8.3
2005	2	11.6	2	13.7
2005-06	2	11.8	1	14.28

Source: Based on Department of Foreign Affairs and Trade, Direction of Trade Time Series, February, 2002, and DFAT, China Fact Sheet, 2006

In considering the relative importance of the geographical direction of Australia, much depends on how this is determined geographically. For example, if the European Union(25) is considered as one geographical unit, then the EU is much more important than the USA as an outlet for Australia's exports and in 2005-06 took slightly more by value of Australia's exports than mainland China. However, Japan, was by far the major outlet for Australian exports which were relatively diversified by destination countries. Table 2 ranks the relative importance of Australia's major destinations of exports by countries, assuming that the EU(25) is one entity. On this basis, it can be seen that the EU(25) emerges as one of the most important trading partners of Australia and is of much greater importance than the USA as a trading partner. However, China still remains of high importance to Australia as a trading partner. On a total trade basis, in 2005-2006, the EU(25) had the largest amount of trade with Australia (A\$54,807m), followed by Japan (A\$48,319m), with China in third place (A\$41,095m and China with Hong Kong, A\$45,643), followed well back in fourth place by the USA(A\$32,557m). In fact, during this decade, the USA has declined in relative importance as a trading partner of Australia whereas China's relative position has risen.

Table 2:

Major destinations of Australia's exports and sources of imports, 2005-2006, ranked by value (Aus\$ in millions)

Rank	Export destination	Aus\$ (mil.)	Rank	Source of imports	Aus\$ (mil.)
1	Japan	30,982	1	EU (25)	36,266
2 ^(a)	China + Hong Kong	20,785	2 ^(b)	China + Hong Kong	24,858
3	EU (25)	18,541	3	USA	22,776
4	Republic of Korea	11,691	4	Japan	17,337
5	USA	9,781	- ^(c)	Republic of Korea	6,491

Notes: (a) For top export destinations, the breakdown of the value of exports for China and Hong Kong respectively are Aus\$17,889 million and Aus\$2,896 million. China ranks third if Hong Kong is excluded.

(b) For top sources of imports, the breakdown of the value of imports for China and Hong Kong respectively are Aus\$23,206 million and Aus\$1,652 million.

(c) Not in the top five.

Source: As for Table 1

It can be seen from Table 2 that Australia has a trade deficit with the EU(25), China and the USA but surpluses with Japan and the Republic of Korea. However, Australia's trade deficit with China is much more moderate than that with the EU(25) and the USA. China's trade deficits with Japan and South Korea help balance multilateral trade involving Australia.

The pie diagrams shown in Figures 1 and 2 highlight the relative importance of Australia's major trading partners.

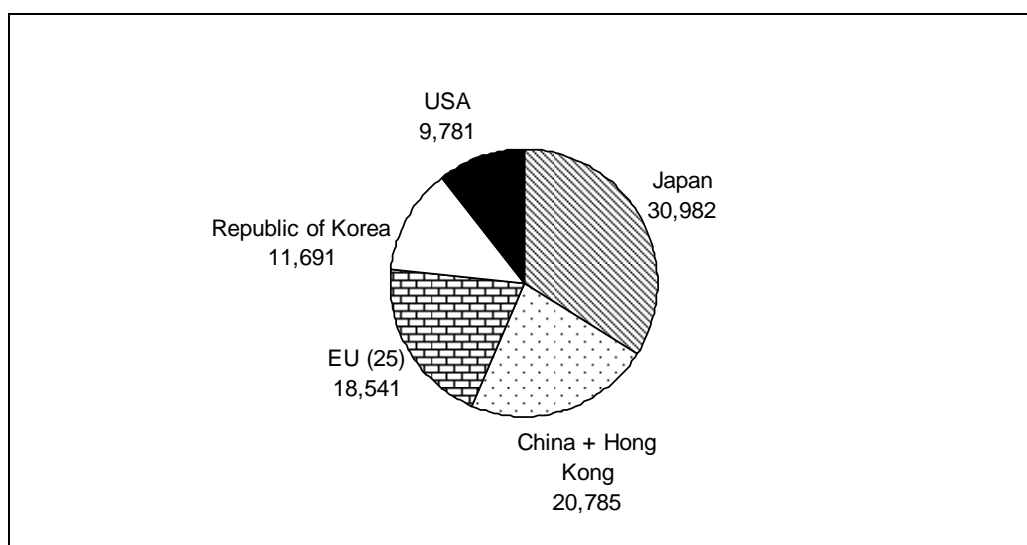


Figure 1: Australia's main export destinations and export values in millions of \$Aus, 2005-2006

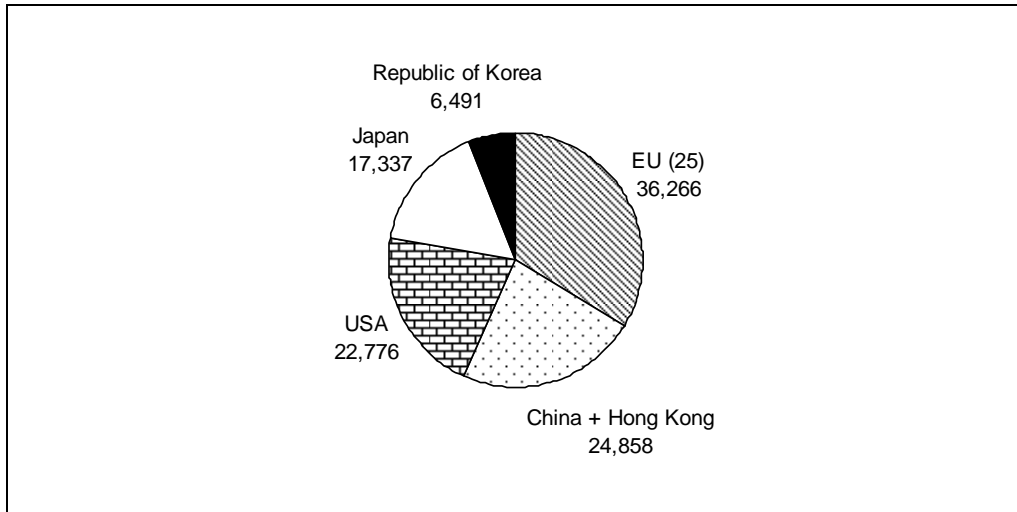


Figure 2: Australia's main sources of imports and import values in millions of \$Aus, 2005-2006

3. The Comparative Importance of Australia for China's International Merchandise Trade

If the relative value of merchandise trade is used as an indicator, then Australia is a less important as a trading partner for China than China is for Australia. According to DFAT (Australian Department of Foreign Affairs and Trade), Australia ranked 14th as an export destination for China in 2005 and accounted for 1.5 percent of its total exports by value. Australia reached 9th place as an import source for China and accounted for 2.4 percent of China's imports by value in 2005. However, Chinese statistics rank Australia as 8th as an import source. (The US and China Business Council, 2006, website accessed 8/8/06).

China's top export destinations in 2005 (see Table 3) were (1) USA, (2) Hong Kong, (3) Japan, (4) South Korea and (5) Germany. However, exports to the EU(25) exceeded those to Japan. China's top import supplies in the same year were (see Table 4) (1) Japan, (2) South Korea, (3) Taiwan, (4) USA and (5) Germany (US-China Business Council, 2006). China's imports of suppliers from the EU(25) appear to exceed those from the US. It can be seen that other East Asian countries are the prime trading partners of China, particularly as import suppliers. Much of China's imports from these countries are of components to be used in manufacturing in China (Prasad and Wei, 2005).

Table 3: China's Top Export Destination (US\$ million) 2005

Rank	Country/Region	\$US million
1	United States	162,899.6
2	Hong Kong	124,481.1
3	Japan	83,992.1
4	South Korea	35,109.3
5	Germany	32,527.6
6	Netherlands	25,876.8
7	United Kingdom	18,977.0
8	Singapore	16,632.6
9	Taiwan	16,549.6
10	Russia	13,212.2

Source: PRC General Administration of Customs, China's Custom's Statistics.

Table 4: China's Top Import Suppliers (US\$ million), 2005

Rank	Country/Region	\$US million
1	Japan	100,451.6
2	South Korea	76,822.0
3	Taiwan	74,684.4
4	United States	48,726.3
5	Germany	30,724.4
6	Malaysia	20,096.2
7	Singapore	16,516.4
8	Australia	16,186.5
9	Russia	15,890.9
10	Thailand	13,991.9

Source: PRC General Administration of Customs, China's Custom's Statistics

4. The Composition of Australia's and China's Merchandise Trade

Australia's exports of merchandise consist predominantly of primary products and its imports are mainly of manufactured goods, even though its exports of manufactured goods have risen in recent times. Interestingly, the major part of both China's imports and exports of merchandise consist of manufactured goods, even though its imports of minerals and fuels are important.

Australia's exports of merchandise to China consist mainly of primary products with manufactured goods being a small component whereas Australia's imports from China are mostly of manufactured goods. In 2005, Australia's main exports to China were iron ore (A\$5,721m); wool (A\$1,327 m); copper ore (A\$628m) and coal (A\$531m). Thus iron ore

dominates Australia's exports to China and China buys the lion's share of Australian wool. In the future, Australia's export to China of liquefied natural gas will also become important.

Australia's main imports of merchandise from China in 2005 were clothing (A\$3,055m); computers (A\$2,406m); toys, games and sporting equipment (A\$1,095m and telecommunication equipment (A\$1,073m). The types of manufactured goods that Australia is importing from China have become more sophisticated and have increased in range in recent years. There has been a noticeable increase in household electrical appliances supplied by China to Australia. The two diagrams (Figures 3 and 4) show the relative importance by value of the main categories of Australia's exports to China and of Australia's imports from China in 2005.

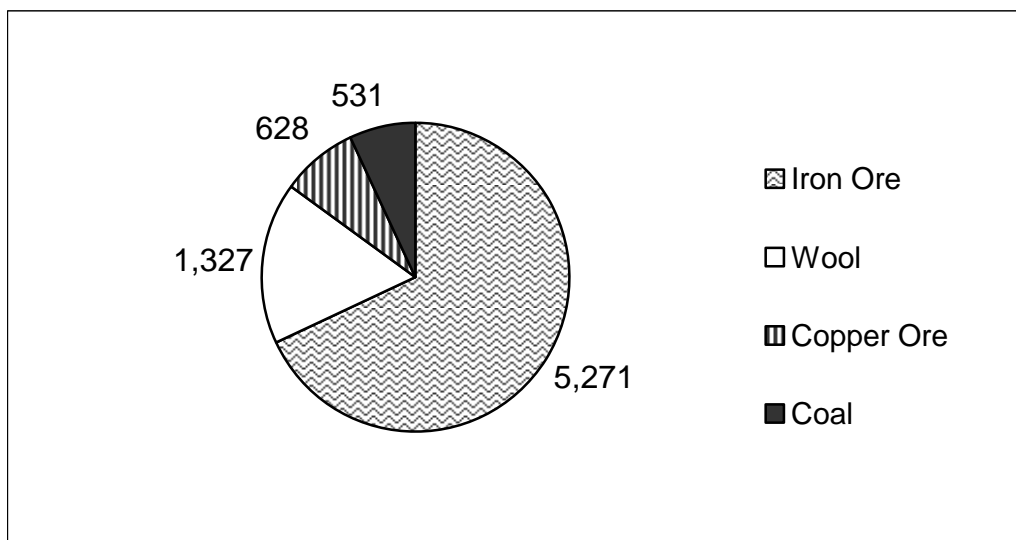


Figure 3: Australia's main exports of merchandise to China 2005 in millions of A\$

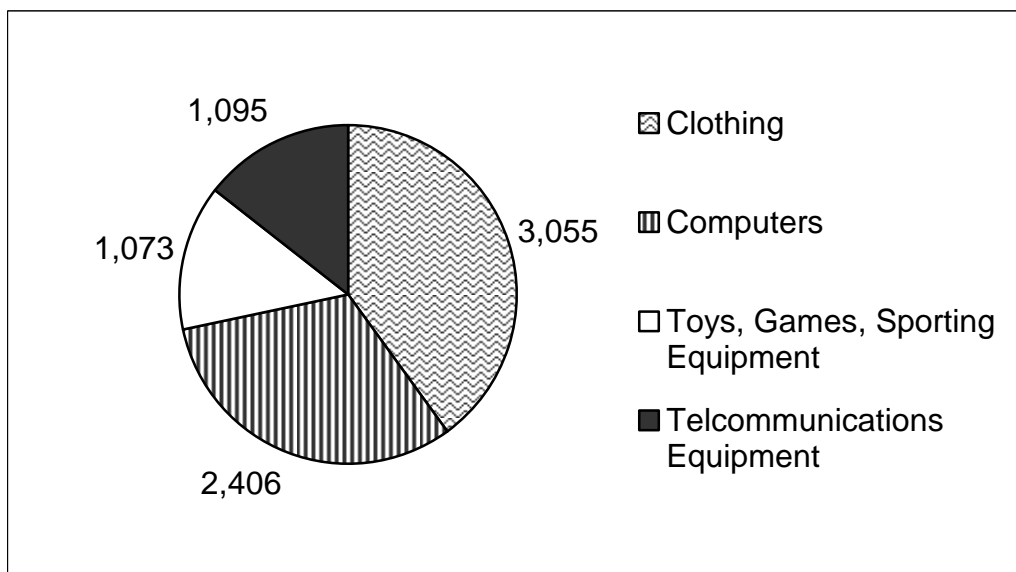


Figure 4: Australia's main imports of merchandise from China 2005 in millions of A\$

Table 5 lists the main merchandise exports of China by type and Table 6 sets out its main imports by type. It can be seen that China's top ten categories of exports consist mostly of manufactured products. Half of the categories of China's top ten imports also consist of manufactures with the remainder being primary or near primary products. The former exceed the latter in value. Thus, while China's imports are more primary-intensive than its exports, China's imports are also relatively concentrated on manufactured goods. It is clear that several categories of the same manufactured goods appear in both Tables 5 and 6. One reason for this is that manufactured components and parts are imported to China for use in the assembly and further manufacture of products in China, many of which are subsequently exported.

Table 5: China's Top Exports (\$US million), 2005

Rank	Commodity Description	\$US million
1	Electrical machinery & equipment	172,320.8
2	Power generation equipment	149,715.5
3	Apparel	65,904.1
4	Iron & Steel	34,123.7
5	Optics & medical equipment	25,478.0
6	Furniture & bedding	22,363.5
7	Toys & Games	19,123.6
8	Inorganic & organic chemicals	19,064.0
9	Footwear & parts thereof	19,052.9
10	Plastics	17,783.3

Source: PRC General Administration of Customs, China's Custom's Statistics

Table 6: China's Top Imports (\$US million), 2005

Rank	Commodity Description	\$US million
1	Electrical machinery & equipment	174,839.8
2	Power generation equipment	96,374.8
3	Mineral fuel & oil	64,098.6
4	Optical & Medical equipment	49,972.2
5	Plastics & articles thereof	33,323.5
6	Inorganic & organic chemicals	32,836.1
7	Iron & steel	31,905.2
8	Ore, slag & ash	26,014.3
9	Copper & articles thereof	12,895.8
10	Vehicle & parts other than rail	12,312.8

Source: PRC General Administration of Customs, China's Custom's Statistics

China requires both imports of manufactures and of primary products for its current phase of industrialisation and economic growth. China's imports of capital equipment and machinery are important for this as well as, in many cases, its imports of components for manufactured goods.

The latter imports may be fostered partly by foreign direct investment (FDI) by multinational companies in China. Thus, a Japanese multinational with manufacturing plants both in Japan and China may source some of its components from Japan and others from China and locate the more labour-intensive parts of its manufacturing in China. Thus, a supply chain like that shown in Figure 5 may emerge. As China's manufacturing industry develops, it may try to reduce its dependence on imported components to be used in its manufacture of final products.

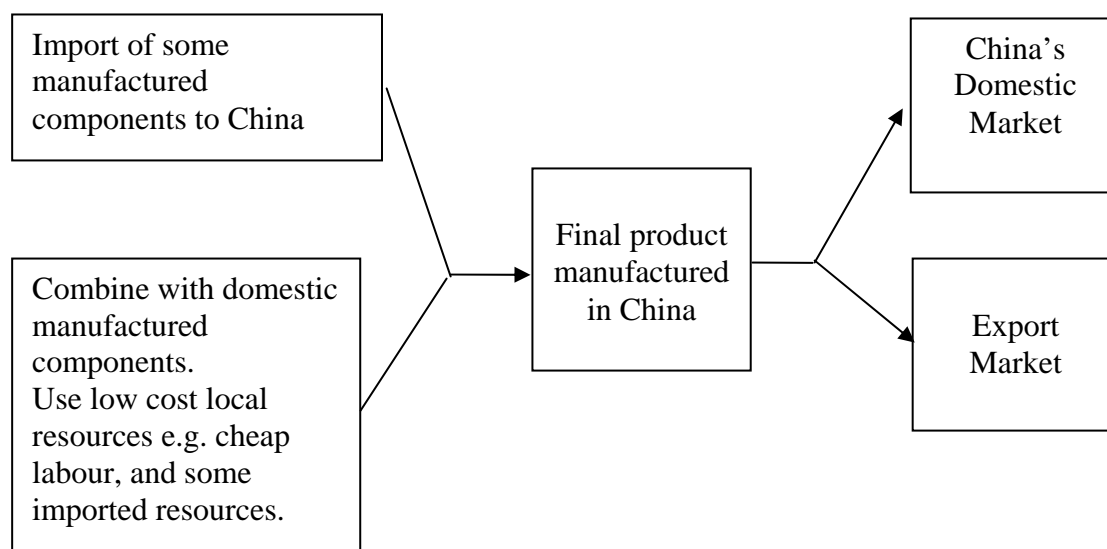


Figure 5: A frequent supply chain for products manufactured in China. This pattern may be quite common for multinational companies with foreign direct investment in manufacturing plants in China which also have plants in other countries, for example, Japan.

5. Australia's Trade in Services with China

International trade in services (non-merchandise trading) is becoming increasingly important as a component of international exchange. In 2005-06, 20 per cent of Australia's earnings on its current trade account (total export income) was from services and 19 percent of its total expenditure on its current trade account was for services.

In 2005, sales of services by Australia to China equalled 13.44 percent of Australia's total current account earnings from China, and services purchased from China amounted to 4.97 percent of Australia's payments in its current trade account. Consequently, Australia's trade in services with China was less intense than Australia's general trade in services; and the balance was in Australia's favour.

In 2005, Australia's exports of services to China amounted to A\$2,494m and its imports of services from China were A\$1,177m., giving Australia a favourable trade balance on services of A\$1,317m. Education was the major source of service income for Australia from China. In 2005, Australia earned A\$1,633m from this; more than from its wool exports to China. After iron ore, provision of education was the largest income-earner for Australia from exchange with China.¹ The second most important source of income from services sold by Australia to China was for travel (tourism). The numbers of Chinese visitors (travellers) to Australia have increased considerably in recent years and now constitute a significant segment of the Australian inbound tourist market.²

China's main sales of services to Australian are for transportation, e.g. shipping , (A\$430m in 2005) and for tourism (personal travel)³ (A\$362m in 2005). Consequently, there was a slight deficit for Australia on its tourism account with China.

6. China's Investment in Australia and Vice Versa

China continues to be the destination for a large amount of foreign investment globally as well as nowadays the source of much investment abroad. However, Australia is a relatively minor outlet for Chinese foreign investment and also Australia is a minor source of investment in China. Again, from Australia's perspective, China is not a major source of foreign funds invested in Australia nor is China a major outlet for Australian funds invested abroad. This is clear from Tables 7 and 8.

Table 7: The top four countries investing in Australia in 2005

Rank	Country	Aus\$ (mil.)	%
1	USA	325,294	46.0
2	UK	294,693	41.7
3	Japan	53,349	7.5
4 ^(a)	China + Hong Kong	33,535	4.7
	TOTAL	706,871	100

Note: (a) Investment by China and Hong Kong separately are, respectively, Aus\$2,275 million and Aus\$31,260 million.

Table 8: Australia's investment abroad in 2005 by top four destination countries, plus China and Hong Kong

Rank	Country	Aus\$ (mil.)	%
1	USA	290,974	41.2
2	UK	96,132	13.6
3	New Zealand	58,862	8.3
4	Japan	31,597	4.5
- ^(a)	China + Hong Kong	12,331	1.7
	TOTAL	489,896	69.3

Note: (a) Australia's investment in PR China was A\$2,043 million and in Hong Kong A\$10,288 million
Source: Based on Australian Bureau of Statistics (2006)

From the tables, it can be seen that together the United States and the United Kingdom accounted for the lion's share of foreign investment in Australia (87.6 percent) and 79.2 percent of Australia's investment abroad was in these two countries in 2005. The USA and the UK have traditionally dominated foreign direct investment in Australia and Australia's strong trading relationships with Asia have not altered this position. After the USA and UK, Japan holds third place as an investor in Australia and China, if combined with Hong Kong, is in fourth place. However, the level of China's plus Hong Kong's investment is quite small compared to that of the USA and the UK. After the USA and the UK, New Zealand and Japan are Australia's major outlets for investment abroad. Australia's comparative level of investment in China is very small even if China and Hong Kong are combined.

Thus, historical and continuing cultural connections still dominate the source of foreign investment in Australia and Australian foreign investment abroad. This is highlighted by Figures 6 and 7.

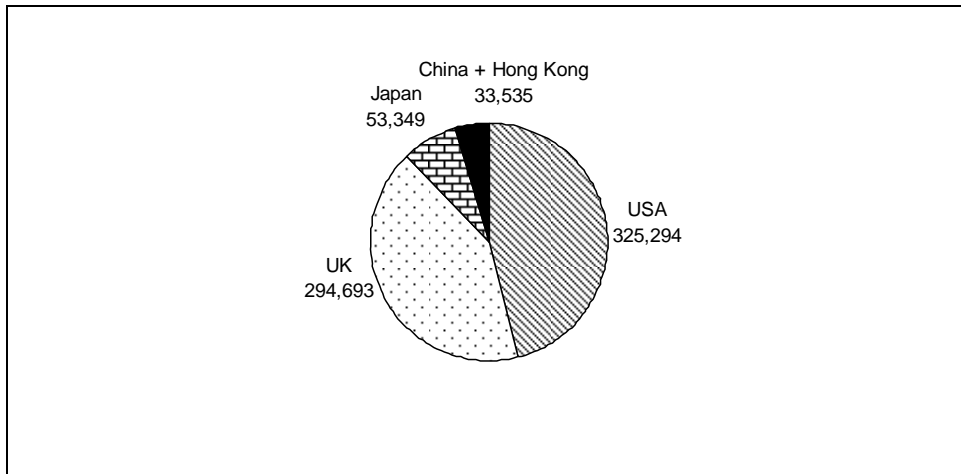


Figure 6: Top four countries investing in Australia, 2005 (in millions of Aus\$)

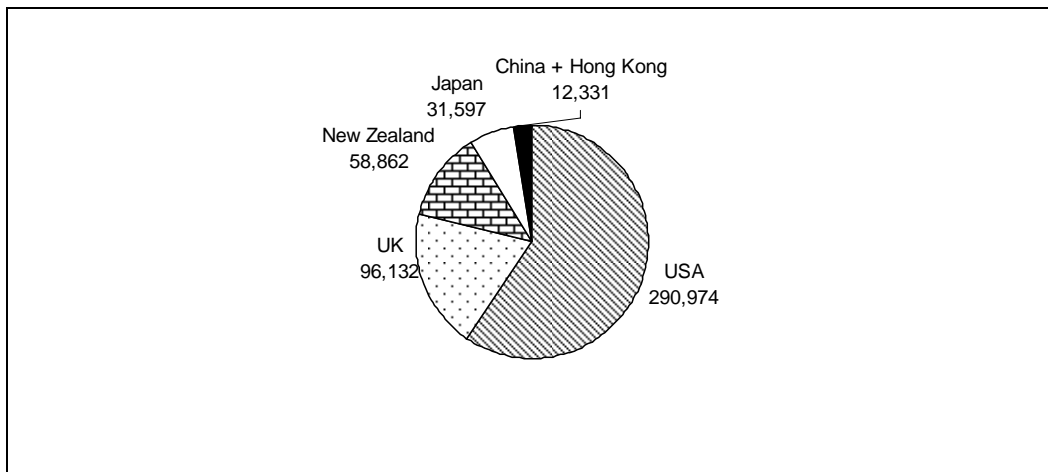


Figure 7: Australia's investment abroad -- top four destination countries, plus China and Hong Kong (in millions of Aus\$)

In recent years, China's investment in Australia has shown little growth. It may have even declined, particularly in recent times (see Table 9). Furthermore, Australian investment in China has remained very low, although its level was up in P.R. China in 2005 compared with previous years (see Table 9). Australia's combined investment in P.R. of China and Hong Kong appears to be waning. It can also be seen that China's investment in Australia exceeds Australia's investment in China, particularly so if China and Hong Kong are considered as one unit.

Table 9: China's Investment in Australia and Australia's Investment in China 2001-2005, A\$ million.

	2001	2002	2003	2004	2005
China's Investment in Australia					
P.R. of China	3,132	2,843	2,987	2,287	2,275
Hong Kong (HK)	31,974	35,565	27,829	29,363	31,250
P.R. China & HK	35,106	38,408	30,816	31,650	33,525
Australia's Investment in China					
P.R. of China	1,885	1,233	1,349	1,270	2,043
HK	12,534	12,986	13,623	12,698	10,288
P.R. China & HK	14,419	14,219	14,972	13,968	12,331

Source: Based on Australian Bureau of Statistics, Cat.No.5352.0 International Investment Position, Australia. Supplementary Country Statistics 2005.

According to the Economic Analytical Unit (2002, p.75):

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).

The Economic Analytical Unit (2002, p.69) also reported that:

A recent survey of Australian companies operating in China showed business numbers were reasonably evenly-split between three areas: manufacturing; property and business services; and a diverse range of 'other sectors' including wholesale and retail trade, mining, finance and insurance, construction, education, information services and energy supply (Maitland *et al.*, 1999).⁴

6. Discussion

China is now Australia's main single-country source of merchandise imports and the second largest single country outlet for Australia's merchandise exports. However, if the EU(25) is considered as one unit, then it outranks China as a source of Australia's imports. Furthermore, Japan, the main destination of Australia's exports, buys much more Australian merchandise than either the EU(25) or China. In practice, Australian exports remain quite diversified by destination and although China is an important customer for Australia, it does not dominate Australia's trade.

Nevertheless, trade with China seems more important for the Australian economy than China's trade with Australia is for China's economy. Australia ranks about 14th as the most important destination for China's exports whereas China is the 2nd or 3rd largest outlet for Australian exports. Australia is placed about 8th as a source of imports for China whereas it is the first source or second most important source of imports for Australia, depending upon whether the EU is considered as one unit. Given the increased degree of openness of the global economy, both countries have alternative (substitute) sources of supplies of imports and export possibilities. Therefore, the market power of each is limited.

China's exports of merchandise consist mainly of manufactures and Australia mostly imports manufactures from China, whereas the bulk of Australia's merchandise exports to China consist of primary products, of which minerals are the most prominent. However, the bulk of China's imports do not consist of primary products. More than half of China's imports appear to consist of manufactured goods (e.g. components) to be used in further manufacturing in China. Many of the products produced and then exported by China. According to Rumbaugh and Blancher (2004, p.4), "imports for processing are estimated to be embodied in over 40 percent of China's exports".

The major direction of China's trade is with the industrialised world. "China's share in world markets is growing rapidly and the penetration of China's exports into industrial country markets has been equally dramatic" (Rumbaugh and Blancher, 2004, p.5) and it is expected that China will maintain substantial export growth for some time to come (Rumbaugh and Blancher, 2004, p.4).

China's exports of manufactures have also become more diversified and sophisticated (Economic Analytical Chart, 2002, Rumbaugh and Blancher, 2004, p.4). Chinese policy-makers will, no doubt, wish to strengthen this trend.

Trade in services (non-merchandise) has assumed growing importance in international exchange, and Australian trade in services with China is of growing importance. While Australia has a deficit in its trade in merchandise with China, it has a surplus on its trade in services with China. A major reason for this surplus is the high level of enrolment of Chinese students at Australian educational institutions. In 2005, more students from China were enrolled in Australia's educational institutions than from any other country and they

constituted almost 25 per cent of enrolments of overseas students. While the numbers of Chinese students in Australia may grow for some time, the rate of growth of these numbers is declining. As China progresses economically, there will be less need for it to send its students abroad for training and it may increasingly become an exporter of educational services. There has also been a substantial rise in Australia's earnings from Chinese travellers (tourists) to Australia. This has helped boost Australia's non-merchandise exports to China. Expenditure by Australian tourists in China is now not substantially in excess of tourist expenditure by Chinese in Australia. Considerable scope exists for expanding inbound tourism to Australia from China. Nevertheless, it should be noted both education and tourism are vulnerable export industries because they rely on visits by Chinese to Australia. Demand for visits is vulnerable to political disturbances, war, health risks, terrorism and so on.

It is well known that China has "become a magnet for foreign direct investment (FDI) overtaking the United States (in 2003) as the number one destination for FDI" (Prasad and Wei, 2005, p.3). The main sources of FDI in China are from five Asian economies; Hong Kong, SAR; Japan; Korea; Taiwan; and Singapore. Even allowing for 'round-tripping' of funds between P.R. China and Hong Kong SAR, the level of FDI by the US and EU combined, while important, is estimated to account for not more than 30 percent of FDI in China (Prasad and Wei, 2005, p.6). By comparison, Australia's FDI in China is miniscule. However, just as cultural barriers may limit Australia's investment in China, they seem also to have had some dampening effect on FDI in China by the US and the EU compared to East Asian countries. Nevertheless, proportionately, China has been less of a magnet for Australian FDI than for the US and the EU.

White cultural affinity may help to explain the pattern of sources of FDI in China, it is probably not the only important influence. Given the international product cycle (Vernon 1979, 1968) and the global pattern of development of manufacturing industries, China's economic development comes at a stage when Japan and several Asian Newly Industrialising Countries (NICs) find it economic to relocate their mature industries or mature parts of some of their industries, such as the production of television sets, offshore. China is well placed in that regard.

China's FDI is increasing and about 8 percent of its FDI has been to the USA with a much larger percentage going to Asia. According to Prasad and Wei (2005, p.7), "the Chinese

government has recently encouraged FDI outflows to countries in Asia and Latin America in order to ensure more reliable sources of raw materials (for instance, by purchasing mining operations) and importing products for processing in China". It is possible however, that the focus of China's FDI will alter as its economy becomes more mature. It may have to invest increasingly in securing markets for its finished products abroad as these products become more sophisticated. Chinese exports have already become more sophisticated and diverse and China itself is likely to become more involved in establishing offshore manufacturing industries as it has already done in television set production (Gao and Tisdell, 2005). Given the continuing small size of the Australian market, Australia may not be a high priority for such investment.

A downward trend in China's FDI in Australia has been noted. How significant this is is difficult to determine. One reason could be that China has been able to make more favourable natural resource investments in Latin America, Asia and Africa than in Australia. It may also want to diversify its source of supply of raw materials. Again, there could be a growing realisation in China that China really does not need to own natural resources to secure their supply in a competitive international economy. In fact, it is likely to become strategically more important for China to undertake FDI to secure its overseas markets for its processed products and ensure that these increasingly incorporate up-to-date technologies (Tisdell, 2006; Gao and Tisdell, 2004).

7. Concluding Comments

In the space of about 15 years, China has gone from being a negligible trading partner of Australia to being one of its most important trading partners. After Japan and the EU, China is the most important destination for Australian exports, and after the EU it is the main source of Australia's imports. Given that China's economy continues to grow at a rapid rate, is the second largest economy in the world in terms of purchasing power and is highly trade-oriented, trade between China and Australia (both in merchandise and services) can be expected to continue to grow. China may eventually surpass Japan and the EU as a destination for Australian exports, and it is likely to move closer to the EU as a source of Australia's imports.

Nevertheless, despite the importance of China as a trading partner of Australia, China does not have a dominating trade position in relation to Australia. This is likely to continue in the

foreseeable future because China appears to be diversifying its trade both by direction and by types of commodities.

China's FDI in Australia is relatively small and Australia's FDI in China is very small. The bulk of FDI in Australia comes from countries with which Australia has had traditional ties – the USA and the UK. These countries have also been the main outlets for Australian investment abroad. There is no indication that China will become a major outlet for Australian foreign investment in the near future⁵ nor that China will replace either the USA or the UK as a major investor in Australia, notwithstanding a possible free trade agreement (FTA) between Australia and China.

Australia's and China's leaders agreed in April 2005 to begin negotiations on a free trade agreement. The Australian Department of Foreign Affairs and Trade (DFAT) states that a joint study concluded that an FTA between Australia and China would result in considerable economic benefits for both countries such as “higher economic growth, more jobs and higher living standards”. Nevertheless, it also states that “even without FTA, our [Australia's] trade and investment relationship with China will continue to grow because of complementarities between our economics”. Consequently, DFAT says that Australia will not be rushed in negotiating a free trade agreement with China and will be seeking a comprehensive agreement.

8. Acknowledgements

I wish to thank Dr. P Kumar for inviting me to prepare this paper and I wish to thank Dr. Glyn Edwards and Hemanath Swarna Nantha for their research assistance.

9. Notes

1. For several years, China has been the main source of foreign students enrolled in Australia. Almost 3.4 million international students were enrolled in Australia in 2005 and 23.5 percent of these were from China. Furthermore, the number of Chinese students enrolled has continued to rise albeit with a reduced rate of growth. India, with about 265 thousand enrolments in 2005, was in second place as Australia's main source of international students. It was well behind the number of enrolments from China, about 794 thousand, in the same year. (Source: the Australian Government Australian Education International Website,

(<http://aei.destigov.au/AEI/MIP/statistics/StudentEnrolmentAndVisaStatistics/2006/Default.htm#pivot>)

2. According to Tourism Australia (data from Australian Bureau of Statistics. Overseas Arrivals and Departures, 3401.0), Australia received about 5.4 million overseas visitors in 2005 and just under 5.5 million in 2006, a slight increase only in 2006 compared to 2005. New Zealand was the largest source of supply in 2006 (over 1 million), then the UK (0.71 million) with Japan in third place (0.67 million) with the United States in fourth place (0.51 million) followed by China in fifth place (0.29 million). With continuing economic growth in China, one can expect considerable growth in the numbers of Chinese visitors to Australia. Within a few years, it is likely that China will become the major Asian source of visitors to Australia.

3. Particularly in relation to its population, Australia is a significant source of foreign tourists to China. It accounted for more Chinese visitors than each of Germany, France or Italy in 2005 and almost as many from the UK. The China National Tourist Office reports 482,968 visitor arrivals from Australia for 2005 (Source: <http://www.cnto.org/chinastats.asp>, accessed 19/7/06). In the same year, the number of visitors from China to Australia was 274,100 according to the source given in Note 2. Therefore, the number of Chinese visitors to Australia is still well below the number of Australians visiting China. China has had a large surplus on its international tourism account and tourism has played a significant role in China's economic development (Wen and Tisdell, 2002). Pressure has mounted on China to liberalize its restrictions on Chinese citizens travelling abroad and China has made considerable progress in doing this. China has risen in a few decades to be the worlds' second most important tourist destination and it is expected to be number one soon.

4. According to the Economic and Commercial Section of the Consulate General of the People's Republic of China in Sydney, the distribution of Chinese investment in Australia is along the following lines:

“By far, the resource and mining sector has received the lion's share of the investment from China. Major projects in this sector include Mount Channar iron-ore (A\$120 million) and Portland Aluminum Smelter (A\$100 million).

The single largest Chinese investment in Australia, amounting to US \$240 million, is in the mining sector.

Agriculture is another area of concentration of the Chinese investment. Over the years, Chinese companies have made substantial investment in dairy, cattle and cotton farming in Australia.

However, it is the service sector that has attracted the largest number of companies from China. Quite a number of Chinese companies are engaged in import and export business, and air and ocean transportation as well as financial services, playing an important role in increasing the flow of goods and services between China and Australia”

In relation to Australian investment in China, this section of the Consulate General reported that this was in areas such as:

“mining, construction, transportation and food processing. For example, Australian mining giants such BHP Billiton and Rio Tinto have a strong presence in China. Australian investment in other areas such as IT, insurance legal and banking services is also substantial.”

(See<http://sydney2.mofcom.gov.cn/aarticle/bilateralcooperation/inbrief/200412/2004120009122.html> Accessed 19/7/2006)

5. The hesitancy with which Australian firms approach investment in China appears to be reflected in the following comments by the Economic and Analytical Unit (2002, p.xi) of DFAT:

“Australian companies are taking advantage of services liberalisation in China and are positioning themselves to gain access to China’s rapidly expanding services markets. Despite the improved environment, Australian firms still face major challenges from entrenched domestic players, high capital requirements and a lack of transparency in a rapidly changing regulatory and administrative situation. China has to be viewed as a long-term market. Before entering the China market, businesses need to assess the risks along with the opportunities.”

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