

Recent Trends in Australia-Japan-China Trade Relations: A Comprehensive Statistical Analysis

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Abstract

The rapid development of Japan's relations with Australia in the post-war era was based on mutually complementary trade and business links. Since then the relationship has expanded to economic activities, politics, education, direct investment and various other fields. As trusted business partners in the Asia-Pacific region, Japan and Australia share a common interest in regional business and trade stability and prosperity. Trade between Japan and Australia increased rapidly during the 1970s, but remained stable throughout most of the 1980s. However from 1988 on, the level of trade rose rapidly again due to increased imports of Australian goods into Japan. Australia is Japan's tenth-ranked export destination and shares 2.4% of Japan's total exports. It ranks third among the Japan's total imports with a share of 4.6%. In 1998 Japan's exports to Australia exceeding US\$ 8,019 million. Principal export items include transportation equipment (automobiles, etc.), general machinery (office equipment, etc.) electrical machinery, rubber products (tires, etc), chemical, precision machinery, iron and steel, and textile products. On the other hand, in 1998, Japan imported US\$ 13,000 worth of goods from Australia. This includes coal, iron ore, natural gas, beef, gold, wood chips, aluminum ingots, alumina, petroleum and petroleum products and wool. The annual flow of Japanese direct investment in Australia stands at A\$1,275 million (1996/97).

Japan is Australia's third largest services export destination after the United States and United Kingdom, with total services of exports worth A\$3.4 billion in 2002. However, travel to Australia from Japan, 82 per cent of which is tourism make up over half of Australian service exports to Japan. Non-travel service exports to Japan of A\$1.5 billion are equivalent only 6.6 per cent of Australia's total merchandise exports to Japan, worth A\$21.7 billion in 2002–03. Nevertheless, as the Australian and Japanese services sectors both make significant contributions to the respective economies' GDP, removing impediments to services trade and investment could create significant opportunities for Australian and Japanese trade and service exports. Australia and Japan enjoy one of the most significant economic partnerships in the East Asian region. The Australian-Japan economic relationship has developed on the basis of strong complementary interests and cooperation in wide range of areas.

On the other hand, since around 2003 China-Australia trade relationship is growing and strengthening rapidly. In 2003, Australia exported A\$9,089 million of merchandise goods to China. In 2005, Australia's exports to China increased to A\$16,064 million or 11.6% of total export volume. As far as imports to Australia from China are concerned, the volume of goods imported from China has increased rapidly during last three years (2003–05). In 2003, Australia imported A\$14,259 million worth of goods from China and this amount increased to A\$21,344 million in 2005. Now China is only second to US in terms of goods imported by Australia in 2005 (Australia imported A\$21,401 million worth of goods from USA in 2005). No doubt, with the rapid economic growth of China, Australia-China trade relations will strengthen

further and China will become the major export destination for Australian merchandise exports within next couple of years.

This paper aims to investigate and analyze several aspects on recent trends in Japan-Australia-China trade relations, i.e.; to investigate and outline the main growth areas and recent trends in Australia-Japan trade relations; to examine and analyze potential growth sectors in the bilateral trade and service relationship between Japan and Australia, and, to identify new developments and trends in Australia-China trade relations and to observe the impact of such developments on international trade in the region.

Australia-Japan Service Trade.

Trade flows have been at the core of the economic relationship. According to *Joint Consultative Committee (JCC) on Trade and Investment* (Report 2005), Japan has long been Australia's most important export market. Australia's total exports to Japan accounted for 3 percent of Australia's GDP in 2004. Australia is one of Japan's largest sources of imports overall and a principal source of such raw materials for Japan, benefiting both economies. In turn Japan provides Australia with large volumes of manufactured products contributing significantly to the welfare of its consumers and the efficiency of its industries. Investment flows are also important. Japan is the third-largest source of foreign investment in Australia and there is a demonstrated capacity to expand Australia's investment in Japan. Services trade is strong in some areas such as tourism, but remains a small proportion of the total bilateral trade.

The bilateral trade and investment relationship between Japan and Australia differs from those between many other developed nations. This reflects the complementary of both countries' natural advantages. Australia is a resource rich country, while Japan is renowned for its ability to produce competitive high-tech goods and services. While Australia's exports to Japan are concentrated to primary products, Japan's exports to Australia are predominantly elaborately transformed manufacturing. Japan has been Australia's largest export market with 20.4 per cent of total exports in 2004–05. On the other hand, Japan has been Australia's third largest source of imports with 11 per cent of its total imports in 2005¹). Table 1 shows Australia's trade statistics (merchandise and service exports and imports) with Japan.

The Australian and Japanese services sectors are growing sectors in their economies; in 1999, they accounted for 71 per cent of Australia's total value added and 66 per cent of Japan's value added²). However, as far as annual growth rate is concerned, services trade remains bottom level ranging from 1 to 2.5 per cent of total bilateral trade. In 2004, for example, Australian services exports to Japan are only 2.5 per cent of total exports, and services imports from Japan are only 1.5 per cent (Table 1). Japan ranks number three in Australia's top seven services exports destination

1) JETRO Website- Japan 2005 and Australian Bureau of Statistics, 2005.

2) World Bank Report, 2002.

Table 1 Australia's Trade with Japan, \$US billion

	1990	1995	2000	2001	2002	2003	2004
Exports							
Merchandise	10.5	12.3	12.6	12.3	12.1	12.8	16.3
Services	1.6	2.5	2.1	1.8	2.0	2.1	2.5
Total	12.1	14.8	14.7	14.1	14.1	14.9	18.8
Imports							
Merchandise	7.3	8.9	8.9	7.9	8.6	10.6	12.3
Services	1.0	1.2	1.4	1.3	1.2	1.3	1.5
Total	8.3	10.1	10.3	9.2	9.8	11.9	13.8

Source: Joint Consultative Committee Report on Trade and Investment 2005 p. 4 (JCC-Report)

Table 2 Australia's top 7 export destinations and export volume for services exports (A\$ Million) (a)

Country	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2005-06
USA	3220	4108	4351	4569	5042	4662	5554
United Kingdom	2171	2486	2837	3100	3573	3489	4561
China							3394
Japan	3688	3520	3253	3312	3609	3343	3096
Singapore	1256	1199	1339	1665	2099	2172	2794
New Zealand	1666	1825	1806	2041	2218	2116	3057
Hong Kong	1054	1033	964	985	1154	1460	
Asia n.e.s.	994	980	1023	1133	1366	1369	
Total with other export destinations	24,226	25,206	26,242	28,369	33,204	31,200	43,808

Source: Year Book of Australia 2004, pp: 820-821

list with A\$ 3343 million in 2001-02. Table 2 shows Australia's services exports to top seven destinations by country and country groups during the period 1996-2002.

As shown in Table 2, USA tops the list of Australia's services exports with \$A 4662 million in 2001-02. Japan ranks third in the list with A\$ 3343 million in 2001-02. As shown in Table 2, Australia's services exports to Japan have declined marginally during the period 2000-01 ~ 2001-02 from A\$3609 million to A\$3343. Table 3 shows Australia's major non-travel services exports items to Japan during the period 2000-01.

Between 1990-91 and 2001-02, Australia's non-travel services exports to Japan grew slowly, by 1.9 per cent per year. This compares to average annual growth of 4 per cent for total services exports to Japan over the same period. Up to the mid-1990s, Australia's total non-travel services exports to Japan grew strongly, by around 9 per cent, but have fallen away since as Japan's economic growth slowed. Australia's most important non-travel service export to Japan is transportation, which constituted 80.4 per cent of service exports in 2000-01. Over the five years to 2000-

Table 3 Australia's Services Trade with Japan, share of total and average growth rates (a) (b)

	Share of total 2000–01 per cent	Average growth rate 1990–91 to 2000–01 per cent	Average growth rate 1995–96 to 2000–01 Per cent
Service exports			
Transport services	80.4	2.2	-2.4
Communication services	3.7	n.a.	60.4
Insurance services	1.5	16.5	-21.1
Financial services	1.7	4.1	4.2
Computer and Information	1.0	n.a.	n.a.
Royalties & license fees	0.6	n.a.	n.a.
Other business services	10.5	n.a.	n.a.
Government services	0.6	n.a.	0.0
<i>Service exports excluding travel (\$million)</i>	1560	2.6	-1.2
Service imports			
Transportation services	67.9	6.3	5.0
Insurance services	0.5	-6.7	-13.9
Financial services	6.5	1.6	1.6
Royalties & license fees	8.4	n.a.	n.a.
Other business services	11.4	n.a.	n.a.
Government services	0.8	-3.3	-8.2
<i>Service imports excluding travel (\$million)</i>	1767	5.0	5.5

Sources: Australian Bureau of Statistics, 2002a and 2002b

(a) At the time of compilation, data for 2002–2003 onwards were not available for inclusion

(b) Service exports—not included non-travel service export figures

Table 4 Average annual growth in Australian services exports to top six destinations (95–00)

Item	U. S.	Japan	U. K.	New Zealand	Singapore	Hong Kong
Transport services	4.4	-3.8	3.4	4.6	8.7	4.4
Travel services	12.7	1.3	16.0	11.2	0.3	-0.9
<i>Business travel</i>	12.3	5.2	17.1	12.5	8.1	2.0
<i>Personal</i>	12.6	1.2	15.9	11.0	-0.2	-1.1
Educational related	24.0	3.6	20.4	13.0	7.7	1.6
Other	12.1	0.8	15.8	10.8	-3.8	-3.8
Insurance services	23.4	-23.9	-7.0	43.1	2.3	n.a.
Finance services	7.4	-2.7	12.1	-1.5	6.6	11.7
Government	-12.3	0.0	-5.6	0.0	-28.4	n.a.
Total non-travel service exports	14.3	-2.8	5.7	9.2	10.3	7.0
Total service exports	13.8	-0.7	10.1	10.2	5.4	2.7
Share of total service Exports	16.2	11.7	11.0	7.2	5.9	3.5

Source: Australian Bureau of Statistics 2002a and 2002b.

Economic Analytical Unit briefing report: Foreign Affairs and Trade, Australia 2002 p. 5.

01, the fastest growing non-travel service export to Japan was communication services, although growth was from a low base (Table 3).

Table 4 shows average annual growth in Australian services exports to selected countries including Japan (in bold figures) during the period 1995–2000.

As shown in Table 4, there is a strong growth in service exports to the United States during the period 1995–2000 and the United States has taken the top position in Australia's largest export destinations (including travel). The United Kingdom also has emerged as a popular service export destination during this period: it was the third behind Japan, but in 2002 overtook Japan as Australia's second largest service export destination (2002 figures are not given in the Table 4). In contrast to Japan, a range of service exports to the United States, United Kingdom, and New Zealand grew strongly, ensuring broad-based growth in Australian service exports. As shown in the Table 4, average annual growth rate of educational related services to the United States is 24%, to United Kingdom 20.4% and to New Zealand 13.0%. The Japan's share in this category was only 3.6%. In some sectors Japan's share shows a negative growth. For example, in sectors such as insurance services (-23.9), finance services (-2.7%), and transport services (-3.8%) show a decline. Japan's decade long economic downturn has no doubt undermined its demand for services imports, though market access issues also may have constrained growth.

The Importance and Necessity of Japan-Australia Free-Trade

A bold and comprehensive free-trade agreement between Australia and Japan would open the prospect of new trade opportunities for each country in unrealized niche markets, while reinforcing the traditional trade and investment complementarities which have driven the bilateral relationship for the past half-century. Reaching such agreement will require a substantial commitment by business and government in each country to closer commercial and economic engagement, and the need to overcome outdated stereotypes which are locking Australia-Japan into trading and investment patterns more appropriate in the 1960s and 1970s than today³).

The Australia-Japan relationship has undergone a number of notable changes over the past fifty years, both in terms of institutional framework and the nature of commercial engagement. The institutional framework for the bilateral relationship is built upon two Agreements, each of which has treat-status: the Australian-Japan agreement on Commerce, of 1957 (usually known as the Commerce Agreement); and, the Basic Treaty of Friendship and Co-operation, of 1976 (also known as the Nara Treaty).

A bold and comprehensive Australia-Japan Trade and Investment Framework Agreement

3) ACCI Review, January 2002, p. 1 and Australian Markets Outlook by National Australian Bank, July 2004.

(TIFA) would be a constructive mechanism for reigniting the bilateral commercial and economic relationship. While such agreements are usually about trade facilitation, rather than trade liberalization (which are the mainstay of Free Trade Agreements; FTAs), there is no reason an Australia-Japan TIFA could not usefully address some trade liberalization issues, including the sensitive one of agriculture⁴).

Issues which could be usefully addressed in any comprehensive TIFA would include: services, such as bio-technology, education, health, information technology; broader commercial policy issues such as competition policy and intellectual property; finance and investment; government procurement; mobility of business people; and, standards and conformance.

Achieving a meaningful TIFA will not be achieved overnight, as the experience of both countries in negotiating other bilateral and regional trade agreements has demonstrated. Australia, for example, is already engaged in, or looking toward, negotiating bilateral trade agreements with Singapore, United States, Thailand, ASEAN, China and South Korea, while Japan has similar objectives with Singapore, South Korea, Mexico, Canada, New Zealand and Chile. Although Australia and Japan are developed nations, neither has an inexhaustible supply of skilled negotiators to operating effectively across all of these matters without some form of sequential setting⁵).

Major Australian Primary Products Exports to Japan

Australia is a key supplier of primary products to Japan, including agricultural commodities, minerals and energy resources. In 1990, these exports accounted for 85 per cent of total Australian merchandise exports; by 2004, they accounted for 89 per cent of Australian exports to Japan. Within primary products, the composition of Australian exports to Japan has changed marginally since 1990, with rural exports declining (primarily due to declining wool exports to Japan), while food items and 'other' exports such as agriculture and livestock items including beef show an increasing trend.

At the product level, Australia's exports are heavily concentrated on four products — coal, iron, ore, aluminium and beef — which together account for 52 per cent of Australia's total merchandise exports to Japan. Japan is its largest market for coal, aluminium and beef and second largest for iron ore. Japan buys 43 per cent of Australia's total coal exports, 37 per cent of its total iron ore exports, 49 per cent of its beef exports and 36 per cent of its aluminium exports. Table 5 shows top 20 Australian exports to Japan.

A notable trend between Australia's primary products exports to Japan has been the gradual decline of wool exports to Japan since the 1980s. In 1989, Australia exported \$US 804 million

4) ACCI Review, 2002, p. 4.

5) ACCI Review, 2002 P. 6.

worth of wool to Japan, in that year wool was Australia's fifth largest export. By 2004, Australia's exports had fallen to \$US 35 million and wool was Australia's 33rd largest export. This change reflects two factors: the increasing significance of China as a centre for wool processing; and the decline in the Australian flock since the late 1980s⁶⁾. There has been strong growth in key resource commodities such as coal, iron, aluminium, copper ore, petroleum gas and crude petroleum. Some agricultural exports have also shown steady growth, particularly cheese, canola and animal feed. Forestry exports such as wood chips have also grown progressively, Japan is not endowed with many energy resources, and in 2003, was the second largest energy importer in the world, behind the United States. Following the negative effects of the two oil crises in the 1970s on Japan's economy, Japan's energy policy places priority on securing stable energy supply, through diversification. Now Australia is Japan's largest supplier of coal and iron ore and the third largest supplier of LNG⁷⁾.

Table 5 Top 20 Australian exports to Japan, \$US Million

Top 20 exports	1990	% of total	2004	% of total	Trend growth	2006(*)
Coal	2442	23.3	4229	26.0	2.1%	9605
Combined confidential items	631	6.0	2709	16.6	12.1%	5923
Iron ores and concentrates	951	9.1	1645	10.1	2.6%	4223
Chilled beef	453	4.3	1132	6.9	1.4%	2227
Unwrought aluminium	809	7.7	946	5.8	3.1%	1896
Wood chips	293	2.8	556	3.4	1.8%	804
Frozen beef	234	2.2	518	3.2	3.2%	363
Copper ores & Concentrates	149	1.4	420	2.6	8.4%	1386
Petroleum gases	392	3.7	392	2.4	-5.65%	213
Petroleum oils, crude	237	2.3	287	1.8	1.1%	861
Cheese and curd	44	0.4	267	1.6	10.7%	314
Rape seed	—	—	219	1.3	—	—
Fodder	27	0.3	179	1.1	14.2%	—
Animal feed	39	0.4	168	1.0	8.0%	395
Edible offal	31	0.3	161	1.0	12.5%	—
Cobalt mattes	—	—	123	0.8	—	—
Gold semi-manufactured	751	7.2	123	0.8	-14.7%	285
Crustaceans	166	1.6	115	0.7	-3.8%	153
Zinc ores and concentrates	279	2.7	104	0.6	-6.9%	—
Petroleum oils	15	0.1	90	0.6	30.9%	—

Source: JCC Report p.7 and Composition of Trade Australia 2006, Market Information and Analysis Section, Department of Foreign Affairs and Trade, May,2007 (*Figures for 2006 are given in A\$ Million)

6) JCC Report, Chapter 2, P 6.

7) JCC Report — Australia- Japan Trade and investment Links, Chapter 2, P. 6

Another notable feature in the Australia's livestock export sector is drastic increase in beef exports to Japan. In 2004, beef exports to Japan were considerably higher due to the discovery of BSE in the United States late in 2003 and Japan's subsequent banning of beef imports from that country. In 2004, for example, Australia exported US\$ 1132 million worth of chilled beef and US \$518 million worth of frozen beef to Japan. These two items account for 10.1 per cent of total Australian exports to Japan in 2004 (Table 5).

As shown in Table 5, Australia exported \$US 2442 million worth of coal to Japan in 1990. In 2004, coal exports to Japan increased to \$US 4229 million or 26% of total exports. On the other hand, Australia exported \$US 631 worth of combined confidential items in 1990 and by 2004 exports of these items increased to \$US 2709 million or 16.6 % of total exports. Many of the items in the list show a positive growth trend during the period 1990–04. However, during this period, some export items show a negative growth trend. For example, as shown in Table 5, petroleum gases show –5.65% (negative growth), and gold semi-manufactured shows –14.7% growth.

Trends of Japan-Australia Trade

Figures in Table 6 shows Japan-Australia trade figures and the trend of Japan-Australia trade during the period 1991–1999.

The concentration of Australia's exports in Japan has declined during the period 1995–99. In 1995, Australia exported \$US 12,184 million worth of goods to Japan. As shown in Table 6, the total export volume has declined to \$US 10,779 million in 1999. However, from 2003, Australian

Table 6 Trend of Japan-Australia Trade (Unit million US\$)

		1995	1996	1997	1998	1999	Annual growth rate in 1990s
Japan Export	World	443,047	411,302	421,067	387,955	419,207	4.3%
	Australia	8,104	7,411	4,970	8,020	8,446	2.2%
	Asia	193,453	181,551	177,534	134,975	156,933	6.4%
Japan Import	World	336,027	349,597	338,646	281,243	310,733	3.1%
	Australia	14,514	14,228	14,546	12,989	12,808	0.4%
	Asia	124,126	131,784	126,112	105,016	123,827	6.9%
Australia Export	World	52,977	60,257	63,097	55,938	56,004	4.1%
	Japan	12,184	12,019	12,438	10,919	10,779	0.6%
	Asia Excluding Japan	22,268	26,277	27,267	20,665	21,661	7.1%
Australia Import	World	57,478	61,557	61,787	60,767	65,386	5.9%
	Japan	8,880	7,999	8,453	8,373	8,804	2.1%
	Asia Excluding Japan	13,893	15,819	16,824	17,611	20,228	12.3%

Source: Report on Japan-Australia Stronger Economic Relations Report March 2001, p. 75

Table 7 Australia's Major Export Markets 2003–2006 (\$A Million)

Country	2003	2004	2005	%	Change from 2004–2005	2006
Japan	19,684	22,219	28,393	20.4	27.8	35,552
China	9,089	11,012	16,064	11.6	45.9	23,725
South Korea	8,084	9,175	10,938	7.9	19.2	13,935
United States	9,456	9,545	9,263	6.7	–3.0	15,625
New Zealand	8,146	8,760	9,001	6.5	2.8	11,987
India	3,338	5,430	6,976	5.0	28.5	10,338
Taiwan	3,724	4,089	5,519	4.0	35.0	6758
United Kingdom	7,403	5,056	4,969	3.6	–1.7	12,679
Thailand	2,252	3,060	4,127	3.0	34.9	–
Singapore	3,507	3,249	3,960	2.9	21.9	7357
Total (Including other countries)	107,956	117,758	138,861	100.0	17.9	163,548

Source: Japan-JETRO Website–2006 and Australia Bureau of Statistics 2006.

exports to Japan increased rapidly. According to ABS statistics, in 2003 Australia exported A\$ 19,684 million worth of goods to Japan, and in 2004 and 2005 export volume increased to A\$ 22,219 million and A\$28,393 million respectively mainly due to the drastic increase in beef exports to Japan.

It is interesting to note how Australia has changed its export strategy in Asia's developing countries in the recent past. In 1983, there were just three Asian countries in Australia's top 10 export destinations; in 2005, 8 Asian countries dominated in Australia's top 10 export destinations. As shown in Table 7, Australian export volume to developing countries in Asia such as China, South Korea and India is increasing rapidly. For example, Australian exports to China in 2005 increased to A\$16,064 million in 2005. Compared to 2004 export figures, this is an increase of 45.9 per cent or 11 per cent of Australia's total export volume (See Table: 7).

Australia trades with over 220 countries, although the 10 largest destinations by value account for about two-thirds of the total. Japan (\$A 28,393 million in 2005) and the USA (\$A 9,263 million in 2005) have long been the largest markets for Australian exports, purchasing 20.4% and 6.7% respectively of total Australian merchandise exports in 2005. The share going to Japan, has increased by 27.8 percentage in 2005 compared to 2004. On the other hand, the U.S. share has declined to A\$ 9,263 in 2005 (–3.0) compared to 2004. In contrast, Australia's exports to Asian countries like China, South Korea, New Zealand and India have steadily expanded, as these economies have grown quickly. Traditional export partners, such as the United States, the United Kingdom and Japan remain important, with recent growth driven by relatively new export products. In recent years Australian exports to other Asian countries such as Taiwan, Thailand, and Singapore have increased drastically (Table 7).

Table 8 Australian Beef Exports to Japan 2003 and 2004 (in A\$*000)

	2003	2004	% Change
Total chilled exports	414,648	553,424	33
Carcase	0	114	
bone in	987	1,637	66
Boneless	413,661	551,673	33
Total frozen exports	156,146	267,703	71
Carcase	0	466	
bone in	1,701	5,190	205
Boneless	154,445	262,047	70
Total beef exports	570,794	821,127	44
Carcase	0	580	
bone in	2,688	6,827	154
Boneless	568,106	813,720	43

Source: Department of Agriculture, Fisheries and Forestry, Australian Government
2004: Mean and Livestock, Australia

With the slowdown in world output and economic recession since late 2000, Australian export volume fell to most major markets. Among the big economies, large falls occurred in exports to Japan and US. For Japan, merchandise exports through 2001 fell by almost 5 per cent. This reflected both the recession in Japan, and the weaker conditions throughout the region, which dampened demand for Australian-sourced materials embodied in Japanese exports. There have been exceptions to this general weakness, however, exports to some Asian countries such as China (increased by 45.9% in 2005), Thailand (34.9% in 2005) and India (increased by 28.5% in 2005) expanding at double-digit rates.

However, Australia's exports to Japan show a drastic increase (20.7% increased in 2005) during the period 2003~2005. This is mainly due to high demand for Australian beef in the Japanese market as a result of banning US beef imports to Japan after reporting BSE in USA. The volume of Australian beef exported to Japan increased by 33% during the period 2003-04. As shown in Table 8, Australia exported A\$570.7 million worth of beef to Japan in 2003 and in 2004 Australian beef exports to Japan increased by 44 per cent to A\$821.1 million. In value terms, beef exports to Japan make up an estimated 48% of Australia's total beef exports. Table 8 shows increasing trend of Australian beef exports to Japan in year 2003 and 2004.

The Changing Patterns of Australia's Trade with Japan

Over the last 40 years the geographic representation of the countries that Australia exports to has significantly changed. No longer is Australia heavily dependent on USA, UK, or other Euro-

Table 9 Australia's Exports Destinations and Japan's Position in the Top 10:

Rank 1954-55	Country	%	Rank 1984-85	Country	%	Rank 2000-01	Country	%	Rank 2004-05	Country	%
1	UK	36.9	1	Japan	28.1	1	Japan	19.6	1	Japan	20.4
2	France	8.3	2	USA	9.5	2	USA	9.7	2	China	11.6
3	Japan	7.6	3	NZ	6.1	3	S. Korea	7.7	3	S. Korea	7.9
4	USA	6.8	4	S. Korea	5.4	4	NZ	5.7	4	USA	6.7
5	NZ	4.9	5	China	3.5	5	China	5.7	5	NZ	6.5
6	Italy	4.6	6	UK	3.3	6	Singapore	5.0	6	India	5.0
7	Germany	4.1	7	Taiwan	2.8	7	Taiwan	4.9	7	Taiwan	4.0
8	Belgium	4.0	8	Hong Kong	2.8	8	UK	3.9	8	UK	3.6
9	India	2.5	9	Singapore	2.4	9	Hong Kong	3.3	9	Thailand	3.0
10	Hong Kong	2.2	10	Germany	2.2	10	India	2.6	10	Singapore	2.9
Total of Top 10		81.9			66.2			68.1			71.6

Source: Preliminary Research Service – *Research Note*, November 1995;

Japan – JETRO Web site 2006 – Australian Trade Statistics with Japan

Australian Bureau of Statistics – 2005 and Statistical Year Book-Australia 2004

pean countries. The formation of the European Union Economic Community (EEC) in 1958 made trade with Europe increasingly difficult for non-European countries and when the UK joined the EEC in 1973 Australia's export opportunities reduced even further. Replacements for the EEC were found in Asian countries including Japan, China and South Korea with their rapidly growing economies, which provided close, large markets for Australian's exports. Table 9 shows changes in the top ten countries in which Australia exports and the proportion of exports that go to these top ten countries. It is also interesting to note how Japan emerged as major export destination for Australia's exports.

As shown in Table 9, Japan ranked No. 3 with 7.6% of Australia's total exports in 1954-55. In 1984-85, Japan became rank one with 28.1% of Australia's total exports. From 1984-85, Japan has been maintaining its rank one position with 19.6% and 20.4% of Australia's total exports in 2000-01 and 2004-05 respectively. Notable feature of Table 9 is China's role as an emerging market for Australian exports. For example, in 1954-55, trade with China did not include to the top ten export destinations, but in 1984-85 China ranked No. 5 export destination for Australia's exports. In "2004-05, China ranked No. 2 with 11.6% of total export volume from Australia. South Korea is also emerging as a major export destination for Australian merchandise. As Table 9 shows in 2004-05, South Korea has ranked as No.3 with total export volume of 7.9%.

Trends in Australia-China Trade Relations

As shown in Tables in previous sections in this paper, Australian-Japan trade relations are

very strong and growing further. On the other hand, Australia-China trade relation is emerging as an important economic segment in the Asia-Pacific region as well as globally. China is the world's sixth largest economy, Australia the fourteenth. Both are very substantial markets with combined imports of goods and services worth over US\$0.7 trillion in 2004⁸⁾. The Australia-China trade relationship has grown significantly in scale and depth over the past decade largely reflecting comparative economic strengths, economic complementarities a strengthening investment relationship and, more generally, closer bilateral and economic cooperation. In 2004, two-way merchandise trade was valued at between US\$21.1 billion according to Australian statistics, and US\$20.4 billion according to data from Chinese Customs. This represents a doubling of trade since 1998 and highlights the dynamic commercial relationship between the two economies. China now is Australia's third largest trading partner for goods, and Australia is China's ninth-largest⁹⁾. In 2004, primary commodities accounted for around two-thirds of the value of Australia's merchandise exports to China. Iron ore, alumina, wool and energy including petroleum and coal are Australia's major exports to China. China also is an important market for wheat and barley. Trade in resources, energy and agricultural commodities are expected to continue to grow rapidly in response to heavy demand pressures generated by China's industrialization.

China also is an important destination for Australian manufacturing exports. Over the past five years, Australian exports of simply transformed manufacturers and elaborately transformed manufacturers like electrical machinery and telecommunication equipment have grown at around 20 per cent a year, driving growth in Australia's total manufacturing exports. Again, this area of trade with China seems set to increase substantially over the next few years¹⁰⁾.

Service trade has grown less rapidly than merchandise trade. In 2002–03 China was Australia's seventh largest service export market (A\$976 million), taking 3.1 per cent of total service exports. Service exports to China have risen at nearly 15 per cent a year over the past 10 years. On the other hand, China was Australia's ninth largest source of service imports (A\$923 million) in 2002–03, providing 2.8 per cent of total service imports. Over the past 10 years service imports from China have risen at around 12 per cent a year¹¹⁾.

Australia's exports to China are concentrated in the primary sector, particularly raw materials and energy, although 'chemical and related products' as well as 'pigments, paints and varnishes' have broken the A\$ 100 million barrier, with the 'electrical machinery and appliances,' 'machinery and equipment' and paper and paperboard' categories not far behind. Table 10 shows Australia's major merchandize exports to China during the period 2001 ~ 2003.

8) Department of Foreign Affairs, Australia-China Free Trade Agreement, Joint Feasibility Study, ACFTA-JFC, 2005 P. 5.

9) Australia Bureau of statistics –ABS– and China Customs

10) ACFTA – JFC P. 10.

11) Industry Brief – Australia-China Trade: Realizing the Potential, April, 2004, P. 1.

Table 10 Australia's Major Merchandise Exports to China (A\$ million)

Items	2001~02	2002~03	%
Iron ore	1380.4	1690.7	22.5
Wool	1320.0	1308.5	-0.9
Alumina	1016.0	1082.0	6.5
Crude petroleum	313.5	527.4	68.2
Coal	158.6	215.3	35.8
Aluminium	190.2	212.3	11.6
Barley	356.8	212.3	-40.5
Copper Ores	236.2	182.2	-22.9
Pig iron	142.7	177.2	24.2
Non-ferrous base metal waste	132.5	172.6	30.3
Pigments, paints, varnishes	129.4	137.1	6.0
Chemicals and related products	119.4	135.4	13.4
Hides and skins	156.4	131.1	-16.2
Food and live animals	80.1	108.8	35.8
Electrical machinery and appliances	53.1	94.8	78.5
Machinery and transport equipment	82.1	93.7	14.1
Paper and paperboard	95.4	93.7	-1.8
Copper	91.6	92.6	1.1

Source: Department of Foreign Affairs and Trade website for 2002 and 2001 calendar years.

The top performing Australian exports to China over the past four years have been:

- iron ore up A\$927 million;
- wool, up A\$ 752 million (but flat in 2003–04);
- crude petroleum, up A\$421 million;
- pig iron, up A\$ 11 million;
- non-ferrous base metal waste, up A\$ 160 million;
- pigments and varnishes, up A\$ 93 million;
- Copper, up A\$ 88 million (but flat in 2002–03);
- Chemicals and related products, up A\$ 78 million; and
- Hides and skins, up A\$ 77 million but down in 2002–03)

On the other hand, Australia's imports from China comprise a broad variety of consumer goods. These are classed mainly as 'elaborately transformed manufacturers,' although most would be described as basic rather than high-tech manufacturers. Table 11 shows Australia's major merchandise imports from China.

The top performing imports from China over the past four years have been:

Table 11 Australia's major merchandise imports from China –2001–03 (A\$ Million)

Items	2001–02	2002–03	%
Computers	752.8	991.5	31.7
Toys, games and sporting goods	695.5	893.5	28.5
Clothing of textile fabrics	719.5	770.7	7.1
Women's and girls clothing (including knitted)	775.7	866.1	11.7
Footwear	557.0	623.2	11.9
Telecommunications equipments	359.7	493.2	37.1
Furniture	323.5	456.8	41.2
Men's and boy's clothing (including knitted)	524.7	548.7	4.6
Computer parts	278.7	374.7	34.4
Other articles of plastics	306.8	333.5	8.7
Household-type equipment	278.8	330.8	18.7
Manufacturers classified by material	252.4	311.9	23.6
Other metal household equipment	160.9	190.7	18.5
Other textile manufacturers	238.5	309.5	29.8
Non-metallic minerals	256.6	308.1	20.1
Sound or video records	185.1	300.3	62.2
Travel goods, hand bags	280.1	296.6	5.9
Chemicals and related products	290.4	296.0	1.9
General industrial machinery	227.7	292.3	28.4
Other electrical machinery	239.6	288.9	20.6
Electrical machinery and appliances	210.6	275.2	30.7
Photo/optical equipment and clocks	249.0	250.1	0.4
Other manufacturers of base metal	196.4	249.2	26.9

Source: Department of Foreign Affairs and Trade website for 2001~02 and 2002~03 calendar years.

- computers, up A\$818 million;
- women's and girls, clothing (including knitted), up A\$471 million;
- toys, games and sporting goods, up A\$438;
- telecommunication equipment, up A\$348 million;
- furniture, up A\$345 million;
- clothing of textile fabrics, up A\$286 million;
- sound or video records, up A\$252 million;
- footwear, up A\$236 million;
- men's and boy's clothing (including knitted), up A\$154 million; and
- Computer parts, up A\$267 million.

It is clear from Australia's merchandise export profile that the minerals and metals sectors will be the main beneficiaries of continued strong demand from China. However, some areas of agricul-

ture and some manufacturers will also be impacted significantly.

The Importance and Necessity of Free Trade Agreement between China and Australia

Australia and the rest of the world want to use the free trade agreement (FTA) negotiations to eliminate or reduce tariffs and other trade barriers to their exports to China and improve the investment environment. China has reduced its tariffs and other trade barriers following accession WTO in 2001 but its barriers on traded goods are still higher than Australia, Japan and USA. For example, China's tariffs on agricultural products average 15.3 per cent (Australia's average 1.3 per cent) and a number of Australian agricultural exports face tariff-rate quotas. However, China's tariffs on minerals and energy products are not high as in other sectors; they still have a substantial financial impact to Australian exports because of the large scale of Australian exports to China. China tariffs on manufactured goods range up to 45 per cent (Australia's average is around 5 per cent). Table 12 shows tariff applying to China's major import agricultural products (selected items) from Australia.

On the other hand, tariff applying to Australia's major agricultural imports from China (and other developing countries) is comparatively very low and it ranges from 0% per cent to 5 per cent for most items. Table 13 shows tariff for Australia's major agricultural imports (some selected items) from China.

As shown in Tables 12, tariffs applying to China's wool and wheat imports from Australia are 38% and 65% respectively. Even for other agricultural items, export tariffs are fairly high. On the other hand, as shown in Table 13, tariffs applying to Australian imports from China ranging from 0 per cent to 5 per cent for most items.

In China, a range of non-tariff measures also impede Australian trade in goods, such as cus-

Table 12 Tariffs Applying to China's Major Agricultural Imports (Selected Items) from Australia

Product	Value of imports From Australia US\$ Million	China's 2005 applied tariff
Wool, not carded or combed	900	38%(out of quota)
Wheat	364	65%(out of quota)
Barley	239	0%–3%
Cotton, not carded or combed	178	40%(out of quota)
Raw sheep or lamb	155	7%–14%
Raw cow or horse hides	121	5%–8.4%
Raw or rendered fats of cattle, sheep and goats	108	8%
Live cattle	105	0%–10%
Milk and Cream	10%	Milk and Cream

Source: China's Customs and China's WTO accession documents, 2005.

Table 13 Tariffs Applying to Australia's Major Agricultural Imports (selected items) from China

Product	Value of imports From China 2004 US\$ Million	Australia's 2005 Applied tariff
Fruit juice	24	0%–5%
Sugar confectionery	19	5%
Biscuits and bakers' wares	17	0%–5%–0%–4%
Miscellaneous food preparations	13	0%–5%–0%–4%
Cigars and cigarettes	10	0%–0%
Pasta	9	0%–5%
Frozen vegetables	7	0%–5%
Other nuts	6	0%–5%
Sauces and condiments	5	0%–0%
Shelled peanuts	5	5%/4%

Source: Australian Bureau of Statistics–2006

toms procedures, standards and technical regulations and unnecessary delays.

Services are another crucial area in the negotiations for Australia. Australia has substantial trade in sectors such as education and tourism. Australia wants to build on these strengths and obtain better access for Australian firms in other areas such including telecommunications, financial, professional and business services, construction services, transportation and freight and logistics.

An FTA between Australia and China could tackle barriers to these problems and help attract more trade and investment from each other. An FTA between Australia and China would provide Australian companies with greater access to the fast-expanding Chinese market and such agreement would provide the same benefits to Chinese trade with Australia. Benefits for Australia would include greater trade and investment flows across all sectors resulting in more jobs, higher incomes and better standard of living. Independent research has predicted that under full liberalization, Australia's real GDP would rise by an additional A\$24.4 billion over 10 years¹²⁾. It is true that, even without an FTA, Australian trade and investment relationship with China will continue to grow because of the complementarities between Australian and Chinese economies.

Final Remarks and Conclusions

Australia-Japan and Australia-China trade relations are fast growing. Australia and Japan enjoy one of the most significant economic and trade partnerships in the East Asian region. The Australia-Japan economic relationship has developed on the basis of strong complementary interests and cooperation in a wide range of areas. For Australia, Japan is a fast growing market for its pri-

12) The Australia-China FTA Negotiations in Brief, Australian Government Press Release, Department of Foreign Affairs and Trade, 2006, P. 4.

mary products including agricultural commodities, minerals, energy resources, and service exports. Tourism industry is also fast growing. Trade flows have been at the core of the economic relationship between Australia and Japan.

Japan has long been Australia's major export market. Over the decades, Australia has been a stable secure source of raw materials for Japan, benefiting both economies. For Japan, Australia is a fast growing and potential market for its manufactured products. In turn, Japan provides Australia with large volumes of manufactured goods contributing significantly to the welfare of its consumers and the efficiency of its industries. Investment flows are also important. Japan-Australia trade statistics show the growing economic dependability in both economies.

Japanese-Australian trade relationship could be enhanced through several activities. These include streamlining Japanese government processes, strengthening competition, consumer and privacy policies, moving towards common standards in the production, labeling and distribution of products and increasing Japanese venture capital's presence in the Australian Market¹³). And from Japan's side the time has come to liberalize the market for Australian exports including merchandise, agricultural commodities, minerals and energy resources. A free trade agreement between Australia and Japan is an urgent necessity that provides preferential access to each others' markets by eliminating or reducing tariffs and other barriers facing the flow of goods, services and direct investment between them. A free trade agreement between Australia and Japan must be comprehensive, applying to substantially all the trade in goods and covering trade in services, as well as other non-tariff issues such as the recognition of standards, customs cooperation, protection of intellectual property rights and regulation of foreign investment. Reducing tariffs and other barriers between Japan and Australia will boost overall trade and investment and consequently, their economic growth, incomes and living standards.

In addition to Australia's merchandise exports to Japan, Australia has a strong potential market for service sector exports to Japan. Previous studies have identified several potential services growth sectors (de Brouwer, 2001). Australia has strong capabilities in information and communications technology such as software and service provision; for example, Australia ranked sixth in the 2002 Economic Intelligence Unit E-readiness Ranking whereas Japan only ranked twenty-fifth (Economic Intelligence Unit, 2002). Considerable opportunities exist to assist Japanese business operate online (de Brouwer, et. al. 2001).

On the other hand, China-Australia trade relations are also growing fast. China is now Australia's third largest trading partner for merchandise trade. Five years ago it was number five and ten years ago only number eight. Amongst Australia's major exports in 2002-03, China was the number one market for Australian: barley, wool, oils and fats; non-ferrous base metal waste; pig iron;

13) de Brouwer, G. and Warren, T., Strengthening Australia-Japan Economic Relations, A report presented for the Department of foreign Affairs and Trade, Commonwealth of Australia, 2001.

pigments, paints and varnishes; and veneers, plywood and particle boards. It was the number two market for exports of hides and skins; iron ore; paper and paperboards; and photographic supplies.

China's exports to Australia are also fast growing. The pervasiveness of Chinese goods in the Australian market is evident in Table 11. For Australia, China was the number one source in 2002–03 for paper manufacturers; textile yarn; clothing and footwear; other textile manufacturers; other manufacturers of base metal; other metal household equipment; office machines; computers; radio broadcast services; electricity distribution equipment; household type equipment; furniture; travel goods and hand bags; other articles of plastic; and toys, games and sporting goods.

The importance and necessity of a free trade agreement between Australia and China will increase the opportunities for further strengthening Australia-China trade relations. Australia wants to use FTA negotiations to eliminate or reduce tariffs and other trade barriers to Australian exports to China and to improve the investment environment. China has reduced its tariffs and other trade barriers following accession to the WTO in 2001 but its barriers on traded goods are still higher than Australia (and other developed countries). Services are another crucial area in the China-Australia trade relations. Australia has substantial trade in service sectors such as education and tourism. Australia wants to build on these strengths and obtain better access for Australian firms in other areas including telecommunications, financial, professional and business services, construction services, transportation and freight and logistics. An FTA between Australia and China could also tackle barriers to investment and help attract more foreign investment from each other.

Australia and China have a substantial bilateral economic relationship which could be strengthened and developed further through an FTA. The positive impact of an FTA on output and employment is significant in both countries, with any structural adjustment expected to be minimal compared to adjustment processes already underway. The magnitude of real GDP and welfare-enhancing from an FTA will depend critically on its scope and coverage: the greater the coverage and the clearer the commitment to liberalization, the greater the net benefit.

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