

澳中自由貿易協定：形同管理大象

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中文摘要

本文主旨在探索澳洲與中國簽訂自由貿易協定的得失。就像任何國際條約一樣，澳洲必須在國內外的政治經濟因素中保持平衡。一方面，澳洲已藉由對反恐戰爭和侵略伊拉克的支持與美國提升防禦聯盟。澳洲與美國之間簽署的自由貿易協定多多少少與此一合作有關。因此，澳洲有與美國保持密切關係的政治和經濟原因。

另一方面，中國的興起為澳洲近年來的經濟成長有所貢獻，尤其是在初級產品，至少在短期之內大多數澳洲人將會持續獲益。這筆有利可圖的貿易與兩個國家間的積極政治氣

氛有關的程度是值得討論的問題，但這兩項因素似乎是互有關聯性。美國和中國之間的關係經常處於緊張狀態，與澳洲的利益最密切相關的是美國還是中國？取得兩國間的平衡是當下澳洲所努力嘗試去做，造成許多困難。此外，當澳洲從中國得到眼前的經濟利益時，後者可能成為再如何奮鬥也無法對付的強勢競爭者。雖然已有明確的勝敗關係，長期自由貿易協定（FTA）的優勢是否讓中國更容易具有競爭力還是個問題。

目前澳洲國內對澳中 FTA 抱持樂觀者多於悲觀者，前者傾向於假設除非遭到挑釁，大象是可以訓練的而且溫馴的，他們也常以資訊封閉來堵住悲觀者的憂鬱之口。但是他們已逐漸發覺到無知與樂觀是相關的。

An Australia-China Free Trade Agreement: Managing an Elephant

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Abstract

This paper explores the advantages and disadvantages of an FTA between Australia and China. As with any international agreement, Australia must balance political and economic

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factors at home and abroad. On the one hand, Australia's support for the war on terror and the invasion of Iraq has highlighted the defence alliance with the USA. The pending FTA between Australia and the USA is at least partly related to this cooperation. Hence, Australia has both political and economic reasons for maintaining close relations with the USA. On the other hand, China's rise has contributed to Australia's recent economic growth, especially the boom in primary products, and most Australians should continue to benefit, at least in the short term. The extent to which this favourable trade is related to a positive political climate between the two countries is open to question, but the two factors appear to correlate. Given that relations between the USA and China are often strained, would Australia's interests best be served by closer connections with the USA, or with China? Balancing both, as Australia is trying to do now, poses a range of difficulties. Furthermore, while Australia receives economic benefit from China at present, the latter may become an even more gigantic competitor against whom it will be vain to struggle. There are already clear winners and losers in the relationship, and the long-term advantages of an FTA that might make competition even easier for China must be called into question. Notwithstanding, perhaps Australia should seek an agreement as a gesture that might help to keep China on side.

Introduction

'Free trade' has become a mantra that evokes a passage in *Heart of Darkness*, Joseph Conrad's novel about greed and other types of human frailty in the context of Africa's ivory frenzy of the late 19th century: "The word 'ivory' rang in the air, was

whispered, was sighed. You would think they were praying to it".² As we know, prayers seem to be answered for some people but not for others. Not every player in the ivory trade was a winner, just as there are winners and losers in modern free trade; but the 'elephants' are expected to do better than before. In Australia there is some fear of the Chinese elephant, despite assurances by most economists and politicians, and some business leaders, that all will be well as long as we accept the elephant as a fact and manage it to work for us instead of running rampant. The best managerial device—the answer to our prayers—may be the bilateral Free Trade Agreement. This paper locates the device in the context of international trade in general, and summarizes the history of Australia-Asia trade. We ask why we need a bilateral FTA when Australia-China business is thriving already and a formal agreement could mar our relations with the USA. As we explore the pros and cons we pay some attention to South Australia, our home state.

Free Trade: The Big Picture

The trend towards free trade is founded on the idea that it leads to net benefit with a few casualties along the way. With no barriers to trade, comparative advantage will play a crucial role and inefficiencies will be swept aside. If a business cannot produce goods and services that are optimally priced and valued, then competitors in other parts of the world, if not at home, will bankrupt the enterprise. If too many businesses at home do not adjust to reality, entire industries may fade away under pressure

² Joseph Conrad, *Heart of Darkness*, London, Folio Society, 1952, p.75. First edition 1902.

from foreign competitors.

There are critics of such a sweeping idea. Perfect competition exists only in narrow economic theory; the notion is convenient for scholars but does not reflect the complex world in which nations trade and people do business. Corruption exists, as does war and greed and unequal division of natural and human resources. Some countries start from a base of disadvantage and will find it difficult to compete. Others think the free trade agenda is driven by developed countries, and suspect a plan to keep poor countries poor. Within countries, some people resent the idea that they will lose from free trade while others will gain from it.

International trade is governed by a plethora of state policies ranging from production standards, worker health, transportation and customs to the protection of important industries for political, economic or other reasons. There are historical and security implications—we all know that the latter have become prominent in recent years. There is a further complexity associated with the differences in wealth, and economic and political structures. Some countries have political systems that do not encourage or allow widespread discussion before decisions are made, while others demand thorough debate. Many poorer countries have economies dominated by a few industries while others have very complex economic systems. Therefore any attempt to reduce trade barriers between countries must be tortuous.

Given that competition between industries and countries is a basic element of our international economic system, free trade

tantalizes us with a promise of overall benefit. The European Union is a good example. Great potential advantages issue from progressive dropping of trade barriers and moves to adopt a universal currency. The businesses of each country have access not only to national markets but all markets within the Union. The flip side is that they face competition from much further afield. Businesses that do survive will be very efficient, producing goods and services that offer the best value for money. Of course, this means others must go out of business if they cannot compete, but the survivors will be lean and competitive.³ Structures such as a common currency, a European Parliament and an administration to oversee trade frictions smooth the way for industrial competition.

When the European experiment moves towards completion its businesses will present the world with a powerful competitive model. Other countries or groups of countries must match this comparative advantage. The speed of development of the EU was at least in part a response to the dramatic growth of Asian economies from the 1960s onwards. On the other hand, the threat of European competition has influenced the free trade ideas generated in Asia. The North American Free Trade Agreement (NAFTA) was a response to increased international competition, and is now expanding to Central and South America.

³ There is a rider that in a region with poor infrastructure that inhibits business, a restricted free trade agreement can protect resulting inefficiencies, even though it is intended to give businesses time to cope with sudden increases in competitive imports.

In economic theory, however, the intellectual zeal of those who propose bilateral or multilateral free trade agreements involving every country is flawed because the optimum result would be a utopian agreement providing perfect trade and perfect comparative advantage on a global scale. While that does not make sense, freer global trade is a more reasonable ambition, and the Uruguay round of the General Agreement on Tariffs and Trade continued the work of previous meetings to that purpose. Ideally, the World Trade Organization, an outcome of the last GATT round, would help the world move further in this direction but it might not have what it takes to orchestrate the complexities of free trade at a global level, and many countries are moving to bilateral agreements.

Australia-Asia Trade Development

Every country has its own history of economic survival and development. Australia is an interesting case because it grew as an outpost of Europe on the edge of Asia. The result has been an odd combination of fear of Asian domination on the one hand and a desire for access to huge Asian markets on the other. Australian governments and public sentiment have wavered between these poles, sometimes engaging, sometimes retreating, and sometimes trying to do both at the same time.

Early trade between the various colonies of present-day Australia and the outside world was dominated by Britain. Ships of the East India Company carried convicts from England to Australia, and on the homeward journey stopped in various Asian countries, principally China and India, to take on cargo for trade in Europe. In short, international trade—perhaps the China

trade in particular—is at the core of Australian identity.

The broad pattern of trade that developed, however, was dominated by Britain. In 1890 only 1.5% of Australia's trade was with Asian countries. This figure grew slowly but steadily through the depression of the 1930s, dropped during World War Two, then picked up gradually after 1945 to just under 20% of trade by 1956/57.⁴ The more rapid growth of Australia-Asia trade is a feature of only the last fifty years.

There are a number of reasons for the dramatic growth in Australia-Asia trade. In part it was the decision by Britain to enter the Common Market, which removed preferential trade agreements with Australia. In part it was the natural development of trade with the rapidly industrialising countries of Asia, especially Japan, and the consequent demand for Australian raw materials. Immigration has also played a role, with Australians of Asian descent creating trade linkages with Asia. In this respect the mooted Australia-China FTA continues a long-established pattern in Australia's trade with Asia.

As Europe moved to a Union and North America engineered its first regional trade agreements, Australian producers grew justifiably nervous. It was clear that steps were needed to ensure Australia's access to Asian markets, and various trade agreements were initiated. The Closer Economic Relationship (CER) between Australia and New Zealand is now more than twenty years old. Both the Pacific Basin Economic Council of the 1970s and the Pacific Economic Cooperation

⁴ Sandra Tweedie, *Trading Partners*, Sydney, UNSW Press, 1994, pp. 2-3.

Conference (started in 1980) were attempts to integrate Australia-Asia trade. The Asia-Pacific Economic Cooperation (APEC) agreement of 1989 was probably the most important because it tried to involve both Japan and the USA in an 'open regionalism' system of trade. As stated by Australia's Department of Foreign Affairs and Trade:

Australian business has access to over 2.5 billion consumers and around 60% of global income in 21 APEC member economies. These economies also purchase around three-quarters of Australia's merchandise exports. In the last decade APEC exports have more than doubled to nearly AUS\$5 trillion, and APEC economies have generated 195 million new jobs and 70% of the increase in the world's economic growth.⁵

Like the WTO, however, APEC has found it difficult to negotiate the details of the extent and timeline of free trade, and so bilateral agreements are coming to the forefront of trade negotiations. In Asia, Australia already has FTAs with Singapore (2003) and Thailand (2004); 'scoping studies' for an Australia-Malaysia agreement are under way in both countries.

The Geopolitics of an Australia-China FTA

All economic agreements are set within a geopolitical context, and each influences the other. This is especially the case with respect to China, where the leadership has for some years

⁵ Asia-Pacific Economic Cooperation and Australia – Overview. 8 September 2004. [http://www.dfat.gov.au/apec/apec_overview.html]

explicitly connected the two. Several key features of the geopolitical context now influence the Australian government as it debates the virtues of an FTA with China. Many issues with a range of countries impinge on Australia-China relations, but perhaps the main three points of possible contention are the China-Taiwan issue, Australia's regional relationships, and the question of human rights in China.

The China-Taiwan Issue

The clearest case of political considerations affecting economic agreements concerns the status of Taiwan. Since taking over Taiwan's seat on the UN Security Council in 1972, China has lobbied governments around the world to deny Taiwan recognition as a political entity separate from China. Taiwan has counter-lobbied, but given its limited economic power compared to China it has been much less successful.

The fundamental question is this: To what extent will a free trade agreement with China affect the Australian government's ability to make independent decisions about the China-Taiwan issue? On the face of it the answer is that the Australian government will be compromised. One could argue that, in order to get to the point where free trade is now being discussed, the Australian leadership has had to signal compliance with China's demands over Taiwan. This appears to be the Taiwanese view, as one member of Taiwan's Foreign Affairs Ministry has criticised Australia for a "lack of moral courage."⁶

⁶ Catherine Armitage, "Taiwan calls us cowards," *The Australian*, 24 September, 2004, p. 2.

Given the Chinese government's sensitivity over the issue of Taiwan's independence, it is difficult to imagine a situation where the Australian government could support a Taiwanese move in this direction without incurring the wrath of China, and consequent trade discord.⁷ The recent visit of Lee Hsien Loong of Singapore to Taiwan is a case in point, as China retaliated by cutting a range of proposed economic linkages.

Essentially, Australia lacks the economic power to confront China politically. As trade with China depends on primary products that are available elsewhere, Australia must be careful not to alienate its major customer. The most difficult issue here is the dependence on trade with China on the one hand and dependence on defence agreements with the USA on the other.⁸ Given the standoff between the USA and China over Taiwan, any conflict between the two giants would put Australia in an extremely difficult position. It would have to navigate perilous waters to sail through such a confrontation. Where does Australia stand on this critical issue? Until recently it has been assumed that Australia is a steadfast supporter of the USA, and this has been reinforced by Australia's backing of the war in Iraq

7 While Taiwan broadly adheres to the One China Policy, "the ROC has always rejected Beijing's 'One Country, Two Systems' doctrine, which implies that Taiwan lacks sovereignty." Remy Davison, "China in the Asia-Pacific" in Michael Connors, Remy Davison and Jorn Dosch (eds), *The New Global Politics of the Asia-Pacific*, London, Routledge Curzon, 2004, p. 58.

8 For a good discussion of this dilemma in the mid 1990s see Roger Bell, "Australian-US relations and the transformation of the Asia-Pacific," in Roger Bell, Tim McDonald and Alan Tidwell (eds), *Negotiating the Pacific Century*, St Leonards, Allen and Unwin, 1996.

and the 'war on terrorism.' Prime Minister John Howard has been a close associate of George W. Bush and British Prime Minister Tony Blair. However, Australian Foreign Minister Alexander Downer recently demonstrated the power of the economic variable when he questioned the tie between Australia and the USA in the case of conflict between China and Taiwan:

Mr Downer indicated Australia would not feel obligated under the ANZUS treaty to assist US forces in defending Taiwan in the event that China tried to regain the newly democratic island republic by military force—a public warning to the Taiwan Government that Beijing will appreciate.⁹

Therefore the key issue here is the extent to which Australia can remain independent politically with a defence agreement and strong economic linkages with the USA, on the one hand, and a dependency on its trade with China on the other. The China-Taiwan relationship could bring this issue to a head.

Australia's Regional Relationships

The move to free trade agreements within the Asian region encourages Australia to pursue the same course in order to ensure access to markets, and so there is a sense of the inevitable in Australia's proposed FTA with China.

On the other hand, the prospect of a closer economic

9 Hamish McDonald. "Downer Flags China Shift," *The Age*, 16 August 2004. [<http://www.theage.com.au/articles/2004/08/17/1092508475187.html?from=storylhs&oneclick>]

relationship with China raises questions about Australia's other connections in the region. This is not about turning away from current economic partners, as many individual countries and regional groups also want to connect with China's burgeoning economy without jeopardizing other relationships. Rather, the issue is the extent to which China will push its political agenda with countries that are increasing their economic dependence on Chinese goodwill. As Barfield argues, "Economic effects constitute one important basis for judging the pros and cons of individual new trade agreements, but also to be factored in are a number of geopolitical factors—security, diplomatic, and political goals and realities."¹⁰

This is especially the case with relatively small economies. Japan, even though it still accounts for about 60% of the East Asian Economy, could encounter problems with China, and this would leave Australia in a difficult position given that Japan is still its largest export destination. In a broader context, "Japan and China may not have regional dominance objectives, but they do have regional leadership ambitions, and each is aware of the aspirations of the other."¹¹

In short, how will Australia deal with the complexities of

¹⁰ Claude Barfield, "The United States, China and the Rise of Asian Regionalism." Paper delivered at the Western Economic Association Annual Conference, Vancouver, B.C. 29 June, 2004, p.26.

¹¹ Stuart Harris and Greg Austin, "Japan, China and Regional Order," in Peter Drysdale and Dong Dong Zhang (eds), *Japan and China: Rivalry or Cooperation in East Asia*, Canberra, Australia-Japan Research Centre, 2000, p. 143.

Asia's political and economic relationships as China becomes increasingly powerful in the region? A much closer connection with China will have implications for Australia's regional relationships, as it does for Australia's relationship with the USA. Immediate economic gain for Australia, therefore, needs to be considered carefully in light of these broader issues. While such questions may not be immediately pressing (with the exception of the China-Taiwan relationship), what will be Australia's position in ten or twenty years, assuming China becomes the dominant regional power?

Human Rights

One of the major human rights issues with respect to China concerns its action in Tibet. Since the invasion in 1957, China has received much international criticism but has rejected pressure to give more than token autonomy to the 'Tibet Autonomous Region.' Independence is out of the question.

In Australia, where there are many Buddhists, and where support for religious freedom is normal, there has been significant public support for Tibet's independence. This is expressed most vividly when the Dalai Lama visits Australia. In the 1980s and early 1990s Australian leaders met him officially. While China protested, its relatively minor role in the Australian economy meant that Australian political leaders could afford to ignore its anger. This has changed dramatically since the Howard government took power. The Prime Minister has refused to meet officially with the Dalai Lama, making the political decision that a positive relationship with China is much more important.

The Tibet issue highlights both the positive and negative aspects of a closer economic relationship between China and Australia. Economic benefits will flow while Australia continues to follow China's political agenda, but as Australia's dependency on China increases, to what extent will Australian leaders be willing to make independent political choices?¹²

In addition to the occupation of Tibet, China's human rights record in general continues to interfere with its relationships with democratic states. There are many areas in which the Chinese government is charged with human rights violations, and the forthcoming Beijing Olympics is re-focussing attention on this issue:

Human Rights Watch said China should end media and Internet censorship, allow Chinese workers to organize independent trade unions, and ensure rights protections for people evicted from their homes in Beijing to make way for Olympic venues or related development. The International Olympics Committee should press for free expression, not just for visiting international journalists, but for all Chinese citizens before, during, and after the Olympic Games. Olympic sponsors and partners should press China to

12 For a detailed discussion of the human rights issue, see Ann Kent, "Human rights in Australia-China Relations, 1985-95," in Colin Mackerras (ed), *Australia and China: Partners in Asia*, Melbourne, Macmillan, 1996, pp. 57-68.

uphold International Labor Organization standards.¹³

This leaves Australia in a difficult position. If the government holds to its democratic principles, then it is impossible to avoid criticism of the Chinese leadership. If Australian leaders are critical, then it appears likely that China will reduce the number of lucrative business contracts going to Australian companies.

A case in point here is the annual UN Human Rights Commission report. Almost every year the United States demands censure of China for its human rights abuses.¹⁴ Australia historically sided with the USA but eventually chose to go easy on China, and the result was significant and immediate economic benefit.

The Geopolitics in Summary

Australia is being pulled in different directions. Its broad history and culture, with the exception of Asian immigration predominantly in the post-World War Two period, is European, and this generally means that most Australians relate more easily to the USA than they do to Asia in general, and China in particular. There also remains in Australia a significant level of ignorance and suspicion of China, and some fear of its re-emerging economic and political power. There are also

13 Human Rights News, "Olympic Spotlight Shifts to China," August 24, 2004. [<http://hrw.org/english/docs/2004/08/24/china9259.htm>]

14 Colin Mackerras, *The New Cambridge Handbook of Contemporary China*, Cambridge, Cambridge University Press, 2001, p. 175.

tensions within Australia that come to the fore whenever there is talk of further adjusting economic activity towards Asia.¹⁵

Australia's FTA with the USA, to commence on 1 January 2005, will add a strong economic dimension to the security arrangement between the two countries. As Australia will be one of only a few nations outside NAFTA to have an FTA with the USA, access to the world's largest consumer market suggests great potential for Australian suppliers, although the opinion is not unanimous.¹⁶

With respect to defence issues, the USA and Australia have a long history of partnership and this continues today. Moreover, Australia has been one of America's staunchest supporters in the war on terror and the Iraq War.

If the Australian leadership is to garner economic advantage from both the USA and China, while maintaining close defence connections with the USA and independence in foreign policy decisions, it must play a delicate balancing role. It cannot afford to offend either country, yet relations between the USA and China (as well as China and other countries of the region) tend to be difficult in general and especially difficult when the focus is on the issues discussed above. Under these circumstances the growing economic relationship between Australia and China will almost certainly create frictions in Australia's other relationships.

15 Jean Marceau. "An Uncertain World: Global Localisation and the Emerging Industrial Territory of Australia," in Peter Rimer (ed), *Pacific Rim Development*, St Leonards, Allen and Unwin, 1997.

16 The USA has implemented bilateral FTAs with Israel, Jordan, Chile and Singapore.

At the same time there is no doubt that China is an emerging economic and political powerhouse in East Asia, and there are substantial advantages for Australia in developing close connections. But does Australia need an FTA in order to achieve this result? It might not seem necessary if we focus only on trends in economic statistics, but a less naïve focus must include geopolitical considerations that in fact suggest an FTA is vital to Australia's economy.

With or Without an FTA: Australia's Winners and Losers

If an FTA with China goes ahead, and long-term conditions for doing business in each country are reasonably stable, which sectors of Australian business are likely to gain or lose? The pattern for gains should be 'more of the same' in three sectors already doing well without an FTA and a fourth that is less developed but has great potential. The first three are exporters of minerals and energy, manufactured goods, and agricultural produce; the fourth is services. The main Australian losers are also likely to be in manufacturing and services.

Australia's Clear Winners?

Later we will look specifically at the case of South Australia; but first, an overview of Australia-China trade. In 1999 Australia exported just under A\$5 billion in goods and services to China; by 2003 the value had doubled.¹⁷ According to the China FTA Taskforce in the Department of Foreign

17 Department of Foreign Affairs & Trade (DFAT), "Australia-China Free Trade Agreement Joint Feasibility Study," Australian Government, Canberra, 2004. Brochure.

Affairs and Trade, "growth in Australian exports to China has accelerated, averaging over 21 per cent annually for the past five years [1999-2004]."¹⁸ The taskforce links China's economic growth to burgeoning demand for raw and processed minerals for construction materials and energy. Seventy per cent of China's electricity is generated by coal and the figure is unlikely to fall despite massive hydroelectricity projects. More coal-fired plants are planned despite the prospect of environmental carnage and reliance on a non-renewable resource.¹⁹ If China thinks the price is right, Australian coal producers should prosper for at least a decade or two. Australian natural gas suppliers should profit enormously from a long-term contract signed with China in 2003. As with coal, the export trend for iron ore has been upwards for several years. Apart from raw minerals, exports of processed metal—mainly steel, copper and aluminium—are strong. With a reported increase of one thousand cars per week to the Beijing fleet alone, and with construction booming, metal exporters should continue to prosper under the preferential conditions of an FTA.²⁰ Other construction materials such as cement, and perhaps plantation timber, will also be in demand. Hugh Morgan, mining magnate and current president of the Business Council of Australia, says an FTA is "well worth considering [because] Australia's supply of raw materials [feeds] well into the Chinese manufacturing and construction sectors;"

18 Ibid.

19 Ben Dolven, "China Struggles to Fuel Its Miracle," *Far Eastern Economic Review*, Sept 16, 2004, pp. 36-39.

20 DFAT, op. cit.

but he urges caution.²¹

High levels of communication and cooperation do not depend on an FTA. For example, an Australian consortium has won the contract for a A\$615 million transformation of a shipyard into a sailing facility for the Beijing Olympics in 2008.²² The same source says "Australian companies have already won more than half the work outsourced by China for the Beijing games to date.... The total Beijing infrastructure program is set to be five to six times as large as Sydney's." Within days of China winning the right to host the Olympics, Australia accepted China's invitation to assist with design and organization. In July 2001, a delegation of Australians involved in managing the Sydney Olympics in 2000 held the first of a series of meetings with the Organising Committee of the Beijing Games.²³ The communication and exchange of ideas continues. Without an FTA, Australian construction firms have continued to find their own way in China, although it is also true that others have missed out on contracts they thought they should have won, including the one for the Olympic sailing venue.²⁴

DFAT forecasts an increase of at least 24% in China's food

21 "Business Council Throws Weight Behind Aust-China FTA," *Industry Search News Article*, 13 August 2004. [<http://www.industrysearch.com.au/news/viewrecord.asp?id=15026>]

22 Catherine Armitage, "Process Doubts Overshadow Aussie Win in China Venue Bid," *The Australian*, Sept 7, 2004, p. 24.

23 "Australian Design Awards and Olympic Designer Head to Beijing in New Bid for Olympic Business," *Standards Australia News Release*, July 19, 2001.

24 Catherine Armitage, op. cit., p. 24.

imports in the next twenty years as the country's agricultural sector responds to markets rather than subsidies, and agricultural workers move into secondary and tertiary industries.²⁵ Household incomes will increase as the economy restructures. The transition will give Australia the opportunity to continue the existing trend—without an FTA—of rising exports of lamb, wheat, dairy goods and other food that ranges from unprocessed to highly processed products. Moreover, Australian wine producers may soon see what the French have already seen—great potential for sales of red wine to people whose interest is growing because red wine is auspiciously red and is associated with good health.²⁶ The French vineyards are doing well without an FTA.

Australian service providers have also made progress in China without an FTA. In 2003, 19% of overseas students in Australia were from China.²⁷ Many Australian universities teach their undergraduate and postgraduate programs in China as partners of local universities and colleges. Overall, Australia provided an estimated A\$379 million in education services to China in 2002–3.²⁸ DFAT predicts expansion in banking, insurance and telecommunications under an FTA, but China's former chief trade negotiator warns Australia against trying to gain major concessions for the first two, as they are "sensitive",

25 DFAT, op. cit.

26 Chris Rees, State Manager for South Australia, Austrade, personal communication, Sept 7, 2004.

27 DFAT, op. cit.

28 DFAT, op. cit.

like agriculture.²⁹ If he is right, some Australian businesses might gain more without the formality of an FTA. Agriculture is already doing well without it, so the 'sensitive' parts of the services sector might be able to do the same. In 2004 the DFAT taskforce expects China to be Australia's third largest source of tourists.³⁰ Other Australian services to China are already in place and should grow if business acumen is not thwarted by 'insensitive' diplomacy.

Australian Losers at Home and Abroad?

There is a pattern of Australian exporters doing well in all sectors without an FTA. A DFAT publication on China's place in world markets, includes a section entitled *Commercial Relations Booming*.³¹ "Booming" and other joyful expressions feature in the report when it refers to Australian exports of goods and services to China. The tone is more subdued when the report looks at the other side of the coin—trends in Chinese exports to Australia. For example, a graph entitled "Chinese Manufactures Moving Up the Value Chain" shows increases in the value of those exports between 1995 and 2001.³² The rough increases based on the graph include 120% for clothing made from textiles, 120% for toys, games and sporting goods, 1300% for computers,

29 Tim Colebatch, "Why We Want an FTA with China," *The Age*, August 17, 2004. [http://www.theage.com.au/articles/2004/08/16/1092508365009.html]

30 DFAT, op. cit.

31 Economic Analytical Unit, "China Embraces the World Market," DFAT, Commonwealth of Australia, Canberra, 2002, p.60

32 Ibid, Fig. 3.11, p. 72.

100% for footwear, 500% for furniture, and 400% for telecommunications equipment. Chinese exports to Australia are indeed moving up the value chain; but isn't this supposed to be the refuge of Australian manufacturers? For example, the Furnishing Industry Association of Australia fears a current Chinese move towards the export of cheap but high quality knock-down furniture.³³ Regardless of the value chain, the Australian Industry Group, Australia's main peak body for manufacturers, worries about a loss in 2003 of A\$1 billion in competition from Chinese products in Australia; in that year China exported A\$10 billion in manufactured products to Australia but only A\$1.8 billion went the other way. The United Group recently bid for a railway-related job in Asia, and priced it to be supplied from either China or Australia. The price from China was 40% of the price from Australia. A survey of 850 manufacturers by the Australian Industry Group found that only 13% support an FTA. In summary, significant manufacturers in Australia think an FTA will give China even greater advantage—Chinese products are cheaper; cost and pricing structures are not transparent; there are questions about subsidies and dumping; tariff protection is low in Australia so Chinese goods can come in readily, with or without an FTA.³⁴ China does not seem to need one if we look only at the economics of

33 Furnishing Industry Association of Australia, Position Paper on Australia China FTA, 2004. [[http://www.fiaa.com.au/site_images/AustraliaChina FTA \(2\) \(2\).doc](http://www.fiaa.com.au/site_images/AustraliaChina_FTA(2)(2).doc)]

34 Graham Dobell, "Manufacturers Wary of FTA with China," ABC Online, August 5, 2004. [<http://www.abc.net.au/pm/content/2004/s1169916.htm>]; & Andrew Robertson, "Manufacturers worried by possible China FTA," ABC Online, August 10, 2004 [<http://www.abc.net.au/pm/content/s1173107.htm>]

the current relationship with Australia.

Chinese exports of primary commodities to Australia are also doing better by the year. Food rose from A\$85 million in 1995 to A\$225 million in 2001 and resources exports to Australia, including petroleum and aluminium, were worth A\$375 million to China.³⁵ There has been a steady increase in services exports, mainly transport and travel services for tourists and others.³⁶ All this is happening without an FTA. Again, China has not needed an FTA to acquire significant holdings in Australian mines, hotels, farms, agricultural processing plants, and other factories. By mid-2001, China had built up A\$3.3 billion in investments from just over A\$1 billion in 1996–97.³⁷ The Australian Bureau of Statistics says Australian FDI in China rose from about A\$500 million in 1996 to A\$1.9 billion in 2001; on the other hand, figures from the Chinese National Bureau of Statistics say the rise has been from about A\$1.5 billion to A\$4 billion.³⁸ Whatever the correct figures may be, there is plenty of investment in both directions without an FTA.

An overview of trends in China-Australia trade suggests that Australia is gaining most from a return to bulky, unprocessed commodity exports, at the same time building expertise in non-bulky high-tech products and professional services to compensate for the decline in manufactured items, where China has an advantage based on labour costs and economies of scale. Some Australian manufacturers are starting

35 Economic Analytical Unit, op. cit., p. 73

36 Economic Analytical Unit, op. cit., p. 74

37 Economic Analytical Unit, op. cit., p. 75.

38 Economic Analytical Unit, op. cit., pp. 69-70

to lose and they will lose more if an FTA comes into play, whereas the broad picture shows Australia gaining through ever-increasing exports of commodities, high-tech manufactures and specialised professional services. As a macro trade-off this scenario seems reasonable; but there is another point of view. How long will it take China—an expert at handling the nuisance of intellectual property rights and patents—to produce the most advanced technology of any type and develop enough experts in any domain of professional services? The answer is ‘not very long’. Of course, this opinion might not be shared by many economists and perhaps not by sociologists and international relations specialists who think socio-political turmoil and regional geopolitics will disrupt China’s rise. Environmentalists and energy experts might have similar doubts.³⁹

A South Australian Focus on Winning and Losing

While some major Australian industry associations are concerned about potential threats of a China-Australia FTA to particular sectors of the Australian economy, other industry groups, particularly in regional economies of Australia, see significant opportunities. Some see the comparative lower standards of health, quarantine and environmental regulations and safety standards of China as a threat, but other Australian businesses and technology providers in the food processing, agribusiness, aquaculture and resources sectors see an opportunity because China is in an earlier development stage than Australia. Therefore they want to work with Chinese

³⁹ For a skeptic’s view of the ‘China miracle,’ see Gordon Chang, *The Coming Collapse of China*, London, Arrow, 2002. Rebuttals abound on the internet and elsewhere.

partners to assist in China’s rapid development. It is reasonable to think they will gain at least while China is catching up.

An Overview of South Australia

Let us turn to attitudes expressed on such matters in one regional economy of Australia, South Australia, where the authors of this paper live. The state lies in the southern central zone of the continent. It contributes about 7.8% of Australia’s Gross Domestic Economy, occupies 984,377 sq km or 12.8% of the landmass of Australia, and is home to 7.6 % of Australia’s 20 million people.⁴⁰ Most of South Australia is arid or semi-arid—only 4% of the state receives more than 500mm of rain a year. South Australia produces 50% of Australia’s wine,⁴¹ about a third of its barley—31% of Australia’s crop went to China in 1993⁴²— and has a major aquaculture sector.

Services comprise 59% of South Australia’s Gross State Product; 13.6% is manufacturing, of which the largest sector is the motor vehicle industry.⁴³ The state manufactures about 30% of Australia’s automotive components and vehicles. The latter

⁴⁰ Australian Bureau of Statistics (ABS), Catalogue No. 3235.455.001 Population by Age and Sex, South Australia, 30/06/2004; and 3201.0, Australian States and Territories, 19/12/2003.

⁴¹ Australian Wine and Brandy Corporation. Gross Wine Production 2002-03. [<http://www.awbc.com.au/winefacts>]

⁴² ABB Grain Ltd, Annual Report 2003, p. 2. [<http://www.abb.com.au/ShareholderNews/CompanyReports/2003AnnualReport>.]

⁴³ South Australian Government website. [<http://www.southaustralia.biz/aboutSA/economy>]

are exported to major, highly competitive niche markets such as the USA and Japan. Despite South Australia's comparatively small population it has the largest defence electronics cluster in the country—70% of Australia's defence companies are located in South Australia.⁴⁴

Information technology

There is a creative IT industry in Adelaide, the capital of South Australia. Rising Sun Pictures has been contracted to produce digital sequences in the latest Harry Potter film, *Harry Potter and the Goblet of Fire*, due for international release in November 2005. A South Australian company, trading as Ratbag, is one of the world's premier developers of computer racing games. They produce high action computer games for Sony's PlayStation2 and for Microsoft's X-Box. From its base in Adelaide, AgriLink Holdings uses its own software to monitor soil moisture, salt levels and weather conditions across Australian and American farms and vineyards. This technology could be applied in China as agricultural products move up the value added chain, and cost-effective water and environmental management becomes even more urgent than now. A more formal trade link might encourage the use of South Australian technology in China's development; but there would be doubts about long-term control of the technology, regardless of international patents and agreements about intellectual property.

Automotive Components and Technology

44 South Australian Government website.[http://www.southaustralia.biz/industry_sectors/electronics]

Many in the South Australian automotive component industry think an FTA will help them to work with second and third ranking automotive companies in China. The Chinese will use South Australian product and technology to raise their output, improve their products and sell more of them to the Chinese consumer. The theory is that the technology must be proven and reliable but not necessarily the latest. Rather, the Chinese want equipment that can be serviced by semi-skilled technicians across the country. The South Australian companies see a trade agreement with China as reinforcing support for an increase in the cooperation that is already in place in the automotive component industry.

South Australians are looking well ahead. Through such technology transfer in the early stages of cooperation, some senior executives in South Australian companies are trying to build strategic relationships with Chinese counterparts who will come to the fore as technology and skill levels rise in rural and regional China. They expect a Free Trade Agreement to encourage this cooperation by reducing or eliminating tariff barriers and introducing industry-specific protocols.

South Australian businesses with positive views about the potential for improved trade in technological areas are aware of problems with intellectual property in China; they know the regulations are not always enforced, that any penalties for breaches might be ignored, and that restitution is unlikely. However, companies with China experience tend to think the Central Government is determined to implement WTO provisions even though resistance is rife. Of course, intention is

not enough in itself, but the South Australian mood is optimistic.

Fisheries

Many companies in South Australia's fishery sector want an FTA with China. This applies in particular to producers of live, fresh, chilled and frozen lobster, abalone, prawns, shrimp and scallops. Direct sales to China are meagre because there is no agreed quarantine protocol and the import tax is high at 33.68%, despite Australia's Most Favoured Nation status.⁴⁵ Most sales are made to Hong Kong wholesalers who exploit corrupt officials and a thriving black market in China proper. At present the Chinese Government loses revenue and does not have quarantine control over such imports, while the Chinese consumer may suffer from the lengthy transit time and poor temperature control of the seafood. South Australian producers worry about their image in China because they cannot control the product between the processing plant and the consumer. They also worry about inferior seafood, sometimes contaminated by unhygienic processing, that is not even *Australian* but is offered as *South Australian* at a premium price through the black market. This variation on counterfeiting creates public health risks for which Chinese hotels, restaurants, wholesalers and retailers may blame South Australia, and so spoil the state's image as a healthy source of supply. South Australian producers

⁴⁵ The customs tariff is 13.3% (Damon Paling, PriceWaterhouse Coopers, Shanghai, personal communication, November 15, 2004). There is also a VAT of 17%. Under a formula used by the Chinese customs authority, the total assessment is 33.68% (Tiffany Zhen, Austrade, Guangzhou, personal communication November 15, 2004).

assume an FTA would at least reduce the 33.68% tariff to a figure that would foil the black market and therefore reduce the image problem.

In a related area, South Australian suppliers of technology and quality control systems to the Australian aquaculture industry think the rise of a more affluent and informed Chinese consumer will increase demand for higher food processing, handling and storage standards. They are ready to work with Chinese companies in this field, and would welcome a more formal trading relationship between Australia and China that would foster appropriate standards, qualifications, training and expertise.

In 2003-4, gross revenue to the South Australian seafood industry was A\$766 million.⁴⁶ Through visits to South Australia and exposure to overseas promotion, many Chinese officials and business people have become aware of the pristine condition of the seas along the coast of South Australia. They know the seas between South Australia and the Antarctic are nearly pollution-free; they see diverse marine life in clean waters that are excellent for seafood cultivation and processing. Therefore Chinese investors and officials who have sensed the market trend at home have done the groundwork for commercial partnerships in South Australia to harvest and process seafood for Chinese branding, promotion and distribution. The Chinese and South Australian players want an agreed quarantine protocol and a trade agreement that would allow duty free seafood into

⁴⁶ FOOD South Australia, "The 2003/2004 Food South Australia Scorecard," September 2004, p. 3. [[http://www.safoodonline.com/ScoreCard Reports/ScoreCard 2003-04](http://www.safoodonline.com/ScoreCard/Reports/ScoreCard 2003-04)]

China, as this would boost the commercial viability of such projects.

Personal Contact: Tourism and Education

An increasing knowledge by Chinese people of Australia has been assisted by China designating Australia as an approved tourist destination in December 1997.⁴⁷ Australia was the first western country to get this approval. This means that Chinese citizens are able to use ordinary passports and apply for tourist visas when wishing to visit Australia. According to Tourism Australia, a government agency, "During the year ended 30 June 2004, there were 208,100 Chinese visitors to Australia aged 15 years and over, an increase of 25 per cent over the previous year."⁴⁸ Contacts between Australians and Chinese are increasing through tourism, and education and training programs at all levels. The formation of two South Australian organizations—Education Adelaide and the China Professional Development and Executive Training Centre—has assisted in this development. Both are favourably disposed to an FTA. There is an underlying assumption, yet to be tested systematically, that an agreement to free up education and tourism will benefit both sectors. Satisfied students will encourage personal contacts at home to tour or study, or both, in South Australia. Moreover, Chinese tourists will see Adelaide as a safe, healthy place that gives better value for money than any

47 Media release by Minister for Foreign Affairs, Alexander Downer, December 11, 1997, Beijing.

48 Tourism Australia, "Inbound Tourism Trends for the Year Ended 30 June 2004," p. 14. [[http://www.atc.net.au/Research/Visitor Arrivals Data/Facts & Figures/International visitor profile](http://www.atc.net.au/Research/Visitor%20Arrivals%20Data/Facts%20&%20Figures/International%20visitor%20profile)]

other capital city in Australia. They will hear about the city's excellent education and will want to study in Adelaide themselves or send their children to do so.

Such ideas are at the core of Education Adelaide, the first of the two organizations mentioned above. In order to coordinate South Australia's education export industry, it was formed in 1998 as a cooperative framework between the City of Adelaide, the State Government, and local secondary and tertiary education providers. Its main role is to encourage international students to choose vocational and academic study in Adelaide. Its secondary role is to promote cross-cultural understanding in local students through contact with those from overseas, including China, thereby helping "South Australians to develop a broader view of the world and their place in it."⁴⁹ Education Adelaide might not be able to claim all the credit, but there are many Chinese students in Adelaide; business courses are the most popular. Adelaide's universities also deliver undergraduate and postgraduate degrees in China. For example, in November 2004, 134 students were awarded Flinders University's Master of Arts (International Relations in Economy and Trade), delivered at Nankai University in partnership with that institution. Ninety students graduated from the program in 2003.

The China Professional Development and Executive Training Centre, launched by the South Australian Premier in Shanghai and Adelaide in 2003, is a state government venture with private sector support. The Centre provides professional development courses to middle and senior Chinese executives in

49 Education Adelaide website. [<http://www.educationadelaide.sa.gov.au>]

China, in South Australia, or partly in each country. This program engenders a closer understanding between Chinese and Australians without relying on a bilateral trade agreement.

An FTA in the Balance

The threat to Australian manufacturing by China's low wages and hidden subsidies causes some producers to want special anti-dumping provisions, and this may be a good reason to hesitate about an FTA. Other Australian interests see this approach as a naïve return to the fear that arose when Australia and Japan moved to form closer trade ties after World War II. Many Australian industries were hurt but reductions to Australia's high tariffs forced significant restructuring, so that many sectors of the Australian economy became more competitive and innovative. For instance, leaders in the Australian automotive industry now agree on this point, even though their predecessors opposed such moves. Today Japan is Australia's largest trading partner—two-way trade is worth A\$41 billion.⁵⁰

Many Australians are eager to deal with China because they see her as a more open and less structured market in her present stage of development than Japan at a similar stage. Some analysts say it is a waste of time and an unnecessary provocation to discuss whether China is an 'economy in transition' or has a 'market economy.' They say Australia should set a more flexible course than the EU and the USA and treat China like any other

50 DFAT, Japan Country Brief, November 2004. [[http://www.gov.au/geo/japan/Country Brief/Trade Developments with Japan](http://www.gov.au/geo/japan/Country_Brief/Trade_Developments_with_Japan)]

member of the WTO. If China breaches the rules, Australian Customs can conduct an anti-dumping investigation and call for verifiable pricing information, as with any other country.⁵¹ This argument has merit but it seems to invite a stalemate bound in red tape, and it may underestimate China's need to be declared a 'market economy' to counter the Century of Shame that followed the Treaty of Nanjing in 1842. Moreover, to invoke the WTO rules might be an invitation for China to retaliate—within or outside the rules—against a weaker trading partner who bites the hand that feeds it. As the EU and USA are unlikely to have FTAs with China for many years, perhaps Australia's best move would be to protect itself by loudly declaring China a 'market economy' and asking for an immediate FTA in return, along with an informal agreement to minimize dumping in a friend's market.⁵² As part of the deal, Australia would ask its new partner to cooperate with American and European companies that want to exploit the FTA by using Australia as a base for business in China. That way, much foreign exchange would pass through Australia; some of it would stay there.

Although both countries may benefit, it is hard to see how an FTA can be to the broad economic advantage of both Australia and China in the long term. Trends pointed out above suggest Australia will get the worst of the deal at macro and micro levels, and it will get even worse when Australian businesses decide to

51 Andrew Stoler, "Market Economy Status for China: Implications for Antidumping in Australia." Paper presented at Australia-China Free Trade Agreement Conference, Sydney, August 12-13, 2004.

52 The EU denied the label 'market economy' to China in June 2004. New Zealand, Chile and South Africa—serious rivals to Australia in Asia's markets—have all conceded and are negotiating FTAs with China.

outsource software and other high-tech development en masse to Chinese firms, and to use Chinese accounting and other professional services. If this is so, why does the Australian government want an FTA? We return to a theme that permeates this paper. Is it through fear of China's economic and other power in the region? At the recent National Forum on Australia's Engagement with Asia, Professor Zhang Yunling, Director of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Sciences, suggested Australia would have a more secure future if it were to develop a more independent foreign policy—that is, independent of the USA but dependent on China's goodwill.⁵³ Australia would demonstrate goodwill by opposing independence for Taiwan and declaring China a 'market economy' so it can trade without the stigma and restrictions associated with the labels 'command economy' and 'economy in transition.' Perhaps Australia will not object to China's claims on most of the South China Sea's energy resources, and in turn China will draw on the Australian energy and other resources in which it continues to invest at source.⁵⁴

53 Patrick Walters, "Great Call of China," *Weekend Australian*, August 14-15, 2004, p. 29

54 A recent deal looks very good for China. Andrew Forrest of the Fortescue Metals Group is said to have "pulled off what must be one of the most breath-taking deals in our mining history—he has talked the Chinese Government into almost fully [90%] financing his \$1.85 billion Pilbara iron ore dream. And he has done it without giving away a single share...." There will be "staged repayments from FMG after the mine and infrastructure are working." Robin Bromby, "Forrest Pulls Off \$1.8 Billion China Coup," *Weekend Australian*, November 6-7, 2004, p. 35. One can imagine Mr Forrest's breath-taking anxiety when the time comes to negotiate and renegotiate prices for the sale of ore to his financiers. (The article did not

In summary, the Australian government seems ready to sacrifice 'losers,' mainly in manufacturing, on the questionable assumption that Australia will gain forever by developing high-tech products and knowledge, and a range of professional services, for export to China and elsewhere. China will continue to invest in Australia and will not obstruct Australian designs on the Chinese mega-market. Recent comment by the Australian Foreign Minister certainly raises doubts about how hard the Australian Government will haggle in the interests of Australian manufacturers. He wonders about "the impact of a genuine FTA on Australian manufacturing" but thinks an agreement "would be another clear sign of our preparedness to make a long term commitment to a relationship.... It would also be another clear sign of the seriousness of our mutual regard."⁵⁵

Conclusion

'Carrots and sticks' may combine with 'divide and rule' as China seeks to create trading alliances that will probably kill off AFTA and APEC (Is it still breathing?) and overshadow FTAs between other countries within the region and beyond. This

mention interest on the finance.) This seems to be the sort of deal that makes one business journalist wonder if "the established resource giants [are concerned] that, in the future, their biggest customer will be their biggest competitor". Robert Gottlieb, "WMC Shines in a Blue Sky for China," *Weekend Australian*, November 13-14, 2004, p. 39. It might be hard to copy and dump coal and iron ore, but you can take over the source. The same argument applies to South Australian fish and tourism.

55 "Sino FTA Job Loss Concerns," *News on Seven*, August 13, 2004. [<http://seven.com.au/news/business/110028>]

would fit the strategy—familiar to disciples of Sun Tzu—of controlling current friends and potential nuisances by forming alliances with them, thereby heading off or neutralizing alliances they might form with one another to cope with your power.⁵⁶

As China-Australia trade is already strong, one may ask whether or not Australia stands to gain more from joining the China 'alliance frenzy' relative to the potential pitfalls, including sour relationships caused by trade diversion from current partners.⁵⁷ Perhaps Australia has no choice but to join if it wants to win concessions in China that will balance the current lack of serious impediments to Chinese trade in Australia. Moreover, the argument that businesses in South Australia and other parts of the country are doing well without an FTA may not hold if China applies more muscle to weaker countries—including Australia—from which it wants unequivocal respect. Therefore it seems to make sense, despite moral concerns, for Australia to declare China a 'market economy' and make geopolitical concessions. This might further smooth the China passage for Australians but it cannot be a one-way street. Even in pristine South Australia some light manufacturers have already closed down under pressure from imports, and there may be more wreckage with an FTA than without one.⁵⁸ Perhaps an Australian policy of appeasement

⁵⁶ Sun Tzu, *The Art of War*, Chinese classic circa 6th century BC.

⁵⁷ 'Trade diversion' takes place when the lowest cost supplier is replaced by a competitor who can offer a better price under an FTA, but could not do so when there was a tariff.

⁵⁸ Two long-established clothing manufacturers in South Australia closed down in 2004, with loss of jobs in places where they are scarce: Levi-Strauss, at Elizabeth, Adelaide's depressed satellite-city (86 jobs);

assumes China will hold back its exports to Australia as a gesture of goodwill to people who want to keep their jobs. Such hopes may be forlorn. Furthermore, is it in Australia's best interests for the Whitehouse to see its ally as a fence-sitter in Asia, in the hope of gaining economic advantage from an FTA with China? Perhaps Australia should distance itself from both China and the USA, but this seems to confuse paradise with reality.

We finish with an aside. While a major focus in Australia is Australia-China trade, the September 2004 edition of the trade magazine, *Commodities & Trade to Asia*, has the cover story "Which is Australia's Fastest Growing Export Market? Taiwan, China, India, Thailand, Indonesia, Japan."⁵⁹ The answer is "Taiwan." Will China put pressure on Australia to trim this growth to get an FTA? The asides, the doubts and the questions about an Australia-China FTA will continue to intrigue Australians as they try to manage a growing elephant. Of course, they tend to assume it will grow without restraint, just like the

Fletcher Jones, at Mt Gambier in rural South Australia (50 jobs). After 90 years, the latter has shut down all of its Australian plants, with a loss of 400 jobs in the past five years alone. (Retraining? In what, and where?) Henceforth the clothes will be made in China and Indonesia. The management blames "the removal of [Australian] quotas and tariffs...." "Fletcher Jones Closes Local Plants," *Herald Sun*, August 19, 2004. [<http://www.heraldsun.news.com.au/printpage/0,5481,10496291,00.html>] Four years ago a pair of marked-down Levis in Adelaide cost about A\$85. Last week an identical pair, this time made in China, cost A\$39.

⁵⁹ Ben Oliver, "Made for Taiwan," *Commodities & Trade to Asia*, September 2004, Volume 5 Number3.

Tigers of the late 20th century. The optimists, who probably outweigh the pessimists in Australia, also tend to assume the elephant is trainable and docile unless provoked. Moreover, the optimists are quick to dismiss pessimism as ill-informed; but they are slow to see a link between ignorance and optimism, or to suspect that greed may inspire blinkered prayers for an eternal flow of ivory.