

## **Interactive impact of ethnic distance and cultural familiarity on the perceived effects of free trade agreements**

**Abstract** Past research on free trade agreements (FTAs) mostly uses an economic perspective to assess their impact on the level of trade and investments between nations. As a result, there is a distinct paucity of research on the perceptions of employees and managers in organizations affected by FTAs, towards the likely outcomes of those FTAs. We address this gap by using the context of recently signed China Australia free trade agreement (ChAFTA) to develop a multidimensional scale for the perceived advantages and disadvantages of FTAs. Drawing on social identity theory and the similarly-attraction paradigm we also show direct and interactive effects of perceived ethnic distance (between home and partner country) and cultural familiarity (with the FTA partner country) on these perceived outcomes of FTAs. Our findings highlight the need to look beyond the economic perspective and consider a much broader range of perceived outcomes of free trade agreements.

**Key words** advantages; cultural familiarity; disadvantages; employees; ethnic distance; free trade agreement; FTA

## **Introduction**

In recent decades, free trade agreements (FTAs) have proliferated at an unprecedented rate, as reflected in the world trade organization's (WTO) estimate of around 600 FTAs during 2014 (Hayakawa, 2015). These agreements are fueled by several underlying economic and technological forces (Fink & Molinuevo, 2008) as well as political imperatives (Song & Yuan, 2012). There are various forms of FTAs mainly aimed at yielding benefits that could be derived through elevated trade and investments (Mitchell, Voon, & Whittle, 2015). Typically, FTAs between nations can be bilateral or multilateral in nature and they mainly focus on removing trade barriers (Urata, 2002) that can help enhance world trade (Hayakawa & Kimura, 2015). Irrespective of their specific formulation, well-structured FTAs can result in increased economic benefits through 'objective factors' such as enhanced bilateral trade (De Mestral, 2011) and investment (Gaur, Ma, & Ding, 2018), which historically have been modelled from a national and/or industry perspectives (Hayakawa, 2015).

Past research has mostly used an 'equilibrium model' as the main mechanism to evaluate the economic effects of FTAs (e.g. Hertel et al., 1997; Li, Wang, & Whalley, 2016). This powerful quantitative technique can be used to trace connections between different parts of an economy and is based upon a range of assumptions and factor inputs that need to be identified and quantified (Dixon, 2007). These inputs generally include the awareness of FTA benefits, understanding between the concerned parties in both countries, and, trust and reliance directed towards the partner countries and their respective organizations. Given the complex and multifaceted nature of FTA's and their impact on the relationships among organizations from socio-culturally and economically diverse countries, correct identification and specification of these inputs is critical to predict the success or failure of any FTA.

Current literature on FTAs shows that decision-makers and employees responsible for deciding to and/or engage in trade in organizations do so mostly from a utilitarian perspective (e.g. Grossman & Helpmann 1995; Levy 1997). However, decisions to engage with others from different cultures and national backgrounds - as would occur under the guise of a FTA, are also influenced by a broader range of socio-cultural influences, such as ethnocentrism (e.g. Gaur, Delios, & Singh, 2007; Klein, Ettenson, & Morris, 1998; Shimp & Sharma, 1987). Moreover, these could possibly account for the many ‘subjective factors’ that also need to be taken into account when assessing FTAs’ but can only occur “outside of the model” (Dixon, 2007; p.632). Hence, studying a broader suite of perceived benefits and pitfalls FTAs that emanate from such beliefs could help decision-makers evaluate the effects of FTAs on their organizations.

Therefore to address this need, we draw upon social identity theory (Tajfel et al., 1971) and the similarity-attraction paradigm (Byrne, 1971, 1997) to propose an alternative perspective about the perceived consequences of FTAs by taking into account individual-level perceptions and attitudes towards other nations and cultures. Thus by representing the views of the people who are likely to be affected by these FTAs, that also takes into account any potential prejudices they hold that are directed towards others, we postulate this to be a critical aspect of optimizing our understanding of factors contributing to the success of FTAs. Despite such importance of these individual-level perceptions and attitudes about FTAs, there are to the best of our knowledge no tools or measures available that can provide insights about the perceived advantages and disadvantages of FTAs. As such this represents a significant gap in the literature. With this specifically in mind, the first objective of this research then is to address this gap by developing a scale to help decision makers assess the perceived positive and negative effects of FTAs as well as help to guide future research in this important area related to international trade.

Past research on FTAs also overlooks the likely impact of FTAs on employees working for those organizations operating in countries that are party to such agreements. This facet of business operations should be a critical consideration for both policy and organizational decision-makers alike because of the growing evidence about the potential negative consequences of FTAs on ‘social justice and welfare’ issues (e.g. Doumbia-Henry & Gravel, 2006; Frenk et. al., 1994; Hirono et al., 2016; Lopert & Gleeson, 2013). However, it is not clear to what extent these perceived negative effects of FTAs are generalizable in the countries involved. To help illuminate some aspects related to such perceptions this research attempts to understand the impact of FTAs on employees working in Australian organizations that are likely to be affected by the recently signed, China-Australia free trade agreement (ChAFTA).

Overall, this research contributes to our understanding of FTAs in two ways. First, a scale is developed that helps understand the potential suite of benefits and pitfalls associated with FTAs, as perceived by the employees working in organizations that would be operating under the auspices of such arrangements. Second, we establish if there are likely to be any ethnocentric biases that come into play when assessing potential perceived benefits and pitfalls offered from FTAs. Collectively, these contributions are aimed at providing a much richer picture of the dual economic and social-cultural factors that need to be considered when entering into these forms of trade agreements. The next section describes our conceptual framework, followed by the analysis of our findings and their implications.

## **Literature review and theoretical background**

Free trade agreements

The literature on FTAs is quite dispersed, spanning the domains of economics, political science and business. We conduct a systematic review of selected and representative studies in this domain to take a stock of the current knowledge base and identify the gaps (Gaur & Kumar, 2018). Prior research generally uses an economic perspective to reveal how ‘trade flows’ stemming from FTAs benefit particular sectors, industries and/or national economies (Dixon, 2007; Hertel et al., 1997; Li, Wang, & Whalley, 2016). Typically, these and other studies have shown how the introduction and/or success of FTAs are largely a function of the political and economic benefits that can be extricated from entering into such arrangements. The political-economic framework indicates that for FTAs to come into existence they require the assertion and support of the concerned governments, which is a function of: (1) having a relative balance in the trade between countries, and (2) the enhancement of protection across most sectors of both economies (Grossman & Helpmann 1995, p.687; Levy, 1997).

This and other such evaluations of the various forms of FTA greatly enhance our understanding of the broader political, national and industry level aspects of engaging in FTAs by indicating the direct benefits they yield - such as, increased trade and investments. However, they overlook those latent beliefs held by individuals (e.g. the employees of organizations affected by FTAs), which may taint their views about the consequences of FTAs as they are inevitably laden with personal biases towards a set of values and/or value systems. We postulate that these views ultimately count for successful implementation of FTA’s because they are invariably the persons responsible for planning and executing organizational strategy and action plans that underpins any FTAs between nation states.

Such individual beliefs are therefore important to understand because while FTAs provide an overarching framework at the macro-level the decision to (and how to) engage in cross-nation

trade is largely a function of those individuals responsible for developing organization business strategies and translating them into meaningful actions (Gaur, Kumar, & Singh, 2014; Singh & Gaur, 2013). This means that any intrinsic beliefs held by decision makers that help to shape thinking and behavior with respect to others also have the potential to enhance or undermine any perceived benefits derivable from FTAs. Indeed, prior research in other disciplines also indicates that individuals often view the world through an “ethnocentric lens” (Dutton, Madison, & Lynn, 2016; Sharma, Tam, & Kim, 2009; Shimp & Sharma, 1987; Villarreal, 2014) and this shapes their attitudes, perceptions, preferences and behaviors towards people and objects from other cultures and countries.

Hence, any negative perceptions held by organizational decision-makers grounded in such prejudices has the potential to impact their desire to engage in trade with associated partner organizations and/or markets. Moreover similar grounded attitudes of employees may also act to shape their behavior as to how they execute aspects of the relationship with overseas partner firms. Like the broader political and economic implications of FTAs this aspect should also be an important consideration for policy makers to understand as it will help them devise strategies to: (1) overcome any objections to FTAs by communicating the benefits of these agreements, and (2) enable them to draw upon these stakeholder views to help shape the structure of future FTAs. As these perceptions may be rooted in a nation’s socio-cultural psyche with a specific political or historical background, such widely held beliefs may manifest via an individual’s ethnic identity, and/or sense of belonging to a particular national or cultural group.

From a theoretical vantage, ethnic identity has been conceptualized from the perspective of social identity theory (Tajfel et al., 1971) and used to help explain biases or prejudices across a wide range of business contexts (e.g. Jang & Kim, 2015; Lim, Makhija, & Shenkar, 2016;

Sharma, Tam, & Kim, 2009). The basic premise underlying this particular theory suggests that individuals tend to categorize themselves according to their own beliefs about belonging to a particular group (e.g. Brown, 2000; Tajfel, 1978) and through this have more favorable evaluations about this 'in-group' (Sharma, Tam, & Kim, 2009). Such appraisals may be key to understanding of how individuals, that is those key organizational decision-makers, employees and/or stakeholders associated with FTAs, juxtapose and/or align the perceived benefits and pitfalls of FTAs with their own personal national and socio-cultural identities.

On that basis, we posit that an approach to model FTAs by tapping into the underlying socio-cultural dimensions may help improve our understanding of any consequences that generally accompany the formulation and introduction of FTAs between nations. Through this, organizational decision-makers can appreciate the value of these forms of trading relationships, subsequently motivating (de-motivating) them to exploit accompanying benefits, at the same time navigate perceived pitfalls. This is important to understand because if such biases stem from one's own ethnocentric thinking and the lack of understanding of another's cultural values and/or value system then these two conceptually distinct mindsets could potentially exacerbate the problem. We believe that both ethnocentrism and the lack of understanding of other cultures represent two major potential 'bias domains' that operate conjointly as two sides of the same coin, potentially contributing to a less than ideal evaluation of FTAs. Thus by drawing upon the theory of social identity (Tajfel et al., 1971) and the similarity-attraction paradigm (Byrne, 1971, 1997) this research aims to help explain the dynamics that these two bias domains potentially have on FTAs respectively, and accordingly we adopt these to develop our hypotheses.

Ethnic identification and ethnic distance

Social identity theory is used widely in the literature to help conceptualize ethnocentric behaviors in terms of an individual's belief structure and subsequent actions (or lack of) directed towards others. The notion of ethnocentrism was first introduced into the sociological literature by Sumner (1906) to help distinguish attitudes and behaviors directed towards in-groups (self-identity towards group) and out-groups (others often regarded as 'outcasts' to own group). In the strictest sense, it represents the belief that one's own race and/or ethnic group is the most important and superior to others, and it comprises of both positive (commitment towards self-identity) and negative (dislike of others) elements (Dutton, Madison, & Lynn, 2016). From the broader macro perspective those individuals who endorse positive stereotypes about their national in-group also tend to acquire such beliefs directly from in-group biases (Rodriguez et al., 2015), which in turn shape their belief structures, overall thinking and behaviors.

More specifically in the context of FTA's, these individuals will hold beliefs that since their own nation is superior to others they will not engage in activities that is perceived by them to be damaging to their own national economy and/or personal well-being (De Ruyter, Van Birgelen, & Wetzels, 1998). If these biases are present in the mind-set of decision makers and employees responsible for ensuring their organizations operate within the framework of FTA's this could dampen the overall potential of such trading arrangements. Accordingly, we argue that such predispositions towards one's own and other countries could potentially explain people's perceptions about FTAs, in terms of how they view the likely impact of such agreements on their own national in-group's interests.

Thus, FTAs may be seen either as beneficial or detrimental to their national and/or ethnic in-group based on the extent to which these may be perceived to enhance or undermine their economy and/or national identity. In fact, ethnicity has been shown to be quite divisive (or



polarizing) across a wide range of contexts in the literature (e.g. Photiadis & Biggar, 1962; Montalvo & Reynal-Querol, 2005; Watkins & Ferrara, 2005), hence we contend that it could manifest in the views held by individuals about a FTA if they have a different ethnic background to that associated with the partner country. Moreover, prior research shows that the extent to which a person identifies with a particular ethnicity could affect their economic behavior (Constant & Zimmermann 2008), thus ethnicity may play a large role shaping attitudes towards FTAs between nations. Based on this, it may be argued that the level of ethnic identification with each of the partner countries could drive the perceptions about FTAs (Nash, 2001). This helps to underpin our hypotheses, which we now elaborate upon in the next section.

### **Conceptual framework and hypotheses development**

People have diverse and even multiple cultural and ethnic identities in most modern societies and developed economies, and, this often affects the extent to which they identify with a particular culture or ethnicity (Dommelen et al., 2015). In this context, prior research on international business identifies ‘cultural distance’ as an important predictor of organization’s decisions about entering foreign markets, showing that organizations tend to enter those markets first that are culturally similar or closer to their home cultures (Popli, Akbar, Kumar, & Gaur, 2016; Tihanyi, Griffith, & Russell, 2005). However, the operationalization of cultural distance as a Euclidean measure based on the scores on Hofstede’s (1980) national cultural dimensions, giving a single number for a given pair of countries, has been criticized because it fails to account for differences in the perceptions at individual level (Ronen & Shenkar, 2013).

These perceptions are important to know considering that it is individuals that ultimately make decisions and execute strategy within organizations and through that the extent and nature of engagement with organizations across nations (Nuruzzaman, Gaur & Sambharya, 2018).

Accordingly we argue that a micro-level of understanding of cultural distance is particularly important to comprehend in the context of overall FTAs because managers and/or employees responsible for developing strategy and executing action respectively may bring their own cultural and ethnic biases into helping shape their views of a particular FTA. To address the limitations of ‘cultural distance’, some researchers use ‘psychic distance’, an individual’s perceived differences between the home and the foreign country cultures (Sousa & Bradley, 2005, 2006; Brewer, 2007) while others disaggregate the construct of distance by proposing a set of multidimensional measures, including economic, financial, political, administrative, cultural, demographic, knowledge, and global connectedness as well as geographic distance (Berry, Guillén, & Zhou, 2010; Contractor, Yong, & Gaur, 2016; Gaur & Lu, 2007). However, it is not clear to what extent psychic distance can actually predict bilateral trade between any pair of countries (Ambos & Håkanson, 2014). We argue that our understanding of cultural distance can be extended by viewing it through the lens of perceived ethnic distance and cultural familiarity. This is an important perspective because ethnic diversity may not always associate with poor politico-economic outcomes, which has prompted the question “why do ethnic and cultural differences matter in some cases but not others?” (Watkins & Ferrera, 2005, p.790).

Such a perspective helps us frame this research considering that Australia and China have a psychic distance of 18 and yet China has shot up from being No. 9 trade partner for Australia in 2002/03 to No. 1 in 2011/12 (DFAT 2016a). Moreover, both the cultural and psychic distance perspectives seem to believe in a bipolar idea of the world in which organizations and people rely on their overall perceptions (or, stereotypes) about individual countries to make important decisions about entering and investing in foreign markets. This is clearly far from true as evident from the above example of the recent growth in bilateral trade between Australia and China.

We combine and extend these ideas about ethnic identification and cultural/psychic distance to introduce the notion of perceived ‘ethnic distance’ to the study of perceived effects of free trade agreements on individual employees in organizations affected by these agreements. Ethnic distance is the difference in the extent to which people identify themselves between any given pair of ethnicities (Stupar, 2014). We argue that with the rise of multiculturalism in most developed economies, people are less prone to form opinions or make decisions based on which ethnic identity they most associate with but more likely to rely on the difference between their own multiple ethnic identities. For example, an ethnic Chinese person who was born or raised in Australia would possibly identify as both Chinese and Australian; hence, it is not any one of these identities but the difference between these two that is likely to affect his/her attitudes and behaviors towards an FTA between China and Australia. Based on this, we hypothesize:

**Hypothesis 1** Ethnic distance between the home and partner countries has a) negative effects on the perceived advantages, and b) positive effects on the perceived disadvantages of an FTA between the two countries.

#### Cultural familiarity

Many individuals act ethnocentrically out of the belief that their own “ethnic group is the most important and/or that some or all aspects of its culture are superior to those of other groups” (Dutton, Madison, & Lynn, 2016, p137). Such behavior has been identified in various literatures to influence the behaviors of both organizational decision makers and consumers. For example, ethnocentrism helps explain ethnocentric staffing policies (Ando, Rhee, & Park, 2008); purchase of foreign products (Herche, 1994); reducing transactional uncertainty (Krishna, 1991); as well as the consumption of foreign service offerings (Grönroos, 1999). Since such behavior helps reinforce an individual’s own culture and value systems it also strengthens the belief that their

own in-group is superior to others. Hence, there may be boundaries on the success of FTA's between nations largely because of the intrinsic need for individuals to act ethnocentrically and this may not subsequently translate into positive perceptions about such arrangements.

However, further inferences can also be drawn about the factors that help to shape attitudes, beliefs and behavior from the similarity-attraction paradigm (Byrne, 1971, 1997), mainly from the vantage that such beliefs are also fueled through a lack of understanding (or even sheer ignorance) of another's cultural value systems. This is conceptually different to ethnocentrism since it reflects lack of (or limited) understanding of others rather than simply viewing them as inferior. The net effect of this distinction means an individual's belief structure may not only be shaped by their own ethnic and/or cultural value systems but also ignorance of and, arguably more importantly, acceptance of other value systems. Both these factors would then jointly operate to model an individual's own behavior thus rejection of artifacts (such as products and services stemming from an FTA) that are not indigenous to one's own culture or value system.

The converse of this is also applicable in terms of individuals not having (or displaying) ethnocentric biases in their beliefs and subsequent behavior. Indeed in their seminal paper on consumer ethnocentrism, Shimp & Sharma (1987), also indicate that 'non-ethnocentric' consumers will evaluate and purchase products on their own merits suggesting ethnocentrism can be subdued when consumers can overcome their inner (or preconceived) prejudices. Indeed, later studies show that the attribution for this un-biased behavior is a function of being familiar with another's culture and value systems and through that the desire and propensity to engage with others. In relation to intercultural service encounters, for example, Sharma, Tam, & Kim (2009) reveal through in-depth interviews that 'intercultural competence' positively moderates the relationship between customers and employees from different cultural backgrounds. These

authors ground their study in the similarity-attraction paradigm to premise “how greater similarity between the home and host cultures increases intercultural [interaction comfort] IC and vice versa” (p.230). In this context, such a mindset held by service actors is explained from the perspective of the similarity-attraction paradigm (Byrne, 1971, 1997) insofar as indicating that when individuals are familiar with other cultural value systems they tend to respond positively.

The positive consequences of such behavior is seen elsewhere in the literature. For example, to mitigate the effects cross-cultural differences many multi-national Japanese firms are now employing foreign graduates studying in their nations universities to help ensure their organizations were internationally diverse (Conrad & Meyer-Ohle, 2017). Through such behavior the purposeful selection of graduates would have the added benefit of ensuring the employer firm is more culturally familiar with the context of their foreign operations. In a similar vein, the use of inpatriates (i.e. foreign assignees from the foreign subsidiary to work in the head office) help serve a bridging function for knowledge exchange (Harzing, Pudelko, & Reiche, 2015) suggesting an implicit need for extracting benefits of the resultant cultural familiarity of the foreign marketplace. In much the same way, we posit that cultural familiarity in the context of FTA’s help individuals become more insightful and objective towards this form of trading arrangement and this knowledge in turn helps reduce prejudice towards others. More specifically such familiarity with other cultures and value systems will affect their perceptions in a more objective and thus ‘positive’ manner regarding the benefits and pitfalls of an FTA between a home and partner country. Thus, we hypothesize as follows:

**Hypothesis 2** Cultural familiarity with the partner country has a) positive effects on the perceived advantages and b) negative effects on the perceived disadvantages of an FTA between the home and partner countries.

### Moderating role of cultural familiarity

As discussed above, we draw upon theory of social identity and similarity-attraction paradigm to postulate the direct effects of ethnic distance and cultural familiarity in shaping an individual's disposition towards the perceived benefits and pitfalls that could flow from a FTA. In this context, ethnic distance and cultural familiarity seem to represent two contrasting - inward (ethnocentric) versus outward (familiar) - views of the world that drive our first two hypotheses, namely the differences in their impact on the perceived advantages and disadvantages of FTAs between two countries. We use past research on intercultural interactions to argue that cultural familiarity may not only have a direct effect on individual perceptions but also moderate the influence of ethnic distance on these perceptions.

The general construct of familiarity reflects an understanding of other persons (or organization) and thus is largely based on previous experience and/or learning about others, leading directly to trust in others and even entities (Gefen, 2000). This link suggests cultural familiarity (or indeed non-familiarity) with other cultures in the context of FTAs' is likely to impact one's perceptions about the potential range of outcomes attached to such trading agreements. We base this assertion upon previous research on the specific domain of cultural familiarity that identifies the construct to result in reduced perceived risk and acceptance (Jang & Kim, 2015); increased FDI investments (Lee, Shenkar, & Li, 2008); and managerial location decisions (Li et al., 2017), among others. The degree of cultural familiarity is the extent to which individuals are cognizant of; what Sharma, Tam, & Kim (2012) term perceived cultural distance between two cultures and this encapsulates ones accumulated exposures to a country's' popular culture (Jang & Kim, 2015). In terms of being familiar with another culture, Triandis (1994)

conceptualizes the difference of understanding in terms of cultural dimensions such as, among others, language, social structure and values.

Prior research shows that ethnocentric tendencies of people makes them preserve any cultural differences with other ethnic groups by thinking and behaving in such manners that supports their own 'in-group' at the expense of others (Dunkel & Dutton, 2016; Fischer-Neumann, 2014; Sharma, Tam, & Kim, 2009; Shimp & Sharma, 1987). Our underlying supposition herein is that should such biases directed towards the 'in-group' hold in an FTA context then this would 'taint' stakeholder views of the agreements and dampen their full potential. Since the bulk of the literature related to 'meeting of national cultures' has largely "focused on the challenges, negativities and difficulties that originate from such encounters" (Li et al., 2017, p.950) this corroborates our view that when 'cultural familiarity' comes into the picture with FTA's these agreements are not necessarily going to be perceived as positive.

However, since an individuals' cultural familiarity (as reflected in higher intercultural competence) also moderates the negative consequences of perceived cultural distance on interaction comfort, perceived service quality and even customer satisfaction (Sharma et al., 2009, 2012) we anticipate the construct to play a similar moderating role on employee and manager perceptions of FTAs. Typically, those individuals who have intercultural appreciation will have an affinity towards and/or a positive attraction directed towards other cultures. Such attraction represents an enduring positive attitude towards others (Byrne, 1971; Berscheid, 1978) suggesting an innate willingness to learn and appreciate other cultures. Those individuals 'comfortable' enough to experience and learn about other cultures will not only begin to appreciate such cultures but in doing so effectively 'softening' their own ethnocentrism as they begin to have a greater affiliation towards others. In essence, those barriers that reflect the

distinction between in-group and out-group values that help underpin one's ethnic identification (e.g. Dutton, Madison, & Lynn, 2016; Rodriguez et al., 2015) potentially begin to breakdown.

This eventuality is accounted for in the similarly-attraction paradigm (Byrne, 1971, 1997) because this perspective is premised by the notion that individuals are attracted to each other with similar characteristics. In doing so, associated communications between them help to assure support for and justification that other's views are valid and meaningful (Ellegaard, 2012). In the context of our research, this means any potential threats of FTAs that manifest through an individual's ethnocentric views about these forms of trading relationships are weakened because they no longer serve a self-centered function of protecting one's in-group values.

In short, the corollary being that when individuals are familiar with other cultures they begin to view the benefits and pitfalls associated with FTAs through the same set of lenses implying that all parties appreciation of the motives and outcomes underlying FTAs' will converge. Essentially this means the presence of cultural familiarity about the other party's culture in a free trade relationship will dampen the effects of ethnic distance on perceived FTA outcomes. This then signifies that cultural familiarity will moderate the relationship between their ethnic distance with the partner country and perceptions about the consequences of an FTA with that country. Based on this discussion, we hypothesize:

**Hypothesis 3** Cultural familiarity with the partner country will a) positively moderate the negative effects of ethnic distance on the perceived advantages of FTAs, and b) negatively moderate the positive effects of ethnic distance on the perceived disadvantages of FTAs.

The preceding three hypotheses, reflected through our testable model (see figure 1) are designed to reveal how individual ethnocentric biases can be accounted for in assessment the



perceived benefits and pitfalls of FTAs. Next, to assist with our analysis, we initially develop a scale that encapsulates perceived consequences and thereafter apply this to test each of these hypotheses. In the next section, we describe our overall methodological approach in this study, followed by data analysis and discussion of our findings and research implications.

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## **Methodology**

### Research setting

In order to test our underlying supposition that employees and decision-makers from culturally and politically divergent nations potentially bring their underlying socio-cultural biases into their FTA evaluations, we look to the recently signed China-Australia free trade agreement (ChAFTA). This is a suitable research setting to test our hypotheses because Australia has traditionally viewed the overall political and economic relationship with China through two, often conflicting lenses (Jain & McCarthy, 2016), which exemplify the potential role of ethnic and cultural biases within a strong and growing economic relationship between nations. First, since the breadth and depth of economic links between the nations have intensified to a point where Australia is now economically dependent upon its bilateral trade with China to a great extent (DFAT 2016a), the recent ChAFTA helps fortify this economic relationships. Second, an underlying anxiety towards China is still omnipresent among Australians, and, this is regarded in some circles as such a strategic threat to the nation that it even “shapes its defense white papers” (DFAT 2016a, p.2). When translating this apparent ‘self-preservation’ conscious into assessments of the FTA now in existence between these two nations it potentially represents a ‘double edged’ sword for optimal evaluations of this new trading arrangement.

This duality in the overall Australia-China relationship exists because it implies that any perceived (Australian) value of closer economic ties is accompanied by an underlying current of low trust and suspicion towards China. Moreover, any Australian circumspection about underlying Chinese motives behind them entering into such a trading arrangement (with Australia) ostensibly means the full potential of this agreement with all the key stakeholders impacted is also likely to remain unrealized. This is particularly relevant if the decision-makers and employees who are responsible for developing and executing strategy respectively have prejudices towards a particular country, and thereafter these translate into negative perceptions about the benefits of a FTA with that nation.

#### Research design

The first objective of this research was to establish a suitable scale that can be used by managerial decision-makers to help evaluate the perceived benefits and pitfalls of FTA's. Whilst the literature distinguishes various forms of FTAs that may be either bilateral or multilateral (i.e. ASEAN, EEC, MERCOSUR and NAAFTA) in nature, we addressed this from the perspective of the newly signed bilateral Australia-China free trade agreement that came into effect on 20<sup>th</sup> December, 2015 (DFAT, 2016b). The signing of this particular free trade agreement is the culmination of much activities undertaken by successive Australian and Chinese governments during the preceding 12 years that emerged from the Australia-China Economic and Trade Framework signed in 2003 (Jain & McCarthy, 2016). Subsequent discussions determined that a bilateral free trade agreement between Australia and China was highly feasible and would be of benefit to both nations (DFAT, 2005).

In this paper, whilst our rationale for choosing this research setting is largely highlighted above we reiterate that our focus upon the bilateral ChAFTA is for two compelling reasons.

First, China has become Australia's largest trading partner, representing a destination for one quarter of all Australian exports that totaled AUD90 billion during 2014-2015 (DFAT, 2016b). In terms of trade and permanent Chinese migration to Australia, no other country matters more to Australia than China (Jain & McCarthy, 2016) implying the strategic significance of this agreement. Moreover, the FTA with China needs to be practical, effective and meaningful to the Australian economy; hence, any findings gleaned from this research are likely to be applicable in many other free trade agreement contexts.

Developing and testing a scale that helps better assess the perceived impact of FTA's from an Australian perspective therefore makes a meaningful contribution to our understanding in this important trade domain. Second, both the countries involved in ChAFTA (i.e., China and Australia) are politically diverse and infused with a mosaic of ethnic and cultural diversities - both within and between them. This means that such a research setting is highly amenable for testing the three underlying hypotheses, which is the second objective of this research.

#### Procedure

A sample drawn from an Australia wide online panel comprising potential respondents with varying degrees of either Australian and/or Chinese ethnicities was used to test all the hypotheses. To do this a company that specializes in online panels in Australia was commissioned to help identify possible respondents that met our criteria as key informants from within their nationwide database. Participants completed an online survey about the perceived impact of ChAFTA on the Australian economy, its organizations and their employees. The study was undertaken during August, 2016, approximately one year after the FTA came into effect. Our aim was to seek the views of a variety of respondents who identified with diverse ethnicities and who are working for Australian organizations that may or may not have Chinese

connections. We ensured this through a series of filter questions. The first question asked the respondents if they worked for an Australian organization and only allowed those who did to continue. The next question asked to what extent do they identify with different ethnicities (e.g. Australian, Chinese, European, African, Non-Chinese Asian etc.) and the last asked if the organization they work for has any Chinese connections (e.g. offices, factories, suppliers, export/import operations in China, etc.). These three questions allowed us to gather sufficient variance in our sample on these two dimensions (ethnic identity and Chinese connections).

As grouping respondents as per their own perceptions of high and low ethnic identities involves self-labeling (Cokley, 2007), we expect their responses to reflect our groups of interest (i.e. Chinese versus Australian). All the respondents were currently or very recently employed (either working full or part-time) within an Australian organization - with or without Chinese connections. As such, this ensured they exemplified key informants and thus were in an optimal position to ascertain any potential consequences of the ChAFTA for both themselves and/or their Australian organizations. A total of 2,000 potential respondents were emailed a link to our survey, from which a total of 316 usable responses representing a response rate of about 15% (316/200) were used in the analysis. Table 1 summarizes the sample characteristics.

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#### Sample profile

Our sample represents the changing face of the Australian working population with almost one-third (27.2%,  $n=86$ ) of the participants being born outside Australia and about two-third (62.3%,  $n=200$ ) speaking another language in addition to English. Moreover, the gender, age, educational and occupation profiles of the sample appear to be relatively consistent with the overall Australian working population (See Australian Bureau of Statistics, 2015, 2016). In addition, the

participants are from private (67.7%), public (29.1%) and third (3.2%) sectors. Based on these representative characteristics of our sample, our results may only be generalizable to the overall Australian working population in the organized sectors. Finally, about half (43.4%,  $n=137$ ) the participants work in organizations with Chinese connections, hence, the sample comprises of key informants in relation to the research setting. It also allows us to compare their perceptions with the other half of our sample, who do not work for organizations with Chinese connections but whose careers and livelihoods are likely to be affected by ChAFTA in near future.

### Measures

In line with the first objective of the research (scale development and assessment) an initial battery of 44-items were identified and generated through an extensive search of the literature that provided guidance to potentially reflect perceived consequences of FTAs for organizations and its employees (e.g. Alam, 2015; Beyondblue, 2016; Chia, 2015; DFAT, 2005, 2016b; Dixon, 2007; Frenk, et al., 1994; Gray & Slapin, 2012; Hayakawa, 2015; Islam & Islam, 2010; Jain & McCarthy, 2016; Kim, 2011; Leahy et al., 2008; May et al., 2005; Santos, 1992). These works help us to crystalize our thoughts as what to include in the items, such as for example the work of Beyondblue (2016) that provided direction regarding the ‘mental health’ based items. Similarly, Jain & McCarthy (2016) helped us identify some of the broader macro issues associated with the perceived advantages and disadvantages of a FTA. Such literature helped us build a picture of what items to consider for the new scale. From these and other works cited above, the initial synthesis of the literature suggested that the perceived consequences of FTAs vary widely, from very positive to very negative.

Next, an expert panel with three professors from management and international business disciplines at a leading Australian university helped conceptualize ‘perceived consequences of

FTAs' as a higher order construct that comprised two second-order dimensions, namely *perceived FTA advantages* (PFA) and *perceived FTA disadvantages* (PFD). Further discussions with the expert panel to check the relevance and face validity of each item also suggested that the second-order dimensions comprised of three facets each. Specifically, the PFA dimension includes positive effects of FTAs related to *investments and barriers* (IB) [seven-items]; *exports and spends* (ES) [seven-items]; and, *jobs, income and competition* (JIC) [nine-items]. The domain of the PFD dimension encapsulated the adverse impact of ChAFTA on the *micro-economic environment* (MIE) [eight-items]; *macro-economic environment* (MAE) [eight-items]; and, *individual well-being* (IWB) [five-items].

The items related to perceived advantages of FTAs cover the perceived positive effects of ChAFTA on investments and barriers, exports and spends, as well as jobs, income and competition aspects of the Australian economy. Similarly, the items related to the perceived disadvantages of FTAs covered the perceived negative effects of ChAFTA on the micro- and macro-economic environment for Australian organizations, and, the on individual well-being of the employees in these organizations.

Items in the well-being sub-scale represent the key outcomes from the internationally recognized Australian organization *Beyondblue* (<https://www.beyondblue.org.au>) that promotes good mental health and tackles stigma and discrimination (Beyondblue, 2016). For each item in the FTA consequences instrument, respondents were asked their views using a seven-point Likert type scale about the extent they agreed or disagreed with each item, using 'strongly disagree' [1] and 'strongly agree' [7] as anchors.

Each respondents' ethnic identity was measured by the extent to which they identified with being either Australian or Chinese, using a seven-point Likert type scale, with 'not at all' [1] and

‘very much’ [7] as anchors. Ethnic distance was operationalized by calculating the difference between the extents to which the participants identified themselves as Australian versus Chinese. The degree of cultural familiarity with China was captured by asking the participants to what extent their employer organizations have Chinese connections, in terms of offices or business operations in China, supplying goods and services to and from China, working with Chinese companies and owning or being owned by Chinese companies etc. also using a seven-point Likert-type scale with ‘not at all’ [1] and ‘very much’ [7] as anchors. This allowed us to indirectly tap into the extent to which the participants are familiar with Chinese business culture without asking them about this directly, which could have led to socially desirable responses.

### **Data analysis and findings**

All the 44 shortlisted items for the potential perceived consequences of FTAs were reviewed by a panel of experts (three professors from management and international business disciplines at a leading Australian university) to ensure their relevance to the context of this research, with the final selection represented a wide array of negative and positive consequences perceived to result from this agreement. These shortlisted items were purified using both exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) with holdout samples, to arrive at a final list of items that represent the benefits (advantages) and pitfalls (disadvantages) of FTAs, which could be applied to this and other research settings.

### **Measurement model**

To test and refine the emergent measurement model, the sample was randomly split into two sub-samples ( $n=158$  each) with each being used as a holdout for the other. The first sample ( $n=158$ ) was subjected to an Exploratory Factor Analysis (EFA) [using Varimax rotation] whereas the

second sample ( $n=158$ ) was tested using Confirmatory Factor Analysis (CFA). The findings from the EFA on the first sample indicated that one of the items in the MIE facet of the PFD factor (i.e. *“lead to more Australian jobs being outsourced to China”*) was problematic ( $\lambda=.57$ ;  $\alpha=.34$ ). The item was eliminated from further analysis. All the other items show high factor loadings with no significant cross-factor loadings. Next, CFA on the second sample ( $n=158$ ) with the problem item identified in the EFA eliminated, shows a close fit ( $\chi^2=1890.69$ ;  $df=872$ ;  $\chi^2/df=2.17$ ; NFI=.79; CFI=.87; RMSEA=.086; SRMR=.068), which indicates that the overall factor structure performed as predicted. However, the communalities did reveal one additional item from the ES facet of the PFA factor (i.e. *“results in lower spending by the Australian government”*) was also problematic ( $\lambda=.55$ ;  $\alpha=.30$ ). This item was dropped from further analysis.

< Take in table 2 about here >

Finally, CFA was used again to test the overall model fit using the combined sample ( $N=316$ ) with the two eliminated items not being part of this analysis, meaning the construct was reduced to 42-items. Table 2 shows the descriptive statistics and psychometric properties of all the scale items. The overall model fit statistics reveal a relatively better model fit ( $\chi^2=1938.72$ ;  $df=831$ ;  $\chi^2/df=2.33$ ; NFI=.88; CFI=.92; RMSEA=.065; SRMR=.069), All the sub-scales show high composite reliabilities (.88-.98) and average variances extracted (.64-.91). All the factor loadings are high and the square root of AVE for each sub-scale is higher than its correlations with all the other subscales, showing convergent and discriminant validity (e.g. Fornell & Larcker, 1981). All the sub-scales for each dimension are also highly correlated with each other and poorly correlated with the sub-scales for the other dimension, which provides further evidence of convergent and discriminant validity. Table 3 shows the correlations matrix for all the sub-scales along with their psychometric properties.



< Take in Table 3 about here >

## Structural model

Having assessed the psychometric properties of all the scales using CFA on the measurement model, we next used a structural model to test all our hypotheses (Table 4). We entered the mean-centered composite scores for ethnic distance, cultural familiarity and their interaction term as independent variables and the perceived advantages and disadvantages of FTAs (with three factors each) as the two dependent variables. We found a close fit for this structural model ( $\chi^2=2129.28$ ;  $df=955$ ;  $\chi^2/df=2.23$ ;  $p = .088$ ;  $NFI=.87$ ;  $CFI=.92$ ;  $RMSEA=.062$ ;  $SRMR=.079$ ) with many hypothesized effects in the expected direction and the path coefficients for all of them approaching significance except one. Specifically, ethnic distance does not have a significant effect ( $\beta = -.006$ ,  $p > .78$ ) on the perceived advantages of FTAs and has an unexpected negative effect on the perceived disadvantages of FTAs ( $\beta = -.044$ ,  $p < .10$ ), hence both H1a and H1b are not supported. Moreover, cultural familiarity has a significant positive effect on both perceived advantages ( $\beta = .46$ ,  $p < .001$ ) and disadvantages ( $\beta = .39$ ,  $p < .001$ ) of FTAs, hence H2a is supported but H2b is not. Finally, the interaction between ethnic distance and cultural familiarity has a positive effect on both perceived advantages ( $\beta = .038$ ,  $p < .10$ ) and disadvantages ( $\beta = .052$ ,  $p < .05$ ) of FTAs, hence H3a is supported but H3b is not. Overall, we found partial support for two out of our three hypotheses. Next, we discuss these findings and their implications.

< Take in Table 4 about here >

## **Discussion and implications**

### Theoretical contributions

This study advances FTA research in two ways. First, a scale is developed to help organizational decision-makers determine the potential consequences of engaging (or not engaging) in cross-national partnerships under the guise of FTAs. While existing studies model the impact of FTAs mostly from an economic perspective (e.g. Baier & Bergstrand, 2004; Dixon, 2007) this research establishes that they comprise a wide array of perceived consequences for an economy, and, its industries, organizations and/or individuals. These include both positive (advantages) and negative (disadvantages) dimensions that have a bearing upon various attitudes towards these forms of agreements. Therefore, by widening our understanding of such important trading relationships along this research's trajectory of thinking we fill a critical gap in FTA literature.

Such a perspective is important for our understanding of FTAs because their ultimate success would depend on the organizations affected by them being able to participate and take full advantage of any intrinsic opportunities that may arise. Understanding the attitudes of employees working in these organizations towards FTAs will be an important indicator of the success of the FTA considering that these individuals are those responsible for translating these forms of agreements into tangible 'commercial' actions. Therefore this research provides both managers and scholars with a practical tool to help understand the various attitudes an organizations' personnel potentially hold towards FTAs. To this end, our scale indicates how this may be plausible as it uncovers the specific elements of such a trading relationship in terms of perceived advantages and disadvantages they potentially engender. As such, many organizations can now benefit from knowing precisely which consequences are inherent in an FTA, helping them to navigate the challenge of trade-off their pros and cons. However, by empirically confirming the existence of these advantages/disadvantages, this research also serves to highlight the potential enormity of such a challenge.

On a positive note however, those surveyed agree with existing literature that much merit is gained from FTAs (e.g. Fink & Molinuevo, 2008; Li, Wang, & Whalley, 2016; Postigo, 2016). Our study does however contribute by revealing just how far reaching and pervasive perceived benefits could potentially be to Australian organizations. As indicated though, these findings represent a complex (and often conflicting) array of FTA features that need to be carefully navigated by decision-makers. Typically, and in stark contrast to any inferences that can be drawn regarding jobs and benefits only favoring large businesses and the economy (i.e. the MIE and MAE elements), findings herein foretell the likely positive impact of ChAFTA on the overall competitiveness and job creation for Australian businesses.

Second, this research confirms previous studies in other settings emphasizing the significant roles that culture and ethnicity play in cross-national relationships (Kogut & Singh 1988; Sousa & Bradley, 2005, 2006). However, we also reveal that ethnic and cultural biases impact upon the perceived consequences of FTAs, which were modelled herein as either advantages or disadvantages. In that regard, the significant finding that cultural familiarity has a direct bearing upon these outcomes infers that countries with high levels of cultural diversity (like Australia) are likely to be more amenable to (and potentially a better understanding of) these forms of trading relationships than their non-pluralistic counterparts. This of course needs empirical confirmation through a much wider cross-national study setting than ours however literature elsewhere related to psychic distance indicates this is quite plausible considering this construct acts to dampen motivations to enter culturally diverse markets (Kogut & Singh, 1988; Sousa & Bradley, 2005, 2006; Brewer, 2007).

Surprisingly though, we did not find full support for the hypothesized relationship between ethnic identity and FTA consequences. There are however likely to be a number of reasons for

this. First, Australia and China do appear on face value to be two nations that are seemingly political and culturally diverse but we suspect our findings are tempered with aftermaths of the long history between the two nations. Typically, many Australian business have either operations in China and/or strong connections with Chinese businesses (as reflected in table 1) suggesting that we may be more cognizant about China, vis-à-vis, than many other, so called Anglo-nations. Second, China now represents our biggest source of migration (DFAT, 2016c) meaning both nations have become closer in relation to both cultural and commercial domains.

In fact, Australia's 2011 census revealed that about four per cent or 865,000 Australian residents identify as having Chinese ancestry with Mandarin as second and Cantonese as fifth most common language spoken at home. Clearly as Australia has become a multi-cultural nation with a mosaic of many underlying cultural values and value systems (including Chinese), along with growing close business and cultural relations with China, we now have a relatively good understanding of each other's value systems (DFAT, 2016a, 2016b, 2016c). Hence, these findings are probably a reflection that those underlying negative sentiments and assumptions held by Australia towards China (Jain & McCarthy, 2016) are really not that critical when it comes to our underlying perceptions and attitudes towards ChAFTA.

#### Managerial implications

This study shows just how complex the perceived impact of FTAs can be, but perhaps more importantly it implies that all participants in those relationships grounded in the FTA domain are potential beneficiaries of its positive outcomes. The real challenge for organizations then, is how to best reap these rewards (advantages) whilst traversing the perceived negative (disadvantages) consequences. Thus, our study provides managers with a helpful tool to support them in mapping out the best way they can optimize FTA benefits for both the organization and its employees.

What does seem evident in our data though, is the manner that the similarity-attraction paradigm (Byrne, 1971, 1997) helps to explain our attitude towards ChAFTA, as reflected through the effects of the cultural familiarity construct. This can be translated directly into positive outcomes for Australian organizations because Byrne's framework also infers individuals are indeed quite capable of learning about other cultures and value systems. Therefore, those organizations willing to invest in training initiatives that expose decision-makers to other cultures through one or more cultural assimilation programs would ultimately benefit from this learning. By this, we mean that when individuals acquaint themselves with other cultures they become capable of making more objective assessments of FTAs, which in turn may lead to more favorable attitudes. We also anticipate organizations will be committed to engage in trading relationships with organizations from partner FTA nations.

Perhaps an even simpler approach to build our organizational understanding and attitudes to FTAs would be the adoption of a recruitment program that targets culturally diverse employees as these individuals. These persons are already 'hard-wired' regards understanding specific nuances of more than one cultural value and belief system so could have an immediate impact. For those organizations operating in environments that involve FTAs perhaps this tool can be used as a recruitment aid to ensure they recruit persons with positive attitudes towards the FTA. Irrespective of the approach taken to navigate the complex cultural diversity associated with cross-national FTAs, the evidence presented herein suggests that a better understanding of underlying cultural and ethnic values and associated values systems impact attitudes directed to these forms of trading relationships.

Policy implications

Ben-David & Loewy (1993, 1996) reveal that eliminating trade barriers and subsequent increased investments in an FTA will lead directly to reducing income gaps between nations. However, this may also result in employees in countries with higher standards of living (e.g. Australia) suffering from reduced incomes, loss of jobs, and/or reduced working conditions - due to alternate cheaper employment sources in the FTA partner countries (e.g. China). Such a scenario was perceived to exist in our study (as reflected through MIE) indicating the merits in the scale that we develop as it is capable of measuring this and other important perceived elements underpinning attitudes towards the FTA. Moreover, this particular finding is also symptomatic of the many challenges both policy and decision-makers are likely to face as they attempt to implement and execute such free trade agreements. Specifically, they may be forced to scaffold the likely fall-outs of these FTAs on their own citizens, by negotiating and including suitable measures to protect their interests in these FTAs.

Another less obvious area uncovered in this study was the view held by respondents that their overall well-being would also suffer as a consequence of the FTA, as reflected through IWB. The wellness domain has recently emerged in the literature as an area of importance to the organization (Berry, Mirabito, & Baun, 2010; Mirabito & Berry, 2015) and deemed a critical element in the employment relationship (Morin et al., 2015). Our research not only corroborates how important the wellness domain needs to become in managerial thinking within an FTA dominion (as reported in the management and marketing literatures) but shows precisely how individual well-being can potentially impact attitudes towards FTAs. On the broader scale, this finding signifies how individual well-being is a potential 'pressure point' that needs careful consideration and attention when governments and policy makers alike begin to formulate the underlying terms of their cross-national FTAs. In sum, they would need to ensure that

appropriate safeguards are included in these FTAs that ensure the continued well-being of their citizens even after these FTAs are fully implemented.

### **Limitations and Future Research**

Despite making theoretical and managerial contributions to FTA research, this study has some limitations potentially impacting its generalizability. These however, can be addressed through future research. First, our study pertained to the ChAFTA free trading relationship that is bilateral in nature. ChAFTA is an exclusive arrangement between Australia and China. This means the findings are therefore idiosyncratic to this study setting so caution must be exercised when considering their generalizable in relation to similar free trade arrangements. In view of many such bilateral relationships (i.e. Australian-United States; China-Korea; New Zealand-China) it would be useful to replicate this study into these other FTA settings.

Second, the ChAFTA study setting only came into full operation on 20<sup>th</sup> December, 2015 (DFAT, 2016b). Therefore, by the time of our study (August, 2016), many of the perceived consequences identified in this paper may not have become visible. However, to countenance this we also recognize that ChAFTA has been on the political agenda for several years as well as having been reported in the popular press and media during this timeframe. Our contention herein is that we have captured the attitudes, opinions and beliefs of persons affected towards ChAFTA that would have formed up to the commencement of our study. Whilst some of these attitudes may have changed since the inception of the agreement clearly, a longitudinal study that replicates our approach would help better understand the effects of agreements such as ChAFTA over time because perceptions and attitudes towards ChAFTA may change if any of the perceived benefits and pitfalls identified herein begin to emerge.

Finally, bilateral FTAs are exclusive arrangements between signatory nations. However, there are many other forms of FTAs that are multilateral in nature and equally important to participants. The Trans-Pacific Partnership Agreement (TPP), for example, accounts for nearly 40 percent of global GDP (Mitchell, Voon, & Whittle, 2015) and has an ever-expanding membership that currently comprises 12 nations (DFAT, 2016c). These forms represent a range of culturally diverse nations, which effectively means an additional layer of complexity that was not accounted for in our study. Future studies exploring cultural complexities of multilateral FTAs would provide an even richer picture of individuals' attitudes and perceptions towards the different forms of free trading arrangements.

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**Table 1** Sample Profile (N=316)

	Frequency	Percentage
<b>Age</b>		
<25	26	8.2%
26-35	90	28.5%
36-45	71	22.5%
46-55	60	19.0%
>55	69	21.8%
<b>Gender</b>		
Male	157	49.7%
Female	159	50.3%
<b>Education</b>		
High School	69	21.8%
Undergraduate	101	32.0%
Postgraduate	43	13.6%
Other	103	32.6%
<b>Occupation</b>		
Employee	109	34.5%
Manager	117	37.0%
Owner/Partner	48	15.2%
Others	42	13.3%
<b>Languages Spoken</b>		
English alone	116	36.7%
English + Chinese (Mandarin)	38	12.0%
English + Chinese (Cantonese)	28	8.9%
English + Others	134	42.4%
<b>Birth Country</b>		
Australia	230	72.8%
Others	86	27.2%
<b>Worked Overseas</b>		
No	243	76.9%
Yes (China)	19	6.0%
Yes (countries other than China)	54	17.1%
<b>Employment Sector</b>		
Private	214	67.7%
Public	92	29.1%
Others	10	3.2%
<b>Chinese Connections</b>		
No	179	56.6%
Yes	137	43.4%

**Table 2** Descriptive statistics and psychometric properties (full sample, N=316)

<b>SCALE ITEMS</b>	<b>M</b>	<b>SD</b>	<b><math>\lambda</math></b>	<b><math>\alpha</math></b>
<b>PERCEIVED FTA ADVANTAGES [PFA]</b>				
<b><i>Investment &amp; Barriers [IB]</i></b>	4.95	1.06	.92	.84
Help Australia attract greater inbound foreign investment	4.93	1.23	.72	.52
Encourage greater investments by Australian firms in China	4.91	1.25	.84	.71
Enhance the attractiveness of Australia as an investment destination	5.05	1.25	.72	.52
Build shared approaches to trade and investment	4.83	1.25	.86	.74
Help Australia substantially expand its overall exports	4.99	1.29	.84	.71
Eliminate trade tariffs between Australia and China	5.02	1.33	.77	.60
Remove ‘behind the scenes’ barriers that impede free flow of goods and services between Australia and China	4.89	1.29	.82	.67
<b><i>Exports &amp; Spends [ES]</i></b>				
Help Australia secure a stable export market	4.91	1.25	.81	.65
Contribute to Australia’s GDP growth	4.89	1.21	.79	.62
Foster freer trade flows between Australia and China	5.09	1.21	.79	.63
Help promote regional economic integration	4.81	1.27	.88	.78
Help build common rules related to ‘country of origin’ between Australia and China	4.75	1.28	.86	.74
Enhance the competitiveness of Australian exports into the Chinese market	4.94	1.26	.88	.78
<i>*Results in lower spending by the Australian government</i>	<i>Deleted based on CFA</i>			
<b><i>Jobs, Income &amp; Competition [JIC]</i></b>				
Help increase the productivity of Australian businesses	4.80	1.08	.98	.96
Help increase the productivity of Australian businesses	4.73	1.28	.81	.66
Enhance cooperation between ‘value chain’ partners in Australia and China	4.86	1.21	.81	.66
Result in income growth for Australians businesses	4.84	1.25	.78	.61
Help create new jobs in Australia	4.57	1.36	.88	.78
Give more choices to Australian customers	4.81	1.30	.87	.76
Create healthy competition for local Australian firms	4.64	1.38	.87	.75
Help increase the international market shares of Australian firms	4.78	1.32	.84	.71
Create stronger ties between Australian and Chinese firms	5.02	1.22	.75	.57
Provide Australian businesses access to cheaper inputs	4.92	1.27	.80	.65

<b>PERCEIVED FTA DISADVANTAGES [PFD]</b>	<b>M</b>	<b>SD</b>	<b><math>\lambda</math></b>	<b><math>\alpha</math></b>
<b><i>Micro-economic Environment [MIE]</i></b>	4.82	1.30	.89	.79
<i>*Lead to more Australian jobs being outsourced to China</i>	<i>Deleted based on EFA</i>			
Make domestic Australian industries less competitive	4.75	1.37	.81	.65
Expose local Australian businesses to unfair competition	4.86	1.42	.89	.79
Flood the Australian market with cheap Chinese goods	5.00	1.49	.90	.81
Lower the quality of service provided to Australian consumers	4.84	1.47	.90	.81
Result in poorer working conditions for local Australian employees	4.67	1.47	.88	.78
Hurt the well-being of employees in local Australian firms	4.79	1.47	.88	.77
Expose Australian workers to exploitation by Chinese employers	4.72	1.57	.85	.72
<b><i>Macro-economic Environment [MAE]</i></b>	4.68	1.20	.96	.92
Increase in the theft of intellectual property	4.58	1.37	.81	.66
Contribute to the degradation of Australia's natural resources	4.72	1.40	.85	.72
Help with the destruction of Australia's indigenous cultures	4.44	1.54	.77	.59
Reduced domestic tax revenue for the Australian government	4.6	1.32	.82	.67
Benefit only the big Australian businesses	4.82	1.38	.84	.71
Expose Australia to security threats from China	4.63	1.48	.82	.68
Benefit China more than Australia	5.02	1.48	.83	.69
Allow Australian firms to avoid dealing with their problems by shifting these to China	4.69	1.35	.81	.66
<b><i>Individual Well-Being [IWB]</i></b>	4.34	1.31	.79	.62
Reduce the levels of workplace awareness of depression in Australian firms	4.29	1.43	.81	.65
Reduce the levels of workplace awareness of anxiety in Australian firms	4.27	1.42	.81	.65
Increase stigma of individuals with poor mental health in Australian firms	4.35	1.41	.93	.86
Increase discrimination towards individuals with poor mental health in Australian firms	4.38	1.42	.93	.87
Reduce 'help seeking' of individuals with poor mental health in Australian firms	4.41	1.45	.94	.89

M = Mean, SD = Standard deviation,  $\lambda$  = Standardized factor loadings,  $\alpha$  = Squared multiple correlations

\* These items were deleted due to low communalities (< .40) based on EFA and CFA with holdout samples

**Table 3** Correlation matrix

Construct	Mean	SD	Advantages			Disadvantages				
			IB	ES	JIC	MIE	MAE	IWB	PFA	PFD
Investment & Barriers [IB]	4.95	1.06	.80							
Exports & Spends [ES]	4.90	1.09	.85**	.84						
Jobs, Income & Competition [JIC]	4.80	1.08	.83**	.90**	.82					
Micro-Environment [MIE]	4.82	1.30	-.02	-.07	-.11	.87				
Macro-Environment [MAE]	4.68	1.20	-.01	-0.06	-.08	.84**	.82			
Individual Well-Being [IWB]	4.34	1.31	.07	0.05	.08	.59**	.69**	.93		
Perceived FTA Advantages [PFA]	4.77	1.03	.90**	.94**	.95**	-.07	-.05	.10	.95	
Perceived FTA Disadvantages [PFD]	4.53	1.12	.02	.01	-.02	.86**	.90**	.88**	-.00	.88
Composite Reliability [CR]	n/a	n/a	.93	.93	.95	.96	.95	.98	.95	.88
Average Variance Extracted [AVE]	n/a	n/a	.64	.70	.68	.76	.67	.87	.91	.78

\*\* p < .01; Note: Figures in the diagonal are the square roots of AVE.

**Table 4** Hypotheses testing and results (Structural Model)

<b>Hypotheses</b>	$\beta$	$p$	<b>Results</b>
H1a (-) Ethnic Distance → Advantages	-.01	.78	Not supported
H1b (+) Ethnic Distance → Disadvantages	-.04	.10	Not supported
H2a (+) Cultural Familiarity → Advantages	.46	.001	Supported
H2b (-) Cultural Familiarity → Disadvantages	.39	.001	Not supported
H3a (+) Ethnic Distance * Cultural Familiarity → Advantages	.04	.10	Supported
H3b (+) Ethnic Distance * Cultural Familiarity → Disadvantages	.05	.05	Not supported

$\chi^2=2129.28$ ;  $df=955$ ;  $\chi^2/df=2.23$ ; NFI=.87; CFI=.92; RMSEA=.062; SRMR=.079

$\beta$  = Standardized path coefficient,  $p$  = significance level



**Figure 1** Structural model (with results)

