

China-Australia Free Trade Agreement

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Executive Summary

The central focus of this study will be to examine the main opportunities or barriers of CHAFTA in the perspective of an Australian. The execution of the agreement commenced on 20th December 2015. The advantage that comes with the agreement was the position of key segment of Australian economy that was put in very competitive global positions. Not only will does the opportunity facilitate economic upgrade but also multiply the employment opportunities in the country. The subsequent incentive attached to CHAFTA by Australia is the decrease of tariffs resulting in higher quality production of products shipped to China. Given these possibilities, Australia's trade faces few obstacles. In the first place, the Chinese dialect threatens Australian investors. CHAFTA allows packaged goods to incorporate, in Chinese, the dimensions, quality and other details of the items. Therefore, Australian investors are expected to build a costly Chinese packaging industry. The volatility of currency and inability to strongly defend intellectual property rights are other problems.

Key words: exports, economy, opportunities barriers, import, and CHAFTA.

China-Australia Free Trade Agreement

Introduction

CHAFTA is considered as one of the most critical agreements that could see the economy of Australia develop immensely. It is considered as a transformative move. Critical economic sectors have been put into the position where they can be able to compete at the global scale. According to Farrar, Hiscock & Lo (2015), the agreement is a means through which the companies in the country can engage in rapid exchanges at the global scales as well as create multiple job opportunities. In addition, the agreement facilitates the interaction with major Australian export markets which include Japan, China, and Korea. CHAFTA, therefore, presents Australia with the opportunities to exploit the Chinese lucrative markets to achieve the money-making prospects. Such possibilities would be focused on the immensely rising number of the middle income Chinese class and the massive population of 1,4 billion people. After the entry into force of CHAFTA, it has been continuously anticipated that the agreement will strengthen the growth of trade and venture ties between the two countries, thus serving as the basis for future economic ties. It is also important to remember that CHAFTA represents the diversity of the Australian economy while positioning the economy of the world in a way that absorbs the benefits of China's economic transition. In this context, from the Australian viewpoint, this thesis explores CHAFTA's prospects and obstacles.

Discussion: Australian Opportunities and Barriers Identified with CHAFTA

Opportunities

China is arguably one of the best countries where the economy is highly developing. Thus, the decision to establish the FTA with China puts Australia in a very good economic

position as compared to other countries and nations. After the FTA was established, Australia acquired many economic leads that could prove integral in the economic growth. It gained the ability to compete economically at the global stage. Australia joins major rivalries that utilize the Chinese markets such as Chile and New Zealand. Thus, CHAFTA is an opening for Australia to utilize the same markets especially for dairy and food products. As such, Australian companies stand a chance to experience rapid growth that could translate into GDP growth and jobs multiplication as well.

Additionally, the CHAFTA agreement was a way of reducing recuing and eliminating tariffs that at times made it hard for the two nations to engage in healthy and successful trade partnership. Since the tariffs have since been removed or eradicated, the trade between China and Australia has become seamless and more profitable as compared to when the tariffs were under implementation. The scope of markets that were opened for Australian products have since become extensive to accommodate good such as energy, dairy and agricultural products, food, and other resources. For instance, Australia-based Pactum Dairy Company has a development infrastructure that combines new dairy industry features and ideas. In addition, the business utilizes leading technologies across the labels of consumers to deliver quality and nutritious milk bundled in UHT packets. As China is Australia's largest dairy market with exports of about \$443 million, according to Blagrove (2016), a 15 percent cut in liquid milk tariffs would make Australia more competitive in China. The tax cut on milk products that is supposed to last no fewer than nine years would result in increased demand for milk products from Australia and decreased uncertainty in the price of the product. Besides, the household sector in Australia stares at a heightened spike in the economic sector because of the client appliances such as home equipment, footwear, and sartorial markets have the opportunity to perform well in the Chinese

markets. To make sure that the objectives which encapsulates the liberation of markets are put into consideration, the agreement goes ahead to integrate various commitments which necessitate frequent reviews. Thus, it can be argued, companies and consumers in Australia will have the access to manageable-priced goods and services which can make the standard of living manageable as well.

The healthcare provision sector is also going to benefit greatly from the CHAFTA agreement. LASA, the best agency which deals with caregiving for the elderly in Australia, is widespread and extends its reach to manage the residential benefits, the home care, as well as retirement living. Thus, being an area that has consistently experienced growth, the health sector could proffer China with the expertise to manage and take care for the aged Chinese. Also, the CHAFTA agreement will go a long way into strengthening the associations and relations that is already existent with the Chinese markets. Thus, the agreement could potentially provide numerous opportunities for growth for LASA and such healthcare providers in Australia which will consequently facilitate increased revenues.

Other opportunities that could be utilized as a result of the agreement include the improvement of the financial sectors in Australia. Companies like AMP, which has pioneered financial management strategies for more than three decades, has been extending its operation to the Chinese markets. Through strategic affiliation with companies and markets based in China, the company has managed to make lucrative profits and the CHAFTA agreement could go a long way into ensuring the revenues are even increased. Today, AMP is considered as one of the world's best whose affiliations extend to companies such as the China Life Group. The business strategies for AMP do not end there. The company also has shared in the China Life Pensions company which is deemed to become the world's large pension market in the near future. Thus,

it is evident that CHAFTA will make the Australian market experience even greater growth and penetration to the Chinese market. The advanced global markets will present the companies such as AMP with potential growth in the segments such as the funds management. Especially with the RMB-centered flows which are offshore in the interior of Chinese securities will facilitate a progressive and gradual development of ventures into direct equity ventures by the Australian financial companies such as the AMP. New prospect for wealth supply services and administration will be realized amid the economic bond between Australia and China that will be facilitated by the CHAFTA agreement. There will be a general growth in the economic sector in Australia which will place it above many competitors at the global scale.

The education sector will also be boosted by the agreement between China and Australia through the CHAFTA agreement. Located in Adelaide, the International College of Hotel Management is a large institution located in Australia which has been performing well and more than 2500 learners in over 80 different countries have graduated. In china, there are many learning institutions that could partner with Australian Institutions such as ICHM. The Chinese students who wish to study abroad are highly advised to opt for such learning institution which are considered and listed in the JSJ list. The Chinese universities do not partner with learning institutions that have not been listed in the JSJ list. Thus, the CHAFTA agreement will basically mean that many learning institutions in Australian will be included in the JSJ list, therefore, expanding the opportunities for learner to study abroad. The development will be integral in ensuring the growth of the education sector. Chinese students will be able to enroll in Australian universities and vice versa. Through agreements and memoranda of understanding, the health sector will be able to develop as a result of joint ventures on China and Australia as well.

The agreement will also benefit the exports sector, immensely. As expected, more than 95% of good and services produced in Australia will be expected to be exported to Chinese markets if the CHAFTA agreement is put into practice. Fletcher, one of the largest goods-producing companies located in Australia, is an example of how the growth in exports will create new opportunities for growth in Australia and Chinese markets. The company focuses on exportation of animal products such as sheep's skin and goat meat as well as other products. There are more than 1250 employees who work as employees for Fletcher while the company also ships products to more than 100 nations around the world. It is the company that exports such products in the Chinese markets. The import duty that had previously been around 23% will be slashed to ensure that the process of exporting products become seamless. The Australian products will become more competent in the market especially to stay ahead of New Zealand which is a major exporter of sheep products to China. The eradication of hefty trade tariffs will increase the revenue for farmers and encourage them to increase the production of such products. The industry will encourage them to stay in the business. The growth of companies such as Fletcher insinuates that many employment opportunities will be created in the quest to supply the workers required by the developing market.

Also, then CHAFTA agreement will be implemented, China will also be able to excel in its services and commitment parallel to Australian services which will be key in the development of Chinese economy as well. The services industry is one of the largest constitutes of economic growth in Australia. It accounts for approximately 72% of all economic undertakings in the country (Kim, 2016). The agreement describes the new business access across a wide variety of other preclude segments in China for Australian service suppliers. The arrangement provides a framework for advancing the reciprocal recognition of service credentials and encouraging two-

way validation efforts by specialist organizations of both countries. Via the agreements, for example, Australian law firms are given the ability to develop commercial ties with Chinese law firms in different zoned areas. The formed associations would encourage law firms in these two countries to provide foreign legal services through commercial participation, minus constraints on the position of customers. The services area that Australia will benefit from is the services associated with tourism and transport. For example, China has promised Australian service providers that they will build, renovate and completely run the hotels and restaurants they own in China. On the other hand, Australian travel agency operators are also allowed to create subsidiaries that are completely Australian-owned for domestic and overseas tourists on trips within China. Some of the other most significant services are, construction, telecom services and manufacturing.

Barriers

It should be noted that the free trade agreement has negative consequences for both partners. Therefore, the realization of its goals and objectives is always hindered by unavoidable setbacks. Amid the implementation of the CHAFTA agreement, the growth opportunities in the export sector could be jeopardized by various barriers such as considerably 'high tariffs' that entrepreneurs always argue that cannot be brought down to suitable rates. The major commodities affected by such high tariffs include the sugar and sugar products, rice, as well as canola which could hinder the growth of the agricultural sector. The advancement and changes in policy often come to play when an agreement between two nations is being drafted. As such, there could be disagreements when coming up with the policies in the case where China reserves the right to sue the Australian government when it feels that some policies are being violated.

Currency instability is a significant factor that could prevent the agreement from realizing the goals and objectives as well as inhibiting the economic growth for China and Australia as well. Most of the potential investors are worried and scared away by the currency volatility that could potentially result to value fluctuations and losses by many companies. The stabilization process is politicized and hence often works to suit the officials' needs. For instance, the central bank dropped the market-based currency stabilization approaches on January 4, 2016. Correspondingly, in the manner that suits them, the officials resorted to the process of stabilizing the currency. In addition, the Australian government is still worried about financial uncertainty as it contributes to the depreciation of the Yuan currency, at the cost of what Australia is exporting to China, raising Chinese exports.

Furthermore, even though CHAFTA is concerned with reducing the export and import tariffs as way of encouraging bilateral trade between China and Australia, it has not been able to underline the provision for the reduction of the same tariffs for products such as wheat, wool, canola, rice, maize, and cotton. Such setbacks could potentially hinder the growth and development of the agricultural sector. As China offers a large demand for the aforementioned product, the situation has frustrated Aussie exporters considerably. Therefore, Australian farmers are unable to fill the void in China that has led to the formation of a large rift between the development and consumption facets of the Chinese sugar industry. The topic has therefore been the subject of further reviews, which will see a decrease in tariffs on sugar exports to China.

According to Kim (2016), the failure to protect the intellectual property rights pose a major threat to the realization of CHAFTA's goals and objectives. According to multiple reports, China appear among the top raked countries where good are either pirated and counterfeited and released to the market at better prices that the original brands. Moreover, China is also known for

its strong and developed intellectual property rights infringement frameworks. Some of the infamous industries include, among others, luxury pieces, car parts, cell phones and DVDs. Despite the favorable trading climate created by CHAFTA, numerous Australian firms would avoid the Chinese market with heightened infringement of intellectual property rights. Therefore, copyright infringement serves as a deterrent to Australians venturing into China.

Even though the agreement appears to be benefiting the economy, China reserves the right to raise the duties for various commodities such as beef and other animal products in Australia. Also, there are high tariffs on products such as rice, maize, and canola. The free trade agreement allows the Chinese to determine the tariffs for products such as milk powder which could potentially undermine the exporters dealing with such products in Australia. Since the agreement does not put Australia in a good position to negotiate the terms, it could be a source of discouragement for Australian farmers who highly depend on beef and dairy because of unfavorable trading conditions.

Besides, the board that is responsible for reviewing the foreign investments has been accused of being biased towards the Chinese 'insensitive sectors' which could not translate in the same categories in the Australian market. 'Non-sensitive' industries such as services, the defense sector, and media are disregarded in the agreement which could prove to be detrimental in the future. The end result if China realized hefty profits from such industries which amount to approximately \$1,094 million which is an acute increase from \$253 million. The board has also gone ahead to limit the threshold for Australian products, therefore, inhibiting increased revenue margins for products from Australia.

However unlikely, the language barrier is also a major problems that could hinder ideal participation of Australia in the bilateral trade with China. There are requirements such as labelling products with the Chinese language so that they can be interpreted and correctly upon arrival in the Chinese markets. Worse of all, Australia is not in the capacity to put such restriction because of the need to maintain the good trade relationship with China. As such, the language barrier is viewed in the perspective that businesses must build a branding and packaging line that is exclusively targeted at producing Chinese products. The marking allows Australian foreign distributors to use the Chinese language in the definition of the products, in particular as regards, where applicable, the classes, and quality and quantity requirements. The requirement has undermined Australian food sector rivals, primarily for pre-packaged goods. The same problem is encountered by the companies or countries who primarily export genetically modified foods since they are required to demonstrate in Chinese writing how they can manage the GM outputs while publishing the corresponding catalogues. Thus, despite the opportunities that come with the CHAFTA agreement, the language barrier remains a persistent hindrance to realizing the goals and objectives of the agreement.

Conclusion

The CHAFTA agreement, as seen in this study, is a strategy to revitalize the economy in Australia by facilitate an effective and beneficial bilateral trade with China. Australia will be looking to exploit the opportunity presented by the agreement especially with the reduction and elimination of tariffs for certain products. Trade tariffs for products such as flowers and horticultural products and beef as well as beef products will be lifted. The abolition of such tariffs taxes allows Australian exporters to supply quality food and, in the meantime, to supply China with production. In addition, Australia is one of the developing countries that have formed

FTAs with China, which is the second largest economy in the world at present. The Australian firms acquired a pivotal advantage over different foreign rivals at the outset of CHAFTA's introduction. The resultant opportunities derive from the service sector. The agreement provides a mechanism for promoting shared documentation of administrative capabilities and endorsing master organizations' joint affirmation programs in China and Australia. Some companies will likely be hesitant because of major factors such as currency uncertainties due to prices fluctuation. The lack of intellectual property rights in China. Nonetheless, the agreement will certainly be beneficial for China and Australia as well in the economy sector.

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