GTAP Model Analysis of the Economic Effects of an Australia-China FTA: Challenges and Opportunities for Bilateral Trade Policy

by

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A dissertation submitted in partial fulfillment of the requirements for the Degree of Master of Economics

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> > September 2006

Declaration

I certify that the substance of this dissertation has not already been submitted for any degree and is not currently being submitted for any other degree or qualification.

I certify that any help received in preparing this dissertation, and all sources used, have been acknowledged in this dissertation.

Jinmei Yang

Abstract

The global trading system has seen a very substantial increase in preferential trading arrangements over the past decade. The Australian government has signaled an interest in regional trade agreements and successfully signed Free Trade Agreements (FTAs) with Singapore, Thailand and the U.S., as well as a Closer Economic Relations Trade Agreement with New Zealand. The Australia-China Free Trade Agreement (ACFTA) is already in the process of being negotiated by the two governments. This study applies the Computable General Equilibrium (CGE) modelling approach using the Global Trade Analysis Project (GTAP) model and its database version 6 for a quantitative analysis of the economic effects of proposed ACFTA. Four scenarios with full merchandise trade liberalisation are examined in this study focusing on flexible and fixed current account positions within short run and long run respectively. Equivalent variation and real consumption are used to measure the welfare effects resulting from the formation of the ACFTA. The results from the GTAP simulations provide quantitative evidence that there are positive welfare effects for both Australia and China in all cases and the two economies would obtain gains according to their comparative advantage. The modelling results also indicate that the ACFTA has a negligible impact on the rest of the world's real GDP and welfare, and would generate trade creation greater than trade diversion for the world as a whole. It is evident that the ACFTA would have not only bilateral but global benefits. From Australia's perspective, securing closer economic integration with China via the ACFTA would be a strategically sensible option.

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List of Abbreviations

ABS	Australian Bureau of Statistics
ACFTA	Australia-China Free Trade Agreement
AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AUSFTA	Australia-US Free Trade Agreement
CDE	Constant Difference of Elasticity
CER	Australia-New Zealand Closer Economic Relations Trade Agreement
CES	Constant Elasticities of Substitution
DFAT	Department of Foreign Affairs and Trade (Australia)
CGE	Computable General Equilibrium
EV	Equivalent Variation
FTA	Free Trade Agreement
I-O	Input-Output
GTAP	Global Trade Analysis Project
MFN	Most Favoured Nation
OECD	Organization for Economic Co-operation and Development
PATCRA	Papua New Guinea-Australia Trade and Commercial Relations Agreement
PMV	Passenger, Motor and Vehicles
PTA	Preferential Trading Arrangement
RoO	Rules of Origin
ROW	Rest of the World
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	Singapore-Australia Free Trade Agreement
SAPTA	South Asian Preferential Trading Arrangement
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
TAFTA	Thailand-Australia Free Trade Agreement
TCF	Textile, Clothing and Footwear
TRQ	Tariff Rate Quotas
WTO	World Trade Organization

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Acknowledgements

This dissertation would not have been possible without the contribution of many people.

First, I wish to acknowledge my great indebtedness to my supervisor, Associate Professor Mahinda Siriwardana. His lectures on international trade inspired me to think about the problems studied in this thesis. As my thesis supervisor, he gave me constant aid, encouragement, friendship, and where necessary, constructive criticism. All of these made this difficult time a little more cheerful.

I would like to express my deepest gratitude to the Masters Degree Coordinator, Associate Professor Jack Sinden, whose encouragement always allays my doubts so that I can advance step-by-step in economics.

I thank my family: my husband Dr. Canran Liu and my only child Huayan Liu. They supported me whenever I needed either time or money for my study. The deepest gratitude goes to my elderly mother, the source of my confidence and courage.

Finally, I am thankful for all things I have experienced, especially during my career as a journalist. Whether good or bad, they have ultimately contributed to building my ability to survive under great pressure and to developing my personal motto: no matter what happens, never stop what you like doing.