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RESOURCE SECURITY: A NEW MOTIVATION FOR FREE TRADE AGREEMENTS IN THE ASIA-PACIFIC REGION

Jeffrey D. Wilson
Asia Research Centre
Murdoch University

j.wilson@murdoch.edu.au

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ABSTRACT:

Following a historical commitment to multilateralism, in the last decade the trade policy initiatives of many states in the Asia-Pacific have turned to bilateralism through the negotiation of free trade agreements (FTAs). The corresponding proliferation of regional FTAs has thus far been understood to result from three broad motivations: a desire to advance trade liberalisation beyond WTO disciplines; mercantilistic efforts to secure preferential access to key export markets; and/or attempts to use FTAs to secure non-economic political gains. This paper argues that since the middle of the decade a new motive has emerged – the use of FTAs to improve resource security – particularly by import dependent resource consumers in Northeast Asia. As yet unexamined in the literature, this paper seeks to document and explain this trend. It analyses the recent emergence of resource security concerns as a new FTA motive; the corresponding shifts in the FTA strategies and initiatives of Japan, Korea and China; and the dynamics of an emerging race for resource-related FTAs between the three governments. Based on this analysis, it demonstrates that resource-related FTAs could potentially improve consumers' resource security through either the liberalisation of trade, the extension of investment protections, or broader diplomatic gains with the targeted supplier. However, owing to supplier reluctance to enter into binding policy commitments for resource industries, their track record shows success in only the diplomatic dimension, and the prospects for a strengthening of their effects are poor. As a result, it is argued that while resource concerns have become a key motive for FTA initiatives in the Asia-Pacific region, they have not substantively improved resource security for its import-dependent states and are unlikely to do so in the future.

INTRODUCTION

The architecture of the Asia-Pacific trading order is in flux. Following a long period of commitment to multilateralism, a proliferation of free trade agreements [1] (FTAs) during the last decade appears to have cemented bilateralism as the guiding principle for trade liberalisation in the region. Given the speed of this shift, and its potential implications for both the regional and global trading orders, attempts have been made to theorise the causes for this turn towards trade bilateralism. Generally, these attribute the bilateral shift in regional governments' approach to trade policy to one of three underlying motives - desires to advance trade liberalisation beyond the current disciplines of the World Trade Organisation (WTO), mercantilistic attempts to obtain preferential access to key export markets, and/or efforts to leverage FTAs for broader political gains. In the literature on FTA proliferation in the region, debate currently focuses on which of these motives (or a combination thereof) account for both the FTA strategies of particular governments, as well as the regional trend as a whole.

But are these three motives sufficient to fully account for the shift to trade bilateralism in the Asia-Pacific? This paper argues that a new motive - the use of FTAs to improve resource security - has emerged as an additional motive in the FTA strategies of the region's major resource consumers (Japan, Korea and China) due to resource security difficulties emerging in the middle of the 2000s. As yet unexamined in the literature, the paper considers this new motive by analysing emerging resource security concerns in the region, corresponding changes in the FTA strategies of the three Northeast Asian governments, and the content of their resulting initiatives with targeted resource suppliers. Through this analysis, it is argued that while resource security goals have become salient in many FTAs in the region, and that such FTAs could improve consumers' resource security through a combination of trade liberalisation, investment protection and diplomatic provisions, their effects have largely been limited to the domain of diplomatic gains. As a result, such initiatives have so far done little to improve the resource security of the three Northeast Asian economies, and an assessment of their prospects indicates they are also unlikely to do so in the future.

MOTIVATIONS FOR FTA PROLIFERATION IN THE ASIA-PACIFIC

During the last decade, the architecture of the global trading system has been dramatically transformed. The rapid proliferation of FTAs has reshaped the institutional basis for trade liberalisation from one solely based on multilateralism and the non-discriminatory most-favoured-nation (MFN) principle to one overlaid by a range of preferential bilateral or minilateral agreements. At the global level, the number of FTAs in-force and notified to the WTO surged from 58 in 2000 to some 178 by July 2011 (WTO 2011). An equally dramatic shift has occurred in the Asia-Pacific region [2], which had previously lagged behind the global trend, being home to only three in-force FTAs in 2000. However, following a spate of FTA proposals beginning in 1998 the region quickly joined the global trend; and by July 2011 the number of in-force FTAs notified to the WTO - including both within-region and cross-region agreements - had grown to 41. Moreover, if non-WTO notified and under-negotiation FTAs are included, the current count of regional 'initiatives' rises to 101 (ADB 2011). As a result, the Asia-Pacific region has quickly been catapulted from the status of an FTA laggard to become the most active site for FTA negotiation globally (Dent 2010).

The rapid proliferation of FTAs in the Asia-Pacific, which has been considered part of a 'new bilateralism' in the region (Lloyd 2002; Ravenhill 2006), has attracted scholarly attention given the dramatic change in states' trade policy approaches it implies. In this literature, a wide range of potential explanations for the shift have been offered – in one survey the Warwick Commission (2007) identified no less than ten distinct causes – and debate currently centres on which of these factors, or a sub-set of them, provide the best account of the process at play. Summarising this literature, it is possible to identify three distinct sets of motives which have been theorised as the drivers of the FTA turn in the Asia-Pacific region – that it represents either liberalising attempts by regional governments to advance trade liberalisation, mercantilistic efforts to secure preferential access to key export markets, and/or the desire to exploit FTAs for political gains.

A first approach sees the FTA turn in the region as motivated by states' desire to advance trade liberalisation, arguing such agreements are a means to push regional liberalisation further than existing multilateral arrangements have allowed. Some have argued that inertia at the WTO has acted as a catalyst for heavily trade-exposed Asia-Pacific economies to turn to FTAs as a second-best means to promote trade liberalisation (Desker 2004; Lloyd 2002). Others have contended that 'liberalisation ready' states are using FTAs to bilaterally achieve liberalisation for so-called WTO-Plus issues (such as investment, services, and intellectual property) that have yet to receive substantive treatment at the WTO (Sauve 2007; Thangavelu & Toh 2005). It is also suggested that FTAs have been used by states to assist the implementation of domestic reforms in sensitive sectors (such as agriculture), by acting as a more politically acceptable starting point upon which deeper liberalisation can subsequently be based (Findlay *et al.* 2003). While stressing different underlying logics, these contributions share an understanding of the regional shift as one fundamentally aimed at advancing trade liberalisation beyond that presently achieved multilaterally through the WTO. They also tend to view the impact of FTA proliferation optimistically, arguing they can act as a 'building block' upon which deeper trade liberalisation can be achieved – either by weakening domestic obstacles to trade reform (Ornelas 2005), or through the subsequent linking up of bi- and mini-lateral agreements first into larger blocs and ultimately the WTO (Baldwin 2006).

Nonetheless, others dispute the argument that regional FTAs are motivated by liberalisation goals. Given that FTAs provide states with the positional good of preferential access to partners' markets (Dieter 2006), a competing approach has argued that FTA proliferation in fact reflects mercantilistic strategies to competitively secure access to key export markets. For some, this development in the region is viewed as a purely defensive move necessitated by broader global developments. Extending Baldwin's (1999) 'Domino Theory' of regionalism, several have suggested that as FTA proliferation in Europe and the Americas during the 1990s discriminated against Asian firms in their key export markets, regional governments were forced to (reluctantly) launch their own initiatives to neutralise disadvantages associated with being 'FTA outsiders' (Dent 2010; Dieter 2006). Others, however, are more willing to attribute the shift to underlying changes in governments' trade policy preferences. For example, Aggarwal and Koo (2005) link regional FTA initiatives to the stagnation of East Asian exports in the late 1990s and the need to secure footholds in new export markets; and Manger (2009) identifies firm preferences to gain FDI concessions in key production locations as a domestic source of political pressure for FTAs. Whether the shift in approach is seen as defensive or offensive in origin, both agree that the adoption of FTA strategies in the region evidences a weakening commitment to trade multilateralism in favour of competitive market access motives. This approach tends to view the trend pessimistically, arguing that FTA proliferation acts as a 'stumbling block' for global trade liberalisation – by weakening domestic preferences for across-the-board liberalisation, producing

a range of competing and inconsistent preferential deals, and potentially inviting retaliation between competing trade blocs (Bhagwati 2008; Findlay *et al.* 2003).

However, a third approach challenges the view that economic considerations are the principal motive for regional FTA initiatives. Such arguments are based on the observation that most bilateral agreements signed by East Asian countries in the first decade of the 21st Century are: (a) between countries with low bilateral trade volumes (Dent 2010); and (b) have narrow sectoral coverage and low tariff commitments (Ravenhill 2008); indicating that both their economic rationales and effects are relatively weak. Instead, it is claimed that political motives have underscored the trend. In some cases security motives have predominated, particularly evident in the recent US strategy of using FTAs to reward cooperation by security partners in the region (Higgott 2004). Others have identified diplomatic goals as a catalyst, particularly in the use of FTAs by both China and Taiwan as a component of broader regional diplomacy programs (Hoadley & Yang 2007; Ravenhill 2008). Others still have identified contests over regional 'leadership' as a key driver – particularly evident in China's opening of FTA talks with the ASEAN in 2000, followed by Japanese and Korean courtship of the regional grouping as a competitive move in turn (Aggarwal & Koo 2005; Wesley 2008). By downplaying economic motives, advocates of a political explanation for regional FTA proliferation take an ambivalent position on their economic effects, with Hoadley (2007) suggesting they may facilitate trade policy harmonisation in the region, while Ravenhill contends they are nonetheless "*unambiguously bad*" for comprehensive global liberalisation efforts (2006: 45).

Of course, while this literature has theorised trade liberalisation, preferential market access and non-economic political motives as competing explanations for regional FTA proliferation, these should not be thought of as mutually exclusive. A combination of these motives may underlie a government's FTA strategy – evident in the case of Japan, which has used FTAs both to achieve foreign market access and soften domestic opposition to agricultural liberalisation (Solis 2010). They may also be combined within particular bilateral initiatives – for example, the importance of both diplomatic and market access motives to China's 2005 FTA with Chile (Hoadley & Yang 2007: 342). As such, these theorised motives should be thought of as mutually supportive rather than exclusive, with the balance varying case-by-case given the specific issues and interests at stake.

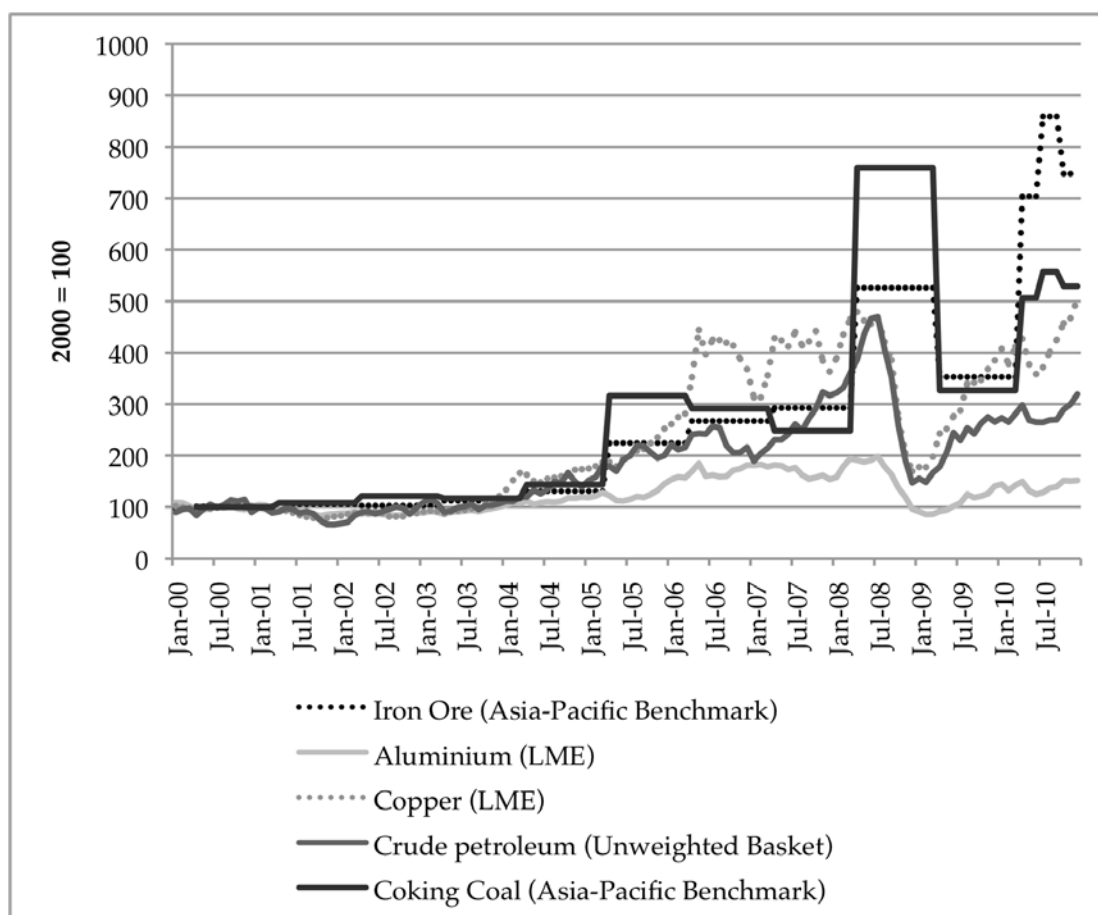
One motive that has not received sustained attention in this literature has been the use of FTAs by resource-importing states to attempt to improve *resource supply security* – a situation where an economy enjoys the *continuous availability* of needed natural resources at *reasonable prices* [3]. However, such a motive appears to be salient in the Asia-Pacific. Improving resource security has been stressed (alongside other motives) in recent FTA strategies issued by the region's major resource consumers of Japan (MOFA 2004a), Korea (MOFAT 2007) and China (Hu 2007); and resource suppliers have accounted for around half of these countries' FTA initiatives during the last decade (Table 2). Additionally, since 2005 all three have signed FTAs that contain 'resource clauses' aimed at securing supply from key exporters within the region (Table 3). Rarely, however, do studies on FTA proliferation identify resource security goals as a motive behind the regional trend. Several influential reviews of region-wide dynamics have failed to identify resource security motives entirely (Aggarwal & Urata 2006; Dent 2006, 2010; Desker 2004); and the few mentions resource security has received have typically been limited to the context of recent Chinese initiatives with countries such as Australia and the Gulf Cooperation Council (GCC) (Jiang 2008, 2010; Ravenhill 2008; Ravenhill & Jiang 2009).

Given that resource security concerns have become a new and additional motivation for a large number of Asia-Pacific FTAs, an empirical lacuna therefore exists in the literature on FTA proliferation. This paper seeks to fill this gap, by considering how resource security concerns can be integrated into existing understandings of the motives for FTAs initiatives in the region. Why have regional governments sought to use FTAs to also improve resource supply security, and how has the addition of this new motive modified their FTAs strategies? Furthermore, what benefits have they intended to gain through these strategies, and how effective have they been?

RESOURCE SECURITY CONCERNS AS A REGIONAL FTA MOTIVE

The use of FTAs to address resource security concerns is a recent phenomenon in the Asia-Pacific, and the proximate cause of the emergence of this new FTA motive has been a resource boom that began in the middle of the last decade. Due to rapid growth in the metals, construction, machinery and transport sectors in a range of developing countries (including, though not limited to China), world demand for natural resources has recently boomed – with coal consumption increasing 50% and steel consumption increasing 60% during the 2000s (EIA 2011; WSA 2011). However, owing to the economics of the mining industry, where investment has long lead times in the order of five to ten years, the global supply of mineral resources has failed to keep pace with burgeoning demand. International resource prices began a period of unprecedentedly rapid growth in 2005, and despite being temporarily arrested by the global financial crisis of early-2008 quickly returned (Figure 1). By late 2010 the price of petroleum had tripled, coking coal and copper had increased five-fold, and iron ore had increased seven-fold on 2004 levels. International investment in resource industries has also surged as mining firms moved to capitalise on record-level prices, with global cross-border mergers and acquisitions in the sector doubling from an annual average of USD 20 billion during the period 2000-2004 to 41 billion in 2005-09 (UNCTAD 2010: Annex Table 14).

Figure 1 World resource price indices, 2000-2010



Source: Author's calculations, from (ABARE 2010; Keenan 2010; McDonald 2010; *Steel Guru* 2010; UNCTAD 2011).

While all import-dependent resource consumers have felt the inflationary effects of this boom, its effects have been especially acute for three economies in the Asia-Pacific region – Japan, Korea and China. These three economies are the region’s main consumers, accounting for half of all resource imports by APEC members (Table 1). All three are also heavily reliant on imports for their natural resource needs. Each have sizeable aluminium, copper and/or steel industries, but Japan and Korea wholly lack the domestic mining industries to provide mineral inputs; and China relies on imports for 33% of its bauxite, 58% of its iron ore and 86% of its copper demand (USGS 2009). Japan and Korea are also entirely dependent upon imported sources of energy (oil, gas and coal); and while China has a large coal sector depends on imports for 50% of its oil supply (IEA 2011). In comparison, other regional economies are relatively less dependent on resource imports – either due to a lack of heavy industries (the ASEAN), or possession of sizeable domestic resource reserves (Australia, the US and some ASEAN energy producers). As a result of heavy import dependence, the three Northeast Asian economies have been the hardest hit in the region – with their collective resource import bill averaging 13.3% annual growth during the decade, and in 2009 accounting for 29.4% of their combined imports (compared to a world average of 18.3%).

Table 1 Resource imports in the Asia-Pacific region, 2000 and 2009

| | Mineral and fuel imports* (USD billions) | | | Share of total national imports (%) | |
|--------------------------|---|---------------|--------------------------|--|--------------|
| | 2000 | 2009 | Annual av. growth (%) | 2000 | 2009 |
| China | 33.9 | 250.5 | 24.9% | 15.1% | 24.9% |
| Japan | 98.4 | 187.2 | 7.4% | 25.9% | 33.9% |
| Korea | 46.9 | 114.6 | 10.4% | 29.2% | 35.5% |
| Taiwan | 19.3 | 48.7 | 10.8% | 13.8% | 27.8% |
| ASEAN-10 | 49.7 | 153.0 | 13.3% | 13.4% | 21.1% |
| United States | 167.6 | 311.4 | 7.1% | 13.3% | 19.4% |
| Other APEC | 43.7 | 104.9 | 10.2% | 7.8% | 10.8% |
| <i>Japan-China-Korea</i> | <i>179.2</i> | <i>552.2</i> | <i>13.3%</i> | <i>23.4%</i> | <i>29.4%</i> |
| <i>APEC</i> | <i>459.6</i> | <i>1170.2</i> | <i>10.9%</i> | <i>14.8%</i> | <i>21.9%</i> |
| World | 867.5 | 2271.3 | 11.3% | 13.3% | 18.3% |

Source: Author's calculations, from (UNCTAD 2011)

* Includes SITC categories 27, 28, 3 and 68.

By threatening their resource security – in terms of obtaining imports at affordable prices – the recent resource boom has been a major economic challenge for the three Northeast Asian economies. In response, the government's each adopted resource security strategies, which have included a combination of: (a) foreign investment promotion initiatives to develop and secure new sources of resource supply; and (b) 'resource diplomacy' efforts with key suppliers to smooth regulatory and political obstacles to such investments. China was first off the mark, beginning a series of resource diplomacy initiatives aimed at strengthening investment ties with major suppliers in the region in the late 1990s (Zweig & Bi 2005). A foreign investment promotion strategy was added in 2004, under which the state-owned EXIM Bank was to make discounted loans to subsidise Chinese firms' investments in natural resource projects abroad (NDRC 2004). The Japanese and Korean governments soon followed suit, identifying soaring resource prices as a major threat to national economic security and launching their own resource diplomacy programs in 2004 and 2006 respectively (MOFA 2004b; MOFAT 2006). Both governments also announced packages to provide financial support for foreign investment in resource projects in 2008 (METI 2008b; MOFAT 2008). Recently, the Japanese and Korean governments have officially explained these interlinked investment promotion and resource diplomacy efforts as motivated by intense global competition between consumers for resources (METI 2010b; MOFAT 2010).

However, and in addition to resource diplomacy and foreign investment promotion efforts, the three Northeast Asian governments also deployed FTAs as part of their resource security strategies. Early in the decade, resource-related FTAs were a relatively new phenomena in Asia-Pacific – as late as 2005, only two agreements between regional resource consumers and their suppliers had been finalised (Korean and Chinese agreements with Chile). However, from the middle of the decade FTA initiatives were rapidly launched by the Japanese, Korean and Chinese governments with their major resource suppliers, increasing the number of resource-related FTA initiatives in the region from eight in 2004 to twenty-six by early 2011 (summarised in Table 3). Due to the economics of global resource industries, where high transport costs militate against

long-distance seaborne trade, the bulk of these countries' suppliers (and hence their FTA initiatives) are located on the Pacific Rim. In each of these initiatives the consumer has made resource trade and investment issues a major priority for inclusion, and in seven cases have resulted in agreements containing a resource clause that commit the parties to closer bilateral cooperation over resource policies. However, the record of finalising such FTAs has been mixed – while eleven FTAs have been signed with supplier states, nine remain under negotiation and a further six have not progressed past the 'study' stage. Japan has comparatively been the most successful, accounting for half of the finalised agreements. Nonetheless, this targeting of resource suppliers has become a major focus of all three governments' FTA strategies, and by the end of the decade accounted for almost half of their combined initiatives (Table 2).

Table 2 FTA initiatives of Northeast Asian resource consumers, 1999-June 2011

| FTA Initiative | China | Japan | Korea | Total |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Proposals proceeding to study | 4 | 3 | 9 | 16 |
| <i>with resource suppliers</i> | 2 | 1 | 3 | 6 |
| Proposals proceeding to negotiation | 6 | 2 | 6 | 14 |
| <i>with resource suppliers</i> | 4 | 2 | 3 | 9 |
| Proposals proceeding to agreement | 7 | 13 | 7 | 27 |
| <i>with resource suppliers</i> | 2 | 6 | 3 | 11 |
| All FTA initiatives | 17 | 18 | 22 | 57 |
| <i>with resource suppliers</i> | 8 | 9 | 9 | 26 |

Source: Author's compilation, from (ADB 2011)

Given that FTAs are economy-wide rather than sectoral agreements – and according to Clause XXIV of the GATT should liberalise “*substantially all trade*” – it is somewhat surprising that they have been deployed as part of a broader resource security strategy. Indeed, when first formulating their FTA strategies early in the decade, resource issues were not a major focus for any of the Northeast Asian governments. When Japan issued its first official FTA strategy in 2002, market access and diplomatic motives were cited as the central priorities, and no resource suppliers were included amongst its immediate targets (MOFA 2002). Korea's 'FTA Promotion Roadmap' of 2003 similarly concentrated on market access initiatives in major export markets (MOFAT 2007). Making policy comparison difficult, at the time of writing China has yet to issue a formal FTA policy. However, official statements have stressed FTAs as a supplement to multilateral institutions (PRC 2008); and studies of China's early FTA initiatives have identified diplomatic goals (particularly with the ASEAN) as a primary motive (Kwei 2006; Munakata 2006). Resource supplier states were also not a focus of the three governments' early activities, accounting for only eight of their twenty-eight initiatives undertaken before 2005 (Table 3). Resource security was clearly not a leading rationale for these countries' initial shifts towards bilateral trade strategies.

However, this was to change with the explosion of international resource prices from the middle of the decade, with each government refining its FTA strategy to support its newly announced resource security policies. Japan was the first to make such a move, issuing a new FTA strategy in 2004 which included whether an FTA could “*contribute to stable imports of resources*” amongst its

partner selection criteria (MOFA 2004a). This was subsequently reinforced in its 2006 'Global Economic Strategy' policy that indicated that FTAs would be included as a major component of its resource security strategy (METI 2006). Japan's first major resource-related initiative came in 2005 with the commencement of negotiations with the Philippines; and initiatives were subsequently launched with Indonesia, Chile, Brunei, India, Peru, the GCC, Australia and Canada (Table 3). Natural resources were prioritised in all of the negotiations, with the stated aim of securing investment clauses to protect Japanese investors (METI 2008a). Particularly significant was the opening of talks with Australia, where prior Japanese reservations over agricultural issues were sidelined due to the newfound importance of resource security concerns (Mulgan 2008). By the end of the decade FTAs had been completed with six resource suppliers, and the centrality of resource issues was again reinforced in Japan's most recent FTA policy, which called for the intensive targeting of "*Asian economies, newly emerging powers, and resource rich countries*" (MOFA 2010).

An almost identical shift in Korea's FTA policies and initiatives is evident during the same period. Using FTAs for resource security purposes was first suggested in 2006, when the government included resource security as a rationale for an FTA proposal to Mercosur (MOFAT 2006). FTA initiatives with Australia, Peru, Russia and the GCC were mooted in 2007, officially rationalised on the grounds that "*securing a stable supply of energy and resources is a top national priority*" (MOFAT 2007). By late 2010 initiatives with nine resource suppliers had been launched, all of which prioritised investment protections and resource cooperation clauses (Table 3). Of these three have been completed; and further two under negotiation (Australia and the GCC) are officially described as being of 'strategic' national importance given the intensity of resource security difficulties (MOFAT 2010). Similarly to Japan, resource issues have also risen to such a level as to dominate Korea's most recent FTA policy, with the Ministry of Foreign Affairs and Trade indicating that its 2011 goals are to conclude negotiations with Australia and open new talks with "*resource-rich countries in Africa, the Middle East and other regions*" (Yonhap 2010).

As the Chinese government has not publicly issued an official FTA strategy, it is not possible to identify whether resource issues have been similarly reprioritised. Amongst official statements, the closest link made between its FTAs and resource security is evident in President Hu's 2007 address to the 17th National Congress of the Chinese Communist Party, in which international cooperation with resource suppliers and the expansion of FTAs were both named as part of the leadership's global economic strategy (Hu 2007). Nonetheless, a consideration of Chinese FTA initiatives similarly demonstrates an increasing prioritisation of resource issues. FTA negotiations with resource suppliers first began in 2004 with Chile and the South African Customs Union (SACU), followed by Australia and the GCC in 2005, Peru in 2007 and Norway in 2009. These initiatives together accounted for half of the eleven FTA negotiations China commenced during this period; and provisions covering resource issues were a high Chinese priority in each. While China has been comparatively the least successful, completing only two FTAs (with Peru and Chile), both have included resource clauses covering technical and policy cooperation and investment promotion commitments (Table 3). For these reasons, Jiang (2010) contends that securing the supply of natural resources has evidently emerged as a major (if officially unacknowledged) motive in China's FTA strategy during the decade.

As predicted by those claiming that competitive bilateralism has powered regional FTA proliferation (Dent 2006; Ravenhill 2010), these initiatives have resulted in a competitive regional 'race' for resource-related FTAs. All three governments have targeted five key suppliers that reflect a spread of their needed mineral imports: Peru and Chile (copper), India (iron ore and

bauxite), the GCC (oil and gas) and Australia (iron ore, coal and gas). All three have also completed FTAs with Chile, Peru and India (excepting China-India, currently under study); most of which have included resource clauses containing roughly comparable provisions for technical and policy cooperation.

There is also evidence of a desire to avoid being relatively disadvantaged in certain jurisdictions as a result of others' FTA agreements, particularly evident in the case of Australia. According to Japanese government officials, its decision to open FTA negotiations with Australia in 2005 was primarily driven by concern that rapid Chinese investment in the Australian mining industry [4] might lock Japanese firms out of a critical market, and that an FTA with resource and investment commitments would help neutralise this disadvantage (Mulgan 2008). After Australia gave Japan in-principle agreement to include a resource clause in August 2007, China appears to have then competitively changed its priorities for its ongoing FTA negotiations with Australia, requesting resource investment commitments in their next round of negotiations in June 2008 (DFAT 2011a; 2011b). When Korea commenced FTA negotiations with Australia in early 2009, it too requested (and obtained in-principle agreement) for a resource clause to be included (DFAT 2011c); by which time a three-way race had emerged to secure a FTA with Australia containing provisions for resource cooperation and investment protections. While none have completed such negotiations at the time of writing, it is evident that a competitive dynamic is at play, with each government seeking to secure resource-related FTAs with key regional suppliers in part to avoid becoming disadvantaged by the concessions obtained by others.

HOW CAN FTAs IMPROVE CONSUMER RESOURCE SECURITY?

Thus, in response to rising prices and their concomitant resource security implications, the Japanese, Korean and Chinese governments have all redirected their FTA strategies to prioritise obtaining resource-related FTAs with key regional suppliers. Of course, as economy-wide agreements – which at a minimum involve commitments to bilaterally reduce goods tariffs and in some cases also extend to WTO-Plus provisions – it must be noted that the motives for entering into these FTAs are not solely limited to resource issues. These FTA initiatives should therefore be seen as *resource-related* rather than *resource-dominated*, and reflect the addition of resource security as a new FTA motive alongside pre-existing liberalisation, preference-seeking and/or diplomatic goals. What, however, does this pursuit of resource-related FTAs mean? How can FTAs with resource suppliers address consumers' resource security concerns, and what have the regional initiatives thus far achieved?

Given that price rises (rather than physical supply interruptions) are posing the major challenge for Northeast Asian resource security, these governments' resource-related FTA efforts have sought to obtain concessions that would assist in attempts to moderate price increases. While the global supply/demand balance in minerals industries is somewhat beyond the scope of an FTA itself, two other drivers of high resource prices have been targeted in these initiatives. The first is the structure of resource markets. Some are highly concentrated, with sales determined through long-term contracts whose price is negotiated between a small number of supplying firms and their principal customers (particularly regional iron ore (Sukagawa 2010) and coal markets (Ekawan *et al.* 2006)). In these sectors market power is critically important in pricing outcomes – which advantages consumer firms that have invested in mining projects, and disadvantages those that have not. The second is a recent trend towards 'resource nationalism' in many supplier countries. Enjoying booming prices and buoyant investment conditions, many supplier states have exploited the recent boom to enact nationalistic policies to extract economic payoffs (through

minimum local ownership rules and trade policy restriction on exports) from their resource industries (Bochkarev & Austin 2007; Stevens 2008). These nationalistic resource policies have (a) hindered the ability of consumer firms to invest in key locations; and (b) contributed to high prices by restricting supplier firms' ability to export. Indeed, the Japanese government has identified oligopolistic mineral markets and rising resource nationalism as two major contributors to record high resource prices (METI 2008b).

Given the importance of promoting foreign investment to achieve resource security, and the difficulties that nationalistic supplier policies pose for resource investors, resource-related FTAs can assist with efforts to control resource prices if they improve the regulatory environment for consumer firms. In fact, an analysis of the goals prioritised by the Northeast Asian governments reveals that resource-related FTAs have sought to improve their resource security in three ways - through either the liberalisation of trade regimes, the extension of investment commitments, and/or broader diplomatic gains with the targeted supplier. However, when the outcomes delivered in their resulting agreements are considered, it becomes apparent that it is only in the domain of diplomatic gains that success has so far been achieved.

First, an FTA can improve a consumer's resource security if a supplier makes concessions to their trade policy regime. Unlike the exchange of tariff offers typical for manufactured goods, resource trade commitments are an asymmetrically concession made by the exporting party (as a consumer could unilaterally cut import tariffs if desired). As WTO rules on export restrictions are comparatively weak in resource sectors [5], a central focus would be on FTA clauses that commit the supplier to not apply resource export restrictions to the customer, or at a minimum limit the circumstances under which such restrictions could be used. Such trade policy provisions would improve the consumer's resource security by reducing the risk of supply limitations (and their effects on prices) associated with export controls - though as an asymmetric commitment by the supplier would likely necessitate some form of 'side payment' concessions by the consumer elsewhere in the FTA. Whether such provisions are liberalising or preferential in nature depends on the form of implementation. By building upon existing multilateral trade rules, limitations on quantitative trade restrictions are of a WTO-Plus type; and if extended on an MFN basis could be considered liberalising. However, if only offered to certain FTA partners such concessions would necessarily be preferential in nature.

Obtaining resource trade policy concessions from suppliers has indeed been a focus of the three Northeast Asian governments' resource-related FTAs, typically included within negotiations for resource clauses. However, the record in delivering such concessions has been extremely poor. Consumer attempts limit suppliers' application of export controls have largely failed - with none of the negotiated resource clauses involving such a commitment, and most going only as far as to promise non-binding policy cooperation over trade measures in the future. Moreover, the two FTAs that explicitly mention export controls (Japan-Indonesia and Japan-Brunei) only promise 'consultation' on quantitative trade measures, and reserve the exporters' right to apply them as they see fit [6]; which does little to advance upon current WTO disciplines. Supplier reluctance to make trade policy concessions likely reflects the major economic significance of the resource sectors in these governments' economies, and local preferences to maintain some degree of policy control over them. For example, the minerals sectors accounted for 57% of Chilean and 61% of Peruvian exports in 2009; while both the Indonesian and Brunei governments are heavily reliant on exports by state-owned oil and gas enterprises for government revenues (USGS 2009). Thus, as regional resource suppliers have so far proven universally unwilling to engage in resource trade

policy reforms in their FTAs with Northeast Asian governments, little substantive improvement to the consumer's resource security has occurred.

Second, an FTA can improve a consumer's resource security if it involves a supplier making commitments that promote or protect resource investments from the consumer's firms. Such concessions could take a variety of forms. Investment promotion could be achieved by establishing inter-governmental programs to promote bilateral investment; and FDI regimes may be reformed through supplier commitments to extend legal protections (such as MFN status, national treatment status and/or the prohibition of performance requirements) to investors from the partner country. Such investment commitments can assist a consumer's resource security by granting its firms preferential treatment in the supplier's market, and some degree of protection against nationalistic foreign investment restrictions. They can also augment the broader resource security strategies of a consumer country - particularly foreign investment promotion policies, which are assisted by FTAs that reduce regulatory barriers to investments in key supplier markets. As their gains are asymmetrically distributed towards the consumer, investment provisions can also be thought of as a supplier side payment made in exchange for consumer concessions elsewhere in the FTA. Like trade policy commitments, the nature of investment provisions may also be either liberalising or preferential - depending on whether they are implemented on an MFN basis or discretionarily to only certain FTA partners.

Securing preferential investment concessions has also been a priority for Northeast Asian governments' resource-related FTAs, but the record in delivering investment concessions has at best been mixed. The typical model for resource clauses has focussed on investment promotion, including commitments for technical and policy cooperation alongside some form of inter-governmental investment promotion efforts. In this regard the Japan-Indonesia FTA has gone the furthest, including provisions for risk sharing mechanisms between the two governments to promote bilateral investment flows (MOFA 2007b: Annex 12).

However, rarely have FTAs involved a supplier granting meaningful investment protections to its partner. Though most of the resource-related FTAs have included investment protection clauses, key resource sectors have typically been excepted from these rules. All but one [7] of the supplier states have reserved their resource sectors from both national treatment and performance requirements protections, limiting their investment commitments to the extension of MFN status only. While MFN status ensures that resource investors will be treated at least as favourably as those from other states, it does little to protect them against onerous resource nationalist policies from host governments. Supplier reluctance to make investment policy concessions to consumer governments is likely due to buoyant levels of international resource investment flows, which doubled in the second half of the decade and meant there was little need for governments to actively pursue foreign investment. However, for some key suppliers it also reflects preferences for state ownership - particularly in Indonesia, Brunei and India whose resource sectors are all dominated by state-owned producers (USGS 2009). Given that supplier governments have been unwilling to extend preferential investment concessions to resource consumers in FTA negotiations, this has limited their results to only 'weak' MFN liberalisation and nonbinding agreements for future cooperation on resource issues.

Third, FTAs can also improve consumer supply security in a third dimension - achieving diplomatic gains in their relationships with supplier states. Even if FTAs lack binding policy commitments, at a minimum they can still augment a consumer's resource security by improving information, building trust between the parties, and lessening the prospects of a supplier

engaging in adverse policy decisions. A variety of devices to achieve these goals could be included, such as institutionalised policy dialogues, joint investment promotion efforts, and/or diplomatic commitments for parties to work together to achieve common resource policy goals. While strictly non-economic (as they involve no concrete policy changes), such devices can nonetheless serve as important exercises in political signalling – with suppliers indicating their intention to be reliable partners, and consumers reassured regarding their suppliers’ policy intentions. In this regard, FTAs can be an important complement to a consumer’s resource diplomacy initiatives, and may act as a formal device in which broader patterns of resource cooperation (negotiated as a result of these diplomacy programs) can be codified. In comparison to trade and investment concessions, diplomatic agreements also carry the advantage of being low- to no-cost for both parties, making their achievement comparatively easier than for the more binding provisions.

Indeed, it is in this diplomatic dimension that the resource-related FTAs in the region have performed best. All seven FTAs including resource clauses have committed the parties to future consultation and cooperation over resource and energy policy; and by deepening broader patterns of economic cooperation even the four that do not can still be argued to have carried similar trust building effects. All resource-related FTAs have also formally institutionalised bilateral resource policy dialogues between relevant government agencies, and five have included agreements to promote bilateral investment in resource projects. Of all the initiatives the 2011 Japan-India agreement has gone the furthest in committing the parties to resource cooperation – including agreements for inter-governmental energy studies, the promotion of joint-ventures between Japanese and Indian firms, as well as inter-governmental “*cooperation and coordination in international fora related to energy*” (MOFA 2011b: Article 3).

Given that the resource diplomacy programs of the three Northeast Asian governments have aggressively targeted many of their selected FTA partners [8], these FTA-embedded diplomatic commitments should be attributed in part to their broader diplomatic efforts with key suppliers. Indeed, they reflect the use of FTAs as a formal device to ‘codify’ negotiated patterns of policy cooperation between consumers and suppliers emanating, at least in part, from wider diplomatic efforts. However, while suppliers have proven more willing to enter into diplomatic commitments than make trade or investment concessions due to their comparatively lower costs, they are evidently second-best outcomes for the resource consumers. As ‘agreements to discuss later’ they deliver no immediate benefits, and the lack of concrete commitments means their effects are at most symbolic and aspirational. But notwithstanding their limited practical utility, such diplomatic commitments nonetheless can lessen risks of suppliers undertaking policies adverse to the resource security of the Northeast Asian economies, and in cases where policy dialogue is institutionalised may increase the likelihood of bilateral cooperation in the future.

THE IMPACT AND IMPLICATIONS OF RESOURCE-MOTIVATED FTAs IN THE REGION

On the basis of this review, it is possible to assess the degree to which current resource-related FTAs of Northeast Asian governments have achieved their intended goal of improving resource supply security. Firstly, it is clear what has not been achieved. Despite an increasing prioritisation of resource suppliers in national FTA strategies, and the completion of several agreements including resource clauses, none of the three governments have obtained concrete commitments from suppliers that meaningfully improve their resource security. Supplier governments have proven universally unwilling to make binding resource policy commitments – refusing to liberalise trade regulations, excluding resource sectors from broader investment commitments,

and agreeing only to the aspiration goal of future cooperation on resource and energy policy regimes. The only concrete outcomes have been: (a) the extension of MFN investment protections to consumer firms; and (b) five inter-governmental agreements to jointly promote bilateral investment. However, MFN investment status does little to protect investors from nationalistic host FDI policies; and as investment promotion programs lack binding provisions they do little to directly improve consumers' supply security. As a consequence, practically no 'freeing' of trade or investment in resource industries has resulted, either in the form of meaningful liberalisation or the preferential extension of bilateral concessions between FTA partners. Despite a stated intention to use FTAs to improve resource security, in terms of producing concrete outcomes the Japanese, Korean and Chinese initiatives have all proven ineffective thus far.

The resource security motivated FTA programs have instead been limited to diplomatic achievements – obtaining agreement with supplier governments for future cooperation on resource issues, and institutionalising inter-governmental policy dialogues. However, while serving important political signalling functions, the benefit of such cost-free commitments is debatable. Lacking binding provisions, these aspirational statements do not improve the consumer's immediate resource security, and while they may lessen the risk of adverse supplier policy changes in the future do not reliably rule them out. Whether institutionalising dialogue on resource policies as part of an FTA will subsequently lead to meaningful agreements can also be questioned. Past inter-governmental efforts at producer-consumer dialogue in both the International Energy Agency (Van de Graaf & Lesage 2009) and APEC (Ryan 2005) have failed to advance beyond information sharing; and bilateral dialogues fundamentally fail to address the complex and inherently multilateral nature of resource and energy interdependence (Selivanova 2010). Moreover, and as Mitchell (2005) notes, the major shortcoming of producer-consumer policy dialogues is that while they can address the first element of resource insecurity (policy-induced physical interruptions in supply), they fail to directly address the second – price rises – which is itself the root problem currently facing Northeast Asian consumers. It can therefore be concluded that by being limited to aspirational but non-substantive supplier commitments, the resource-related FTAs in the Asia-Pacific region have yet to decisively improve the resource security of their Northeast Asian initiators.

Additionally, there is also little reason to expect that the resource-related FTAs currently under negotiation will improve upon the record of those completed. The six proposals yet to move to negotiation have been languishing in the 'study' stage for between four and eight years, a long delay which augurs poorly for the parties' commitment to the proposals. Nor do ongoing negotiations with the two suppliers targeted by all three governments – Australia and the GCC – show prospects of improving upon the past record. The GCC states heavily restrict private (let alone foreign) investment in their oil and gas sectors (OECD 2011); and given their major economic importance the grouping is unlikely to compromise its resource FDI regimes in the future. Similarly, the Australian government has recently tightened its screening of mining FDI in order to prevent strategic and non-market behaviour by foreign investors (Wilson 2011); and formally refused China's request for preferential concessions to its FDI regime during FTA negotiations in 2008 (Callick 2008). Though Australia has given in-principle agreement to including resources clauses with Japan and Korea, it has insisted that such clauses not interfere with "*market mechanisms*" (DFAT 2007), which seemingly rules out the extension of preferential investment commitments. The fact that Japan has also proposed using its weak clause with Brunei as the basis for the Australian deal (Mulgan 2008: 38) indicates that the prospects these FTAs will go beyond the minimal template established so far are poor. Thus, it is likely that such future

initiatives will deliver more of the same – aspirational commitments for producer-consumer cooperation, but little in the way of substantive provisions or concrete policy reforms.

CONCLUSION

The analysis presented in this paper has demonstrated that resource security has become a new and additional motive for FTA initiatives in the Asia-Pacific region since the middle of the 2000s. Owing to emerging difficulties associated with rapid resource price increases, the governments of Japan, Korea and China have each reoriented their FTA strategies to target major suppliers, with the intention of obtaining commitments in trade, investment and diplomatic domains to improve their security of supply. The number of resource-related FTA initiatives in the region has steadily grown, and resulted in a number of agreements containing resource clauses dedicated to this issue. However, while such agreements have contained a mix of trade liberalisation, investment protection and diplomatic motives on the part of the consumer, supplier reluctance to enter into binding policy commitments has meant they have been limited to diplomatic achievements only. Additionally, the major initiatives (with Australia and the GCC) still under negotiation are unlikely to go beyond such non-binding diplomatic commitments. This lack of more concrete measures demonstrates that resource-related FTA initiatives in the region have thus far failed substantively improve the resource security of Northeast Asian consumers, and are unlikely to do so in the future.

ENDNOTES

[1] A recent trend in scholarly literature has been to refer to these instruments as ‘preferential trade agreements’ due to the fact they involve the swapping of trade preferences between participants (see Bhagwati 2008; Manger 2009; Ravenhill 2008). However, this paper uses ‘free trade agreement’ as this is the term that participating governments typically use to describe them. Both terms reflect the same type of agreement.

[2] For the purpose of these statistics, the Asia-Pacific is defined as Northeast Asia (China, Japan, Republic of Korea, Hong Kong and Chinese Taipei); Southeast Asia (the ASEAN 10); and the Pacific (Australia, New Zealand and fourteen small Pacific states).

[3] Adapted from the definition of energy security provided by the United Nations Development Program’s *World Energy Assessment* (see UNDP 2000: 112).

[4] Between 2002 and 2010, Chinese firms undertook some AUD 27 billion of investment in the Australian iron ore and coking coal sectors alone (Wilson 2011: 291).

[5] While GATT Article XI formally prohibits quantitative restrictions on all forms of exports, several broad exceptions in Article XX covering natural resources limit the effectiveness of this rule – particularly provisions allowing export restrictions for conservation measures, to ensure resources are available for domestic processing industries, and to address conditions of ‘general or local short supply’.

[6] As per Article 91 of the Japan-Brunei FTA and Article 100 of the Japan-Indonesia FTA (see MOFA 2007a, 2007b).

[7] The only supplier to fully include resource sectors in investment protections has been Peru, in its FTAs with all three Northeast Asian consumers. However, given Peru’s extremely liberal resource FDI regime (see Department of State (US) 2011), it is questionable as to whether these commitments meaningfully advanced consumer country firms’ investment security beyond pre-existing levels.

[8] Of Korea's nine resource-related FTA partners, all but one (India) have also been targeted under its resources diplomacy program. Japan has similarly directed its resource diplomacy program at several countries with which it has pursued resource-related FTAs (Peru, the GCC, Indonesia and Australia). Author's compilation, from (MOFAT 2006, 2008, 2010; METI 2010a).

APPENDIX

Table 3 Resource-related FTA initiatives in the Asia-Pacific region, 1999-June 2011

| Partners | Negotiation | Signed | Current Status | Resource issue coverage* |
|-------------------|-------------|--------|-----------------------|---|
| Korea-Chile | Aug-99 | Feb-03 | In force | [1] Investment protections; Chile reserves NT and PR in energy and mining [2] Korean mineral tariff concessions |
| Japan-Philippines | Jan-04 | Sep-06 | In force | Investment protections; Philippines reserves NT for all mining and gas |
| China-Chile | May-04 | Nov-05 | In force | [1] Resource clause (technical and policy cooperation, investment promotion) [2] Chinese mineral tariff concessions |
| Japan-Indonesia | Jun-05 | Aug-07 | In force | [1] Investment protections; Indonesia reserves NT for oil and mining [2] Resource clause (investment risk sharing mechanisms, energy cooperation). Indonesian reservations for quantitative energy trade measures |
| Japan-Chile | Nov-05 | Mar-07 | In force | Investment protections; Chile reserves NT and PR for energy and minerals |
| Korea-India | Mar-06 | Aug-09 | In force | [1] Investment protections; India reserves NT and PR for all minerals [2] Korean mineral tariff concessions [3] Resource clause (joint cooperation in oil, energy and mineral projects) |
| Japan-Brunei | Jun-06 | Jun-07 | In force | [1] Investment protections; Brunei reserves MFN and NT for oil and gas. [2] Resource clause (consultation on trade measures, cooperation in general). Brunei reservations for quantitative resource trade measures |
| Japan-India | Jan-07 | Feb-11 | Awaiting ratification | [1] Investment protections; India reserves all protections in energy and mining [2] Resource clause (technical cooperation, investment promotion, cooperation in international energy fora) |
| China-Peru | Aug-07 | Apr-09 | In force | [1] Investment protections. No Peruvian resource reservations [2] Resource clause (technical and policy cooperation, investment promotion) [3] Chinese mineral tariff concessions |
| Japan-Peru | Mar-09 | Nov-10 | Awaiting ratification | Investment protections (subsuming a 2008 bilateral investment treaty). No Peruvian resource reservations |
| Korea-Peru | Mar-09 | Nov-10 | Ratified Jun-11 | [1] Investment protections. No Peruvian resource reservations [2] Resource clause (technical cooperation, investment promotion, joint resource committee) |
| China-SACU | Jun-04 | | Negotiation | Chinese priority for minerals and investment issues |
| China-GCC | Apr-05 | | Negotiation | Chinese priority for energy and investment issues |
| China-Australia | May-05 | | Negotiation | Chinese request for resource and investment clauses |
| Korea-Canada | Jul-05 | | Negotiation | Korean priority for natural resources |
| Japan-GCC | Sep-06 | | Negotiation | Japanese priority for energy and investment issues |

| | | | |
|-----------------|---------------|-------------|---|
| Japan-Australia | Apr-07 | Negotiation | [1] Japanese priority for resources and investment issues [2] Agreement to include resource clause |
| Korea-Australia | Oct-08 | Negotiation | [1] Korean priority for resources and investment issues [2] Agreement to include resource clause |
| Korea-GCC | Mar-09 | Negotiation | Korean priority for energy supply security |
| China-Norway | May-09 | Negotiation | Chinese priority for minerals, oil exploration and investment |
| China-India | Proposed 2003 | Study | Both sides prioritise mining, energy and investment |
| China-SCO | Proposed 2003 | Study | Shanghai Cooperation Organisation focus on energy |
| Korea-Mercosur | Proposed 2004 | Study | Korean priority for oil, petrochemicals and minerals |
| Japan-Canada | Proposed 2005 | Study | Japanese priority to 'secure access to natural resources' |
| Korea-SACU | Proposed 2005 | Study | Korean priority for oil and gas investment |
| Korea-Russia | Proposed 2007 | Study | Russia a target of Korean 'energy diplomacy' initiatives |

Source: Author's compilation, from (ADB 2011; DFAT 2011a, 2011b, 2011c; MOFCOM 2011; METI 2011; MOFA 2011a; MOFAT 2010; MOFAT 2011; WTO 2011)

* **Note:** General investment clauses all include *most-favoured-nation* (MFN), *national treatment* (NT) and *performance requirements* (PR) protections; except the China-Peru FTA that lacks PR protections.

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