Australia’s Engagement with Asia

Edited by Justin Healey
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Australia’s Engagement with Asia is Volume 350 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC
The pace and scale of Asia’s rise during the ‘Asian Century’ has been nothing short of staggering. Asia is on course to become the world’s largest economic region before the end of this decade, presenting Australia with a range of opportunities and challenges.

This book aims to develop a better understanding of the economic, political and cultural interconnections that Australia has with its Asian neighbours. Trade and investment, education, language capability, defence and strategic policy are all key concerns in relation to Australia’s engagement with Asia. Improved Asia literacy is particularly important for young Australians who will need to develop skills to communicate and engage with the peoples of Asia in order to effectively live, work and learn in the region.

What are the implications of the Asian Century for Australia’s economic, social, political and strategic environments? Is Australia ready for the Asian Century?

SOURCES OF INFORMATION
Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:
➤ Newspaper reports and opinion pieces
➤ Website fact sheets
➤ Magazine and journal articles
➤ Statistics and surveys
➤ Government reports
➤ Literature from special interest groups

CRITICAL EVALUATION
As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES
The ‘Exploring issues’ section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH
This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The ‘Web links’ section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
Chapter 1

Australia in the Asian Century

Is Australia ready for the ‘Asian Century’?

Professor Tony Milner of the Australian National University examines whether the nation is prepared for the Asian Century

THE CONVERSATION

The father of the Singaporean economic miracle Lee Kuan Yew is reported to have predicted in the 1980s that Australia was destined to become “the poor white trash of Asia”.

Most Australians would feel today that he got that wrong, but there can be no argument about Lee’s success in transforming his small island into one of the world’s trading superpowers.

Singapore seems well positioned to thrive in what many observers predict will be the ‘Asian Century’, the previous century having belonged to America.

What will this ‘Asian Century’ look like? How well prepared are we to navigate it? What place might Australia get at the table?

The Gillard Government has launched a White Paper into this very issue. The intent is worthy, the result unknown. (Editor’s note: the White Paper was released after the time of writing, key details on pages 3–7)

Given Australia’s ‘Western’ heritage – an island at that, in the Asia Pacific – there is no guarantee we will get this vital policy review right.

Asia is not the Asia-Pacific

An ‘Asian Century’ is more challenging for Australians than an ‘Asia-Pacific century’ – and it is also more likely. The economic figures for Chinese and Indian growth are cited time and again – though the continued economic power of Japan is often overlooked.

As former British Prime Minister Gordon Brown puts it, “the West is now being out-produced, out-manufactured, out-traded, and out-invested”, and leading international companies admit that “the majority of their growth will come from Asia”.

The United States, of course, remains a major military and economic power, but in seminars and elsewhere in the Asian region its relative decline is often discussed.

It is no longer the major export destination for most Asian countries; Secretary of State Clinton now asks whether the debt crisis might damage America’s continued capacity to project power in the Asia Pacific; newspapers across Asia report United States Vice President Joe Biden assuring Beijing that America will meet its debt obligations. This is not the United States of a decade ago.

In the 2009 Australian Defence White Paper the Australian government was already contemplating a less United States-dependent future.

Australia, it explained, has been a “very secure country for many decades” largely because peace and stability have been “underwritten by US strategic primacy”.

That order “is being transformed as economic changes start to bring about changes in the distribution of strategic power” and “risks resulting..."
from escalating strategic competition might emerge quite unpredictably”.

The Prime Minister’s recent lecture is more upbeat – noting that we are geographically closer than our competitors “to the fastest growing and most economically dynamic region of the world” and concentrating on the opportunities to service the massive new Asian middle class.

She explained her review would “ask and answer ... great national questions”, however, she also stressed that the extraordinary Asian growth “will change the social and economic, strategic and environmental order of our world”.

What might an Asian Century entail?

The Asian Century will mean more than a mere rebalancing of power between the United States and China: the China-Japan contest could turn out to be more important in shaping Asia’s strategic future, and there is the China-India relationship as well.

The stronger Indonesia, which we are already beginning to see, will also want greater influence in the wider Asian region, and not merely Association of Southeast Asian Nations (ASEAN).

Exactly how regional architecture develops will depend on the unfolding of these inter-state dynamics, but we can be fairly certain that an ‘Asian Century’ will not mean the strengthening of ‘Asia-Pacific’ institutions.

Asia-Pacific Economic Cooperation (APEC) lost prestige in the 1997 Asian economic crisis, and the following years saw the growth of the Asia-exclusive ASEAN + 3 process, which brings together the ten ASEAN countries with China, Japan and South Korea.

The East Asia Summit (EAS), which commenced in 2005, is a further ‘Asian’ initiative – and Australia’s Coalition government deserves credit for taking Australia into this meeting (at a time when the United States was not a member) instead of merely defending APEC’s credentials.

What we do not know today is whether United States membership (beginning this year) will lift the importance of the EAS or lead to an even greater role for the all-Asian ASEAN + 3.

Assuming that even within the EAS the ‘Asian Century’ will entail a reduced United States influence, Australian diplomacy will need to build coalitions with one group or another of Asian states.

How we engage

The phrase “engaging with Asia” – used so often in the past, especially by those concerned that Australian governments were too narrowly focused on the United States – is now redundant. The issue is where and how we engage more closely.

This will be a challenge for government – but also for an Australian community which still tends not to think beyond the United States alliance when contemplating Australia’s international positioning.

If we are not to be a “lonely country” – and this would be an uncomfortable fate – Australians will also need to be prudent in handling our neighbours.

Abusing Malaysia, for instance, does not help to promote the type of regional cooperation we need to handle refugee flows.

The ‘Asian Century’ invokes more than a shift in strategic and economic power. Will English remain the dominant language of inter-state conversation? Will the democracy and ‘human rights’ discourse lose legitimacy when not endorsed by United States dominance?

International relations analysts have already begun to wonder whether the regional order in Asia could be increasingly shaped by older, Asian hierarchical models rather than traditional national sovereignty.

Business culture is another area that may demand adjustment – not, as some fear, by a retreat into amorality but perhaps by a greater willingness to take account of Asian viewpoints.

If we are to seek more investment opportunities in Asia – and so far Australians have focused on trade, which is less demanding – there will be a need for sociological as well as economic knowledge.

Change without change

The ‘Asian Century’ does not call for a reinvention of the Australian community – we would be wrong to fear an assault on our national values and institutions.

But it is necessary to assess our national skill-set and our mental preparation. What we have now is an Australian community in which almost no one learns an Asian language, and the study of Asian societies and histories is virtually ignored in our schools. This cannot be a good basis for the task ahead.

Anthony Milner is Basham Professor of Asian History, School of Culture, History and Language at the Australian National University.

The White Paper lays out an ambitious plan to ensure Australia will emerge stronger over the decades ahead, by taking advantage of the opportunities offered by the Asian Century. In this century, the region in which we live will become home to most of the world’s middle class and will be the world’s largest producer of goods and services, and the largest consumer of them.

The scale and pace of Asia’s rise is staggering, and there are significant opportunities and challenges for all Australians. It is not enough to rely on luck – our future will be determined by the choices we make and how we engage with the region we live in. We must build on our strengths and take active steps to shape our future.

The White Paper sets out a number of targets for our country over the next 13 years to 2025 to ensure Australia can fulfil its ambitions and compete effectively within Asia, including:

- By 2025, Australia’s GDP per person will be in the world’s top 10, up from 13th in 2011, requiring a lift in our productivity
- This will mean Australia’s average real national income will be about $73,000 per person in 2025 compared with about $62,000 in 2012
- By 2025, our school system will be in the top five in the world, and 10 of our universities in the world’s top 100
- Globally we will be ranked in the top 5 countries for ease of doing business and our innovation system will be in the world’s top 10
- Studies of Asia will be a core part of the Australian school curriculum
- All students will have continuous access to a priority Asian language – Chinese (Mandarin), Hindi, Indonesian and Japanese
- Our leaders will be more Asia literate, with one-third of board members of Australia’s top 200 publicly listed companies and Commonwealth bodies having deep experience in and knowledge of Asia
- Our economy will be deeply integrated; our trade links with Asia will be at least one-third of GDP, up from one-quarter today
- Our diplomatic network will have a larger footprint across Asia supporting stronger, deeper and broader links with Asian nations.

The White Paper sets out a comprehensive agenda for making the most of the opportunities ahead. It considers how Australia will successfully navigate the years ahead across five areas: strengthening our economy; building our capabilities; connecting to growing markets; ensuring sustainable security; and nurturing deeper and broader relationships. It sets out what actions can be taken by governments, and also calls on businesses and communities to play their part in shaping our future. By 2025, this means real change for Australians. Children in kindergarten now will graduate from high school with a sound working knowledge of Asia because, throughout their schooling, the curriculum will have included studies relevant to Asia and access to a priority Asian language.

Work and holiday agreements between Australia and its neighbours in Asia will mean more opportunity for work and study in the region and to take up professional opportunities as they emerge. The financial markets will be better integrated and capital will flow more easily across borders for investment, innovation and jobs growth. Global and regional value chains will be broader and deeper across the region – with opportunities for both small and large businesses. Explosion in demand for high-quality agricultural products will mean opportunities for our farmers and regional Australia.

More tourists from nations in Asia will choose Australia as a holiday destination and more students from the region will study here in more advanced universities. The National Broadband Network will reach across Australia giving access to the furthest corners of the region. Australia will have more comprehensive diplomatic ties with key regional nations – China, India, Indonesia, Japan and South Korea – and will have expanded them with many others, from Mongolia to Vietnam and beyond.

Australia comes to these challenges with firm foundations: a strong economy, a track record of engagement in the region, and the person-to-person connections many Australians already have with people in Asian countries. The White Paper calls on all of us to play our part in becoming a more Asia-literate and Asia-capable nation.

The Australian Government will play its part in leading our nation to this vision of the future during a time of enormous change. Like past Labor governments, we will manage and shape change with the aim of providing better opportunities for all. To support the implementation of this ambitious plan for the future, Craig Emerson, Minister for Trade and Competitiveness, will take on the responsibility for assisting the Prime Minister to deliver on the objectives of the White Paper. His new responsibilities, as Minister Assisting the Prime Minister for Asian Century Policy, will complement his existing portfolio responsibilities. Prime Minister Gillard thanked each of the White Paper Task Force and Advisory Panel members, and those organisations and individuals who contributed to the White Paper consultation process, both in Australia and overseas, as she asked for the broader community to consider their part in shaping a shared future.
The Asian Century – an Australian opportunity

With Asia set to become the world’s largest economic region before the end of this decade, the Asian Century offers our nation immense opportunities, according to this statement from Treasurer Wayne Swan.

While the shape of the Asian Century is not set in stone, the structural shift of global economic gravity towards our region mean the scale and pace of Asia’s rise in the coming decades will be truly transformative. Within only a few years, the Asian region will not only be the world’s largest production zone, it will be the world’s largest consumption zone. Asia will not only remain home to the majority of the world’s population, but will be home to the majority of the world’s middle class.

According to Treasury modelling prepared for the Australia in the Asian Century White Paper:
- By the end of this decade, Asia is set to overtake the economic output of Europe and North America combined to become the world’s largest economic power.
- By early next decade, the combined output of China and India is expected to exceed that of the whole Group of Seven (G7).
- Average GDP per person in Asia is set to almost double by 2025 – a feat that took the United Kingdom over 50 years to achieve during the Industrial Revolution.
- By 2025, four of the ten largest economies in the world are expected to be in the Asian region, and Asia is likely to account for almost half of the world’s economic output.
- Between now and 2025, China and India are expected to make the largest contributions to global and regional economic growth relative to any other national economy. Indonesia, Malaysia and other countries in Southeast Asia will also grow rapidly and make major contributions to regional growth.
- Productivity gains are expected to underpin rapid growth in Asia into the next decade, notwithstanding short-term volatility in the global economy.
- There is significant potential for continued labour productivity growth, with output per person in China only 20 per cent of that in the United States, while India and Indonesia have barely reached 10 per cent.
- Even under a slow growth scenario – assuming that productivity gains are 50 per cent less than anticipated – Asia will still be the fastest growing region in the world, with four of the ten largest economies in the world still projected to be in Asia by 2025.

The fundamental message of the White Paper is that the Asian Century will offer enormous opportunities for Australia across all sectors of our economy – including resources, services, agriculture and manufacturing.

We have already seen Asia’s demand for raw materials create an extraordinary boom in minerals and energy investment, and Asia’s ongoing industrialisation and urbanisation will continue to drive robust demand for a wide range of mineral resources. We can be confident that Australian resources investment will remain at high levels over the medium term and will continue to lift resource production and exports.

Asia’s transformation will bring unprecedented opportunities for Australia beyond resources, with Asia’s middle class anticipated to increase by more than 2.5 billion people by 2030 and account for around 60 per cent of global middle-class consumption.

This means countries in Asia will demand a diverse range of goods and services, from health and aged care to education to household goods and tourism, as well as high-quality food products. Australia is in the prime position to meet this burgeoning demand and take advantage of the enormous opportunities unfolding right on our very doorstep.

A key theme of the White Paper is that one of Australia’s great strengths is our people – we have a highly-skilled, adaptable and creative population with deepening connections with the region and demonstrated capability in innovation and complex problem-solving.

We also have an open, flexible and resilient economy – by any measure one of the strongest in the world – with world-class institutions and a high level of productivity.

Our economy has been built on the back of hard work, good decisions and an appetite for forward-thinking reforms. To make the most of the abundant future opportunities we need to keep up with the rapid changes in our region – we cannot assume that we will benefit from location alone.

This means building resilience and lifting productivity growth, finding new ways to operate in and connect with growing Asian markets, building sustainable security and forging deeper and broader relationships in our region.

Critically, we must continue investing in our most valuable resource – our people – to ensure that all Australians can participate in and benefit from the Asian Century.

This will require a concerted and coordinated effort by governments, business and the broader community over many years, and is a challenge that our entire nation must prepare for.
Ken Henry’s team has provided a detailed and useful blueprint for future action in the *Australia in the Asian Century White Paper*. But the government will need to ramp up its domestic efforts to improve scientific and cultural literacy, as well as its engagement with China and Indonesia if Australia is to maximise its competitiveness in Asia.

The White Paper sets five tasks: maintaining a productive and resilient Australian economy; building capabilities; operating in growing Asian markets; building sustainable security; and achieving deeper and broader relationships in Asia.

In all these areas, big asks are made of business, NGOs and the Australian people while pledging strong government action and support. This is reasonable. The Australian people as well as their government must commit the resources needed for Australia to fully embrace the benefits of its Asian neighbourhood.

But the government needs to improve its own performance in some domestic and international areas to grasp the opportunities highlighted and provide a model of leadership in the Asian Century.

**Educational challenges**

On the domestic front, the White Paper’s authors lament the recent decline in Australian high schoolers’ reading and mathematics performance relative to Asian countries, and the decades-long erosion of Asian language studies. They call for Australia to be ranked as a top-five country in the world for reading, science and mathematics literacy by 2025, and for all Australian students to be encouraged study an Asian language throughout their schooling.

All well and good.

But mapped against what the Chief Scientist has warned is a growing “anti-science culture and the avoidance of science and maths courses by Year 11 and 12 students, it is clear that government and educational leaders have their work cut out for them.

It is not encouraging that the new secondary school physics curriculum being considered earlier in the year was criticised for containing too much “sociology of physics” and not enough equations. The government’s lukewarm response to the educational funding recommendations of the Gonski Review are of further concern.

The commitment to use new school funding arrangements to ensure access to Asian languages is sensible. As is the call for schools, universities, business and the community to encourage Asian language study. But, as with science study, spruiking demand is a vexed issue, and achieving the needed mindset change among young Australians may prove a challenge to the imagination and persuasive ability of the private and public sector alike.

**Talking to Asia**

On the foreign front, the white paper sets an initial priority for developing strategies with China, India, Indonesia, Japan, and South Korea as well as maintaining strong alliance ties with the United States. It envisages official and non-official dialogue with partner countries, and specifically supports “China’s participation in the region’s strategic, political and economic development”.

All this is sensible, and Australia has good ties with its neighbours, but these ties need to be energised. Given the recent controversies over policies towards Beijing and Washington, it would useful for Canberra to take up the recommendation by Linda Jakobson of the Lowy Institute and pursue an annual strategic and economic dialogue with Beijing. Such a dialogue would be a valuable forum to convey Australia’s perspectives on its US alliance and other strategic intents, while better discerning China’s own concerns and intentions.

The government also needs to take the initiative in its relations with Indonesia. President Yudhoyono terms Australia a “close friend”, and tensions arising from the abrupt cut-off of cattle exports early this year have eased. But Yudhoyono departs office in 2014, and Indonesia’s commendable decentralisation and economic growth have been accompanied by the decentralisation of corruption and a trend toward economic nationalism. Before too much longer, Indonesia’s economy will be larger than Australia’s – and future leaders in Jakarta may be less amenable to Australian interests if no initiative is taken in the near term.

The Commonwealth government should jump-start its engagement with private sector organisations with knowledge of Indonesian trade and governance issues, stimulate “second-track” dialogue with Indonesian counterparts on these issues, and organise a long overdue state visit by the prime minister to Jakarta. This should be done well in advance of Yudhoyono’s retirement.

The white paper is a valuable and timely document that will stimulate debate about the dynamic, growing, and crucial region to our north. But to keep faith with its intention to make the most of the Asian Century, the government needs to commit the financial, intellectual, and human resources needed to take a leading role.
In the Asian Century, there’s no such thing as success without sacrifice

James Laurenceson, Senior Lecturer at the School of Economics at the University of Queensland, reveals his concerns over the federal government’s White Paper

By 2025, Asia will account for nearly half of world output. Even under conservative growth scenarios, three out of the world’s five largest economies will be in Asia.

By the same year, income per person in Australia will be in the world’s top 10, up 18% from its current level.

It will be Asia’s economic rise that will underpin Australia’s prosperity.

Such are the bright economic possibilities painted by the federal government’s white paper on *Australia in the Asian Century*.

The White Paper is the natural successor to Ross Garnaut’s *Australia and the North East Asian Ascendancy*, a report commissioned by the Federal Government in the late 1980s. Both are couched in the same terms: Asia’s economic rise is a great opportunity for Australia, but there is no inevitability about Australian success.

This time around, the White Paper emphasises that Asia should no longer be viewed primarily as a source of cheap labour. Rather, what should capture our economic imagination is that it will be home to most of the world’s urban middle class. This group will not only demand our natural resources, but also high value-added manufactured goods, and services such as education and tourism to name but a few.

By 2025, even under conservative growth scenarios, three out of the world’s five largest economies will be in Asia.

There is much to like about the White Paper.

It focuses on the right part of the world over the right time horizon. Rather than agonising over whether Greece will default, or what China’s growth rate next quarter will be, it focuses on long-term trends about which we can be more confident, and which ultimately are far more important for our national wellbeing.

Nonetheless, after having perused the document, I had three nagging concerns.

First, in introducing the white paper, the Prime Minister made much of the fact that Australia was embarking on the Asian Century from a position of strength. Unfortunately, such optimism sometimes borders on delusion; we would be better served by a greater sense of urgency.

Our trade links with Asia were trumpeted. Indeed, the white paper undertook to further strengthen these links to account for at least one-third of GDP by 2025, up from the present level of one-quarter. But what about our investment linkages, which are so vibrant with respect to the US and Europe, but which lag so badly with respect to Asia? There was nothing close to even an aspirational numerical target for investment.

The White Paper merely observed that “investment links between Australia and the region are low relative to our trade relationship” and contended that “two-way investment links with our region should continue to grow over time”. Can we really simply assume that one day they will catch up?

Asia’s economic rise is not a new phenomenon. Yet according to ABS data, over the past decade the five key countries identified in the white paper – China, India, Indonesia, Japan and Korea – only accounted for 9.6% of the increase in the foreign capital stock in Australia. If Japan is taken out of the calculation, then the number falls to just 3.3%. These figures are alarming and certainly do not constitute starting from a position of strength.

Second, in my view, the White Paper tended to underestimate the challenges that many Australian
businesses will face in the Asian Century. It was emphasised that businesses must adapt to the demands of Asia’s emerging middle class and position themselves in the global value chain at the high end. Productivity growth would be fundamental.

This is good generic advice. But even the most productive of Australian manufacturing businesses will struggle to achieve export success in a high exchange rate environment caused by the demand for our natural resources. Remember, unlike minerals production, Australia does not have a near-monopoly on high value-added manufacturing, nor education or tourism – far from it.

**Even the most productive of Australian manufacturing businesses will struggle to achieve export success in a high exchange rate environment.**

Yet since 2009, the real effective exchange rate in the US has fallen by 10%, while in Australia it has strengthened by 23%. That businesses outside the mining sector are struggling is plainly evident. In 2008-09, Australia’s exports of elaborately transformed manufactures – that is, manufactured goods that have a high value-added component – totalled $29.5 billion. By 2011-2012, this number had actually fallen to $28.1 billion. During this period, the structure of Australia’s economy and exports became more skewed towards mining, an industry whose output comes with a use-by date attached.

Third, in articulating the types of policies that will be needed to succeed in the Asian Century, the White Paper was mostly silent on what will need to be sacrificed. Nowhere was this more clearly seen than in the case of higher education. If higher value added production is to be the name of the game, then clearly that begins with investing in human capital. Consistent with this, several relevant numerical targets were set: by 2025 the proportion of 25 to 34-year-olds holding a qualification at the bachelor level or above will rise by 5 percentage points, the proportion of higher education enrolments from low socioeconomic backgrounds will rise by 3 percentage points, 10 of Australia’s universities will be in the world’s top 100, and so on. In other words, Australian universities will need to produce more teaching and research, and of a higher quality. Yet at the same time, the fiscal target is to achieve budget surpluses, on average, over the medium term. Something has to give.

The economic rise of Asia provides a worthy focus of government policy. Noting the opportunities it provides is the easy part. What comes now – seizing these opportunities and reaping the rewards – is much harder.

John Laurenceson is Senior Lecturer at the School of Economics, University of Queensland.
In the twenty-first century, we can confidently predict two trends. First, Australia will become more ethnically diverse. And second, we will become more enmeshed with Asia. The next generation of Australians will be more likely to have been born in Asia, travelled to Asia, worked in Asia, or married someone from Asia.

That’s why the Asian Century White Paper, which the government has commissioned from former Treasury Secretary Ken Henry is so important. Rapid economic growth in China and India isn’t just drawing millions of people out of poverty – it’s also placing Australia closer than ever to the economic centre of gravity of the world economy. This isn’t just a mining story (Australia’s service exports to China exceed our coal exports), it’s a story that illuminates the evolution of our national character.

We believe that the Asian Century has five big implications for Australia.

First, we should focus on the opportunities, not the threats. Straightforward trade theory tells us that Australia will be most prosperous if we focus on our comparative advantage – the things we do better than other nations. This means that as the outputs of other countries change, it will invariably affect our comparative advantage.

Managing industrial transformation is an important challenge for our nation. It is also important that we maintain a bipartisan conversation about how structural change is vital if we are to continue increasing living standards. Every day, thousands of Australians lose their jobs, and thousands find a new job. No government can – or should – try to prevent every job loss. And no opposition should seek to block change by engaging in partisan politics over job churning.

We must acknowledge that Asia is our most significant export destination, and that eight of our top ten trading partners are already in the Asian region.

It is often said that Australia is ‘competing’ with Asia. But in our reflections on industrial change, we must acknowledge that Asia is our most significant export destination, and that eight of our top ten trading partners are already in the Asian region. Demands for services like education, tourism and technical expertise, and goods like high-quality agricultural produce, will only increase as the preferences of consumers adjust to their new middle-class status. The OECD projects that the proportion of the world’s middle class residing in Asia will increase from 28 per cent in 2009 to 66 per cent by 2030. The growth of the Asian middle class means a massive increase in consumption and spending on imported goods and services, the supply of which Australia is well placed to provide.

Second, we should revitalise the push for a Republic. As the only Anglo-Celtic country in the Asian region, we have an extraordinary opportunity to harness the rise of Asia. Yet there is a mentality that when we punch out at the end of our time working in or visiting China, we come safely home to the Anglosphere. For example, only 20 per cent of Australians currently working in China can speak Mandarin. Our political and cultural institutions reflect an attitude in which Australia is a dependant of the British crown. Despite the world’s economic centre of gravity shifting towards the Asia-Pacific, the notion still persists that Australia is located in the antipodes, far away from where the important decisions are made. We can no longer afford to think of ourselves as simply visitors to this region, when it is from this region that the future will be shaped. By becoming a Republic, we would be able to stand proudly independent of the United Kingdom, and announce to our neighbours our readiness to be involved in our region.

Third, we must improve the Asia literacy of all Australians. Increasing Australia’s skill base in Asian languages must be a strategic priority. Better language capacity is crucial to trade negotiations, and to picking...
up the opportunities offered by businesses across the region. Just as compelling are the social and cultural benefits of enabling people to communicate with people from other backgrounds. A strong command of language allows listeners to far better understand differences in culture; to understand not just what is said, but why. If we want Australia to have a place at the table in the Asian Century – to even understand the opportunities available – we will need to adjust our Asian language competence from a level suitable for backpackers to one that fits the boardroom.

While we agree that it would be a good thing for more Australians to speak Mandarin, Hindi or Vietnamese, it is also vital to take a hard-headed look at the reasons behind the low take-up of such languages. Such an analysis should take into account the basic economic principle that acquiring a language is not costless, and recognise that for our nation, Asian language study is an investment in a safer, affluent and more engaged nation.

Fourth, we should increase the Asia literacy of our politicians. At the federal level, we can be proud to have some parliamentarians of Asian descent, who speak Asian languages, and who have lived in Asia. But there is more work to be done to ensure that our politicians continue to look like the electorate. Too few members of parliament are absorbed in Asian art and literature, and too few travel regularly in our region. There are plenty of parliamentarians who follow every twist and turn of United States or United Kingdom politics, and but not enough who understand party politics in India and Malaysia.

Australia must focus its diplomatic and development capacity on encouraging Asian nations to harness their growth for the benefit of their own populations, the region and the world.

Fifth, we should engage our neighbours in trade, aid and diplomacy. As Hugh White’s provocative Quarterly Essay has illustrated, the rise of China creates significant challenges for Australia. We do not believe that Australia should resist from our deeply-held support for open markets and open societies. Allowing the Renminbi to rise to an appropriate level would be good for Chinese consumers, as it would increase their buying power and help to curtail domestic inflation. Encouraging China to deliver more of its foreign aid through multilateral institutions would help donor coordination and poverty reduction.

Similarly, while the Association of South-East Asian Nations (ASEAN) has built a strong and generally progressive community of nations, its policy of non-intervention in national affairs must not be used as an excuse for social reforms to languish. Australia must focus its diplomatic and development capacity on encouraging Asian nations to harness their growth for the benefit of their own populations, the region and the world.

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This article draws on the author’s submission to the Asian Century White Paper, and was originally published in The Canberra Times on 26 April 2012.


Our borders are porous, we are exposed to one another’s risk, and our trade, investment, economic and social development, political stability and regional security depend on mutual cooperation. Increasingly, the flashpoints in Australia’s Asian relationships, for example, are about who sets the rules and standards; who monitors them and how will they be enforced. Southern Ocean whaling by Japan, abattoirs in Indonesia, aviation industry standards in Vietnam, food safety in China, corruption in aid delivery in Afghanistan, and treatment of asylum seekers in Malaysia matter acutely to different constituencies in Australia.

In an information-saturated world they become media storms and then political liabilities. But governments are often stymied – these are not the kind of issues that you can legislate away or resolve quickly by reference to contract, bilateral trade agreement terms, or international adjudication. ‘Stop the boats’ is a great political sound bite, but a difficult promise to deliver when human trafficking is a regulatory whirlpool involving multiple public and private actors across so many countries in the region.

How should Australia respond to this kind of regulatory complexity in Asia?
We have a unique opportunity to help build Asia’s regulatory capacity. Australia’s experience of de- and re-regulation over the last 20 years saw it emerge as a world leader in the two dominant approaches to regulation: risk-based regulation and responsive regulation.

The flashpoints in Australia’s Asian relationships, are about who sets the rules and standards; who monitors them and how will they be enforced.

We have our fair share of regulatory lapses and disasters, but the quality of our public service, our ability to forge effective public-private partnerships and our capacity for innovation in areas such as consumer protection; disaster management; food safety; financial services; healthcare financing; higher education quality and performance; land care; road safety and water management are the envy of many countries. The colonial era of telling people how to manage their own public and private regulation is over; but we have the opportunity to be an effective middle-level player by actively brokering knowledge and norms within the region and by developing new applications for knowledge through partnerships in Asia. Those opportunities will diminish if we fail to match them with accurate understanding of how Asia is changing.

Through the 1980s and 1990s Australia built world class research, training and professional services capacity in the fields of Asian law, economics and politics. In the recent acquisition of most of Australia’s large law firms by UK and US-based multinational firms, our regional expertise was what they were buying. Sensibly, much of the recently increased development aid budget is also tagged for governance reform in the region.

Where we have stumbled, however, is in translating our evidence-based knowledge of regulation into the professions that export services. To be sure, regulation is a more complex field than law or accounting – managing climate change requires blended knowledge from disciplines as diverse as physics, economics,
interpersonal networks that will influence regulatory decision-making in the region. Where are they? We have plenty of Asia specialists cresting in their careers – a kind of national dividend from the Asia literacy push in the Hawke-Keating era. Within 10 years, however, our comparative advantage in Asian law and in Japanese and Indonesian politics, economics, law and regulation will be gone.

A necessary first step is to ensure that we have a generation of Australian professionals who can, literally, speak their language.

Asian language competence is no longer a national priority. We seem to have regressed from a ‘clever country’ expectation that an educated Australian should be fluent in an Asian (and preferably also a European) language, to a tacit acceptance that monolingualism is the new normal. That comforting, but false, story meshes neatly with choices not to go the hard route of becoming professionally fluent in an Asian language.

Politics is key to regulatory and institutional change in Asia. The essence of responsive regulation is shaping the flow of events to secure outcomes that are inclusive and democracy enhancing, as well as effective and efficient.

When Indonesia democratized and decentralized legal authority regional governments were tempted into a regulatory ‘race to the bottom’ in income-producing sectors such as forests and fisheries. While Burma’s military leadership permits elections and raises citizen hopes for a functioning state, its bureaucracy lacks capacity in service delivery, transparency and routine modes of accountability. What role will Australia play? Having influence in these spaces means not simply technocratic knowledge but having credibility that comes from political understanding.

As China’s economy grows, and its outbound investment increases, China seeks to be a standard-maker in areas such as computer software and IT services, intellectual property enforcement, and the supply of Chinese-made products as a condition of Chinese investment. While ratifying a vast number of international treaties, China and its policymakers resist external regulatory actors such as international ratings agencies and NGOs. Just as we saw Japan’s ‘aggressive legalism’ in the 1990s as it actively used the machinery of international trade dispute resolution, we can anticipate that China will pick and choose between – and try to shape – domestic and international rules that help propel its commerce and trade abroad.

Asia should be blanketed in young Australian journalists, diplomats, lawyers, accountants, engineers, architects, aid professionals, police and intelligence officers who are deeply knowledgeable about one or a number of countries and fluent in at least one Asian language. They should be jostling with their Chinese and Japanese and Singaporean counterparts as they develop the

Language is not a substitute for knowledge and skills, but it is a tool for acquiring them. How can we understand – much less influence – China’s energy efficiency, Japan’s nuclear industry, Thailand’s political uncertainty, Burma’s healthcare, Indonesia’s human trafficking or Malaysia’s asylum policy without the benefit of deep local knowledge acquired though local languages?

Our regulatory future in Asia is more complex than we currently recognise. The only way to navigate this complexity is to move forward with Asian partners in dialogue and in collaborative shaping of regulatory institutions at the national and international level. A necessary first step in accomplishing this is to ensure that we have a generation of Australian professionals who can – literally – speak their language.

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Australia’s Engagement with Asia

THE ‘LUCKY, LAZY COUNTRY’ SHOWS HOW NOT TO WIN FRIENDS IN ASIA

FORMER DIPLOMAT ALISON BROINOWSKI OF THE AUSTRALIAN NATIONAL UNIVERSITY EXAMINES AUSTRALIA’S ROCKY RELATIONSHIP WITH ITS ASIAN NEIGHBOURS

THE CONVERSATION

“Australia hasn’t been here before,” declared the Prime Minister as she announced a White Paper preparing the country for the ‘Asian Century’. We have, in fact. Her conceptual shift, and sudden interest in the affairs of our Asian neighbours are welcome, but Julia Gillard needs to catch up quickly.

The Asian Century is already eleven years old. But for much longer than that, observers in many countries have been charting the “irresistible shift of global power to the East”, as Professor Kishore Mahbubani described in essays in the 1990s and his subsequent book.

Land of opportunity

Australia, of course, has always been located where it is, and where our great and powerful friends are not.

Ever since the arrival of the First Fleet in 1788, that isolation has been deplored by some, while for others, proximity to Asia has been opportune and stimulating.

Many Australian politicians have tried to foster greater engagement with Asia. Former minister for external affairs, R. G. Casey cultivated friends and neighbours, as Prime Minister Gough Whitlam proposed an Asian Forum, his successors Bob Hawke and Paul Keating fostered the Asia-Pacific Economic Cooperation (APEC), and Kevin Rudd briefly flew an Asia-Pacific community kite.

Rediscovering Asia

Although the ‘Asian Century’ was a newfound notion for Treasury in May this year, the process of Australia-Asia accommodation and acceptance has gone on for much longer.

Yet every generation of Australian leaders, it seems, has to rediscover Asia.

Between the peaks of enthusiasm there have been plenty of troughs, when Australians reacted to Asia with degrees of fear, ignorance, and hostility.

Between the peaks of enthusiasm there have been plenty of troughs, when Australians reacted to Asia with degrees of fear, ignorance, and hostility.

Educating Australia

The process was not only economic. From the 1960s, Australians eagerly went to Asian countries to study languages and cultures.

Under Fraser and Hawke, at least, we took in refugees from our Asian wars who then and since have successfully turned into Australian citizens.

Yet the more Australia prospers from Asian demand for our resources, goods and services, the less empathy we seem to display towards our region.

We still invest more elsewhere. We waste our wealth on unwinnable wars of our allies’ making, without consulting others in the region about why they see no need to fight them.

How not to win friends

We insult neighbouring countries such as Malaysia by choosing them as the most unappealing places of deportation, even while we breach the international obligations we urge them to uphold.

We also allow a generation of teachers of Asian
languages and cultures to age without replacement. Not to mention letting students who are not native speakers drop Chinese, Japanese and Indonesian as if there’s no tomorrow.

Yet even as our higher education sector struggles and our claim to expertise in Asian affairs crumbles, we assume that our long run of economic luck entitles us to influence in the region.

In this, and in standing for election to the UN Security Council, Australia is presuming a lot on our reputation.

**Bad reputation**

Australians who follow the Asian discourse, live in the region, or visit regularly, not just as tourists, know that our reputation in Asian countries falls short of our common expectations.

Australia is seen in the region as hostile, threatening and unwelcoming, and disengaged from Asian affairs, says John McCarthy, formerly Ambassador to five Asian countries, and most recently Our Man in India.

Australians are ‘insular internationalists’ who travel but are seen to ignore the world, says Michael Wesley, one of our keenest foreign policy minds.

The expertise in international affairs of former leaders Kevin Rudd and Malcolm Turnbull was worthless, he adds, noting that Gillard and Leader of the Opposition Tony Abbott, have next to none.

If leaders on both sides of politics understood how Australians’ ignorance and presumption grate in Asian countries, they would recognise that we view our reputation as we wish it to be, not as it is.

We have to show that we believe projecting Australia in Asian countries is not a waste of time and money.

**Things can change**

But stereotypes, by definition out of date, can be changed by current realities. As Australia changes, perceptions in the region will catch up, particularly if we improve our public and cultural diplomacy and our international broadcasting. We have to show that we believe projecting Australia in Asian countries is not a waste of time and money.

If Ken Henry’s White Paper acknowledges these unpalatable truths, and recommends appropriate action, he will have done Australia a great service.

In late September the Chinese *People’s Daily* warned unnamed countries which “think as long as they can balance China with the help of the United States military power, they are free to do whatever they want” may have another thing coming.

That includes what China classifies as “small and weak countries” like Australia.

**Weak allies**

The Prime Minister’s key proposition is that Australia can “stand strongly in our changing region”, while simultaneously having an “ally in Washington and respect in Beijing”.

The tyranny of a weak American ally must also be interrogated by Dr Henry, who will understand that the US debt, and hence indirectly America’s military role in the region, is funded by China, our putative enemy.
Prime Minister Julia Gillard has announced a White Paper to identify action required to prepare Australia to take advantage of what many call the Asian Century. Many think they already know the answer: dramatically increase the number of young Australians who speak Asian languages and know Asian cultures.

Five year olds starting school today enter the workforce in 2030, just at the time when China and India resume their position as the world’s top economic powers. Asia knowledge, skills and understandings, or ‘Asia literacy’, equips young Australians to harness these opportunities, provides Australia with the skill-set to resolve global issues and ensures young people have the mind-set to strengthen social capital through understanding what it means to be Australian today.

**Learning to be in Asia, not about Asia**

Asia literacy requires education to produce a strong cohort of Australians fluent in an Asian language and all young people to be equipped with knowledge of Asia through History, English, Geography, Arts, Maths and Science throughout their schooling.

So how are we doing?

The good news is that for the first time national school education policy is in place to progress Asia literacy. The Melbourne Declaration on Educational Goals for Young Australians states the need for all Australians to be Asia literate. The new Australian Curriculum has a cross curricula priority of “Asia and Australia’s engagement with Asia” and a priority on Asian languages. National investment of $62.4 m is in place to June 2012 through the National Asian Languages and Studies of Asia in Schools Program (NALSSP).

**Talking my language**

A 2010 report on the current status of Chinese, Japanese, Indonesian and Korean languages in Australian schools shows the scale of the task. Only eighteen per cent of Australian school students currently study an Asian language, decreasing to fewer than six per cent by Year 12.

A scant 300 students, who do not have a Chinese background, are currently studying Chinese at Year 12. Indonesian is losing 10,000 students a year.

If this pattern continues there will be no students studying Indonesian at Year 12 by 2020. Japanese has declined twenty per cent since 2005 and Korean is taught in very few schools.

The challenges of increasing student participation in Asian languages are well documented in the sixty-seven reports into languages education since the 1970s!

Each Asian language has specific needs and a ‘one size fits all’ approach is not adequate. Radical innovation in the way languages are taught is required – especially increasing time on task, new pedagogies and stronger pathways from primary through secondary school and onto tertiary education.

As well as ‘supply’ issues, there is low ‘demand’ for second language learning. Unlike most subjects, students get to choose whether to continue on with languages after Year 8 or 9. Most students in other developed countries exit schooling with two or more languages in order to leverage the opportunities of their interconnected world.

**A long way to go**

Studies of Asia across the curriculum aren’t much better according to a 2009 study by the Australian Council of Educational Research into what was taught about Asia in Year 12 across a range of six senior subjects.

Typically, in NSW Modern History two per cent of students chose to undertake a national project on China compared to sixty five per cent on Germany and nineteen per cent on Russia.

The research found that only a very small proportion of senior students study any content about Asia in Year 12. Although many courses provide options for Asia studies, very few schools or students take them up due to a lack of teacher knowledge of Asia.

The Australian Curriculum’s Asia priority is unlikely to be realised without significant investment in teacher knowledge and skills at both pre service and in service levels.

And Asia literacy won’t be achieved by a scattergun approach in isolated classrooms. Principals need to be engaged and equipped to lead whole school curriculum reform. A 2011 Principals Australia survey showed just seventeen per cent of principals considered themselves proficient in Asia literacy skills.

**Universities need to make ground**

Data collected by the Asian Studies Association of Australia shows a stark picture in universities. Asian language enrolments are declining in all but Mandarin Chinese, where the increase is attributed to international and heritage student enrolments. A study this year by Professor David Hill into Indonesian in Australian universities showed a language in crisis. Thai and Hindi are only taught at one university.

Right now Australia is in an unprecedented position to achieve Asia literacy through school education but we face a critical tipping point in June 2012 when current funding ends. Governments have a choice: leverage the momentum and accelerate Asia literacy through continued investment, or risk inevitable decline of progress – a pattern that has occurred regularly over the past two decades.

For those five-year-olds starting school in Australia this year, we have less than one generation left to get this right.

**Kathe Kirby is Executive Director, Asialink and Asia Education Foundation at the University of Melbourne**


The Conversation | http://theconversation.edu.au
Reading recent coverage of the debate about the adequacy of Australia’s Asia literacy, one could be forgiven for thinking Australia faces looming skills shortages and national security crises. Politicians, commentators and academics are all saying Australia’s inability to speak Asian languages and understand Asian cultures imperils our prosperity and security.

On the back of this alarming diagnosis, Asian studies programs worth billions of dollars have been proposed, while both sides of politics at the national level have pledged to improve Australia’s Asia literacy.

Happily for the ‘lucky country,’ Asia literacy alarm is out of step with Australia’s multicultural reality. New large-scale Asian studies programs are not necessary because the genius of Australian multiculturalism, to borrow an apt phrase from immigration minister Chris Bowen, has set Australia up for success in the Asian Century.

Not only will multicultural Australia prosper because it already speaks the languages of Asia, but it is also home to widespread Asian cultural literacy.

AUSTRALIA’S ASIA LITERACY NON-PROBLEM

- **The power shift to Asia**: Global economic and military power is rapidly moving from the North Atlantic to Asian capitals and centres of commerce.
- **Asia literacy alarm**: Commentators and academics have called for large-scale education programs worth billions of dollars to improve Australia’s Asia literacy.
- **Asia literacy policy initiatives**: Both the Coalition and Labor have proposed policies to increase the number of students studying Languages Other Than English (LOTE), including key Asian languages.
- **Australia’s language education policies**: The most populous states and territories already teach LOTE, including key Asian languages, on a compulsory basis at some levels of schooling.
- **The demographics of language education policy**: Calls to expand existing LOTE programs overlook both the extent of worldwide English literacy and the scale of Australia’s ready-made Asia literacy.
- **English is the pre-eminent world language**: With approximately 2 billion speakers globally, English remains the world’s *lingua franca* and the language of globalisation.
- **English is an Asian language**: English is spoken by about 800 million people in Asia and is widely used as an official language in the region.
- **Australia speaks the languages of Asia**: Australia’s multicultural composition means there are 2.2 million or so speakers of Asian languages in Australia, including approximately 650,000 speakers of Chinese languages.
- **Asian cultural literacy acquisition by osmosis**: With extensive interaction between diverse groups, Asian cultural literacy is being naturally spread throughout Australian society.
- **Australia is ready for the Asian Century**: Asia’s English literacy and Australia’s Asia literacy mean that new large-scale Asia literacy programs are not necessary for Australia to prosper in the Asian Century.

Executive summary from *Australia’s Asia Literacy Non-Problem*. By Benjamin Herscovitch, 5 September 2012. © The Centre for Independent Studies | www.cis.org.au
According to 2011 Census data, approximately 2.2 million people speak Asian languages at home, which equates to around 10% of the population. Important Asian languages are very well represented within the overall number of speakers of Asian languages.

There are more than 650,000 people who speak Chinese languages at home, most notably Mandarin and Cantonese. Indian languages, including Hindi and Punjabi, have 305,000 or so speakers, while there are 233,000 Vietnamese speakers; 137,000 speakers of Filipino languages; 80,000 Korean speakers; 56,000 Indonesian speakers; and 44,000 Japanese speakers.

Added to this, increasing numbers of immigrants from Asian countries mean increasing numbers of speakers of all major Asian languages.

Seven of the top 10 source countries in Australia’s 2011-12 immigration program were from Asia: China, India, Malaysia, the Philippines, South Korea, Sri Lanka and Vietnam.

The 2011 Census data shows that the leading birthplace of immigrants who arrived in Australia between 2006 and 2011 was India (13.1%), which represents a 100% increase on the 2006 Census data. During the same period, the number of immigrants born in China increased by 54%, while the number from the Philippines increased by 42%.

By measuring the number of people who speak Asian languages at home, census data is also a good indicator of Asian cultural literacy.

**Approximately 2.2 million people speak Asian languages at home, which equates to around 10% of the population.**

Although the connection will not hold in all cases, there is a good chance that someone who speaks an Asian language at home will have a familial connection to the language, and as a result, will likely have some level of Asian cultural literacy.

Australia’s large store of Asian cultural literacy is not just a potential asset to those with existing familial connections to Asian cultures. Multiculturalism means widespread interaction between different cultural groups in families and neighbourhoods.

The 2006 Census data shows that the spouses were of different ancestries in 30% of all couples, and that the rate of intermarriage has been increasing with each successive generation regardless of ethnic background.

Australia also has comparably low levels of residential segregation. Recent research suggests Australians are more likely to be living in mixed neighbourhoods than their British, Canadian, and in particular, US counterparts.

In Australia’s healthy multicultural society with its high levels of interaction between cultures, Asian cultural literacy is being acquired by osmosis. By importing Asia literacy through immigration, Australia has avoided the need for costly large-scale Asian studies programs. Even if the pre-eminence of English in Asia and the rest of the world is ignored, Australia’s multicultural composition alone means the often alarmist tone of the contemporary debate about Asia literacy is unwarranted.

With a multicultural society that is naturally Asia literate, Australia is well-placed to prosper in the Asian Century.

*Benjamin Herscovitch is a Policy Analyst at the Centre for Independent Studies, and author of CIS Issue Analysis No.133, ‘Australia’s Asia Literacy Non-Problem’, available at www.cis.org.au*
Engaging with Asia is everybody’s business

Malcolm Turnbull delivered the Sir Edward ‘Weary’ Dunlop Lecture at the launch of the PwC Asialink Index in November 2011. This is an edited version of his speech.

During the difficult economic conditions of the past few years, the two-way engagement between Australia and Asia held up much better than our equivalent ties with the rest of the world, which of course include our traditionally most important bilateral relationships.

The economies of the Asia-Pacific showed far greater resilience than those of the North Atlantic during the GFC. So perhaps this isn’t a surprise.

It is worth noting, however, that since the onset of the crisis some economic indicators of mutual engagement have faltered (for example investment from Asia into Australia fell sharply in 2010).

But there has been a broadly offsetting strengthening of ties in the form of education exchanges, flows of tourists and flows of migrants. These are more individually-driven, personal activities where ties are formed or deepened by vast numbers of face-to-face encounters – and in the long run are surely just as important as trade or investment in helping people in different countries better understand each other.

Engagement with Asia is no longer mainly a matter for business – it’s everybody’s business.

A corollary is that the far more diverse multicultural Australia that has emerged over the past two generations as we’ve drawn closer to the region is itself becoming one of our great competitive advantages – just as similarly diverse societies over history have always gained an edge from their bringing together of varied cultures and contending ideas.

‘Same bed different dreams’ – a delightfully cynical Chinese phrase tong chuang yi meng – describes the awkwardness of intimacy without empathy, as unsatisfying politically as it is, no doubt, domestically.

My contention is that we have vastly more to gain than to lose from the rise of China, India and the rest of emerging Asia. There are risks and threats to be sure, but they are greatly outweighed by the opportunities.

Our varied region includes other large, dynamic emerging markets such as Indonesia, Vietnam and Thailand, and sophisticated industrial economies such as South Korea, Taiwan and Singapore that over the past two decades have become as productive and prosperous as the advanced nations. Their stories (and their futures) are just as fascinating and important as those of China and India.

Our response to this extraordinary economic change – and it is the most profound in our lifetimes – must be clear-eyed and founded on facts not ideology – let alone paranoia.

The old trio of the United States, Japan and Western Europe, which used to drive the global economy, is giving way to a new one – the US, China and India. Forecasting is always perilous, but we can reasonably anticipate these will remain the world’s three largest national economies for many decades.

The pace and the scale of this shift is unprecedented. There has never been a country as big as China that has grown so fast. But it is important to remember that from a Chinese or Indian perspective this rapid growth in wealth and power is not so much a rise, but a return to the natural order of things.

From antiquity until the middle
of the 19th century, China and India were the two largest global economies, accounting for about half the world’s economic output. Their current climb up the GDP rankings restores them to where history and population predicts they should be.

Changes in the relative economic position of large and powerful nations are seldom smooth or free from anguish. Americans are still struggling to come to grips with the rise of China, which represents an historically unique challenge to the United States.

Almost every technological advance reduces the demand for labor - whether in accounting and financial functions, logistics or even unmanned dump trucks and loaders at mine sites in the Pilbara.

The owner of a frock shop used to think she was competing with the boutique across the road or with Myers - now she competes with the whole world. Online retailers can fulfill an order made in Melbourne from the other side of the world in three or four days.

So globalisation and technology are economic forces that are far bigger than any one country, even countries as large and powerful as China or the US. Yet all too often the shifts they are causing in economic power or the competitiveness of particular industries in Western nations are seen as China’s fault, the consequence of it not playing fair.

In 2010 China’s trade was 55 per cent of its GDP – the same as for Britain in the 1870s, the era of the Pax Britannica, and five times larger than trade in the US economy of the 1950s and 1960s when American economic dominance was greatest. Given the importance of a stable economy in the regime’s legitimacy, China’s rulers themselves have more to lose than almost anyone from conflict that disrupts global economic flows.

Our strategic response to the rise of China should be to continue to deepen our engagement with that nation and with our other neighbours, as friends even if not as allies.

The best and most realistic strategic outcome for East Asia must be one in which the powers are in balance, with each side effectively able to deny the domination of the other.

It makes no sense for America, or Australia, to base long-term strategic policy on the proposition that we are on an inevitable collision course with a militarily aggressive China.

Yet remarkably, while all of us galahs in the political pet shop are talking about the rise of Asia, many are apparently labouring under the misapprehension that while everything can change in the economic balance in our region, nothing will change in strategic terms.

In other words, even though China is about to become the world’s largest economy and is actually in the centre of East Asia, nonetheless the United States will remain the dominant power in the region, in the same way it has been since 1945 and even more so since the collapse of the USSR in 1991.

Plus ça change, plus c’est la même chose is not a sound basis on which to build Australia’s foreign policy. Rather, our strategic response to the rise of China should be to continue to deepen our engagement with that nation and with our other neighbours, as friends even if not as allies.

Of course cool heads are required on all sides. China needs to be more transparent about its goals in the region and on the basis of that build confidence with its neighbours so that misunderstandings can be avoided.

In that light, the decision to host up to 2,500 marines at an Australian army base in Darwin could hardly be regarded as a threat to China. After all there are over 60,000 American service personnel including 17,000 marines in Japan and Korea – on China’s doorstep in comparison to Darwin.

China’s prickly reaction reflected
Asia's growth has presented us with a huge windfall in national income. In some ways Australia has little choice but to adjust to accommodate rising demand for resources. The rise of China and India to the centre of the world economy is a powerful force far beyond the control of a small, open market economy.

Asian growth has presented us with a huge windfall in national income. In some ways Australia has little choice but to adjust to accommodate rising demand for resources.

As Paul Bloxham at HSBC Australia has pointed out, all the half-trillion dollars or more of approved or anticipated coal, iron ore and gas projects that will utterly reshape our economy over the next decade only add up to about the amount of capital invested in China every three months. So it is deluded to believe we can protect uncompetitive industries, manage the exchange rate, or somehow stand loftily aside from the current global restructuring, which in any case has been extremely beneficial to us so far.

Governments can, however, make decisions in areas such as workplace relations that impede or smooth the movement of labour and capital from one sector to another – and policies to smooth the current structural adjustment are urgently needed.

Governments can also make policy choices that influence whether temporary income from the boom is saved or spent. The desirability of saving much of what may turn out to be a brief windfall is why I've advocated Australia create a new sovereign wealth fund or commit to renewed deposits into our existing one. Perhaps most importantly of all, Governments can invest in the education, the science and the research that will enable us to remain competitive in a converged world where the developed societies can no longer assume they have an advantage in technology or knowledge.

Asians should not be complacent about the current outlook, or the tremendous 20-year run of prosperity that past economic reforms and the rise of Asia have delivered to us. Ross Garnaut has recently pointed out that growth in China, at least, is likely to become increasingly productivity-intensive and demand for bulk commodities may slow, while rising incomes will increase demand for more sophisticated products and services. Perhaps India and Indonesia will step into the breach, but we should not assume that.

The main challenges for Australian political leaders in responding to the rise of China (and in due course India) are to combat complacency. Complacency in assuming the current resources windfall will persist forever; or that the strategic and diplomatic posture that served us in the past can and will serve us unchanged in the future; or that it doesn't matter if our economic and strategic messages to our region are somewhat contradictory.

There are great opportunities for Australia in our ever-closer ties with Asia, and the region's economic prosperity, but we will need thoughtful, nuanced, consistent and forward-looking policies to make the most of them.

The Hon. Malcolm Turnbull is the Federal Member for Wentworth.
The simple response here would be to assume that Asia is on the right track and that it simply needs to do ‘more of the same’. Following this rationale, there are four generally accepted drivers of growth in the region that should continue to be a focus throughout the Asian Century.

First, domestic economic policy is relatively sound. The government borrowing requirement in emerging and developing Asian countries was about 2 per cent in 2011, and the region’s external position was strong, with external debt below 30 per cent of GDP.

Second, fundamental drivers of growth are positive for most countries in the region, with favourable demographics boosting labour supply and increasing domestic demand. For example, 50 per cent of Indonesia’s population is under the age of 30.

Third, the size of Asian markets is growing rapidly. Not only does the region have a large population, its effective market is growing – due to an expanding middle class – and reflects the region’s success in addressing poverty.

Fourth, many countries in the region have commodity endowments that are in high demand. The increase in wealth and cash flow related to the commodity boom has funded investment in the commodity sector and more broadly throughout the region’s economies.

These drivers of growth will continue to be important in ensuring that Asia contributes to, and perhaps drives, global growth. But the story is not quite so simple. Today’s global economy is not the same as it was yesterday, and Asia cannot simply use the recipe of the past. There is a more complex set of issues that must be addressed if Asia is to play its role in driving sustainable global growth in the future.

As a key global economic player, Asia must take on a multifaceted role that helps the global economy tackle serious imbalances at three different levels. Asian economies must have sound domestic policy; without this nothing will be possible. Regional cooperation must also take on greater importance. Increased trade and investment integration as well as greater macroeconomic and financial cooperation are both needed to secure regional economic stability. And at the global level, Asia should take on a stronger leadership role in discussions on current global economic developments and on the reform of the international monetary system. But, in turn, there are issues in each of these three areas.

The first challenge that needs to be addressed at the global level is macroeconomic imbalance. The way forward requires more concerted national policy action with global coordination. Asia’s emerging surplus economies will gradually rely more on domestic demand as a driver of growth, and countries in the region will support this transition through structural reforms in areas such as the passage of social safety-net laws. Indonesia, for example, recently passed laws on social security as an initial step in this direction.
But action in Asia must be complemented by action in the world’s advanced economies. The latter need to develop clearer policies to promote increased savings, including through medium-term fiscal adjustment. The global economy requires a comprehensive and durable solution to the euro zone crisis, and well-defined and credible plans for the debt challenges in other advanced economies, including the US. The slow progress in tackling these globally significant policy challenges has sapped market confidence in the capacity of relevant countries to address these challenges, and has contributed to the uncertain outlook.

A second issue is managing global liquidity, as it has important implications for the global economy. Developments in commodity prices, including food and energy prices, affect the region’s stability and the lives of the poor in the developing world. The global liquidity situation also has implications for capital flows. The current volatility is concerning, and the G20 initiative to support emerging economies in strengthening intermediation by developing domestic bond markets was created to combat the volatility of capital flows.

Finally, it is essential that economic governance reflect the realities of the global economy. This means better representation of emerging markets in international financial institutions, such as the G20. Without these changes, it will be difficult to realise the Asian leadership needed to help drive strong and sustainable global growth. There should also be a stronger role for ASEAN and ASEAN+3 in ensuring regional financial stability.

With success on the domestic front, particularly through sound policy decisions, Asia’s voice on the world stage will be stronger and more credible. American economist Nouriel Roubini stated that Indonesia will be the tenth-largest economy by the end of the decade and could be the sixth-largest economy by 2030, while projections for other countries in the region also show high growth potential. But these country-level goals will only be realised if there is an enabling environment for the necessary investment and employment opportunities in the region.

Beyond Indonesia’s strong economic fundamentals, realised investment also climbed by more than 50 per cent in 2010, with another big increase last year. This reflects Indonesia’s attractiveness as an investment destination, given its large market of 240 million people, rapidly expanding middle class, wealth of natural resources and strategic location. Indonesia is now building the financial and physical capital to complement its young and dynamic workforce as well. It is working to develop stronger capital markets to intermediate domestic saving and to ensure capital inflows are well used, while the government is also providing incentives to promote investment in priority sectors. To facilitate investment, Indonesia has passed a law to provide greater certainty around land access, addressed the political risks in public-private partnership infrastructure projects and enhanced the availability of long-term funding to finance long-term infrastructure projects.

Indonesia’s sustainable fiscal policy was key to protecting its economy from the global economic slowdown and also helped return the economy to investment grade status 13 years after the Asian monetary crisis. In the revised budget for 2012, the Indonesian government is now committed to reducing fossil fuel subsidies, improving education and health care systems for the poor, and addressing infrastructure and logistical connectivity challenges. This is a strategic step to further transform the Indonesian economy and help make Roubini’s prediction a reality.

The simple answer of doing ‘more of the same’ is correct insofar as it means that Asia is likely to account for a disproportionate share of global growth. But the changing global environment means that the way in which this growth is accomplished will be different from the past. A successful Asia requires the region to reform the global economy, address significant challenges within its own borders, and ensure that Asia’s domestic economies are retooled to deliver the sustainable growth that the world so desperately needs.

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C

ollectively, Asian economies are the world’s largest and fastest growing, and they represent a major opportunity for Australian business.

Asia’s share of world output has doubled in under 60 years – from roughly 20 per cent in the 1950s to nearly 40 per cent in 2010. With growth of that order expected to continue, there can be little doubt we live in the ‘Asian Century’.

In Australia, our multicultural society, advanced services sector, natural resource endowment and transparent regulatory regime position us well to do business with Asia. That some Australian businesses are capitalising on this opportunity is evident in our trade figures. Three of Australia’s five biggest trading partners – China, Japan and Republic of Korea – are in Asia. And, since 2004, Australia conducts more trade with Asia than with the rest of the world combined.

However, we can and should be doing more to build on successes to date and capture the benefits of Asian growth for Australia’s long-term economic prosperity. This is a matter of urgency, as local companies in rapidly maturing Asian markets are hungry to grow across the region, while others in developed markets are overcoming the disadvantage of distance.

High-level modelling conducted for the Taskforce by The Boston Consulting Group suggests that, separate to the resources sector, Australia has the potential to lift economic performance in, and due to, Asia by up to $275 bn over the next ten years, with improved Asia capabilities driving better access to, and penetration of, those markets.

For Australian businesses, one of the biggest impediments to realising the Asian opportunity is the absence or underdevelopment of critical individual and organisational capabilities. Research by Asialink, the Australian Industry Group and the Business Council of Australia shows a strong correlation between business success in and with Asia, and a set of critical individual and organisational capabilities. Their absence or underdevelopment is a significant impediment to success in doing business in and with Asia.

The Taskforce has defined a four-part strategy to develop an Asia capable workforce in Australia. Developing an Asia-capable workforce requires broad change on a national scale if Australia is to make the most of the opportunities that Asian economic expansion offers.

For the Taskforce, that means businesses leading, with governments and the education and training sector supporting initiatives to:

1. **Advocate broadly the case for developing an Asia-capable workforce**
   - Businesses must cooperate to demonstrate the importance of developing an Asia-capable workforce
   - Governments must ensure that policy development takes account of the need to accelerate into Asia and upskill the workforce.

2. **Accelerate the development of Asia-focused strategies with Australian business taking the lead**
   - Businesses must take account of the Asian opportunity, re-orienting strategies, developing frameworks to assess those strategies, and sharing learnings between functional and geographical silos.

3. **Invest in developing Asia capability throughout the Australian workforce**
   - Businesses already engaged with or planning to do business with Asia must build employees’ skills, provide Asian experiences and build Asian networks
   - The business community must
Developing an Asia-capable workforce requires broad change on a national scale if Australia is to make the most of the opportunities that Asian economic expansion offers.

One option the Taskforce has explored is businesses, governments and education providers working together to develop and operate a new national Centre for Asia Capability that would be business-led and focused on advocacy, skills development, applied research and network building. The Taskforce will further examine a number of options, including a coordinating body or forum such as this that would become the principal vehicle to achieve the strategy’s objectives.

NOTES

1. For the purposes of this analysis of the Asian commercial opportunity, Asia is defined as China (excluding SARs), India, Japan, Hong Kong, Taiwan, the key ASEAN economies (Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam), Republic of Korea. While this excludes other countries that would by most measures be regarded as Asian, the economies listed here represent approximately 99 per cent of Australia’s two-way trade with Asia and are therefore an appropriate indicator of the potential for gains from deeper engagement.
3. Ibid.
4. BCG analysis; based on ABS data. See pages 8-9.
A FOCUS ON SKILLS WILL ALLOW AUSTRALIA TO REAP FRUITS OF ITS LABOUR

PROFESSOR JEFF BORLAND SUGGESTS HOW AUSTRALIA CAN RE-SKILL ITS WORKFORCE, AND BUSTS SOME MYTHS ON IMMIGRATION AND JOBS

THE CONVERSATION

Any economic commentators with an interest in labour markets seem bedevilled by a bogeyman: the rise of Asia.

Whenever the problem that has arisen in labour markets in Australia in the past 20 years, the effect of increasing integration with Asia has usually been the explanation that is reached for first.

Declining real earnings for low-skilled workers? Well, that must be the effect of more imports produced using low-wage labour in China.

Higher rates of unemployment? Mmm, that could only be happening because of higher rates of Asian immigration.

Falling employment of clerical workers and middle managers? Surely that has to be the result of off-shoring jobs to the Indian IT sector.

WHERE’S THE EVIDENCE?

In some ways, this focus on Asia is understandable. Signs of our closer integration with Asia are all around us – in the changing composition of the Australian population, in all the talk of a mining boom, every time we buy a whitegood. Yet for all the concern, there is very little evidence that integration with Asia is having the dire effects often described.

Studies of international trade undertaken by the Reserve Bank and Productivity Commission have found little effect of import substitution on aggregate employment in Australia. Only within a subset of sectors that use labour-intensive production methods – such as textiles, clothing and footwear – can relatively large adverse employment effects of growing competition from imports be seen.

IMMIGRANTS DON’T TAKE JOBS

The story with immigration has been similar. Raja Junankar and Glenn Withers showed in a series of research papers written in the 1990s that immigration has little net effect on the labour market in Australia. An extra immigrant may mean an extra job is needed, but it also means an extra source of demand for goods and services produced in Australia. So, the effects on labour demand and labour supply largely wash out.

And while stories of call-centre and IT processing jobs being sent offshore to Asia may make interesting reading for the supplement sections of our weekend newspapers, it just doesn’t seem that the magnitude of these events are substantial enough to make a big difference to labour markets. Instead, it is technological change that appears to be the main driver of the decline in clerical and some administrative jobs.

FIRST PRINCIPLES

The story of Australia’s increasing integration with Asia, in fact, seems to be very much as you would predict from a knowledge of first-year economics.
Growing international trade and migration will change the structure of economic activity in Australia. We will specialise more in production activities in which we have a comparative advantage, and buy the goods and services that we are less efficient at producing from overseas. This means there will be winners and losers in the Australian labour market.

At the moment, for example, it is a good time to be a mining engineer or construction worker, but not such a good time to be a manufacturing worker. Overall, however, we should expect the gains from closer integration to outweigh the losses.

Our economy and labour market will perform more strongly for the opportunity to focus on the activities that Australia is best suited to, an effect that will be magnified by our proximity to Asia.

**Australia’s comparative advantage relative to Asia is in production activities that are intensive in high-skilled labour, so we need a foundation for continued specialisation in those areas.**

**SKILLS, SKILLS, SKILLS**

The big question, I think, is what the Australian labour market can do to take most advantage of the opportunity that the Asian Century presents. This is not a new question, and I don’t believe the answer is rocket science. But the question and answer are important and, for that reason, worth taking up again.

Our first strategy should be “skills, skills, skills”. Australia’s comparative advantage relative to Asia is in production activities that are intensive in high-skilled labour, so we need a foundation for continued specialisation in those areas.

This will require us to “run to stay ahead”, as Asian nations also seek to increase the skill levels of their workforces, with a recent Grattan Institute report suggesting rapid improvement in numeracy and literacy skill levels in Hong Kong, China and Singapore.

Maintaining Australia’s position as a high-skilled country is largely about increasing participation in higher education, but it is also about improving the quality of education – particularly through programs with demonstrated net benefits, such as early intervention programs to assist children from disadvantaged backgrounds.

It can also be about giving new opportunities to students from Asia. With the size of population in Asia, and the higher education systems there still having some way to go to allow the same rates of participation as in Australia, it seems there is scope to attract high-quality students from Asia who are not able to gain access to university study in their own countries.

A large-scale scholarship system targeted at students from Asia for graduate level study in science and engineering fields would be one idea for adding to the skilled workforce in both Australia and the students’ home countries.

**FLEXIBILITY**

The second strategy I would suggest is to foster flexibility and facilitate adjustment. In the Asian Century, it seems that it will be increasingly important that Australian workers can be flexible in the locations where they work, and with whom they work.

More particularly, closer integration is likely to mean a higher chance of spending time working in Asia and working with Asian co-workers. Having this flexibility would seem to require some proportion of the Australian workforce to have Asian language skills but, probably more importantly, an awareness of Asian cultures, as well as a culture in Australia that values diversity in the workplace.

I have described how closer integration with Asia will be the source of adjustment in the labour market – for example, of some job losses. Easing adjustment to these sorts of changes is not something we have done well in Australia in the past.

Yet it could be a powerful mechanism for generating acceptance of change. Certainly, we have a system of welfare income support benefits to provide a safety net for those who lose their jobs as the Australian economy adjusts to changes in patterns of international trade.

We could, however, do much more to assist those who are disadvantaged by structural change in the economy to get back into work – through serious programs for re-skilling and providing pathways to re-employment.

*Jeff Borland is Professor of Economics at University of Melbourne.*
How Australia can become Asia’s food bowl

Peter Batt looks at Australia’s potential to feed Asia’s rapidly growing population

Australia has the fastest-growing population in the world. This will increase the demand for food, but greater urbanisation, westernisation and rising personal wealth is changing the form in which food is consumed.

There is a rising demand for more animal protein in the diet, more dairy products and a greater variety of fresh fruit and vegetables. There is also more demand for value-added food: food that is convenient, safe and which has been produced more sustainably.

While it is the objective of most sovereign nations to be self-sufficient in food, in much of Asia it will be exceedingly difficult to produce enough food. There are major resource constraints in the form of arable land and water. Farmers are often unable to access appropriate technology, and the lack of infrastructure imposes major constraints on the efficient distribution of food.

Opportunities and challenges

To the south, Australia is well positioned to take advantage of the emerging opportunities. However, Australia must also find a way to address the many impediments that threaten to restrict market opportunities in the future.

Agriculture is the most volatile sector of the Australian economy. Seasonal variations, primarily in rainfall, have a direct impact on productivity. While productivity per area continues to grow, the rate of growth has slowed considerably. This is because the public is contributing less to research and development expenditure, and because many farmers can’t make the necessary investments in technology, equipment and machinery, due to their diminishing equity position and lack of confidence.

The economies of scale, which once favoured greater farm aggregation, are becoming more elusive. As input costs continue to rise and prices trend downward, the terms of trade are eroding.

While more accurate long-term weather forecasts may provide farmers with the information to make better decisions, the full impact of climate change is expected to place a considerable burden on the public purse. Huge investments in infrastructure will be necessary in much of the country to provide a regular and reliable source of water.

If the potential for agriculture in north Australia is to be realised, transport and logistics systems will need to be enhanced to ship the products to population centres.

Selling GM

Conventional plant breeding systems are likely to give way to the increasing use of genetic modification. Many consumers have concerns about the introduction of genetically modified plants.

But if the technology can be shown to reduce the use of agricultural chemicals and fertilisers, water and fossil fuels, and to deliver positive benefits to health and nutrition through enrichment, consumer resistance should diminish. This is even more likely if the use of GM reduces the costs of production and if that cost reduction flows through to consumers.

The high value of the Australian dollar is putting pressure on producers both domestically and abroad. Domestically, competition between the two major supermarket chains is driving food prices lower, often to the point where farmers’ profit margins are so small they can’t invest in new technology and new product development.

And more liberal terms of trade enable many food ingredients to be imported at prices well below the costs of production. This is forcing many food processing plants to close, with a commensurate negative impact on employment, farmers and rural communities.

The food bowl of Asia

As markets evolve, there is an increasing demand for higher quality products. Beyond the tangible characteristics of the product itself – such as size, shape, colour and appearance – consumers are now also expecting sustainably produced food. Australia leads the world in the implementation of quality assurance systems, but the uptake of sustainable farming practices has been slow, despite Australia having one of the most fragile ecologies.

To access world markets, Australian food producers have to show that their product has been produced using good agricultural practice. But competition between global retailers is continuously raising the bar, imposing additional costs on all food producers. These costs are seldom recovered, and this absence of sufficient financial incentives provides the major barrier to the more widespread adoption of sustainable farming practices.

However, there is a long-term public benefit in supporting the more sustainable use of resources and encouraging the more widespread adoption of integrated crop management.

If Australia is to become the food bowl of Asia, we need to start making changes now.

Australia’s Engagement with Asia

Issues in Society | Volume 350

The Conversation

The 20th century belonged to the West – not only in military terms but primarily in resource consumption. This century is expected to be dominated by Asia.

Given the generally high per capita consumption of a range of resources by developed nations, we must ask a fundamental question: can the world provide the same material standards of living for Asia without bankrupting the global ecological bank?

Australia and Brazil have both found massive iron ore resources and now dominate seaborne global iron ore exports.

Surprisingly, the answer can be either yes or no – depending on one’s point of view (as Obi Wan famously opined). Optimists point to the history of continually growing mineral and metal production and economic resources throughout the 20th century and say “no worries”. Technology, exploration and economics are their friends.

Pessimists decry the near exponential growth of production and consumption of non-renewable resources and claim such patterns are inherently unsustainable. Simple mathematics and environmental limits are their focus.

Realists see the merit in both points of view.

Boom Time

Let us explore the nature of economic mineral resources. In today’s world, we mine fossil fuels, base metals, precious metals, ferrous metals, light metals, energy metals and a wide variety of miscellaneous minerals and metals – a significant majority of the known elements.

Although some elements are abundant throughout Earth’s crust, such as iron or aluminium, all minerals need to be found in deposits both high in concentration and easy to process to be worth mining.

Throughout the past two centuries, the world has been scoured for new deposits which could be profitable to mine – and in many countries the mining industry continues to find more. For example, Australia and Brazil have both found massive iron ore resources and now dominate seaborne global iron ore exports. Parts of Africa now look set to repeat this pattern.

On the technology front, major advances in mining and ore processing have enabled breakthroughs in metal and mineral production. Prominent examples include the development of floatation technology for metal sulfide ores (now widely used in copper, lead-zinc, nickel, gold mining), carbon in pulp technology which uses cyanide in gold mining, solvent extraction-electrowinning technology, safer and cheaper explosives, bigger and bigger diggers and trucks, more efficient grinding technology, and so on.

On the social front, community opposition to projects and commodities is growing and placing substantial pressure on the ability of the mining industry to develop new projects.

On the economic front, the long-term trend is continually growing demand to meet consumption patterns. There can be the occasional hiccup during an economic downturn, but the trend is inexorably up – boom times aplenty for a miner.

Global per capita steel consumption has increased from 150 kg per capita in 2001 to 203 kg per capita in 2010. Allow for growing consumption in China’s 1.3 billion people and India’s 1.2 billion people (not to forget Africa’s billion people or South America’s half a billion). New cities are born, infrastructure built, manufactured goods made and exported – the sheer scale of current and prospective future demand for minerals and metals is indeed stark.
Although it may surprise many, economic mineral resources can often be underestimated (oil being the exception – peak oil is a real and urgent problem). Even allowing for strong growth in demand, I would certainly remain confident that there are sufficient deposits known globally for most mineral and metal resources to meet growing demands for several decades. Perhaps by the latter decades of this century we might start to approach limits, but we are already encountering other problems.

The real barriers to ongoing mining are mainly social and environmental. On the social front, community opposition to projects and commodities is growing and placing substantial pressure on the ability of the mining industry to develop new projects.

Clive Palmer’s China First coal project in central Queensland threatens to mine most of the Bimblebox Nature Refuge – an area which is supposed to be protected by a perpetual conservation agreement between the landholder and government.

On the environmental front, ore grades and quality are gradually declining, meaning more mining to produce the same amount of metal. As open cuts get bigger, there is more and more mine waste.

At some ‘modern’ mines in Australia, extremely polluted water flows freely to adjacent streams. Hanrahan’s Creek in the Northern Territory is biologically dead due to severe acid mine drainage from the defunct Redbank copper mine.

There are many other legacy mine sites across the nation, even large ones at Mount Morgan, Mount Lyell or Rum Jungle. And the legacies are growing – check out the Hunter Valley coal province or Kalgoorlie’s famous ‘Super Pit’ in Google Earth.

The success of different mining sectors in reducing their greenhouse gas emissions footprint has been varied too – aluminium and steel have reduced their carbon intensity significantly thanks to energy efficiency and new technology. But many sectors have increased their carbon intensity.

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**On the environmental front, ore grades and quality are gradually declining, meaning more mining to produce the same amount of metal.**

The transition away from fossil fuels to meet the climate change challenge will remain a key global test of mining’s environmental performance.

**DODGING THE BUST**

Overall, Australia remains in a strong position to continue to mine almost anything virtually anywhere to meet growing Asian demand – the mineral resources are certainly known. The trick will be managing increasingly complex social issues and environmental impacts, especially the move away from fossil fuels and uranium.

The boom may continue for some time, but we need to be mindful of the inevitable environmental and social bust. Our vision should not involve selling dirt and buying diamonds, then wondering why we are still in debt as a nation.

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The Conversation | [http://theconversation.edu.au](http://theconversation.edu.au)
Food, finance and flying: Australia’s FDI challenges in the Asian Century

Australia will face numerous challenges in the ‘Asian Century’, including issues surrounding foreign direct investment, notes Christopher Findlay.

More specifically, it is important to reform Australia’s own FDI policy and the policies of its neighbours – as well as one other old-fashioned international policy regime still guiding FDI today.

There is no easy answer here. The use of international commitments to guide policy reform is notoriously difficult; it is the great gap in the WTO process. Foreign Trade Agreements try to pick this up, but commitments are not consistent across agreements. Yet, without some leverage, domestic reform will continue to be held hostage to vested interests.

Three current examples of the challenges Australia is facing in its FDI initiatives are pertinent here.

First, the Australia-New Zealand food company Goodman Fielder is expecting a takeover bid from a Singaporean company, Wilmar. If this bid goes ahead, there may not be any restriction imposed by either Australia’s Foreign Investment Review Board (FIRB) or competition authorities. But a FIRB review is still required for projects valued at more than $244 million (unless the investor comes from the US, in which case under the Australia-US FTA the baseline for reviews is $1062 million).

There are some calls for an even tighter limit, for example around $20 million, on the grounds that doing so would contribute to Australia’s food security.

The Australian Bureau of Agricultural Resource Economics and Science argued the contrary in a recent report, noting that foreign investment is in fact good for food security. A seminar on the same topic at the University of Adelaide last month also concluded that the issue was not the availability of goods, but access to them and their subsequent utilisation.

Supply chain management is part of the solution and FDI in agribusiness, and therefore the supply chain, will improve its operation. Trade Minister Craig Emerson has also argued that ‘overseas investment could help make Australia the food bowl of Asia’.

Second, the ANZ Bank, in a submission to the Asian Century White Paper Taskforce, identified a series of barriers to growth in its international business due to FDI policies in host countries. These include restrictions on foreign ownership of banks in China and Malaysia; a ‘positive list-based’ regulatory regime in South Korea which restricts a foreign bank’s ability to conduct new product business; restrictions on the temporary entry of bank staff in Indonesia and the requirement that work permits for foreign bank personnel are first approved by Indonesia’s Central Bank; and restrictions on the number of branches a foreign bank can own in India. These domestic policies may all be inhibiting growth in financial-sector FDI.

Third, Qantas has pulled out of its joint venture with Malaysia Airlines, which would have seen them operate a high-quality service offshore. Qantas’ options are constrained by caps on foreign ownership that operate to establish a ‘rule of origin’ for market access, according to the arcane regulatory system that applies to international aviation. So shifting offshore, as part of a strategy to respond to a loss of competitiveness due to operation out of an Australian base, requires that a joint venture be set up. But if prospective joint venturers cannot raise the cash for a new project, which appears to have been the case here, then Qantas is stymied even if it could raise its own contribution.

So there is a complex and wide-ranging set of measures that constrains FDI flows in the region and which involves significant cost. In such an environment, how can we progress? As mentioned, consistent and high-quality global and regional commitments are difficult. Three suggestions can be made.

First, some innovation in negotiating modalities is worth considering. Negotiators on trade in services are trying one route that is relevant to investment: a plurilateral agreement in the WTO. This agreement should not be discriminatory, but should provide all WTO members with access to policy changes.

Second – since the success of international processes ultimately depends on the level of interest at home – a ‘public policy strategy’ to engage and strengthen domestic public interest through a series of relevant questions should be explored. For example, what is the stocktake of current policy? What is the problem the current policy is designed to solve? What are the options and what is the best policy choice? Backing this up with substantial research on how FDI fits into the business strategy portfolio could lead to progress. Capacity-building work around the region that analyses this sort of policy might also serve as a parallel step.

This second suggestion sounds like an APEC agenda item. APEC last year reissued its Non-Binding Investment Principles, and under the Indonesian leadership of APEC in 2013, Australia could work on a plan for their implementation – particularly in key services sectors of mutual interest, like health, education and logistics.

Third, Australia could set the tone and multilateralise its commitment to the US of only requiring a FIRB review for those projects worth more than $1,062 million. Increased flows of FDI could offer Australia and the region significant opportunities in the Asian Century, but the policy barriers outlined above must be tackled if we are to take advantage of them.

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By year-end 2011, our international investment liabilities exceeded our international investment assets by $853 billion.

But the challenges arising from trade flows are only part of the story that will confront economic policy-makers during the Asian Century. Countries are also linked by investment flows, and policy development with respect to this channel is lagging badly.

A national liability
The investment channel takes on added significance in the case of Australia, given our long-standing reliance on foreign savings to fund domestic investment and consumption. Australian Bureau of Statistics (ABS) data show that, bar a few quarters, Australia has not recorded a surplus on the current account over the past 50 years.

By year-end 2011, our international investment liabilities exceeded our international investment assets by $853 billion.

Data from the Reserve Bank of Australia (RBA) shows that 18.1% of the liabilities of Australian banks are owed to non-residents.

Lagging investment
What is striking about Australia’s international investment linkages is not only their scale, but also how their composition differs so dramatically from our trade linkages.

In 2011, merchandise exports to Asia (ASEAN, China, Hong Kong SAR, India, Korea, Japan, Taiwan) accounted for 76.2% of Australia’s total. Yet in 2010, the latest year for which data are available, these countries were only responsible for 21.0% of total foreign investment flowing into Australia. If Japan is removed from the calculation, the share drops to a paltry 6.3%.

The Asian share of the stock of foreign investment in Australia is no more impressive at 12.87%, or 6.87% minus Japan. In contrast, the shares of the US and UK stood at 27.94% and 24.02%, respectively.

For all the talk of behemoth Chinese state-owned entities buying up Australian mining and farming assets, the Chinese share of the stock was less than 1%. In 2010, Chinese investment in Australia actually fell to $1.65 billion, down from $7.82 billion a year earlier.

The limited scale of Asian investment in Australia is particularly noteworthy given that the region includes
some of the world’s most prodigious net capital exporters, namely China and Japan.

**Beyond a hole in the ground**

Aside from being limited in scale, Asian investment also appears narrowly concentrated in just one industry sector: mining.

Comprehensive data showing foreign investment by country as well as industry sector are scarce. One source that provides some indication is the annual report of the Foreign Investment Review Board (FIRB).

This shows that for all countries over the period 2007-2010, the value of approved investment in the mineral exploration and development sector accounted for 47.34% of the total. However, with the exception of Singapore, this share was considerably higher for Asian countries. For example, in the case of China, it was 86.88%.

Thus, aside from managing the two-speed economy, another major challenge that policy-makers face is plotting a path to effectively tapping Asian capital markets in order to promote broader-based, higher value-added, and ultimately more sustainable, productive activities.

Looking forward, the big player in terms of investment flows is clearly going to be China. It hosts 1.4 billion people, has an exceptionally high savings rate and is expected to continue experiencing rapid income growth.

To some extent, this job will be made easier as countries such as China continue to open up their economies and allow domestic capital to flow abroad more freely. However, it would be naive to assume that Asian interest in our unique endowments of natural resources will automatically translate to a broader investment interest.

**Australia’s potential**

To be sure, Australia already has a number of basic policy settings right, such as political stability and a strong system of intellectual property right enforcement.

Yet there is evidence that more can be done. According to the latest World Investment Report, published by the United National Conference on Trade and Development (UNCTAD), Australia ranked 15th out of nearly 200 countries for its foreign direct investment (FDI) “potential”.

A country’s potential is calculated based on 12 variables expected to influence a country’s attractiveness to foreign investors. However, our actual performance in attracting FDI ranked only 72nd. Understanding why there is such a gap – and seeking to bridge it – is vital.

**Getting it right with China**

Looking forward, the big player in terms of investment flows is clearly going to be China. It hosts 1.4 billion people, has an exceptionally high savings rate and is expected to continue experiencing rapid income growth. Its capital account continues to open gradually and, as long as its own financial sector remains repressed (for example, real interest rates on savings deposits in China’s banks are currently negative), there will be additional incentives for domestic savers to seek out higher returns overseas.

And yet it is with respect to China that our investment policy performance has been most lacking. After the recent ban by the federal government on Huawei supplying equipment to the National Broadband Network, and the near-hysteria surrounding Chinalco’s earlier proposed investment in Rio Tinto, it would be difficult for Chinese companies to view Australia’s attitude to foreign investment as anything other than arbitrary and opaque.

Until such basic policy positions can be clearly articulated and justified, it will be nigh on impossible to pursue other worthy endeavours, such as positioning Australia to become an offshore trading centre for the Chinese currency, the renminbi.

The recent Memorandum of Understanding (MOU) signed between Australia and China relating to infrastructure projects is a welcome development.

One hopes that the Working Group charged with developing this MOU is able to achieve more than has been the case with stalled negotiations for an Australia-China free trade agreement.

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The Conversation | http://theconversation.edu.au
Australian finance in the Asian Century

Developing a financial system that effectively serves the Asian real sector will be a serious challenge for Australia, writes Andrew Sheng, President of the Fung Global Institute.

Former Australian Prime Minister John Howard was first attributed as likening his country to America’s deputy sheriff in Asia back in 1999. This observation may have been true during the Cold War – when Australia was the Anglo-Saxon outpost near the Bamboo curtain – but with Australia’s trade and investment with Asia now outweighing that with America and Europe, the geopolitical landscape has changed profoundly. Perhaps Canberra also took note of the late Indonesian strategist Hadi Soesastro when he remarked that in many westerns, it is the deputy sheriff who usually gets shot.

The wild west aside, Australia has always had a great deal of influence on Asia. Many of the Asian elite are Australian educated, and many middle-class elite migrated to Australia for their children’s education. A great number of them are now back in Asia, filling key positions as policy makers, business leaders and academics, and strengthening Australia-Asia ties.

In many ways, Australia is a perfect complement to Asia, an over-populated region with relatively scarce resources per capita. With vast natural resources and small population, Australia can prosper simply by exporting raw materials and services, and importing Asia’s manufactured goods. If water scarcity does not become a constraint, Australia will become an important source of food, wine, culture and education for an increasingly affluent Asia. And since Australia is already an OECD-level advanced economy with strong rule of law and social infrastructure, the country’s knowledge services will find ready markets in Asia.

But Australia-Asia relations in the 21st century – and Australia’s capacity to maintain these financial ties – will depend on two scenarios for Asia: one bright and one bleak. The mainstream view, more a linear extrapolation of current trends, is that Asia will account for more than half of global GDP and financial assets by 2050. By that time Asia will have many major economic powerhouses or regions, such as China, India, Japan, Korea, ASEAN, the Gulf states and possibly Central Asia. Australia will continue to prosper but its relative weight – and influence – will necessarily decline if Asian growth outpaces that of Australia.

By sheer force of a young population rising into the global market, with access to modern technology and a dose of above-average governance, Asia has a growth momentum that will not be easy to stop. But neither sustained good governance nor good weather is an historical inevitability, with the potential for internal conflict and external pressures an added complication. Hence, an alternative scenario cannot be ruled out.

This alternative scenario applies not only to Asia but also to the world. In 1972, the famous ‘Limits to Growth’ model showed the earth was running out of resources. In 2002, the authors completed a 30-year review and found nothing to change its scenarios. The 2007 review by an Australian CSIRO scientific researcher, Graham Turner, found that current industrial production, food production, population and pollution are all in line with the model’s projection of economic and societal collapse in the mid-21st century. Although the mainstream belief is that technology has the potential to avert such a scenario, the fact remains that many parts of Asia are already highly polluted, water stressed and highly vulnerable to climate change. In such a scenario, the sparsely populated Australian continent would be an island of relative peace and self-sufficiency in food and security, making it a natural sanctuary for refugees. This raises a different set of questions on defence and security management.

While these two scenarios pose significant questions for the future, the current financial relationship between Australia and Asia is not without its own issues. Australia has one of the most advanced financial systems in the Asia Pacific and emerged from the global financial crisis relatively unscathed, despite its closer financial ties with London and New York compared with Tokyo, Hong Kong, Singapore or Shanghai. This was thanks to prudent macroeconomic management and financial regulation, since Australian banks were highly concentrated, profitable and did not venture into the toxic derivative trade.

But the fact remains that Sydney and Melbourne have not become major Asian financial centres because their links with the continent are still relatively shallow. Presently, Australia finances its current account deficit mainly through the London and New York markets. The oddity is that much of the global savings placed there are now from those countries in Asia with current account surpluses. This circuitous route is particularly anomalous, although it reveals some interesting features.

First, despite being very advanced in the investment-banking field, no Australian financial institution has attained Goldman Sachs/Morgan Stanley class. This suggests that Asian investment banks are even further behind in the evolutionary process. Second, while Australian banks are thriving on a concentrated banking model that lives off a resource-based economy, they have not evolved on a regional basis. So, sound macro-prudential supervision is no substitute for innovative banking models that Asian counterparties can emulate.

Developing an innovative, prudent and stable financial system that serves the Asian real sector will be a serious challenge, especially given the failure of the Wall Street derivative model. Australia has the most advanced financial infrastructure in the Asia-Australasia time zone, but its financial institutions lack deep Asian connections through office branches and business relations. The desire to overcome this challenge speaks volumes about the scope for increased cooperation and integration during the coming decades.

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East Asia Forum | www.eastasiaforum.org
Australia’s economic powerhouses are booming, and Australia wants a piece of action. By embedding the country firmly at the heart of the ‘Asian Century’, Julia Gillard needs to recognise that with financial benefit comes responsibility to ensure security in the region.

**SECURITY RISKS, OLD AND NEW**

From narcotics smuggling in West Asia, to simmering great power rivalry between China and the United States, Asia’s states and peoples must navigate a striking diversity of security threats.

Conflicts over territory are perhaps the oldest and, in Asia, probably the most acute kind of security challenge. The disputes over the status of Taiwan, the still official state of war that exists between the two Koreas, the unresolved border between China and India and the India-Pakistan conflict over Kashmir are the longest standing.

But there are also battles over resources and strategic advantages in islands in Northeast Asia and the South China Sea.

**MORE MILITARY SPENDING**

As Asian states have become wealthier they have begun to invest more in their armed forces. Almost all of them are spending heavily on offensive military hardware such as ballistic missile systems, supersonic jet fighters and attack submarines, ramping up tension.

It also fuels a sense of uncertainty and broader insecurity. And Australia is key player in this process. In the 2009 *Defence White Paper* the government committed itself to long-term real increases in military spending and buying offensive weapons.

Yet another risk to security is the rivalry that results from economic prosperity meeting a powerful sense of ambition. Asia’s emerging powers are not only large, but they aim to be powers of the first rank and wish to be beholden to no one.

The competition is on – particularly given that for at least the past 30 years, America with its powerful military,
has shown that it intends to maintain its position of pre-eminence.

**TRANSNATIONAL THREATS**

If these concerns were not enough, Asia’s societies and peoples are also faced with a series of threats and risks that are crucial to the region’s prosperity.

Transnational terrorism, environmental degradation, unregulated population movement, low-intensity internal conflict, infectious diseases, and resource scarcity are the greatest worries. The region is also prone to natural disasters, the effect of which can be tremendous due to the size and density of Asia’s populations.

No single country can tackle these problems – co-operation is essential.

**REGIONAL CO-OPERATION**

As globalisation as increased uncertainty, Asian states have significantly increased their efforts to co-operate on security matters over the past fifteen years. They have established an often bewildering array of regional institutions and processes, including the creation of no fewer than 12 multilateral institutions which foster co-operation on security.

From the Asia-Pacific Economic Cooperation (APEC), to the East Asia Summit, the Association of South East Asian Nations (ASEAN) Regional Forum and the ASEAN Defence Ministers’ Meeting Plus (ADMM+), there is no shortage of talking shops.

And that’s before we take into consideration the ‘track two’ meetings between academics, journalists and policymakers. There have been 250 of those each year since 2007.

It is true that aspects of security co-operation have made important contributions. Without this array of institutions the international consequences of China’s rise would have been much more disruptive than has been the case to date.

But this return is fairly meagre given how much talking is done between states.

**TALK, NOT MUCH ACTION**

Although Asian states tend to talk up their commitment to security co-operation, the reality is that their willingness doesn’t match their rhetoric.

Why? Partly because there are too many institutional ways to co-operate, which are poorly designed and overlap.

Often they have a very similar membership and a virtually identical work program. Counter-terrorism is talked about in all 12 intergovernmental bodies; while virtually all the same people show up to APEC, the EAS and ADMM+ meetings.

At a basic level operations and resources need to be rationalised.

The other problem is that Asian states are happy to talk about security in a broad, non-committal sense but they do not trust one another enough to take further steps, even after years of discussions. And security co-operation is very limited because many states are adopting policies that are almost entirely contradictory.

As their representatives attend seemingly endless security summits, states are taking steps to prepare themselves for worst case military scenarios through increased defence spending. That’s not the way to increase trust.

And let’s not forget that the sheer size of the US, China and India mean they will always dominate security discussions.

**PROBLEMS FOR AUSTRALIA**

Australia has been a key player in efforts to develop and improve security co-operation in Asia, but it is a lead player in the region’s defence expenditure escalation.

Central to that process has been the long-running efforts to tighten Australia’s alliance with the US – something which hasn’t escaped Beijing’s attention. Efforts to drive co-operation in Asia will be limited by Australia’s own policy choices.

**TRADE WON’T SOLVE EVERYTHING**

The liberal ideal that trade and investment, together with international institutions will effectively damp down rivalry and reduce insecurity in international relations, but so far experience seems to be a case study refuting that theory.

Unless states have a significant change in attitude, an improvement in institutional design and an increase in investment, the prospects for security cooperation in Asia are not likely to improve anytime soon.

Australia, take note.

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The Conversation | http://theconversation.edu.au
Australia’s bilateral relationships in Asia

A concise overview from the latest year book by the Australian Bureau of Statistics

NORTH ASIA

North Asia is of key strategic and economic significance to Australia. Its markets account for over half of Australia’s merchandise exports. The stability and economic development of the region, and its relationship with the United States, bear directly on Australia’s security and prosperity.

Japan

The Australia-Japan relationship is among Australia’s closest and most important. It is underpinned by shared values, intersecting interests and common approaches to international security challenges. Both countries are industrialised democracies committed to prosperity and stability in the Asia-Pacific region. Australia and Japan are working together to identify new areas to broaden the existing partnership on security matters, including counter-terrorism and counter-proliferation. The 2007 Joint Declaration on Security Co-operation was a milestone in the bilateral relationship. The two countries are implementing the ambitious security arrangements envisaged in the declaration, including through regular foreign and defence ministers’ talks, joint exercises and training. Helping Japan respond to the devastating earthquake and tsunami in March 2011 became a major focus of Australia’s bilateral co-operation in 2011 and contributed to deeper and more enduring community contacts and understanding between the two countries.

Japan remained Australia’s second largest trading partner and export market in 2010-11 and third largest source of foreign direct investment. Australia’s merchandise exports to Japan totalled $47 billion in 2010-11 and Japan was Australia’s top export market for coal, beef, aluminium, liquefied natural gas (LNG), dairy products and woodchips. Australia and Japan regularly discuss trade and economic issues, including at the Trade and Economic Ministers Dialogue, most recently held in Sydney in February 2011. Australia welcomes the Japanese government’s renewed commitment to economic reform, and will continue to work with Japan to progress negotiations for a bilateral free trade agreement that will deliver economic benefits to both countries.

Reflecting a shared approach to multilateralism, Australia works closely with Japan through a range of multilateral institutions. Australia and Japan also have a record of co-operation in areas such as humanitarian relief, peacekeeping, responding to the global financial crisis, and addressing climate change. Differences on whaling have not disrupted the broader relationship and the two governments have agreed that this should remain the case.

The cultural relationship between the two nations continues to grow. At 2011, there are 16 Australia-Japan and Japan-Australia societies providing grass-roots community support to the relationship, as well as 99 sister city alliances. The Australian and Japanese governments support grassroots efforts to increase Japanese-language learning in Australia and related exchanges, including through the Australia-Japan Foundation.

China

Australia’s relationship with China is based on mutual respect and a recognition of shared interests and differences. The relationship has continued to grow and mature as Australia engages with China on various issues of mutual interest, including climate change, nuclear non-proliferation and development assistance in the South Pacific. Australia and China have regular bilateral dialogues on climate change, consular issues, human rights and regional security, and co-operate through a range of multilateral institutions.

China’s importance to Australia has grown with China’s increasing economic, political and strategic influence in the Asia-Pacific region and in the global economy. In 2010-11, China was Australia’s largest two-way trading partner for goods and services. The value of trade with China topped $100 billion for the first time in 2010. Two-way goods and services trade was $113.3 billion in 2010-11, an increase of 26% compared to the previous year. Australia is working to diversify its trading relationship with China and exploit new opportunities presented by China’s continued high growth, including in South West China. Both governments are continuing negotiations for a bilateral free trade agreement.

Frequent high-level visits between Australia and China continue to strengthen the relationship. Prime Minister Gillard’s visit to China and Poliburo Standing Committee Member Jia Qinglin’s visit to Australia in April 2011 highlighted the growing trade and economic relationship and the commitment on both sides to strengthen bilateral relations.

Non-government links play a vital role in the Australia-China relationship. Australia’s participation in the Shanghai World Expo in 2010
Australia’s Engagement with Asia

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Australia’s Engagement with Asia

Australia’s Engagement with Asia

A number of significant events in 2010-11 reinforced the close co-operative relationship between Australia and the ROK. Prime Minister Gillard visited the ROK in April 2011 to mark the 50th anniversary of the establishment of diplomatic relations, and to attend the G20 Summit in Seoul in November 2010. To celebrate the 2011 Australia-Korea Year of Friendship, Australia and the ROK held year-long cultural programs in the ROK and Australia. Australia’s participation in the Expo to be held in Yeosu, from May to August 2012, will further strengthen business and other non-government links, building on existing work to deepen exchanges between the two countries. In 2010, the ROK was Australia’s eighth-largest source of visitor arrivals and third-largest source of overseas student enrolments.

Taiwan

Within the framework of its one-China policy, Australia promotes important economic, trade, cultural and non-government links with Taiwan. Australia’s merchandise exports to Taiwan were valued at $9.1 billion in 2010-11, Australia’s fifth largest merchandise export market. Recent developments in the bilateral relationship include bilateral economic consultations in May 2011, the negotiation of an Investment Promotion Accord and a streamlined Electronic Travel Authority facility for Taiwan passport-holders.

Republic of Korea

Australia’s political and economic relationship with the Republic of Korea (ROK) continues to grow, building upon shared democratic values, common strategic interests and substantial and complementary economic ties. The ROK was Australia’s third largest goods and services export market in 2010-11, with exports increasing by 32% from the previous year to $24.3 billion. Key Australian exports to the ROK include iron ore, coal and crude petroleum. Key imports from the ROK include passenger motor vehicles and refined petroleum. Negotiations are almost complete for an Australia-ROK Free Trade Agreement, which will further strengthen economic and trade links between the two countries.

Democratic People’s Republic of Korea

Australia continued to seek support at regional meetings such as the EAS and ARF to urge the Democratic People’s Republic of Korea (DPRK) to end its nuclear weapons program and comply fully with the Nuclear Non-Proliferation Treaty. Australia continues to implement autonomous sanctions against the DPRK, in addition to the sanctions mandated by UN Security Council Resolutions 1718 and 1874.

Australia urged a strong response from the international community to the DPRK’s shelling of Yeonpyeong Island in November 2010, which killed and injured armed forces personnel and civilians. The incident followed the DPRK’s sinking of a ROK naval vessel earlier in 2010, with the loss of 46 lives. In 2011, Australia urged calm and restraint by all parties following the death of Kim Jong-il and worked with regional partners including the United States, Japan and the ROK to urge the new DPRK leadership, under Kim Jong-il’s third son, Kim Jong-un, to take this opportunity to act in the interests of its own people, engage constructively with the international community, and comply fully with its obligations and commitments to denuclearise.

SOUTH EAST ASIA

South East Asia is a region which is critical to Australia’s continued security and prosperity. Australia’s relations with the countries of South East Asia continue to strengthen with increased trade and two-way visits, demonstrating the value of increased co-operation with partners in the region.

Indonesia

Australia and Indonesia are close neighbours and enjoy a wide-ranging relationship encompassing political, security, commercial and cultural links. Australia and Indonesia cooperate closely on regional and global challenges including counter-terrorism, people smuggling, transnational crime, illegal fishing and climate change. The relationship is underpinned by frequent two-way high-level exchanges, including more than 90 ministerial visits between Australia and Indonesia since November 2007. During President Yudhoyono’s state visit to Australia in March 2010, leaders agreed to upgrade the Australia-Indonesia relationship to a ‘comprehensive strategic partnership’, in which leaders agreed to meet annually and forward defence ministers would meet in a ‘2+2’ format each year. To strengthen education, culture, media, business and sports links, leaders decided to establish the Australia-Indonesia Dialogue, which first met in Jakarta in October 2011.

During Prime Minister Gillard’s November 2011 visit to Indonesia, leaders agreed to begin formal
negotiations on the Australia-Indonesia Comprehensive Economic Partnership Agreement (CEPA). The CEPA will deepen and broaden the economic relationship between the two countries, building on the ASEAN-Australia-New Zealand Free Trade Agreement. Indonesia is Australia’s 12th largest trading partner, with two-way goods and services trade totalling $13.8 billion in 2010-11. Australia’s goods and services exports to Indonesia were valued at $6 billion in 2010-11. Australia’s major exports to Indonesia include wheat, education-related travel, crude petroleum, live animals and aluminium.

Non-government links are an important part of Australia-Indonesia relations. Over the past two years, the Australia-Indonesia Institute has provided 81 grants in fields such as the arts, education, faith, media, science and technology, and youth.

**Malaysia**

During reciprocal Prime Ministerial visits between Australia and Malaysia in 2010 and 2011, the diverse nature of the relationship was demonstrated by agreed measures to strengthen regional security, trade and public sector reform. In March 2011, Australia and Malaysia signed memoranda of understanding on co-operation in education and sport. Also, in March 2011, prime ministers called for conclusion of Free Trade Agreement negotiations within twelve months. Australia’s high level of engagement with Malaysia on security issues was strengthened in July 2011 by the signing of a Memorandum of Understanding on co-operation on maritime law enforcement and by Malaysia’s co-operation on combating people-smuggling. Australia and Malaysia also participate in joint defence exercises, including for the 40th anniversary of the Five Power Defence Arrangements in 2011.

Australia and Malaysia continue to enjoy strong trade and other non-government links. In 2010-11, Australia exported goods and services to Malaysia valued at $5.7 billion, and imported goods and services valued at $10.1 billion. Investment relations remain deep, with Malaysian direct investment in Australia valued at around $8.2 billion and Australian direct investment in Malaysia valued at around $4.4 billion. Australia is the top education destination for Malaysians and around 21,000 Malaysian students were enrolled to study in Australia in 2010. The Australia-Malaysia Institute, established in 2005 to strengthen further institutional links, supported a broad range of projects and activities, including a sister schools program, and a young leaders program in May 2011 that brought together 21 emerging leaders from Malaysia and Australia.

**Singapore**

Australia and Singapore share a close relationship built on strong defence and trade ties, as well as like-minded views on a range of regional and issues. Singapore is Australia’s largest trade and investment partner in ASEAN. Australia’s goods and services exports to Singapore in 2010-11 were valued at $8.3 billion, while goods and services imports from Singapore were valued at $15.1 billion.

Singapore is a significant source of foreign investment into Australia, with total Singaporean investment stock valued at $43.8 billion in 2010. The Singapore-Australia Free Trade Agreement (SAFTA) is Australia’s second-oldest FTA, and continues to create opportunities for businesses to trade and invest between the two countries. The outcomes of the second review of SAFTA came into effect in 2011, creating greater certainty for business by ensuring that investors from each country are accorded fair and equitable treatment when investing in the other country.

Non-government links between Australia and Singapore continue to develop, building on strong education and tourism sectors. Australia continued to host a number of Singapore Armed Forces military units in Australia and undertakes regular joint defence exercises, including through the 40th anniversary of the Five Power Defence Arrangements in 2011. Australia and Singapore also participate in multilateral and regional security operations, including in Afghanistan and the Gulf of Aden.

**Thailand**

Australia and Thailand will celebrate the 60th anniversary of diplomatic relations in 2012. This will provide opportunities to continue regular high-level engagement, building on visits to Thailand by the Governor-General in April 2011 and the Minister for Foreign Affairs in May 2011. The strong and broad-based relationship continues to be enhanced by non-government links through the work of the Australia-Thailand Institute (ATI), which supports high-level visits and youth exchanges. The ATI also provides funding to projects improving links in fields such as trade, democratic governance, public administration, arts, culture, education, science, technology and innovation.

Approximately 16,500 Thais are studying in Australia, and over 700,000 Australians visit Thailand every year. Australia’s trade and commercial relations with Thailand are robust, with total two-way goods and services trade in 2010-11 reaching $19.1 billion, making Thailand Australia’s second largest trading partner in South East Asia.

**Philippines**

Australia’s significant relationship with the Philippines continues to strengthen across a range of areas including counter-terrorism, defence and maritime security, trade and investment, development, and regional and multilateral engagement. Regular high-level engagement has provided opportunities for Australia to support the Aquino Administration’s progressive reform agenda. Australia hosted the third Philippines-Australia Ministerial Meeting (PAMM) in Canberra on 16 June 2011 involving ministers responsible for foreign affairs and trade from both countries. Ministers discussed counter-terrorism, defence
and security, the peace process in the southern Philippines, development assistance, trade and investment, and regional and multilateral engagement.

Economic co-operation has focused on enhancing opportunities for Australian businesses in the Philippines mining sector. Non-government and immigration links also continue to develop, and the Filipino community is one of the fastest growing in Australia.

**Vietnam**

Australia’s increasingly important relationship with Vietnam is reflected in the Australia Vietnam Comprehensive Partnership, signed in 2009, and the associated Plan of Action, signed in October 2010. Australia and Vietnam co-operate in a range of fields including political and public policy exchanges, trade and investment, development assistance, defence and security, and non-government links. High-level political contact is strong, with a number of visits over the past two years, including by the Governor-General, Prime Minister and Foreign Minister.

Trade has grown at an average of around 10% over the past decade, and stands at $6.1 billion. In December 2011, Vietnam hosted the 10th Joint Trade and Economic Cooperation meeting in Hanoi. Co-chaired by the Australian Minister for Trade and the Vietnamese Minister for Planning and Investment, the meeting agreed on a number of areas of further economic co-operation, including resources and energy.

Education links continue to be a particularly important part of the relationship. There were over 25,000 Vietnamese enrolments in Australian institutions in 2010, and a further 15,000 Vietnamese studying in Australian institutions based in Vietnam. Australia continues to engage productively with Vietnam on human rights issues, including through the annual Human Rights Dialogue. The last Dialogue was held in Canberra in February 2011. Australia also works with Vietnam to advance the global and regional agenda, including through the EAS, APEC and the Trans-Pacific Partnership negotiations.

**Cambodia**

Australian engagement with Cambodia is increasing, underpinned by historical ties stemming from Australia’s leading role in the Cambodian peace process. Cambodia will chair ASEAN and the EAS in 2012, providing further opportunities for high-level co-operation. Australia is the second largest donor to the Extraordinary Chambers in the Courts of Cambodia, where surviving leaders of the former Khmer Rouge regime are being tried. Australian investor interest in Cambodia continues to grow, including in the banking, infrastructure, mining and agribusiness sectors.

**Brunei Darussalam**

Australia and Brunei Darussalam enjoy a constructive relationship with growing links in the fields of security, education and trade. Bilateral defence and security co-operation is enhanced by memoranda of understanding on co-operation in terrorism and transnational crime. Trade and investment remain an important focus of Australia’s bilateral relationship with Brunei, with total two-way trade in goods and services amounting to $1.3 billion in 2010-11.

**Laos**

Australia and Laos will celebrate the 60th anniversary of diplomatic relations in 2012. The diverse relationship between the two countries is complemented by regular high-level official visits and growing non-government links. Economic ties are characterised by significant Australian investment in the Lao mining sector, and will further deepen as the Lao economy continues to grow strongly.

**Burma**

Australia engages actively with the international community on policy approaches to Burma, including voicing concerns on human rights and democratic reform. The government responded to the inauguration of Burma’s first nominally-civilian government in 50 years and the opening of new national and regional parliaments and assemblies; the renewed dialogue between Burma’s government and Aung San Suu Kyi; and revisions to legislation in a range of areas. The government identified a range of strategies to help support the reform process in Burma. The then Minister for Foreign Affairs, Mr Rudd, visited Burma in June-July 2011, the first such visit since 2002. Australia is Burma’s second largest development assistance provider, with a focus on education and health.

**East Timor**

Australia is at the forefront of international efforts to help East Timor (Timor-Leste) maintain its stability and become a more prosperous nation, including by providing a budgeted $124 million in 2011-2 through the development assistance program, and shared management of petroleum resources in the Joint Petroleum Development Area.

Australia continued to advocate ongoing international engagement, including the renewal in February 2011 of the mandate for the UN Integrated Mission in Timor-Leste (UNMIT). Australia continues to lead the International Stabilisation Force (ISF) which helped restore stability after unrest in mid 2006. The ISF remains in East Timor in support of UNMIT. The then Minister for Foreign Affairs, Mr Rudd, reinforced Australia’s friendship with East Timor during his visit as Foreign Minister in July 2011, as well as Australia’s long-term commitment to East Timor’s development when he signed a Partnership for Development with East Timor in December 2011.

**SOUTH AND WEST ASIA**

**India**

Australia has placed India in the front rank of its international partnerships and is engaging with India on a long-term, strategic basis. The bilateral relationship has been strengthened through the Australia-India Strategic Partnership, agreed by prime ministers in November 2009. Annual high-level exchanges take place between Australian and Indian foreign and trade ministers. To further support the growing bilateral relationship, the number of Australian staff posted to India has risen by 85% since 2008,
including new positions in Australia's Consulates-General in Mumbai and Chennai. Between January 2008 and December 2011, there were 24 ministerial-level visits from India to Australia and 30 ministerial-level visits from Australia to India.

The economic relationship has grown steadily in recent years and has the potential to increase considerably as India's economic expansion continues. India is Australia's eighth largest trading partner with two-way trade reaching $21 billion in 2010-11. In May 2011, the Trade Minister, Dr Emerson, and the Indian Commerce and Industry Minister, Mr Anand Sharma, launched negotiations for an Australia-India Comprehensive Economic Cooperation Agreement.

In November 2011, Australia and India expanded co-operation on Indian Ocean regional affairs, when Australia became Vice-Chair, and India Chair, of the Indian Ocean Rim Association for Regional Cooperation.

The Australia-India Council, established to broaden and deepen bilateral contacts and understanding, will celebrate its 20th anniversary in 2012. Its work in 2010-11 focused on education, science, technology, environment, social initiatives, public policy and the arts.

### Afghanistan

The Australian Government is committed to international efforts to stabilise Afghanistan and to seeking to ensure that international terrorist groups are denied safe haven there. In 2010 and 2011, Australia expanded its diplomatic presence in Afghanistan both in Kabul and southern Afghanistan. Since August 2010, Australia has led the Provincial Reconstruction Team in Uruzgan, which works with local governments to support reconstruction and development and to prepare Afghan authorities to assume these roles by the end of 2014. Australia is among the top ten bilateral development assistance partners for Afghanistan, and has committed more than $700 million in development assistance for humanitarian and reconstruction efforts since 2001.

In 2010, Australia was the largest non-NATO contributor to the International Security Assistance Force (ISAF) in Afghanistan and the 10th largest overall. In 2010, there were approximately 1,550 Australian Defence Force members engaged in security and stabilisation efforts in Afghanistan (including training and mentoring), with over two-thirds of these in Uruzgan Province.

### South Asia

Australia is a longstanding friend of South Asia and delivered a significant humanitarian response to the 2010 and 2011 floods in Pakistan. Australia is committed to supporting Pakistan's efforts to address its security, economic and development challenges through a range of initiatives including defence training, strategic dialogue and capacity building in law enforcement and counter-terrorism.

In 2011, Australia supported Bangladesh's efforts to address poverty and respond to the challenges of climate change. Bangladesh is also an important economic, counter-terrorism and security partner for Australia. Australia provided support for post-conflict stabilisation in Sri Lanka and continues to support human rights and political reconciliation. Australia supported efforts in Nepal to urge political parties to keep the peace process on track and address human rights concerns. Australia's commitment to democracy in South Asia was demonstrated by organising visits to Australia by election officials from Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka.

International relations chapter extract from 'Year Book Australia 2012'.

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ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The Asia-Pacific Economic Cooperation (APEC) is the leading economic forum for Australia's engagement with the Asia-Pacific, the world's fastest growing and most dynamic region. APEC has 21 member economies, including Canada, China, the United States and New Zealand. Two-way trade between Australia and APEC economies has risen from $82 billion, when APEC was formed in 1989, to $391 billion in 2010. Investment flows into Australia by APEC economies reached $859 billion in 2010 and outward Australian investment into the APEC region totalled $662 billion.

Australia plays a leading role in APEC, driving an ambitious agenda to provide support and momentum to the multilateral trading system, accelerating regional economic integration through trade, facilitating trade and investment liberalisation, intensifying structural economic reform, and promoting human security and institutional reform. In 2011, APEC economies agreed to resist protectionism and extend APEC’s standstill commitments to the end of 2015, reduce tariffs on environmental goods to 5% by the end of 2015, reduce region-wide energy intensity by 45% by 2035, implement policies to support market-driven innovation, address the top barriers to trade facing small and medium enterprises, implement good regulatory practices and structural reform priorities, and expedite business travel.

Australia has continued to promote in APEC the importance of structural economic reform as a way to boost growth and productivity. Structural reform has become a central pillar of APEC’s work, which Australia supports through its $3 million APEC Structural Reform Initiative. Australia has also welcomed the commitment to enhance the quality and efficiency of regulations in APEC economies, with a view to reducing the regulatory burdens on business. Australia supports APEC’s human security agenda to build resilience to disruptions to regional prosperity and stability, including from terrorism, disasters and disease.

To strengthen APEC’s links with business, Australia provides financial support to Australia’s APEC Business Advisory Council members – three top Australian business leaders appointed by the Prime Minister to ensure that APEC’s work aligns with business priorities and generates economic benefits.
engagement (Wesley 2011). Kokoda Foundation founder Ross Babbage believes Australia needs to forge much closer links with the US as China’s military forces expand (Babbage 2011). Canberra University’s Peter Leahy cautions against becoming too closely entangled with the US in a new bout of alliance fervour (Leahy 2012). Alan Dupont, of the University of New South Wales, argues that Australia needs to gird its loins for an ‘inflection point’ in strategic policy, which will see fewer interstate wars and more irregular conflict (Dupont 2012).

The debate waxes and wanes, quickening each time a new initiative surfaces – whether it’s the deployment of US marines on training exercises in Darwin, a fresh bout of worries about the South China Sea, one more double-digit increase in China’s defence budget, an announcement by the US Secretary of Defense at the Shangri-La Dialogue about the future US military presence in the Asia-Pacific, or renewed pressure on Australia’s own defence budget. It quickens too in response to signals of new high-potential partnerships – such as the recent meeting between Prime Minister Gillard and Indonesia’s President Yudhoyono.

What Australian strategy needs most of all is not hardware – despite the fascination of Australian media with heavy metal. It needs a better matrix to guide policy, in particular policy towards a transformational Asia. That policy must rest upon three factors: a sound understanding of the region and its likely future(s), an appreciation of our own possible role as a regional actor, and a willingness to accept – or surmount – the constraints that currently limit our role.

Let’s start with the first. Asia’s current strategic environment might best be described as ‘co-opetitive’; that is, it is neither cooperative nor competitive but a mixture of both. (The term ‘co-opetition’ was coined in business circles to describe how firms cooperate with each other even while competing. See Brandenburger and Nalebuff 1997.) The current environment makes the future uncertain – because Asia might just as readily become more competitive as more cooperative. Still, the news isn’t all bad: if ‘co-opetition’ makes the near-term embrace of the concepts of ‘Asian community’ or ‘Asian concert’ unlikely, so too is ‘war-prone Asia’ relatively unlikely.

What should our role be in this transformational Asia? We have a clear strategic interest in reinforcing a secure, liberal and prosperous Asian regional security order, because that’s the sort of order within which Australians can live comfortably. Our grand strategy should say so, and we should have at hand a set of coordinated national policies aimed at that end. That would include an ‘upstream’ policy of order-building as well as a ‘downstream’ policy of hedging. Order-building...
strengthens the prospects for a more cooperative Asia; hedging positions us for the worrying possibility of a more competitive Asia.

What are the constraints that limit our role? Essentially, they’re the constraints that limit any second-tier power: we can do only so much. We can be a force for good in the world, but not much good – most of the world’s big strategic problems lie outside our immediate neighbourhood and our role is seldom decisive. Because of our power limitations, we need to prioritise our policy settings carefully over the coming 20 years – focusing our efforts on achieving our grand strategy in the most likely Asian futures rather than the less likely ones. The likely futures are the ones most proximate to the current Asia – a fractious, somewhat competitive system of mainly introverted strategic cultures, some still harbouring a sense of historical resentment about being denied for too long their rightful place in the sun, tied together in a complex weave of both cooperation and competition. It’s those futures, ones where the region is neither perfectly cooperative nor perfectly competitive, that are most likely to develop.

This paper develops an argument for thinking about Australian strategic policy on the basis of statistics and game theory. It argues that the regional systems of reassurance and deterrence are under increasing strain from the transformational changes unfolding in Asia, and accepts that Asia’s strategic future is uncertain. What Australia needs is a formula for living with uncertainty. We can best do that by thinking about ‘the Asian futures of one standard deviation’ – that is, the 68% of futures most likely to unfold.1 Starting from the position that Asian security is currently co-competitive, half of those Asian would look more cooperative and half more competitive.2 When we think of our ‘upstream’ policy we should aim at reinforcing the best possible Asian future within that one standard deviation from the mean – specifically, by attempting to reinforce the integrated system of strategic reassurance that should accompany good economic and people-to-people relationships in a more benign Asia.

We have to be realistic: that benign Asia is still not going to be one that thinks of itself much as either a ‘community’ or a ‘concert’ – although that terminology will probably find increasingly greater usage among scholars and diplomats. It would still be an Asia considerably improved on the one we know today. In particular, it would be an Asia where cooperation is the dominant strategic motif, despite residual elements of competition, and where regional powers are increasingly the providers of regional reassurance. The metrics of reassurance are relatively straightforward: we want an Asia where rising powers accept their status as consequential powers; accept their role as regional reassurers and order builders; and work with other Asian first and second-tier powers, as well as with the US, to ensure a secure, liberal, prosperous regional order.

When we think of our ‘downstream’ policy we should aim at hedging principally against the worst possible Asia within that one-standard deviation from the mean – specifically by reinforcing the integrated system of strategic deterrence that inhibits early resort to force by any regional player. At the national level, we would want to strengthen both our alliance relationship with the US and the ADF. Again, we have to be realistic: that Asia is still not a ‘war-prone Asia’, merely a more nationalistic and competitive one. In short, we don’t need to start preparing now to fight the Asian wars that we could expect to arise under absolute worst-case planning – though we do need to be conscious that an Asia that’s one standard deviation more competitive would be more troubling and worrisome than the one we live with now. It would probably be an Asia where reassurance patterns remain determinedly national rather than regional, where economic integration recedes rather than grows and where bargaining patterns are distributive (‘win-lose’) rather than integrative (‘win-win’).

It’s important to stress that both our upstream and our downstream policies constitute one coordinated whole. Australia doesn’t have to choose between the two – it has to do both. It has to strive for the better Asia and prepare for the worse. But we mustn’t mislead ourselves or others that ‘preparing for a worse Asia’ is actually our grand strategy – it isn’t. Our grand strategy is to build a more cooperative Asia. Some will argue that we shouldn’t constrain our efforts to the one-standard-deviation rule, because standard deviations are about mathematics and not strategy. That’s perfectly true, but the rule’s a disciplinary device to bring focus to our policy. Already, too much of our strategic policy debate turns more on the unlikely Asias (the Asias of communities or wars) than on the likely ones.

It’s also true that Asia – especially transformational Asia – is a dynamic condition and not a static one. So we need good indicators to tell us in which direction Asia is moving and at what speed. There’s a range of indicators that we should be watching – force development, bargaining behaviour, the willingness to contribute to regional public goods, the evolution of better trust-based strategic relationships among Asian countries. None of them is perfect and all involve more than a little subjectivity, but the task is merely difficult, not impossible. Of course, as Asia does move, the one-standard-deviation line moves with it, implicitly requiring us to continually adjust our policies.

Much of our upstream strategy must be based on building a more reassuring regional order – one that isn’t based solely on US primacy. That doesn’t mean we want to erode the US regional position: there’s no compelling reason to drive the order artificially to more closely resemble changing power ratios. We don’t need to deliberately undercut US positional advantages in Asia to foster strategic stability in the region. US primacy in Asia isn’t systemically destabilising, and – notwithstanding the claims of Professor White – Australian policies intended to sustain US engagement don’t make the region more conflict-prone.

Still, as multipolarity grows in Asia, regional perceptions of US primacy are becoming more blurred. That blurring weakens the interlinked systems of reassurance and...
deterrence that underpin the current order. As Asian coercive power grows – and coercive power is the power to intimidate as well as the power to do actual physical harm – the region as a whole is entering a new era of reassurance worries. Many regional players have already begun to look for new means of reassurance, including by drawing the US back to a larger role in regional security. Some of that’s already visible in Australia’s own strategic thinking. It’s not entirely surprising that Australia feels a degree of trepidation about the Asian Century. Since white settlement we’ve lived in a Western-shaped Asia. Other Asian states have some historical memory of what it means to live alongside bigger, stronger, region-shaping Asian powers, but we have none. That doesn’t mean we should fear the future – but we will, of necessity, be sensitive to key issues of regional order and to the capabilities and intentions of the region’s rising players.

It’s neither unwise to engage the US in the enterprise of designing new mechanisms for regional reassurance, nor foolish to encourage Washington to invest in new forms of strategic engagement across the region. A US recommitment to Asia, much of the sort that’s currently unfolding, gives the region breathing space to find new arrangements. And it attests to an important fact: Asia isn’t about to slip back to being a ‘closed system’ as it was before 1850. But, as US primacy wanes, Australia has a compelling strategic interest in encouraging the rising regional powers to become more sophisticated suppliers of reassurance in their own right. In the long run, Australians will feel a measure of security in the transformational Asia only if it’s based on a stable, prosperous, liberal order that has ‘buy-in’ from first- and second-tier regional players and doesn’t turn solely on US primacy.

Our downstream policy must allow for the fact that Asia’s current co-operative condition might in later years become more competitive. Everyone in Asia is already hedging, and we should expect a continuing wave of military modernisation across the region. Still, only if Asia became much more competitive would we be at risk of sliding into a more combative milieu. Our current hedging policy should be aimed at providing us with the defence and alliance options appropriate to a more competitive Asia, as well as a strengthened set of ‘niche’ security relationships with Asian partners interested in open and direct defence cooperation. In terms of ADF force development, it should aim at an ‘expandable’ force that would better prepare us to respond to a possible slide towards a more combative Asia, but not that expanded force itself. Using the one-standard-deviation guide as a limit on our hedging policy, we don’t need to commit now to building an ADF that would allow us to go to war with an Asian great power.

This model assumes – though not unfairly – some inertia in the evolution of the Asian strategic environment, even during an era of strategic transformation. It assumes that there’s unlikely to be a rapid shift across two standard deviations that would deny us warning and preparation time for a vividly different regional security environment. Such a rapid shift might occur if some ‘black swan’ event precipitates a sudden absence of US power – for example, if the US were struck by a severe bioterrorist attack at home that crushed US power (and willpower) at its core for a generation. Something of that kind – highly unlikely but strategically significant – would disrupt the structure of the current order, at both the global and regional levels, and entice potentially revisionist players towards an attempted reconstruction of the order along their own preferred paths.

We have to use a disciplinary ruler of likelihood to constrain the realm of possible futures that we ought to plan for. The model sketched here focuses on more plausible one-standard-deviation shifts. Even those could see large-scale changes over the next couple of decades. It’s possible – over time – that the current co-operative Asia will give way to a more cooperative one. If the Asian security environment were to stabilise at about the one-standard-deviation line towards a more cooperative Asia, our own policy settings would obviously shift. Concert Asia or Community Asia might then be a plausible shaping target for an upstream Australian strategic policy. And our downstream hedging policy might focus merely on preventing a return to a co-operative Asia – a more modest objective that would permit a smaller ADF. It’s also possible – over time – that the current co-operative Asia will give way to a more competitive one. If the Asian security environment were to stabilise at about the one-standard-deviation line towards a more competitive Asia, our policy settings would also shift. Upstream, we’d be trying to encourage a return to co-operative Asia; downstream, we’d be worried about the possibility of war-prone Asia and our own hedging policy would become far more burdensome. In those circumstances, we’d be hedging against the prospect of actual conflict.

Of course, a third outcome is also conceivable: it’s possible that the current co-operative Asia will merely become more intensely co-operative, in which case our policy settings wouldn’t change much but our own relationship with Asia might similarly intensify. In brief, at all three points – cooperation, competition, and co-operation – our shaping and hedging policies would have to be regionally ‘appropriate’. But at all three points, we should keep in mind a clear understanding of our principal strategic objective – which is to build a better Asia. Like all regional countries, we’ll also hedge against the possibility that our strategy will fail, but we shouldn’t confuse our hedging position with our main strategy.

**NOTES**

1. In statistics, ‘standard deviation’ is a measure of the spread of a set of results around the mean. In broad terms, 68% of results occur within one standard deviation of the mean, and 95% of results fall within two standard deviations of the mean.

2. A graph of future scenarios appears on page 29 of this report, which readers might wish to turn to if they find the following brief explanation confusing.
We cannot be just deputy sheriff in the ‘Asian Century’: think again about ASEAN

Australia is too reliant on its alliance with the US, observes Anthony Milner

Australia is too often narrowly defined as a US ally. Let there be no doubt, the tag ‘Deputy Sheriff’ is potent and damaging in Asia. It suggests (quite falsely) that we allow our national interests to be subsumed in the United States global agenda. Such an image will not do, especially in the ‘Asian Century’.

We cannot keep talking of a new world and yet take for granted that the old arrangements will survive. Much American declinist comment is exaggerated, but the relative reduction in United States weight in the world is undeniable. Our government speaks of a ‘dramatic shift of economic power and, as a result, strategic weight to Asia’ – but many assume that the United States alliance must remain (in former prime minister Rudd’s words of 2008) the ‘strategic bedrock of our foreign and security policy’. Seventy years ago we adapted to a shift of power – recognizing the decline of the British empire, establishing a new alliance. How do we today supplement the United States dependence? Where do we turn? It may be best to think again about ASEAN – the ten Southeast Asian countries that are our nearest Asian neighbours.

To broaden our bedrock we have to look somewhere in the Asian region. One option is to strengthen relations with other regional countries close to the United States. We have a long record of cooperation with Japan, but distrust between Japan and China makes a sharp upgrading of Australia-Japan relations cause for suspicion, especially when there is a security dimension. Antagonising China, it is fair to assume, is not an ideal starting point for reinforcing our regional relations.

The rapidly growing India has been moving toward the United States, and a recent United States/India/Australia collaborative report has argued for reinforcing our India relations. But again, India-China rivalry will shape a Chinese response. The need for care in handling regional alliances was demonstrated in 2006 / 2007 when a ‘quadrilateral initiative’ between Australia, Japan, India and the US was mooted, and joint naval exercises carried out in the Bay of Bengal. The Chinese foreign ministry approached each of the governments involved, demanding an explanation.

ASEAN may well be the answer – ASEAN the regional organisation, and as a code for Indonesia, Thailand, Malaysia, Singapore and the other Southeast Asian countries that are our nearest Asian neighbours. China and India have tended to eclipse ASEAN in Australian thinking. Yet ASEAN is a significant region – a combined population of 613 million (India has just under 1.2 billion) and a total GDP of US $2.1 trillion (India’s is US $1.8 trillion). At times over the last decade ASEAN has been an even bigger trading partner for Australia than China.

We might refine our international persona, projecting ourselves not just as the American ally, but also as the country deeply engaged with ASEAN. The ASEAN states, to be sure, have presented challenges for Australia. There have been issues over people smuggling, terrorism, drug running, cattle slaughter and business ethics. We have been involved in military actions in more than half of the region. But ASEAN is also the region we know best. The disagreements themselves have deepened our engagement. Apart from our trading connection (especially in services industries) we have long-term military collaboration with several ASEAN countries and counter-terrorism agreements with most of them; our Federal Police are based all over the region and work closely with local forces. Australia was the ASEAN organisation’s first Dialogue Partner – meeting with the then five states in Canberra in 1974 – and at times our diplomatic cooperation with Indonesia has been outstanding. One example is the way we worked together to overcome the Cambodian crisis of the early 1990s. In Thailand, Malaysia and Vietnam we are the leading providers of Western education, and there are more ASEAN students in Australia than in the United States.

We might refine our international persona, projecting ourselves not just as the American ally, but also as the country deeply engaged with ASEAN.

In all these areas and more, Australia interacts in concrete ways with the ASEAN region – yet it must be said that ASEAN does not have a high profile in Australia, particularly in contrast to the United States, China, or India. Most Australians would not see ASEAN as critical to our geopolitical future, and ASEAN leaders seem to know this.

Acting more closely alongside ASEAN would not necessarily provoke China. Tensions (including military action) have occurred over recent years between some Southeast Asian countries and China – Vietnam, the Philippines – but in general ASEAN countries have been skilful in handling the Middle Kingdom. China may feel relatively comfortable in Southeast Asia partly because of its superior position in the regional hierarchy of the past. In modern times, in the difficult period following the Tiananmen Square Massacre of 1989, the Chinese leadership was grateful for a degree of Southeast Asian sympathy and was subsequently active in courting the region – including during the Asian Financial Crisis (1997-8).

China has also been strongly supportive of ASEAN’s leadership building Asian regional architecture. Although there is a wariness of China in Southeast Asia today, China knows it faces there nothing like the suspicion that operates in Japan, or even India.
The fact that ASEAN is a leader in region building enhances its attractiveness. It leads the security institution, the ASEAN Regional Forum (ARF) (1994); it linked up with China, Japan and South Korea in 1997 to establish ASEAN Plus Three (APT), then there was the East Asia Summit (EAS) (2007) and, most recently, the ASEAN Defence Ministers Meeting Plus (ADMM Plus) (2010). ASEAN also forged links with the EU through the ASEM (Asia-Europe Meeting) (1996). True, ASEAN is prominent partly because a claim to regional leadership from China or Japan would be seen as provocative; but ASEAN diplomatic skills have also been important (including in developing a code of principles and norms to underpin regional cooperation). Working with ASEAN helps Australia to enhance its own influence in the emerging regional architecture – and in the wider region.

Closer identification with ASEAN can gain Australia more clout in Washington and Beijing, and probably New Delhi. We want influence in the important matter of how United States-China relations develop. When we reinforce our ASEAN engagement (which our best leaders have done from time to time) it helps project Australia as a collaborator in Asian affairs – and counters our image as an outsider, somewhat at odds with our region. Projecting Australia as working with ASEAN, as well as the United States, could even prove reassuring for the Australian community – anxious, as it has been about the challenge ‘Asia’, the task of dealing with values and aspirations that sometimes seem to differ greatly from our own. Perhaps ironically, a highly effective ASEAN relationship gives Australia more to contribute to our United States alliance.

Other nations seek to strengthen ASEAN relations right now. Japan has long been a major investor and aid-donor – and last year announced a 2 trillion yen aid package for “development projects to strengthen regional integration”. In the case of Korea, trade has increased greatly, government ministers are making more frequent visits, an ASEAN–Korea FTA was signed (2006) and there is far more Korean than Australian investment in the region. The United States agreement to join the EAS in 2011 conveyed America’s acceptance that ASEAN is a “fulcrum for the region’s emerging regional architecture”, to quote Secretary of State Clinton.

Australia has an advantage based on our long experience in the region, as well as because of current indications that ASEAN would welcome closer engagement. This was certainly the message gained in a series of consultations conducted by Asialink over the last year. ASEAN countries are hedging with respect to China – keeping open their options, seeking to maintain elbow room. They have also been wary of a possible United States hegemony. Australia is considered a relatively low-risk hedging option. We are not viewed as specifically anti-China – nor do ASEAN representatives see China as directly hostile toward Australia. ASEAN wants more Australian investment to help balance Chinese investment. The region values our agricultural and resources industries, and the help we’ve given to the poorer ASEAN countries under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). ASEAN leaders see the usefulness of having Australia as an ally in the different regional institutions they lead. They see that ASEAN and Australia together – combining our very different strengths – might gain more clout with the larger regional powers. They share our interest in modulating growing rivalry between the United States and China – and here Australia’s close United States connection is seen to bring advantages.

ASEAN perspectives on Australia in the consultative process were surprisingly warm, considering our disputes over the years. Australia (according to an influential young Vietnamese) is “more ready than the United States to listen to Asia”. Another view was that Australia is “less intrusive, less likely to dictate, than the United States”. As a long-term Thai commentator saw things, the United States – unlike Australia – has not been “indigenised with the region.” Random and elite viewpoints, it is true, but they chime with a recent observation from ASEAN Secretary General Surin Pitsuwan that “Australia has identified with us more and more ... it is warm and cordial, much less distant now, no longer viewing itself as a European country stranded in the Pacific.”

Criticism of Australia focuses on the ‘deputy sheriff’ label. Modify your narrative, is the advice. At times the ‘deputy’ term has “seemed to represent the whole image of Australia, especially in its relations with ASEAN”. The United States alliance is often an Australian asset, but the consultations process heard that the impression that we allow our individuality to be subsumed within the American global power makes us less influential in regional terms (and presumably less useful to the United States). The ASEAN advice makes sense. It is not being urged that we try to become Southeast Asian, or to join ASEAN, but that we project Australia as a country that is close to ASEAN – collaborating, consulting, arguing at times, but a reliable partner with a long track record in Southeast Asia. Regional meetings provide superb opportunities to develop such a new narrative, supplementing Australia’s international personality as a close American ally. Some of our diplomats might say we are already on this track – but narrative-making is a task for political leadership.

Current ASEAN goodwill offers the Australian leadership an opportunity – the chance to develop a strategy for deepening our Asian engagement without merely exacerbating current regional tensions; a strategy that has the potential as well to reassure an Australian public still troubled by the phrase ‘Asian Century’. Closer, and highly visible, collaboration with the ASEAN region – supplementing our United States alliance – could help Australia deal with the China (and broader Asian) challenges that increasingly dominate our media. It would add to our ‘strategic bedrock’.

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**Australia, China and the United States: maintaining an equilibrium in the Indo-Pacific**

Indulging in any sort of conflict would be harmful for the countries involved, either directly or indirectly, asserts Saloni Salil in this strategic analysis paper

**SUMMARY**

As tensions rise in the South China Sea, the world is watching nervously as events unfold. Although not a party to the disputes, Australia nonetheless finds itself uncomfortably near the centre of the geo-strategic dynamics in the broader Indo-Pacific region. It has been balancing the two major players, the United States and China, each of which is critical to Australia’s security and economic wellbeing. Further enhancement of its partnerships with India and Indonesia could offer an opportunity for Australia to contribute to regional stability beyond the orbits of the US and China.

**ANALYSIS**

On one hand, the United States and Australia have further strengthened their military ties. The United States’ strategic move towards Asia was confirmed when more than 200 US Marines arrived in Darwin to take part in training exercises with the Australian Defence Force. In addition, 2,500 US Marines are to be rotated through the Northern Territory by 2017. A separate proposal to establish a US base in Perth to host nuclear-powered aircraft carriers and manned and unmanned ISR (intelligence, surveillance and reconnaissance) drones, was rejected by Australia as such a move might be detrimental to relations with China.

On the other hand, China is Australia’s largest trading partner. According to the Department of Foreign Affairs and Trade, two-way merchandise trade is worth over $113 billion and accounts for almost 25 per cent of Australia’s total trade volume. In comparison, Australia’s merchandise trade with the United States, its third-largest partner, stands at $38 billion. In terms of combined figures for goods, services and investment, however, the US is Australia’s most important overall economic partner. In 2011, two-way investment stock was worth almost $1 trillion; Chinese investment in Australia in the period 2007-10 amounted to nearly US $60 billion. Both Canberra and Beijing believe that closer co-operation between China and Australia could be beneficial for the Indo-Pacific region by contributing to peace, stability and development.

Australia is in something of a Catch-22 situation, as even a slight tilt towards either China or the US could be damaging to its relations with the other. Australia’s grand strategy, therefore, should not be focussed on fighting a war with an Asian power. Instead, the focus should continue to be on working with the Asian powers and seeking even greater co-operation and engagement in the region. Strategically speaking, India and Indonesia could be good options as partners for Australia in meeting its strategic and economic needs. Thus, Australia, Indonesia and India can make joint efforts to ensure peace in the region.
from the global power and moving closer to its customers.4 While that can be seen with the deepening of ties between Australia and China, having close ties with the United States continues to be very important, due to the growing vulnerability of Sea Lines of Communication and the fact that, effectively, only the US can guarantee their security. One assessment noted that Australia’s close economic relationship with China is critical to shoring up Australia’s capacity to withstand the head winds of the deepening global economic crisis. Thus, talk of Australia being “caught between two rival powers” has once again surfaced in Australia’s public debate.5

That debate was reignited by Professor Hugh White, who posits, in The China Choice: Why America Should Share Power (2012), that the power centres in the region – the United States, China, India and Japan – need to reach an understanding on the distribution of power in the Indo-Pacific. The subject for debate is how much to give and how much would be acceptable to the other players. Thus, in a situation where the United States and China are both important partners for Australia, maintaining equilibrium would be helpful for the greater peace of the region in general, and Australia in particular. If the United States is critical for Australia’s stability, peace and, most importantly, security, while China and North-East Asia are economically important, then Australia could perhaps play the role of a balancer between the US and China. It could support the development of a cooperative structure between them6 to aid regional peace and stability.

The possibility of an emerging new order needs to be clearly understood by Australian strategic thinkers and policymakers. Australia needs to recognise that there are several possibilities for the kind of new order that could emerge. Thus, Australia needs a strategy which will not require national interests to be compromised in any given situation. This has also been suggested by Catherine McGrath in her article, ‘Should the US Learn to Share Power with China?’, in which she has referred to comments by Hugh White and Paul Keating. According to them, the United States needs to recognise China as a great power and that it should be respected. Also, Keating has suggested that a non-Asian power like the US will not be able to maintain stability in Asia, especially with the use of force. Washington therefore needs to devise a new strategy towards the Asia-Pacific. Thus, in such a scenario, Australia would need to make a shift in policy. White and Keating further explain that, if the United States remains dominant and China pushes against it, Australia might have to make the unenviable strategic choice of tilting toward one side or the other.

Another article by McGrath, ‘A Defence Strategy Focused on Peace’, mentions the upcoming 2013 Defence White Paper and a report submitted by the Australian Strategic Policy Institute to the White Paper Working Group in the Department of Defence. The report suggests that Australia’s grand strategy should not be focussed on fighting a war with an Asian power, as that is most unlikely to occur. Instead, the focus should be on working with the Asian powers and seeking co-operation and greater engagement in the region.

Therefore, instead of being caught between two major powers that may be at loggerheads with each other, strategically speaking, India and Indonesia could be good options as partners for Australia in meeting its strategic and economic needs. For example, India, which has a huge market and is one of the fastest-growing economies in the world, could be beneficial to Australian interests, especially in a changing regional security order. The Indian Diaspora in Australia might also be able to play a role.

As the Department of Foreign Affairs and Trade notes in its ‘Indonesia Country Brief’, Indonesia and Australia are close neighbours with a highly-productive relationship that encompasses political, security, commercial, environmental, cultural and people-to-people links. Indonesia and Australia are the two largest economies in this part of the Asia-Pacific region and therefore are committed to further strengthening the bilateral business relationship. Indonesia is Australia’s fourth-largest trading partner in ASEAN and twelfth-largest trading partner overall. The two governments have identified various priority areas of cooperation, such as Climate Change and Counter-Terrorism. Hence, Australia, Indonesia and India can make joint efforts to ensure peace in the region.

One fact that needs to be reiterated is that economics is the driving force for any country today; indulging in any sort of conflict would be harmful for the countries involved, either directly or indirectly. Thus, assuming all states are rational actors, a situation of conflict may not, in fact, arise and is certainly not advisable. Instead, possibilities such as those mentioned above should be further explored as possible alternative ways of maintaining a peaceful equilibrium between the United States, China and the other actors in the Indo-Pacific region.

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NOTES
3. Ibid.
Australia’s Engagement with Asia

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BEYOND CHINA: AUSTRALIA AND ASIA’S NORTHERN DEMOCRACIES

Craig Mark argues that with all the talk of China, we are at risk of ignoring more democratic powers in Asia’s north

THE CONVERSATION

Among all the attention given to Australia’s relationship with China, good relations with the other states of Northeast Asia are no less important. Japan and South Korea are Australia’s next largest export markets, and unlike China, share Australia’s democratic political values. And the oft-overlooked Mongolia, experiencing a resource boom of its own, will be of great importance as we enter the Asian Century.

JAPAN

The security relationship between Australia and Japan has steadily grown over the past two decades, to the extent that Japan is now Australia’s second-closest security partner, after the United States.

The ADF (Australian Defence Force) and JSDF (Japan Self-Defence Forces) have operated together in deployments as far back as the UN Cambodian peacekeeping operation in the early 1990s, again in East Timor, and in Iraq.

Joint naval exercises have increased, and both navies have cooperated in the multinational anti-piracy operations in the Indian Ocean. More covertly, intelligence cooperation is believed to be increasing, particularly after Australia and Japan signed their first treaty-level defence agreement, the Acquisitions and Cross-Servicing Agreement, in May 2010.

The security relationship between Australia and Japan has steadily grown over the past two decades, to the extent that Japan is now Australia’s second-closest security partner, after the United States.

Japan’s whaling program remains the main sticking point in its relations with the international community, and particularly with Australia, as the Sea Shepherd activist group uses Australian ports in its annual anti-whaling cruises. The increasing expense for a declining catch and political pressure both within and outside of Japan may encourage the Japanese to abandon the program altogether in future. Sadly, there is no indication of this at present.

SOUTH KOREA

Since moving to democracy in the 1980s, South Korea’s economic growth has been of great importance to Australia, becoming our third largest export market. Migration to Australia has seen the growth of a substantial Korean community. Korean students, working holiday makers and tourists provide a key component of these valuable markets for Australia.

But in her recent trip to Korea for the Nuclear Security Summit, it appeared Prime Minister Julia Gillard was not as sensitive to Korean concerns as would be desirable, seeming to ignore questions from Korean students.

South Korea, of course, always has to confront North Korea, whose WMD program is potentially destabilising for the whole region. Japan’s military has been on increased alert due to the recent failed North Korean rocket test. The Japanese have deployed anti-ballistic missile systems to Okinawa, and increased JSDF forces in its southern islands overall.

While not directly involved, Australia certainly has an interest in strengthening non-proliferation measures against North Korea. We are after all a founding member of the Proliferation Security Initiative, aimed at denying North Korea access to nuclear-related materials.

To this end, Australia should continue to press for nuclear arms control, counter-proliferation and nuclear security, as outlined in the International Commission on Nuclear Non-proliferation and Disarmament.

MONGOLIA

Often overlooked in the scope of Northeast Asian relations is Mongolia. A democracy since the end of the...
Cold War, with parliamentary elections due in June, the nation is presently undergoing its own mining boom.

Australian mining companies are already engaging in joint ventures for exploration and in mines already under development. New opportunities are rising to pursue positive relations with this rapidly developing nation.

Australia has a very real interest in ensuring the shipping lanes through which most trade flows are not disrupted by any deterioration of the security situation in Eastern Asia.

Indicating a desire to align itself more closely to the West, Mongolia has also contributed troops to the US-led multinational deployments in Iraq and Afghanistan, and to UN peacekeeping missions in Kosovo, Sierra Leone, Chad and the Congo.

Mongolia has long held an important strategic position between China and Russia, which remains a Pacific power via its Far East region. There is a large minority population across the border in the Chinese province of Inner Mongolia, where there are more ethnic Mongolians than in Mongolia itself.

This had led to accusations that Mongolians in China have long had their rights and ethnic identity suppressed, as with the Tibetans, and the Uighurs in Xinjiang province.

**TRICKY TERRITORY**

As well as these conflicts, Japan has long-running territorial disputes with Russia over the Kuril Islands, and with China over the Senkaku Islands.

Even more contentious is the maritime dispute over the South China Sea, primarily based around the Spratly Islands. China claims the entire area as its territory, which is contested by Vietnam, Malaysia, the Philippines, Brunei, and Taiwan.

While Australia has no direct part in all these controversies, it does have very a real interest in ensuring the shipping lanes through which our most of our trade flows are not disrupted by any deterioration of the security situation in Eastern Asia.

Fortunately, at the moment most states in the region, including China, appear to be no less concerned about defusing these tensions diplomatically.

By remaining an active participant in the multilateral diplomatic institutions of the region, such as the Asia-Pacific Economic Cooperation forum (APEC) and the East Asia Summit, Australia can play its part in ensuring relations in our region remain peaceful.

But, given our increased military cooperation with the USA, and with other nations such as Japan, there is a real danger we are taking sides in a looming contest between the ‘great powers’ for hegemony in the Asia-Pacific.

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EXPLORING
ISSUES

ABOUT THIS SECTION
‘Exploring issues’ features a range of ready-to-use worksheets relating to the articles and issues raised in this book.
The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.
As the information in this book is gathered from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.
Does the source have a particular bias or agenda? Are you being presented with facts or opinions? Do you agree with the writer?
The types of ‘Exploring issues’ questions posed in each Issues in Society title differ according to their relevance to the topic at hand.
‘Exploring issues’ sections in each Issues in Society title may include any combination of the following worksheets: Brainstorm, Research activities, Written activities, Discussion activities, Quotes of note, Ethical dilemmas, Cartoon comments, Pros and cons, Case studies, Design activities, Statistics and spin, and Multiple choice.

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WORKSHEETS AND ACTIVITIES
Asia is the world’s largest and most populous continent. Brainstorm, individually or as a group, to find out what you know about Australia’s engagement with Asia.

1. **What is meant by the term ‘Asian Century’?**

2. **What is meant by the term ‘Asia literacy’?**

3. **What is meant by the term ‘Asia-capable’?**
WRITTEN ACTIVITIES

Complete the following activities on separate sheets of paper if more space is required.

The *Australia in the Asian Century White Paper* lays out an ambitious plan which aims to ensure Australia will emerge stronger over the decades ahead by taking advantage of the opportunities offered by the Asian Century.

The White Paper sets out an agenda for how Australia will successfully navigate the years ahead across five areas, listed below. Consider each of these five keys area, and explain how these challenges can be met.

**Strengthening Australia’s economy:**

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

**Building Australia’s capabilities:**

____________________________________________________________________________________

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____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________
Connecting to growing markets:

Ensuring sustainable security:

Nurturing deeper and broader relationships:
RESEARCH ACTIVITIES

Complete the following activity on separate sheets of paper if more space is required.

Imagine you are a federal government adviser who has been given the task of promoting Australia’s engagement with Australia following the release of the government’s Asian Century White Paper. Create a ‘background brief’ intended for cabinet ministers, based on one of these four major partner countries – China, Indonesia, India or Japan. In the brief, you may include maps and diagrams.

Focus on the following key features of your chosen country, and how they relate to bilateral engagement with Australia:

➤ Geographical location
➤ Ethnicities of the people
➤ Food
➤ Education
➤ Arts and culture
➤ Science and technology
➤ Government and diplomacy
➤ Economic importance to Australia
DISCUSSION ACTIVITIES

In a group, discuss how engaged you are with Asia as individuals. To assist in your discussion, compile a list of points in the space below which identify your connections with Asia in your everyday life.

Your discussion topics may include:

➤ Types of Asian food you eat
➤ Sorts of products you regularly use that are made in Asia
➤ Your exposure to Asian culture, e.g. movies, dance and music
➤ Studies you may have pursued which relate to Asia, e.g. languages, Asian studies, economics, history
➤ Number of friends or family you know with an Asian heritage
➤ Your own ethnic background, if you are of Asian heritage
➤ Your own travel experiences in Asian countries
### MULTIPLE CHOICE

Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of the next page.

1. Which four Asian languages is the Australian Government focusing on in its White Paper?
   a. Hindi
   b. Korean
   c. Mandarin
   d. Thai
   e. Indonesian
   f. Vietnamese
   g. Japanese

2. Match the following terms to their correct definitions:

   **Asian Century**
   a. Forum with 21 members, established in 1989 to facilitate economic growth and prosperity in the Asia-Pacific region, with the vision of creating a seamless regional economy.

   **Asia literacy**
   b. Projected one hundred years of dominance of Asian politics and culture, assuming certain demographic and economic trends persist.

   **APEC**
   c. Inclusive policy which recognises, accepts, respects and celebrates the nation’s cultural diversity.

   **ASEAN**
   d. The world’s largest and most populous continent. Defined in geographical terms, but it can also be described in terms of cultural, religious, historical and language boundaries or commonalities.

   **Asia**
   e. The capacity to reflect upon and explore cultural differences in the Asian region.

   **Asia-Pacific**
   f. The part of the world in or near the Western Pacific Ocean. The region varies in size depending on context, but it typically includes at least much of East Asia, and South East Asia.

   **North East Asia**
   g. Established in 1967 with the aims of accelerating economic growth, social progress and cultural development in the region and to promote regional peace and stability. Comprises 10 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

   **South Asia**
   h. Usually refers to the five republics of the former Soviet Union: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

   **South East Asia**
   i. The rapid increase in cross-border economic, social, technological exchange under conditions of capitalism.

   **Central Asia**
   j. An agreement to eliminate tariffs, import quotas and preferences between signatory countries.

   **Free trade agreement**
   k. Refers to Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

   **Foreign direct investment**
   l. Refers to Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam.

   **Multiculturalism**
   m. Investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

   **Globalisation**
   n. Refers to China, Hong Kong, Japan, Macau, Mongolia, North Korea, South Korea and Taiwan.
MULTIPLE CHOICE

Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of this page.

3. Respond to the following statements by circling either 'True' or 'False':

a. By the end of this decade, Asia is set to overtake the economic output of Europe and North America combined to become the world’s largest economic power. True / False

b. By 2025, four of the ten largest economies in the world are expected to be in the Asian region, and Asia is likely to account for almost half of the world’s economic output. True / False

c. By early next decade, the combined output of China and India is expected to exceed that of the whole Group of Seven (G7). True / False

d. Asia’s middle class is anticipated to increase by more than 2.5 billion people by 2030 and account for around 60 per cent of global middle-class consumption. True / False

e. Approximately 2.2 million people in Australia speak Asian languages at home, which equates to around 10% of the population. True / False

f. All of Australia’s five biggest trading partners – China, Japan and Republic of Korea – are in Asia. True / False

g. Since 2004, Australia conducts more trade with Asia than with the rest of the world combined. True / False

h. Japan is Australia’s largest trading partner. True / False

i. Indonesia is Australia’s twelfth largest trading partner. True / False

j. China is the world’s largest economy by nominal GDP and by purchasing power parity, ahead of the United States. True / False

k. China is the world’s fastest-growing major economy, with growth rates averaging 10% over the past 30 years. True / False

l. Average GDP per person in Asia is set to almost double by 2025 – a feat that took the United Kingdom over 50 years to achieve during the Industrial Revolution. True / False

m. Asia’s share of world output has doubled in under 60 years – from roughly 20 per cent in the 1950s to nearly 40 per cent in 2010. True / False

MULTIPLE CHOICE ANSWERS

1. a, c, e, g; 2. 1 = b, 2 = e, 3 = a, 4 = g, 5 = d, 6 = f, 7 = n, 8 = k, 9 = l, 10 = h, 11 = j, 12 = m, 13 = c, 14 = i

3. True / False

a. True

b. True

c. False

d. True

e. True

f. True

g. True

h. False

i. False

j. False

k. False

l. False

m. True
★ The **Australia in the Asian Century White Paper** sets out a comprehensive agenda for making the most of the opportunities ahead. It considers how Australia will successfully navigate the years ahead across five areas: strengthening our economy; building our capabilities; connecting to growing markets; ensuring sustainable security; and nurturing deeper and broader relationships. (p.3)

★ Within only a few years, the Asian region will not only be the world’s largest production zone, it will be the world’s largest consumption zone. Asia will not only remain home to the majority of the world’s population, but will be home to the majority of the world’s middle class. (p.4)

★ By the end of this decade, Asia is set to overtake the economic output of Europe and North America combined to become the world’s largest economic power. (p.4)

★ By early next decade, the combined output of China and India is expected to exceed that of the whole Group of Seven (G7). (p.4)

★ Average GDP per person in Asia is set to almost double by 2025 – a feat that took the United Kingdom over 50 years to achieve during the Industrial Revolution. (p.4)

★ By 2025, four of the ten largest economies in the world are expected to be in the Asian region, and Asia is likely to account for almost half of the world’s economic output. (p.4)

★ Between now and 2025, China and India are expected to make the largest contributions to global and regional economic growth relative to any other national economy. Indonesia, Malaysia and other countries in Southeast Asia will also grow rapidly and make major contributions to regional growth. (p.4)

★ Productivity gains are expected to underpin rapid growth in Asia into the next decade, notwithstanding short-term volatility in the global economy. (p.4)

★ There is significant potential for continued labour productivity growth, with output per person in China only 20 per cent of that in the United States, while India and Indonesia have barely reached 10 per cent. (p.4)

★ Even under a slow growth scenario – assuming that productivity gains are 50 per cent less than anticipated – Asia will still be the fastest growing region in the world, with four of the ten largest economies in the world still projected to be in Asia by 2025. (p.4)

★ By 2025, Asia will account for nearly half of world output. Even under conservative growth scenarios, three out of the world’s five largest economies will be in Asia. By the same year, income per person in Australia will be in the world’s top 10, up 18% from its current level. (p.6)

★ Asia’s economic rise is not a new phenomenon. Yet according to ABS data, over the past decade the five key countries identified in the White Paper – China, India, Indonesia, Japan and Korea – only accounted for 9.6% of the increase in the foreign capital stock in Australia. If Japan is taken out of the calculation, then the number falls to just 3.3%. These figures are alarming and certainly do not constitute starting from a position of strength. (p.6)

★ The OECD projects that the proportion of the world’s middle class residing in Asia will increase from 28 per cent in 2009 to 66 per cent by 2030. The growth of the Asian middle class means a massive increase in consumption and spending on imported goods and services, the supply of which Australia is well placed to provide. (p.8)

★ Asia literacy requires education to produce a strong cohort of Australians fluent in an Asian language and all young people to be equipped with knowledge of Asia through History, English, Geography, Arts, Maths and Science throughout their schooling. (p.14)

★ According to 2011 Census data, approximately 2.2 million people speak Asian languages at home, which equates to around 10% of the population. Important Asian languages are very well represented within the overall number of speakers of Asian languages. (p.16)

★ Seven of the top 10 source countries in Australia’s 2011-12 immigration program were from Asia: China, India, Malaysia, the Philippines, South Korea, Sri Lanka and Vietnam. (p.16)

★ The 2011 Census data shows that the leading birthplace of immigrants who arrived in Australia between 2006 and 2011 was India (13.1%), which represents a 100% increase on the 2006 Census data. During the same period, the number of immigrants born in China increased by 54%, while the number from the Philippines increased by 42%. (p.16)

★ From antiquity until the middle of the 19th century, China and India were the two largest global economies, accounting for about half the world’s economic output. Their current climb up the GDP rankings restores them to where history and population predicts they should be. (p.17-18)

★ Asia’s share of world output has doubled in under 60 years – from roughly 20 per cent in the 1950s to nearly 40 per cent in 2010. With growth of that order expected to continue, there can be little doubt we live in the ‘Asian Century’. (p.22)

★ Three of Australia’s five biggest trading partners – China, Japan and Republic of Korea – are in Asia. And, since 2004, Australia conducts more trade with Asia than with the rest of the world combined. (p.22)

★ The Asian share of the stock of foreign investment in Australia in 2011 was only 12.87%, or 6.87% minus Japan. In contrast, the shares of the US and UK stood at 27.94% and 24.02%, respectively. For all the talk of behemoth Chinese state-owned entities buying up Australian mining and farming assets, the Chinese share of the stock was less than 1%. In 2010, Chinese investment in Australia actually fell to $1.65 billion, down from $7.82 billion a year earlier. (p.30)

★ Australia has been a key player in efforts to develop and improve security co-operation in Asia, but it is a lead player in the region’s defence expenditure escalation. Central to that process has been the long-running efforts to tighten Australia’s alliance with the US – something which hasn’t escaped Beijing’s attention. Efforts to drive co-operation in Asia will be limited by Australia’s own policy choices. (p.34)
Australia's Engagement with Asia

APEC
Asia-Pacific Economic Cooperation is a forum with 21 members which was established in 1989 to facilitate economic growth and prosperity in the Asia-Pacific region, with the vision of creating a seamless regional economy.

ASEAN
The Association of Southeast Asian Nations (ASEAN) was established in 1967, with the aims of accelerating economic growth, social progress and cultural development in the region and to promote peaceful regional political stability through the rule of law and adherence to the principles of the United Nations Charter. ASEAN comprises 10 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Asia
Asia can be defined in geographical terms, but it can also be described in terms of cultural, religious, historical and language boundaries or commonalities. While it includes West and Central Asia, Australia’s engagement with Asia generally pays particular attention to the sub-regions of: North East Asia, including China, Mongolia, Japan, North Korea, South Korea and Taiwan; South East Asia, including Indonesia, Malaysia, Brunei, Singapore, Vietnam, Laos, East Timor, the Philippines and Cambodia; and South Asia, including India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka and the Maldives.

Asia literacy
‘Asia literacy’ is the capacity to reflect upon and explore cultural differences in the Asian region. It is the ability to understand Asian cultures and gain knowledge about Asian people and their histories. Asia literacy develops knowledge, skills and understanding about the histories, geographies, cultures, arts, literatures and languages of the diverse countries of our region. It also fosters social inclusion in the Australian community. Australia now has extensive engagement with Asia in areas such as trade, investment, immigration, tourism, education and humanitarian assistance – this engagement is generally considered to be vital to the prosperity of all Australians.

Asia-Pacific
The Asia-Pacific is the part of the world in or near the Western Pacific Ocean. The region varies in size depending on context, but it typically includes at least much of East Asia, and South East Asia.

Asian Century
The Asian Century is the projected 21st century dominance of Asian politics and culture, assuming certain demographic and economic trends persist. The belief in a future Asian Century parallels the characterisation of the 20th century as the American Century, and the 19th century as the British Century.

Asian tigers
A term used in reference to the highly developed Asian economies of Hong Kong, Singapore, South Korea and Taiwan.

Central Asia
Modern definitions of Central Asia include these five republics of the former Soviet Union: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Other areas sometimes included are Afghanistan, Mongolia, eastern Iran and northern and western Pakistan, and sometimes Xinjiang and Tibet in western China, Jammu and Kashmir in northern India, and southern Siberia in western Russia.

Competitiveness
Australia’s competitiveness is fundamental to attracting finance and investment and enabling Australia’s businesses to continue to compete effectively in markets in Asia and elsewhere in the world. This is the case whether businesses are exporting from Australia, whether they have made offshore investments and operations, or whether they are integrated with regional supply chains and regional markets, or a combination of these approaches.

Developing Asia
Developing Asia generally refers to the following countries: Afghanistan, Bangladesh, Cambodia, China, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand and Vietnam.

Engagement
There is no common understanding or agreement on the meaning of the term ‘engagement’, despite its extensive usage. ‘Engagement’ is generally portrayed as a positive strategy for dealing with the Asian region defined by working with the region, rather than against it. Engagement suggests a vision of security with, and within, the region. Largely due to Asia’s economic rise and its growing importance to Australia’s continued prosperity, recent Australian governments have officially placed a high priority upon advancing Australia’s ‘engagement’ with the Asian region.

Free trade agreement
An agreement to eliminate tariffs, import quotas and preferences between signatory countries.

Intercultural understanding
The ability to participate and negotiate with people in a variety of contexts. Participating and negotiating with people requires an ability to know and understand ‘your’ culture, ‘another’s’ culture and have skill in working between your own and another’s culture.

North East Asia
North East Asia refers to China, Hong Kong, Japan, Macau, Mongolia, North Korea, South Korea and Taiwan.

South Asia
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South East Asia
South East Asia refers to Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam.

Glossary

Asia-Pacific Economic Cooperator is a forum with 21 members which was established in 1989 to facilitate economic growth and prosperity in the Asia-Pacific region, with the vision of creating a seamless regional economy.

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An agreement to eliminate tariffs, import quotas and preferences between signatory countries.

The ability to participate and negotiate with people in a variety of contexts. Participating and negotiating with people requires an ability to know and understand ‘your’ culture, ‘another’s’ culture and have skill in working between your own and another’s culture.

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South Asia refers to Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

South East Asia refers to Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam.
Websites with further information on the topic

Asia Education Foundation  www.asiaeducation.edu.au
Asia Literacy Teachers Association of Australia  www.asialiteracy.org.au
Asian Studies Association of Australia  http://asaa.asn.au
Asialink  www.asialink.unimelb.edu.au
Australia in the Asian Century – Australian Government  http://asiancentury.dpmc.gov.au
Australian Minister for Foreign Affairs  www.foreignminister.gov.au
Australian Minister for Trade and Competitiveness  www.trademinister.gov.au
Australian Strategic Policy Institute  www.aspi.org.au
Australia’s Role in the World  www.australiasroleintheworld.org.au
East Asia Forum  www.eastasiaforum.org
Lowy Institute for International Policy  www.lowyinstitute.org

For more information about social issues visit The Spinney Press website at www.spinneypress.com.au
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