

# News Release

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## **Regional engagement provides crisis cover for Australia**

A steep rise in Australia's economic engagement with China and India contributed significantly to the nation withstanding the effects of the GFC.

In 2009, strong foreign direct investment and trade underpinned rises of 10 and 15 per cent respectively in Australia's engagement with China and India, according to the latest PwC Melbourne Institute Asialink Index launched at a business breakfast this morning.

Chairman of Asialink, Mr Sid Myer, says: "The 2010 Index reveals in unequivocal terms the importance of China and India to Australia during one of the toughest periods of recent history. Throughout this period, Australia drew strength from our historically strong Asian relationships - in mining and agricultural exports, and in tourism – and we know these helped our economy avoid recession.

"But the crisis also intensified the weaknesses in our Asia engagement. The Index shows Australian investment into Asia continues to lag significantly behind our investment flows to the rest of the world. Additionally, there are some ominous signs for our education engagement.

"Broadening and improving the quality and sophistication of our engagement, and now operationalising this engagement, with Asia will be critical to Australia's long-term economic and social prosperity."

"It is not sustainable for Australia to simply be the region's farm, mine and beach," he said.

The Index provides Australia's first multi-indicator view of how the GFC impacted Australia's Asian engagement. The latest Index reveals that recent growth in Australia's engagement with Asia was constrained overall in 2009 by declines in trade, investment and humanitarian assistance. A slowdown in education and migration also contributed to the drop in engagement.

### **Trade declines marginal**

According to the Index, Australia's trade engagement with Asia declined by 4.2 per cent, significantly less than the 12.4 per cent fall with the rest of the world (ROW).

The decline in Australia-Asia trade was mainly driven by 12.9 per cent fall in imports. However, exports to Asia increased by 3.2 per cent which is slightly lower than the 19 year average of 5.4 per cent. ROW exports fell sharply by 11.5 per cent in 2009.

“Australia’s top five trading partners are all located in Asia, if we include ASEAN as a bloc: China, ASEAN, Japan, South Korea and India. Australia’s exports to Asia totalled \$163.6 billion - more than double the value of exports to the ROW. The GFC has highlighted the importance of our economic partners and geographic neighbours, as well as Australia’s evolving dependency on the region,” said Mark Johnson, CEO PwC.

### **Foreign Direct Investment strengthens**

Foreign direct investment (FDI) from Asia into Australia increased substantially in 2009 largely from Japan, China and Singapore. Of the \$18.8 billion that Japan and China poured into Australia last year nearly 80 per cent resulted from FDI.

Total investment flows to and from Asia declined by 4.4 per cent, in contrast to the ROW which grew by 14 per cent.

Outward investment flows from Australia to Asia declined by 11.3 percent.

“The growing level of direct capital flowing from the region into Australia shows the increasing appetite to invest in Australian assets. Indirect investment is currently constrained due to our existing regulatory and tax frameworks, which provide a strong barrier to further growth,” said Mr Johnson.

### **Education: a crystal ball**

In 2009 more than half a million people travelled between Australia and Asia for educational purposes, representing a 4.5 per cent increase on 2008.

However, this was significantly less than the 13.1 per cent growth achieved in 2007.

“Our research shows that education is a lead indicator of future engagement and economic activity between economies. Present declines in education engagement may be a precursor to a drop in future economic growth as well as a decline in broader bilateral relations,” said Mr Myer.

### **China tops Australia’s engagement**

China regained its stature as Australia’s largest trading partner and investor, over taking Japan in 2009.

Exports to China increased by 39 per cent in real terms – a record rise. Additionally, Australia’s trade relations with China have been enhanced by Australian financial institutions having investments in Chinese banks. All of Australia’s major banks have a presence in China. Equally, many of China’s major banks have a growing presence in Australia including China’s Central Bank.

“China has moved ahead of Japan as the world’s second largest economy and continues to grow despite the GFC as evidenced by its ongoing and broad based engagement with Australia.”

“Chinese investment into Australia increased three-fold to \$7.8 billion dollars over the last year with a continued focus on commodity resources and agriculture,” said Mark Johnson

According to the Index, the Middle Kingdom is also our largest single source of international students, our second largest source of migrants, and on current trends will become our largest inbound tourist market within the year.

Mr Myer said, “Australia’s engagement with China is back on trend with an increase of 10 percent last year following 2008. Trade is still an important driver of engagement, however it is not the only driver. In 2009, Australia’s relationship expanded across each component except humanitarian assistance.”

### **India, a strategic partner**

In 2009, the Australia India relationship was upgraded to that of “Strategic Partnership”, reflecting bilateral commitments to forging closer economic, diplomatic and security ties.

In parallel, the engagement between Australia and India showed a steep rise of 15 per cent driven largely by increases in trade (12.6%), investment (67%) and tourism (29%).

However, educational engagement has slowed, while migration from India has fallen back. Mr Myer concluded, “The present level of education engagement may influence the performance of trade and investment in the future. Given the stagnation of education engagement in 2009, we must explore ways to rebuild confidence in Australia as a key to fostering stronger, long term relations with India.

### **ENDS**

To download a pdf copy of the Index:

[www.pwc.com.au/asialink](http://www.pwc.com.au/asialink)

or [http://www.asialink.unimelb.edu.au/publications/pwc\\_melbourne\\_institute\\_asialink\\_index/\\_nocache](http://www.asialink.unimelb.edu.au/publications/pwc_melbourne_institute_asialink_index/_nocache)

### **Notes to editor:**

#### **Understanding the Index**

- Although there is no single objective way to measure engagement, the Index uses seven quantifiable measures: trade, investment, research and business development, education, tourism, migration.
- The Index tracks engagement along these seven dimensions between 1990 and 2009.
- The Index is an unweighted average of its seven components, each of which uses 1990 as the base year and 100 as the base number.
- Trade and investment are measured using monetary values. The education, tourism, migration components by number of people. Research and business development, and humanitarian assistance are shown in index format.

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