Engagement at a glance

The picture that emerges from this year's *PwC Melbourne Institute Asialink Index* report is consistent with other broad-based indicators of economic activity around the world. Specifically, Australia and Asia have continued to outperform much of the 'rest of the world' (ROW) since the onset of the global financial crisis (GFC). Thus, while Australia's engagement with Asia recorded a small fall of 2.9% in 2010, there was a much bigger fall of 18.3% in engagement with the ROW.

These differing engagement outcomes can be better understood by looking at recent patterns of growth in the global economy. The fallout from the GFC, which commenced in earnest in late 2008, resulted in a major contraction in GDP of 3.4% in the advanced economies in 2009, followed by growth of 3.0% in 2010.[2] However, growth in developing Asia suffered only a modest slowdown to 7.2% in 2009, with a rebound to 9.6% in 2010. The comparable growth rates for Australia were a slowdown to 1.4% in 2009 followed by a recovery to 2.7% in 2010.[3] Thus, Australia and Asia have performed relatively strongly since the GFC, in contrast to the ROW. Having said this, neither Australia nor Asia has been immune to the effects of the problems and instability elsewhere, many of which are ongoing.

Strong economic growth in Asia, combined with the energy and mining resources boom and Australia's close trade and other links with the Asian region, have alleviated the downturn in the Asia25 Engagement Index. A further significant development in recent years, which is reflected in some of the component indexes in particular, is the significant rise of the Australian dollar – to its highest level against the US dollar since being floated in 1983.[4] A number of Asian currencies are loosely tied to the US dollar.

Education and tourism engagement with Asia have also made important contributions to overall engagement in the past decade and in 2010. Notably, education exports were Australia's third biggest export earner in 2010, after iron-ore and coal, ahead of personal travel services in fifth place. Rising incomes and strong relative growth in Asia are a major element in these developments.

The beneficial impact of buoyant trade in energy and resources is evident in the strong growth in Australia's engagement with China in 2010. Increases in education and tourism service exports to China have also been impressive. These developments in turn reflect rapid economic growth in China. While overall engagement with India declined in 2010 due to a downturn in education and migration engagement, as the second most populous country in Asia and the world and with significant scope for economic catch-up, the outlook for future growth in engagement with India is positive.

Table 1: Trends in the PwC Melbourne Institute Asialink Indexes of Engagement

Index (1990=100)	1990	1995	2000	2005	2009	2010	% change 2009–10
Asia25	100	182.0	278.6	343.1	442.6	429.6	-2.9
ROW	100	125.1	185.2	171.5	307.9	251.7	-18.3

2 IMF *World Economic Outlook*, September 2011.
3 ABS Cat. 5206.0, March Quarter 2011, Table 6.

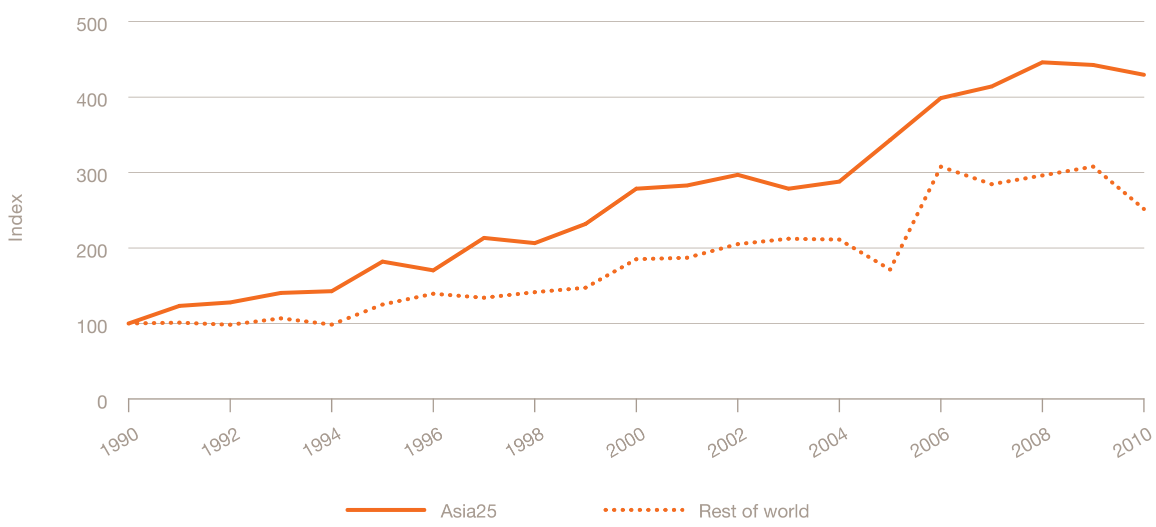
4 Compared with its average rate during 2007 and 2008, by end December 2010 the Australian dollar had risen 20% against the US dollar; 29% against the euro; 9% against the Chinese renminbi; 13% on a TWI basis; but had fallen 11% against the Japanese yen. See RBA *Statistical Bulletin* for data.

The developments discussed above are reflected in the individual component, region and country engagement measures, with strong Australian export growth to Asia but not the ROW; a weakening in net inward investment to Australia from both Asia and the ROW; a decline in incoming tourists from the ROW but not Asia and large numbers of Australians travelling abroad; strong growth in outgoing student numbers but weak growth in incoming students; and significant declines in immigration.

Index in brief

- Australia's trade engagement with Asia made a strong contribution to overall engagement in 2010. In particular, trade in goods and services with China grew by 18.3%, reflecting export growth of 19.2%, which exceeded imports growth of 16.9%.
- In keeping with this, overall engagement with China grew by an impressive 16% in 2010, driven largely by a surge in two-way trade, education and tourism engagement.
- Despite the above, Australia's trade surplus with Asia25 declined by 7.8% in 2010, with growth in imports from Asia more than double the rate of growth in exports, possibly reflecting the strength of the Australian dollar.
- Asia's net investment in Australia declined sharply in 2010, while growth in Australia's net investment in Asia picked up to 6.4%. There was a sharp decline in the net investment inflow from and outflow to the ROW.
- While China now dominates Australia's trade in Asia (and the world), Japan comes a close second and is also Australia's preeminent investment partner. Japan accounts for more than half of the net inward investment to Australia from Asia and around 15% of total inward investment.
- The growth in international students coming from Asia and elsewhere to study in Australia slowed further in 2010. However, the number of Australians travelling overseas to study, especially to Asia, jumped strongly such that overall engagement rose. There was a 29.1% increase in Australian students travelling to Asia in 2010, and a 12.8% increase in students travelling to the ROW; the strength of the Australian dollar would have made studying abroad more affordable for Australian students.
- While engagement with China, Japan, Indonesia and South Korea grew strongly in 2010, engagement with India suffered, reflecting the decline in Indian education and migration engagement.

Figure 1: PwC Melbourne Institute Asialink Index



Key findings from the seven engagement components

- Consistent with the recovery in world economic growth global trade rebounded in 2010, following a sharp fall in 2009. Australia's trade engagement with Asia and the ROW also rose in 2010: trade with Asia25 was up by 9.3% driven by a 13.6% rise in imports and a 6.4% rise in exports; and trade with the ROW grew more modestly by 1.6% reflecting an increase of 9.4% in imports and a fall in exports of the same magnitude.
- Investment engagement with Asia decreased sharply in 2010 by 30%, due largely to a fall in net inbound investment. There was also a sharp fall in net investment flows to and from the ROW. The general downturn in net inward investment may partly reflect the sharp rise in the Australian dollar, as well as weak economies in the ROW.
- Australia's research and business development engagement with Asia25 as a group rose by 2.3% in 2010, having fallen in three of the previous four years. Engagement with the ROW fell modestly by 2.4% in 2010, reflecting relatively subdued business conditions outside Asia.
- There was a modest recovery in the rate of growth of education engagement with Asia to 6.5% in 2010, which was almost in line with engagement growth with the ROW of 6.6%. Growth in engagement with Asia was dominated by an outflow of visitors to Asia from Australia for education and conference purposes; the inflow rose only modestly by 2.7%.
- Tourism engagement with Asia grew by a hefty 15.7% in 2010, with over four million traveller movements. Outgoing movements made up 61% of these, compared with just 37% in 2005. There was particularly strong growth of 18.4% in outgoing movements in 2010 – the strength of the Australian dollar would seem to be encouraging Australians to travel abroad.
- There has been a significant shift in the pattern of migration engagement with Asia since 1990, with China and India now dominating engagement whereas 20 years ago it was Hong Kong and Vietnam. Migration engagement with both Asia and the ROW fell in 2010. Australian migration to and from Asia remains considerably below that with the ROW.
- Australian humanitarian assistance engagement with Asia escalated during the East Asian financial crisis in the late 1990s, and spiked again following the Indian Ocean tsunami in December 2004. Despite more recent declines, Australia's humanitarian assistance to Asia continues to outweigh assistance to the ROW.

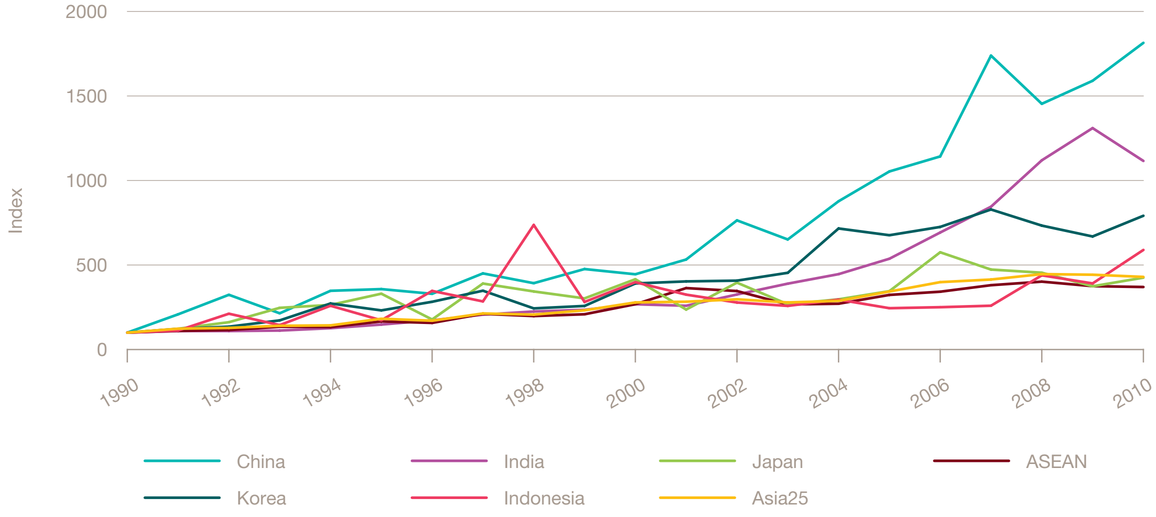
Table 2: Components of the PwC Melbourne Institute Asialink Index

Component	1990	1995	2000	2005	2009	2010	% change 2009–10
Trade (A$bn)†	96.5	135.0	187.5	250.9	323.2	353.1	9.3
Investment (A$bn)†	8.2	31.5	45.5	32.0	60.0	42.0	-30.0
Research and business development (1990=100)	100.0	170.1	272.4	312.4	268.7	275.0	2.3
Education ('000 persons)‡	92.3	176.2	284.5	407.8	528.0	562.1	6.5
Tourism ('000 persons)‡	1,187.9	2,205.1	2,434.9	2,957.9	3,541.1	4,096.1	15.7
Migration ('000 persons)	58.4	39.8	41.2	59.8	84.3	76.1	-9.7
Humanitarian assistance (1990=100)	100.0	137.8	213.5	293.7	272.1	267.5	-1.7

Notes: † Values are in constant 2008–09 prices. ‡ The indicators comprising the education and tourism components have been selected so that they are weighted according to their impact on engagement. This implies that the indicators are not strictly additive.

Figure 2 below shows the growth in engagement between Australia and the major economies in the region.

Figure 2: Major economies



Key findings from the economies analysis

- The PwC Melbourne Institute Asialink Index of Engagement with the ASEAN group of countries fell by 1.3% in 2010, following a slightly bigger fall the previous year. These falls (which follow five consecutive years of steady increases in engagement) reflect declines in investment and migration engagement.

- China's economic growth continued to outpace that of the other major countries and world average growth in 2010. Australia was well placed to benefit from Chinese growth through energy and resource exports, amongst other things. This was reflected in a further strong increase in bilateral engagement of around 16% in 2010.

- Australia–India engagement fell by 13.8% in 2010, in large part due to a downturn in education and migration engagement in that year, as well as a smaller downturn in trade engagement. As with China, scope for economic catch-up and strong growth will provide substantial opportunities for increased bilateral engagement in the years to come.

- Australia's engagement with Indonesia rebounded by 53.2% in 2010, driven by trade, tourism and education. The latest rise seems to confirm an upward trend in the past five years or so. Indonesia's relatively small investment and trade shares for Australia belie the importance of the Indonesian relationship.

- The Australia–Japan Engagement Index continued to trend higher from 1990. After three years of declines, engagement with Japan grew by 13.4% in 2010 due primarily to a pick-up in trade, investment, education and tourism engagement. Japan remains Australia's second biggest trading partner and major investment partner (due mainly to inbound investment in Australia) in Asia.

- Having fallen in the preceding two years, the Australia–South Korea Engagement Index rose by 18.3% in 2010, largely reflecting increases in trade, research, tourism and humanitarian engagement. South Korea is Australia's fourth largest trading partner.

A note on the Engagement Index

Apart from the seven key components addressed in this report, there are other important ingredients in Australia's Asian relations not covered by the Engagement Index. These include: ministerial and other official visits between Australia and Asian countries; the treaties and agreements signed; defence, police and intelligence cooperation; cultural collaboration; twin-city agreements; cooperation among NGOs and professional organisations; and much more.