

PricewaterhouseCoopers Melbourne Institute Asialink Index





“

Put simply, global economic and strategic weight is shifting to Asia. For the first time in the settled history of this continent, we find ourselves in a region that will be at the centre of global affairs.

”

The Hon Kevin Rudd MP
Prime Minister of Australia

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Her Excellency Ms Quentin Bryce AC, Governor-General of the Commonwealth of Australia



I would like to wish you every success with the PricewaterhouseCoopers Melbourne Institute Asialink Index, which will provide an annually updated resource on the strengthening relationship Australia has with its Asian neighbours. In our engagement with others we come to understand the preciousness of diversity, and its remarkable capacity for unity and collective action.

Her Excellency Ms Quentin Bryce AC
Governor-General of the Commonwealth of Australia



The Honourable Kevin Rudd MP, Prime Minister of Australia



**Prime Minister
Canberra**

One of the three pillars of my government's foreign policy is comprehensive engagement with Asia and the Pacific. Much has been written about Australia's Asian engagement, but the PricewaterhouseCoopers Melbourne Institute Asialink Index aims, for the first time, to measure our connections in a systematic manner.

The PricewaterhouseCoopers Melbourne Institute Asialink Index does not seek to measure all aspects of our engagement – it focuses rather on those that are most readily quantifiable – but it will promote a more general discussion about what 'effective engagement' entails. It will help to remind us of the depth and complexity of Australia's relations with the region.

I hope the analysis and commentary in the PricewaterhouseCoopers Melbourne Institute Asialink Index will reach deep into the Australian community. I urge members of the business, academic, media, diplomatic, government and NGO sectors to contribute to the discussion about our engagement with the region – a discussion which will in itself help to build Australia's Asia literacy.

My vision is for Australia to be the most Asia-literate nation in the collective West. If we can achieve that goal, we will be better placed to make a contribution to the region and make the most of the opportunities its development will present us with.

I congratulate Asialink, the Melbourne Institute and PricewaterhouseCoopers and thank the expert contributors to this important work.

A handwritten signature in black ink, appearing to read 'Kevin Rudd'.

The Honourable Kevin Rudd MP
Prime Minister of Australia



The recent and extreme challenges faced by global capital markets will have long term implications for the economies of the world. Changes in the nature and centres of power, economic activity, and cultural influences will affect all Australians.

The importance of Asia to Australia is increasingly clear. Within PricewaterhouseCoopers' business, Australia's integration with Asia is critical to our clients' success, our resourcing strategies and the dynamics of our own network.

By measuring Asian engagement, the PricewaterhouseCoopers Melbourne Institute Asialink Index provides insight into the evolution and nature of the relationships between Australia and Asia. We hope these insights will challenge Australia's current approach to regional engagement and foster better informed discussion with our cultural, economic and geographic neighbours.

PricewaterhouseCoopers is pleased to present the PricewaterhouseCoopers Melbourne Institute Asialink Index together with Asialink and the Melbourne Institute. We trust the first edition of this Index will help prepare our clients, people and communities to succeed in the world's fastest growing region.

A handwritten signature in black ink that reads "Mark Johnson".

Mark Johnson
Chief Executive Officer
PricewaterhouseCoopers



The 2020 Summit held in the early months of the Rudd Government identified the need to reinvigorate and deepen our engagement with Asia and the Pacific. It is encouraging that this Index shows engagement with Asia growing at a faster rate than the rest of the world.

We are delighted that Asialink, the Melbourne Institute, and PricewaterhouseCoopers have combined their respective expertise to produce this first ever index of Australia Asia Engagement. This will assist us as a nation to understand where we have come from since 1990 in our relationships with our key Asian neighbours. We hope it will also provoke argument and stimulate those advocating particular bi-lateral relationships to compare and to identify areas that might require greater investment and focus.

The PricewaterhouseCoopers Melbourne Institute Asialink Index will be updated annually and we are all committed to refreshing the content and providing a different emphasis each year.

We applaud the generous contributions of the many academic, business and diplomatic experts who have contributed analysis and commentary. It is a testimony to the importance of our nation's engagement with Asia that they did this with rigour and dedication.

Thank you to all of the contributors to this very important initiative.

Professor Glyn Davis AC
Vice Chancellor
The University of Melbourne

Sid Myer
Chairman
Asialink

Reflective Essay:



Each year a key commentator will be commissioned to provide a perspective on Asia Australia engagement. This year Professor Tony Milner discusses the concept of engagement, the relative decline of the West, the over-emphasis on China in public discussion and the continuing importance of ASEAN. He argues that the Index data underlines the urgency of national investment in 'Asia' education.

Determining Priorities

Professor Tony Milner AM

Basham Professor of Asian History, ANU;

Professorial Fellow, Asialink, University of Melbourne

The PricewaterhouseCoopers Melbourne Institute Asialink Index – with its central message that Australia is engaging more with Asia than the rest of the world – is being initiated at a turning point in the region's history. Our engagement is likely not only to continue to grow, but also to become more challenging.

The great historical transition underway at present will inevitably have far-reaching implications for Australia. Over the past half century Australia has been building relations with the emerging nation states of Asia – but we have done so in the context of the long twilight period of Western power in the region. Despite the overthrow of colonialism – hastened by the Pacific War – we have benefited from the continuing influence in the region of the United States, and of Western norms and the English language. While some in the Australian leadership were concerned about the positioning of Australia in a future Asian regional order, many Australians have been preoccupied with establishing a nation of Western (largely British) design on this continent.

Today we are entering a new period of relative Western decline in Asia, a period in which the region will increasingly be shaped by Asian dynamics – by the rise of one Asian power or another, and by the rivalries between powers. The Western decline may be all the more marked as a result of the present world economic crisis which commenced in the United States. Assessing the opportunities and dangers in this post-Western Asia will be demanding – and our knowledge base will need to include the type of analysis provided in the PricewaterhouseCoopers Melbourne Institute Asialink Index.

An immediate issue concerns what is meant by 'engagement'. Apart from the seven key elements addressed in the PricewaterhouseCoopers Melbourne Institute Asialink Index, there are other important ingredients in Australia's Asian relations. Ministerial visits between our countries; the treaties and agreements we sign; defence, police and intelligence cooperation (including joint exercises and training exchanges); art collaboration (including intensive residency arrangements); twin-city agreements; cooperation among all manner of NGOs and professional organisations (including in sports); the study of one country in the educational institutions of another – the list would go on, and on, conveying the multifaceted character of engagement.

In recent public discussion our engagement has certainly been oversimplified, as the PricewaterhouseCoopers Melbourne Institute Asialink Index conveys. Today we hear of China, China, China – and the Index confirms China has passed Japan as a trading partner, and that we welcome here growing numbers of Chinese students and tourists. But we should not forget that Japan – apart from being a close security and diplomatic partner – is still the major destination for our exports, and has become the third largest investor in Australia (though well behind the United States and the United Kingdom). The Association of Southeast Asian Nations (ASEAN) remains critical as well. Its population is less than half that of China, but our two-way trade with ASEAN is greater. The significance of India is also brought into sharper focus in the PricewaterhouseCoopers Melbourne Institute Asialink Index. True, two-way trade with India is increasing strongly, but in 2007 it was still less than that with Singapore or Thailand.

The continued importance of ASEAN is all the more evident when we recall that we were ASEAN's first dialogue partner, back in 1974, and that our Defence cooperation in the region tends to be more intensive than that between the different countries themselves. We also have counter-terrorism agreements with numerous ASEAN countries, and in many cases (including Indonesia) surprisingly close police collaboration. Australia has invested much in ASEAN over six decades – as we should have, given our geographic location. Effective engagement with ASEAN gives us street credibility in the wider world, and may strengthen our security in a post-Western Asia. Also, although change has been slower in Southeast Asia than in China, this does not mean ASEAN will fail to offer China-like economic opportunities in the future.

Our Asian engagement, already complex, is likely to become far more so in the near future. To speak of the growing importance of Asian dynamics means acknowledging a return of history. Australians will need not only language skills, but an awareness of the long-term rivalries between China, Japan and South Korea – and with India as well. Within ASEAN, there are issues between Burma and Thailand, Thailand and Malaysia, and Indonesia and Malaysia, to name only a few. Religious change – as we've seen in the case of Islam – will need careful monitoring, and also the ethnic and identity struggles that operate beneath state-to-state relations. ASEAN's often subtle relations with China, Japan and India must also be gauged – as well as the particular way in which a United States retreat (or at least reduction in influence) develops. That reduction could well be dramatic following the American-led economic crisis in 2008.

Some of these issues will matter globally, but they are likely always to be more important for Australia. This means we must attend to our knowledge base. The central observation arising from the PricewaterhouseCoopers Melbourne Institute Asialink Index is critical here. The demonstration that Australia is already more engaged with the Asian region than it is with the rest of the world has to be considered alongside data on Australia's knowledge preparation – and the contrast is arresting. According to the Asia Education Foundation, only about 6 per cent of year 12 students currently learn an Asian language, and at university level some 400 students are studying Indonesian, along with a handful learning Vietnamese and Thai. A growing number take Chinese, but a huge majority of these are students of Chinese origin.

The knowledge-base problem may be significant when we seek to understand the PricewaterhouseCoopers Melbourne Institute Asialink Index analysis on investment – noting just how little Australians invest in Asian countries, and how far our ambitions are limited to the English-speaking nations of the United States, Britain and New Zealand. Are we simply shrewd in our risk-taking, or are such figures an indication of how far the Asian region remains culturally alien to Australians of European background? We might ask too about the knowledge needs of our diplomatic, defence, intelligence and professional (including legal) engagement in the region – and also about the advantage of having a wider community broadly familiar with the countries of greatest importance to Australia.

Given what the PricewaterhouseCoopers Melbourne Institute Asialink Index tells us about Australia's growing engagement with the Asian region – and taking into account the likely challenges we face in the emerging post-Western Asia – the most urgent 'Asia' task facing government may well be in the area of education.

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Given our growing engagement with the emerging post-Western Asia, the most urgent task facing government may well be in education.

”

Professor Tony Milner AM

Executive Summary: Engagement at a Glance



The PricewaterhouseCoopers Melbourne Institute Asialink Index (Index) is the first multi-indicator measure of engagement between Asia and Australia. The Index tracks engagement along seven dimensions between 1990 and 2007, charting Australia's involvement with Asia and the rest of the world over the course of this crucial 18-year period.

As Australia looks deeper into the 21st century, Asia looms ever larger.

Over the last three decades, we have seen the global economy become hitched to Asia's star. If there ever was a question about the importance of Asia to Australia's future, the point is no longer debatable: forging effective ties with Asian economies must be an imperative for any Australian government, and it is not possible for Australian business to globalise without engaging with Asia as a source of customers, suppliers and markets.

The Asia that Australia now sees has changed beyond recognition over the course of the past two decades. The outsourcing centres of Bangalore and the financial services towers of Shanghai have joined the robotic factories of Nagoya to become integral parts of our everyday world. Australia's success is now inextricably linked to the countries of Asia, their economies and their people.

How, then, should Australian governments, companies and people approach the delicate and complex task of progressing relationships with such an important and diverse set of economies?

To integrate Australia more closely with economies across Asia, and to enable engagement in a mutually beneficial way, government, business and the community need a range of effective tools to guide their actions. The Index provides new insights into the shifts and subtleties of Australia's Asia engagement.

The Index is designed to stimulate discussion, and to provide a source of ideas and a point of reference. It is a tool to help Australia discuss how well prepared we are to engage with Asia, and how we might better promote depth and richness of engagement.

Australia has clearly grown closer to its neighbours over the past two decades. Looking forward, the Index and the awareness and debate it will generate will assist Australia to prosper from its geographical proximity with the region that will be the source of much progress in the 21st century.

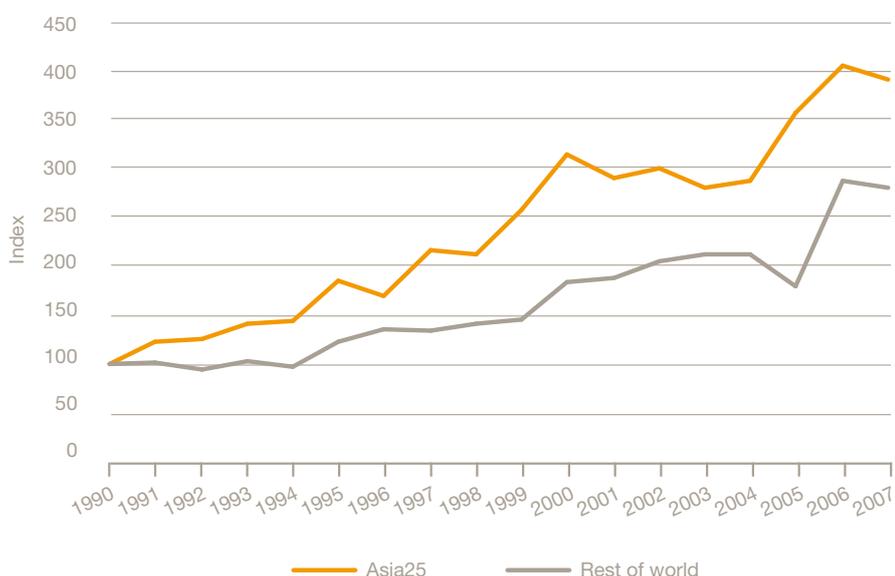
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Australia's economic engagement with Asia has changed us forever, and for the better. We used to talk about 'The Tyranny of Distance', now we are talking about 'The Power of Proximity' as Australia finds itself in the right place at the right time.

”

Tim Harcourt,
Chief Economist, Austrade

Figure 1: PricewaterhouseCoopers Melbourne Institute Asialink Index



Insights provided by the Index include:

- Australia’s engagement with the world tripled over the period, but its engagement with Asia quadrupled, as shown in Figure 1.
- When analysed by economy, the Index reveals important facts about the relative size and importance of Australia’s relationships across Asia. Not surprisingly China has shown the strongest rate of growth in engagement, but South Korea and India have also grown significantly in recent years. The increase in India’s importance to Australia is tempered by the fact the overall level of engagement is relatively small.
- Despite the attention given to China, many measures show ASEAN as Australia’s most important engagement partner in Asia. It is true that China has become extremely important to Australia, in recent years overtaking Japan, but as a group, the ASEAN countries still comprise more of the Index than the three Chinas.
- Overall engagement with Asia conceals variations between the components as well as between economies. Such variation underlines the complex, multifaceted character of engagement.

Table 1: Trends in the PricewaterhouseCoopers Melbourne Institute Asialink Index

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4
Rest of the World	100.0	122.5	182.7	286.4	279.0	-2.6

- Australia's relationships with Asia and the world have not increased consistently: the Index does not always march upwards. Table 1 shows a dip in engagement of 3.4 per cent between 2006 and 2007, against a dip in engagement with the rest of the world of 2.6 per cent. The breakdown of components presented in Table 2 shows that the fall in Asian engagement was strongly influenced by a fall in investment engagement and humanitarian assistance.

Table 2: Components of the PricewaterhouseCoopers Melbourne Institute Asialink Index

Component	1990	1995	2000	2006	2007	% change 2006-07
Trade (\$bn) ¹	78.8	109.7	148.9	217.3	233.7	7.6
Investment (\$bn) ¹	6.3	25.6	37.8	42.3	34.1	-19.3
Research and Business Development (1990=100)	100.0	186.3	317.8	334.5	325.2	-2.8
Education ('000 people)	103.8	187.7	296.0	436.6	493.8	13.1
Tourism ('000 people)	1,193.4	2,210.5	2,443.6	2,941.9	3,205.7	9.0
Migration ('000 people)	58.4	39.8	41.2	64.1	69.8	8.8
Humanitarian Assistance (1990=100)	100.0	124.3	356.8	345.5	271.9	-21.3

Analysis of the seven components of engagement in the following pages reveals:

- The volume of two-way trade between Australia and Asia has been greater than that with the rest of the world since 2004. Imports throughout the period have been comprised of high-value manufactured goods, while Australia's export growth has been driven by China-led demand for iron ore and other resources.
- Australian investment flows with Asia are more volatile than those with the rest of the world². Despite Japan's economic slowdown, that country's share of investment with Australia has become increasingly dominant, with a corresponding fall in the shares of Hong Kong and Singapore.
- Research and business development between Australia and Asia has increased at a much greater rate than that with the rest of the world. It has tracked engagement with the rest of the world fairly closely over time: when one falls, so does the other.
- The increase in Australia's education relationships has been driven by strong growth in the number of Asians coming to study in Australia. In 2007 close to 500,000 people travelled to and from Australia and Asia for educational purposes, including conferences. Education in 2007 was dominated by China, with India and South Korea taking significant share from Malaysia, Indonesia and Singapore.
- The increasing popularity of Asia as a tourist destination for Australians has bolstered engagement over the period. On the incoming side, the decline in the number of Japanese tourists was offset by an increase in numbers from China and South Korea.
- Australian migration to and from Asia is less than that with the rest of the world. Sources of immigrants to Australia from Asia have changed markedly over the period, with Vietnam and Hong Kong dominating Asian immigration at the beginning of the period and China and India becoming more important in later years.
- Australian humanitarian assistance has focused strongly on Asia, particularly in recent years. Humanitarian assistance engagement spiked sharply following the East Asian financial crisis and the Indian Ocean tsunami in 2004.

¹ Values are in constant 2005-06 prices.

² Volatility is calculated using the coefficient of variation.

Figure 2: Indices of Major Asian Economies

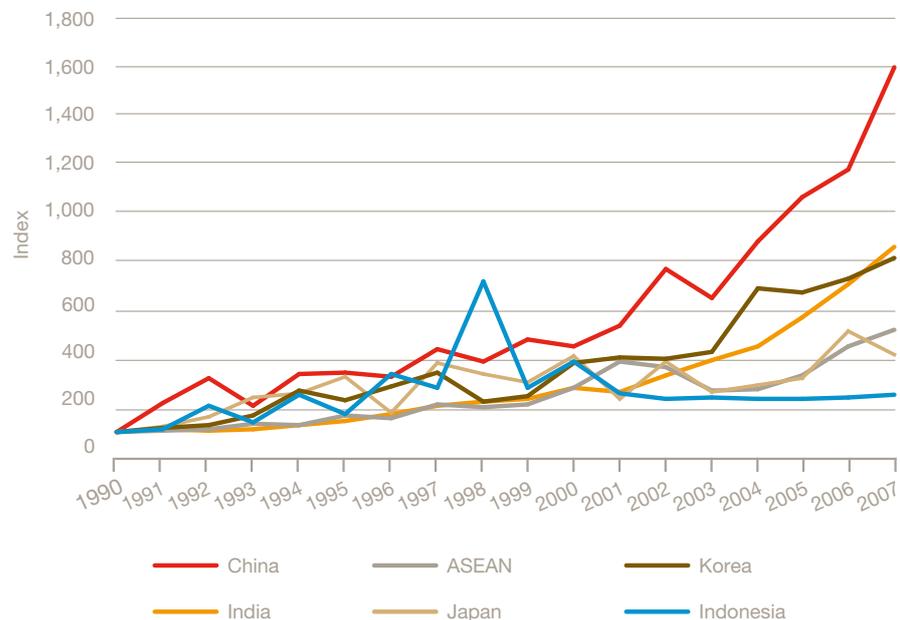


Figure 2 shows the growth in engagement of the major economies in the region – the growth of engagement, not the level of engagement.

From page 49 we present analysis of Australia’s most important engagement partners in the region: China, India, Indonesia, Japan, and South Korea, as well as ASEAN, which, as an economic bloc, includes several of Australia’s most important engagement partners.

On a country-by-country basis:

- In 2007, **ASEAN** as a grouping of countries was Australia’s top engagement partner on all component indicators except investment. ASEAN has become Australia’s largest trading partner, with two-way trade at \$70.1 billion, against China’s \$58.0 billion. All measures of engagement, bar migration, with ASEAN have made gains over the Index’s period.
- While the Asia25 Index has quadrupled since 1990, the **China** Index has multiplied more than 16 times in the same period, driven in large part by trade. Australian exports of iron ore and other resources provided fuel for China’s high rates of growth, and imports of manufactures from China have provided Australia with low-priced consumption goods.
- Australia’s engagement with **India** has taken off in recent years, in parallel with the country’s economy – albeit from a low base. India has been Australia’s fastest growing export market over the past five years, with non-monetary gold and coal being particularly significant.
- The Index data shows increased trade and humanitarian assistance interaction with **Indonesia** and overall increases despite volatility in investment, education and tourism. The Index data does not adequately convey the vigorous government-to-government and Track II interaction relating to the Asian financial crisis, counter-terrorism initiatives and other bilateral concerns³.

³ Track II interaction refers to informal non-government diplomacy – especially confidence-building and reducing international suspicion and conflict.

- **Japan** remains a crucial partner for Australia, and continues to be Australia's largest export destination. However Australia has become less Japan-focused as it has become more broadly engaged in the Asian region.
- Aspects of Australian engagement with **South Korea** were hit hard by the East Asian economic crisis in 1997, but following the country's recovery, accelerated at a far greater pace than engagement with Asia as a whole. By the early 1990s, South Korea's economy had surpassed that of Australia in size, and today is Australia's fourth largest export market.

“

We are backing Asia as a growth engine based on the expectation that, within 10 years, the region will have three of the four largest economies in the world.

”

Mike Smith OBE,
Chief Executive Officer, Australia
and New Zealand Banking Group Limited

Understanding the PricewaterhouseCoopers Melbourne Institute Asialink Index

The Index measures engagement between Australia and Asia over the period 1990-2007. In doing so it analyses both the level and rate of change across seven components and 25 economies.

Although there is no single objective way to measure engagement, the Index uses seven quantifiable and important measures. 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, and the education, tourism, migration components by number of people. Research and business development, and humanitarian assistance are shown in index format.

Seven components

- Trade
- Investment
- Research and Business Development
- Education
- Tourism
- Migration
- Humanitarian Assistance

25 economies

- | | | |
|---------------------------|-------------|-----------------------------------|
| • Bangladesh | • India | • Pakistan |
| • Bhutan | • Indonesia | • People's Republic of China |
| • Brunei Darussalam | • Japan | • Republic of Korea (South Korea) |
| • Burma | • Laos | • Singapore |
| • Cambodia | • Macau | • Sri Lanka |
| • Chinese Taipei (Taiwan) | • Malaysia | • Thailand |
| • East Timor | • Maldives | • The Philippines |
| • Hong Kong | • Mongolia | • Vietnam |
| | • Nepal | |

More details are contained in Appendix 1, page 75.

“

The English-speaking powers and their close allies must now negotiate with Asia's giants to manage the big issues. The rules governing how we act and what we can achieve in the world will be less familiar to us. Old certainties no longer apply.

”

Professor Michael Wesley,
Director, Griffith Asia Institute,
Griffith University

Components: Trade



In 1990, the first year of the Index, parts of the global economy, Australia included, were dealing with a credit crunch following a boom in the mid-1980s. But the world was on the cusp of an immense technology innovation-led economic growth period. With improvements in technology, transport and communications, the world was about to become a great deal smaller.

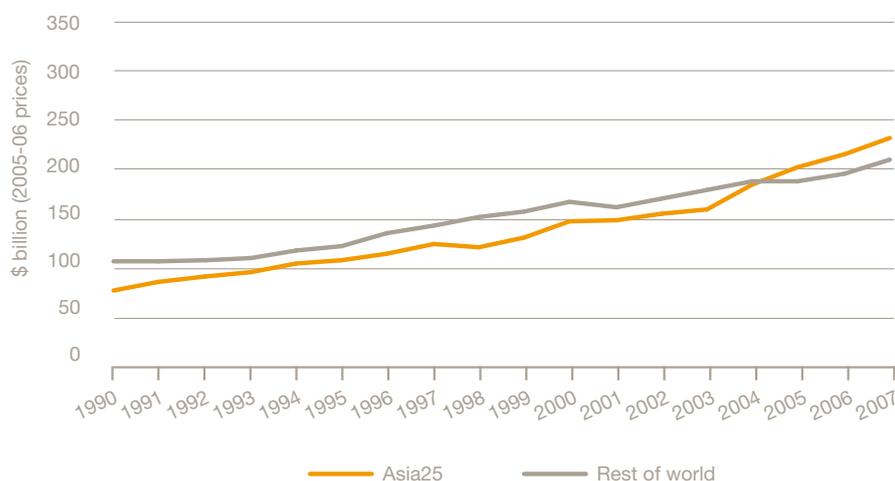
In the political arena too, it was a time of optimism and increasing globalisation. The Asia-Pacific Economic Cooperation (APEC) forum was set up around this time, to promote regional integration and to enhance international trade.

In the 1980s reforms were made in Australia's economic and political foundations to take advantage of the ensuing era of globalisation. On the economic front, the floating of the dollar, deregulation of the Australian financial services industry, and continued reduction in tariffs brought Australia out of a long period of relative economic isolation.

The trade component suggests that these reforms set Australia up for a period of flourishing trade, one which saw unprecedented growth in global trade in both goods and services.

The trade component, as presented in Figure 3, charts Australia's two-way trade – imports and exports of both goods and services – with Asia and with the rest of the world. The broad picture reveals that Australia's trade engagement with Asia has been more or less equal to that with the rest of the world throughout the period, but our engagement with Asia has accelerated in recent years. This is good news with forecasts predicting that within 12 years Asia will account for around 45 per cent of global GDP and one-third of global trade.

Figure 3: Trade Component



The East Asian financial crisis in 1997 brought an unremitting upward trend to a halt, but recovery in 1999 was swift. Since then two-way trade volumes with Asia have resumed their upward climb, overtaking trade engagement with the rest of the world in 2004.

Much of the growth in trade engagement over the past few years can be attributed to the Chinese boom. China's accession to the World Trade Organisation (WTO) in 2001

and its resultant growth, has had a significant impact on Australian trading volumes. The country's demand for raw materials to fuel its red hot growth in recent years has meant huge gains for Australian exports of iron ore and other commodities. These have combined with large volumes of imported manufactures, larger in fact than the volume of exports to boost the trade component of the Index.

The trade component provides a picture at the broadest two-way level. A more granular examination of the data provided in Table 3 reveals that:

- Imports from Asia are growing at a much faster rate than Australian exports to Asia although from a much smaller base.
- Australian exports to Asia remain higher than imports.
- Imports from the rest of the world are larger than imports from Asia.

In nominal terms, total trade between Asia and Australia in 2007 was \$237.5 billion, comprised of \$109.1 billion of Asian imports into Australia, and \$128.4 of exports to Asia. In real terms, the value of imports from Asia has almost doubled since 2000, and multiplied fourfold since 1990.

Table 3: Trends for Trade Component (imports and exports, \$bn)⁴

Component	1990	1995	2000	2006	2007	% change 2006-07
Asia25						
Imports	26.4	33.5	52.4	99.8	111.7	11.9
Exports	52.5	76.2	96.5	117.5	122.0	3.9
Total	78.8	109.7	148.9	217.3	233.7	7.6
ROW⁵						
Imports	53.9	64.8	84.8	116.4	127.7	9.7
Exports	54.3	59.2	83.7	81.3	83.7	2.9
Total	108.2	124.0	168.5	197.7	211.4	6.9

China and ASEAN increase trade share

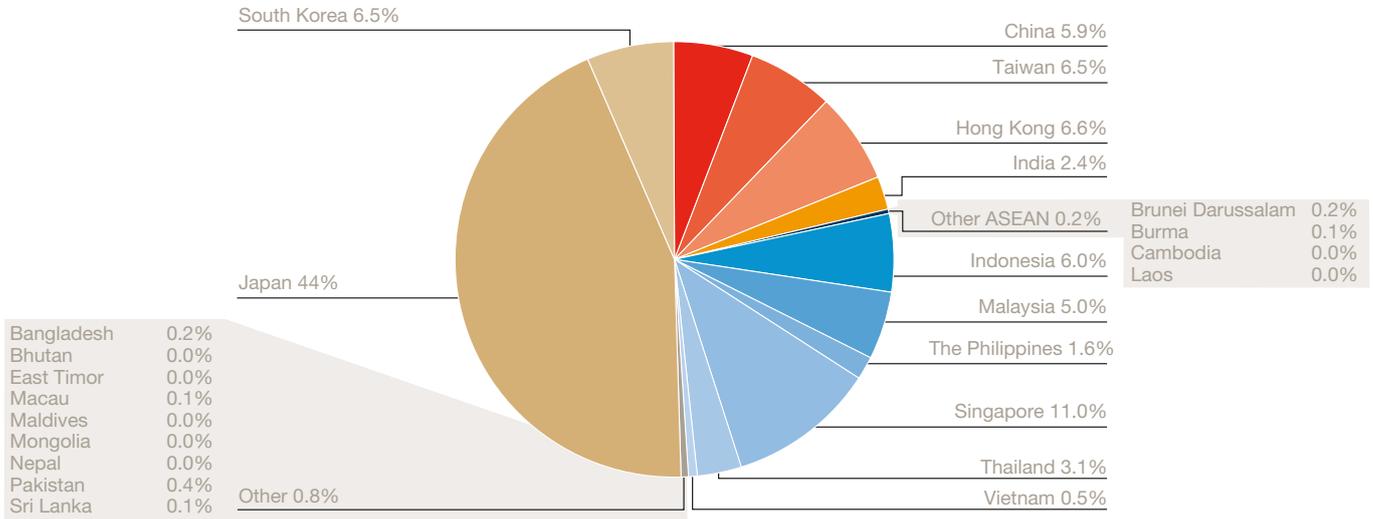
Over the course of the past two decades, the relative share of Australia's trade partners in Asia has changed markedly. Figure 4 presents the country share of two-way trade between Australia and Asia in 1990 and 2007, a snapshot of relative trade importance. The most striking change over the period has been the increase in the relative importance of China who has taken a significant share of trade from Japan. Meanwhile, the ASEAN countries have collectively become a crucial trade partner for Australia: in 2007, ASEAN was Australia's largest trading partner with two-way trade at \$70.1 billion. Since 1990, two-way trade with Japan grew by 2.6 per cent per annum to \$54.5 billion in 2007. But trade with China, which started from a much lower base, grew by 14.6 per cent per annum to \$58.0 billion in 2007. Over the period, China has overtaken Japan and now comprises over 25 per cent of Australia's total trade with Asia – while Japan does continue to hold first place as an export destination.

⁴ Values are in constant 2005-06 prices.

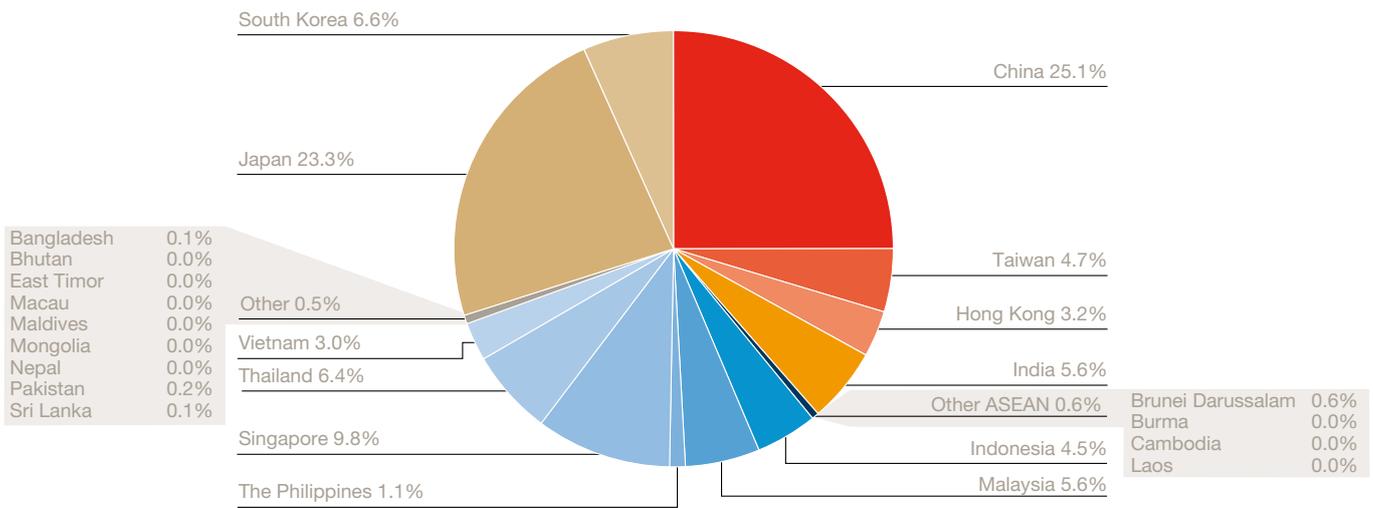
⁵ "ROW" means the rest of the world (excluding Asia25).

Figure 4: Trade Shares by Economy

1990



2007



The major story is one of immense growth on the part of China, and the analysis from page 67 on Japan makes clear that trade engagement with Japan has not accelerated at a pace that may have been predicted in 1990, when Japan's economic strength was dominating the attention of economic commentators around the world, as China does today. At the same time India's share of Australia's trade pie has grown significantly, particularly in exports, driven by that country's high rate of economic growth (see page 59 on India).

The story of trade between Australia and Asia over the period of the Index is one of steady but gradual opening. Stuttering progress in multilateral trade forums such as the WTO and APEC has been supplemented in recent years by a stronger focus on bilateral trade agreements. Significantly, of Australia's five Free Trade Agreements (FTA) in force, two are with Asian economies (Singapore, Thailand), and seven of the eight FTAs in negotiation or under consideration are with Asian economies.

Table 4: Australia's Free Trade Agreements⁶

Signed Free Trade Agreements	Year
– Australia-New Zealand Closer Economic Relations	1983
– Singapore-Australia	2003
– Thailand-Australia	2005
– Australia-United States	2005
– Australia-Chile	2008
Free Trade Agreements under negotiation	
– Australia-ASEAN-New Zealand ⁷	
– Australia-China	
– Australia-Gulf Cooperation Council	
– Australia-Japan	
– Australia-Malaysia	
Free Trade Agreements under consideration	
– Australia-India	
– Australia-Korea	
– Indonesia-Australia	

⁶ <http://www.dfat.gov.au/trade/ftas.html>.

⁷ Concluded, to be signed by end of 2008.

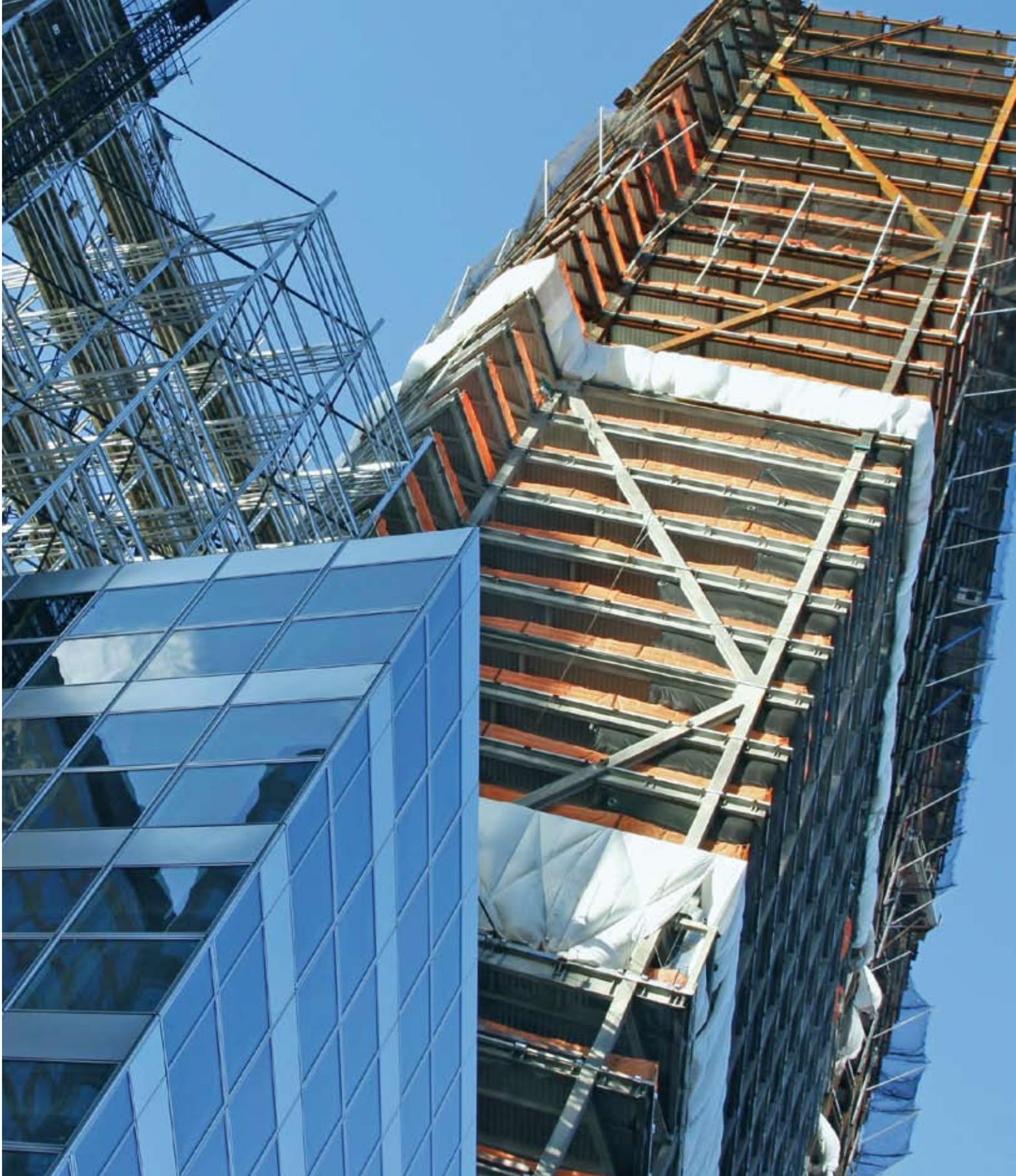
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Over one million Australian jobs now depend on exports – and sixty per cent of our exports go to Asian markets. In tabloid terms, ‘trade with Asia delivers Aussie jobs’.

”

The Hon Simon Crean MP,
Minister for Trade

Components: Investment



While analysis of trade flows focuses on the exchange of goods and services, investment analysis measures flows of capital: direct investment in factories and operations, portfolio investments in shares and bonds and other investments such as trade credits which appear on national accounts. There is often little correlation between shifts in investment flows and changes in trade volumes.

The Index period has been an era of the globalisation of capital as much as globalisation of trade. Through the 1980s and into the 1990s, many developing countries opened their economies to international capital, lifting controls that had restricted inward investment and freeing enterprise. Many saw waves of investment flow in, as investors and corporations in the developed world searched farther afield for opportunities, customers and suppliers.

Through the period, the global economy experienced numerous international financial crises as foreign capital rushed to escape a country or a region previously seen as low risk. Mexico in 1994, East Asia in 1997, Russia in 1998 and Argentina in 2002, saw their economies devastated as investors headed for the door. Each time there were significant flow-on effects for the global financial economy. At the same time, the developed world's economies had their own cycles of expansionary growth followed by often sudden contractions.

Figure 5: Investment Component

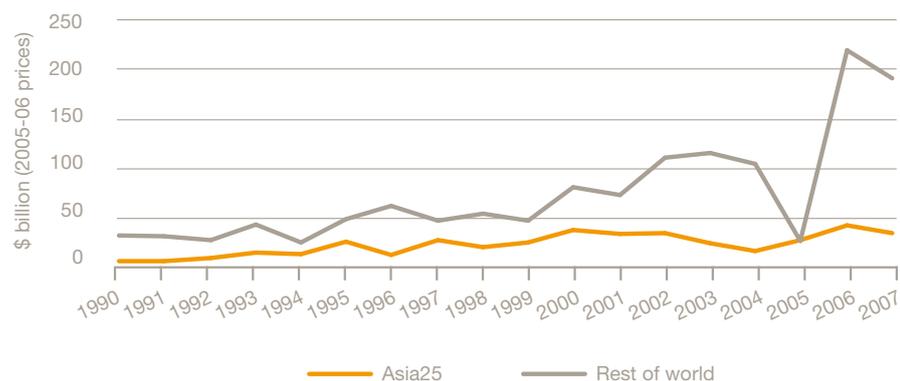


Figure 5 demonstrates that while Australian investment with Asia has increased slowly since 1990, this increase was dwarfed by the level of investment with the rest of the world. Australian investors have a clear preference for other parts of the world.

The investment component includes data on foreign direct investment (such as the establishment of a new factory in a foreign country), share portfolio investments and 'other' investments. The investment component sums the values of investment flows from Australia to Asia and from Asia to Australia. Figure 5 compares these with investment flows to and from the rest of the world. Much of the volatility is the result of portfolio flows driven by Australia's relative attractiveness as a short term destination for foreign capital, which changes with interest and exchange rate fluctuations. Significant movements of investment in the latest years of the period of the Index reflect increased international investment in Australia.

The year in which financial crisis hit East Asia, 1997, was an important year for Australia's investment engagement with Asia. Sparked by a devaluation of the Thai baht in July of that year, the crisis spread across much of South East Asia to South Korea, with repercussions for economies across the region. During this period, the investment component shows an increase in investment engagement. As Australian investors and companies pulled capital out of Asia, flows increased, but fell back to trend soon thereafter.

The investment component was a major contributor to the 19.2 per cent plunge in the Index between 2006 and 2007. In turn, this was driven by a 33.9 per cent fall in Australian investment in Asia. Although 2006 was a record year for Australian outbound investment in Asia, it was still overshadowed in that year by investment in the rest of the world. Much of the growth in Asian investment in Australia grew significantly during the 1990s, but since then has levelled out.

Table 5: Trends for Investment Component (inflow and outflow, \$bn)^{8,9}

Component	1990	1995	2000	2006	2007	% change 2006-07
Asia25						
Inflow	4.0	16.6	20.7	20.9	20.0	-4.3
Outflow	2.3	8.9	17.1	21.4	14.2	-33.9
Total	6.3	25.5	37.8	42.3	34.2	-19.2
ROW¹⁰						
Inflow	23.8	32.2	49.8	136.0	123.0	-9.5
Outflow	8.2	16.3	30.8	82.8	67.5	-18.5
Total	32.0	48.5	80.6	218.8	190.5	-12.9

“

Australian business is uniquely positioned to prosper from investment into Asia; our proximity, our leading edge technology, our advanced services industry, even our business style. All we need is the willingness to engage.

”

Justin Breheny,
Chief Executive Officer Asia, Insurance Australia Group

⁸ Values are in constant 2005-06 prices.

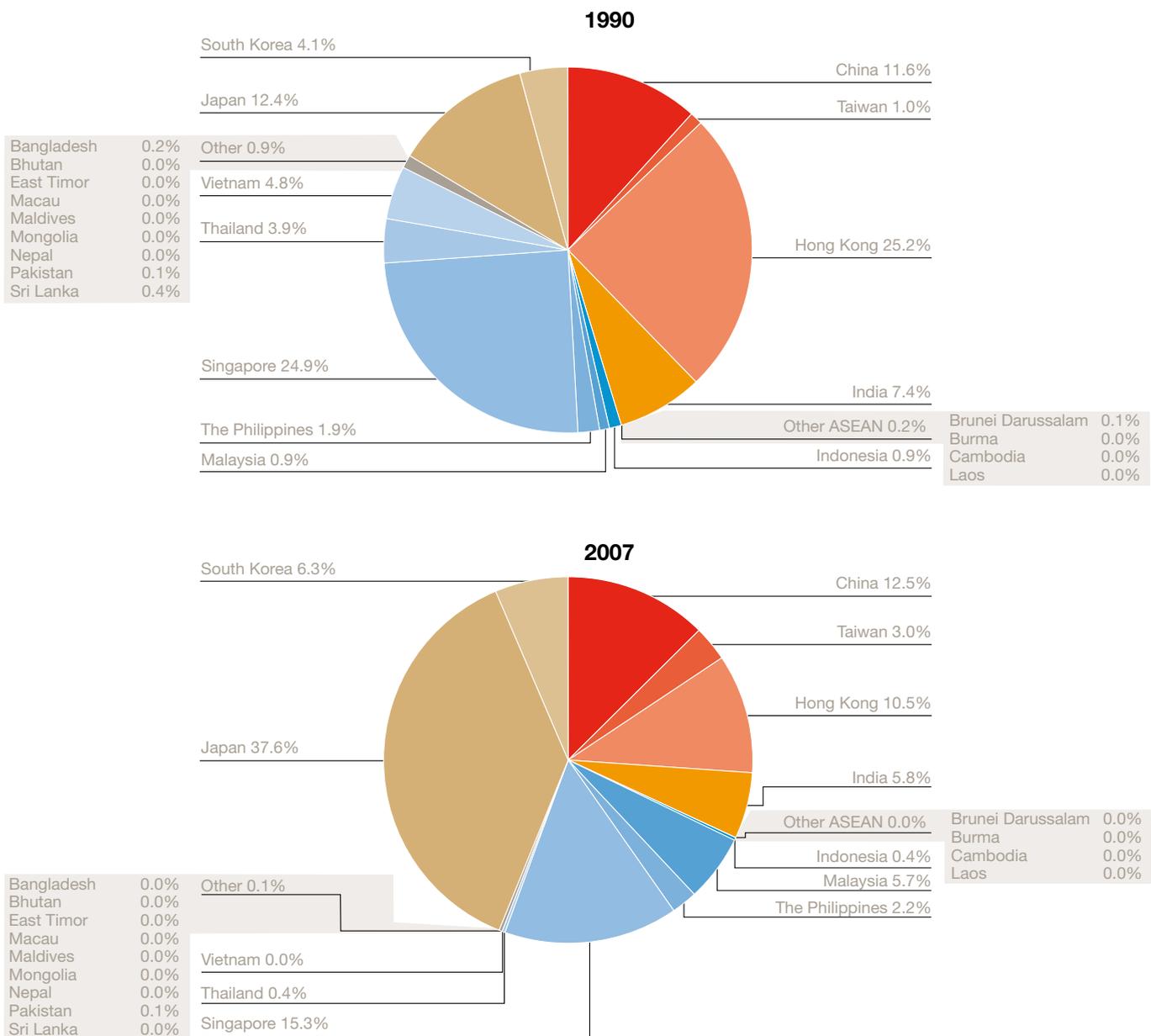
⁹ Investment series comprises transactions only and thus excludes non-transaction changes in a country's asset position due to price changes, exchange rate changes and other adjustments. See ABS cat. 5331.0 for a more detailed explanation.

¹⁰ "ROW" means the rest of the world (excluding Asia25).

Japan dominates Asian investment engagement

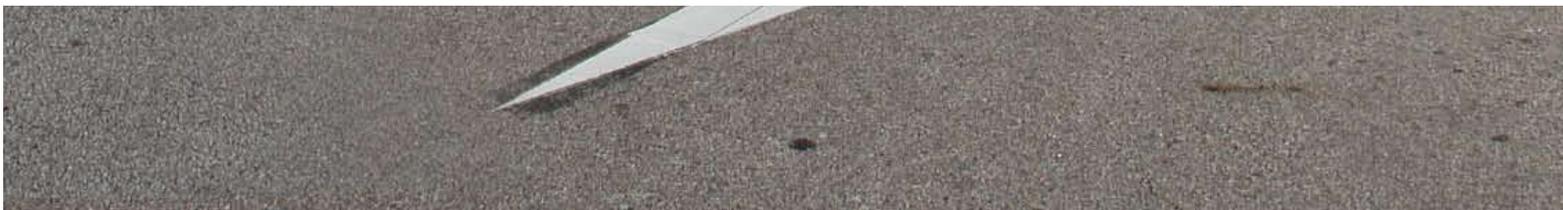
Because investment flows are so volatile, snapshots of one particular year may be less revealing for the investment component than for other, more stable parts of the Index. Nonetheless, Australia’s major investment partners changed between 1990 and 2007. The trade component shows Japan’s share falling dramatically, as China has grown. In contrast, the investment component shows that Japan’s share of investment increased markedly, while China’s has stayed relatively constant – notable given the extremely limited investment opportunities available into or out of China in 1990, and a significant increase in Australia’s investment engagement with China in recent years. Japan’s share grew as the shares of Hong Kong, Singapore, Thailand, and Vietnam reduced. Malaysia emerged as a significant Asian investor in Australia in 2007, while India’s share contracted marginally.

Figure 6: Investment Shares by Economy





Components:
Research and Business Development



Before investment and before trade, business often engages in research and development, travelling to the partner country, meeting with potential suppliers, customers and associates, learning about the opportunities and risks involved in engaging in business overseas. As such, measures of these activities can be lead indicators of future economic engagement. The research and business development component is a dimension of Australian-Asian engagement which is not captured by the national accounts. For example, the national accounts do not record the creation of business associations which can be invaluable vehicles for assisting people to investigate, nurture and develop business opportunities in foreign countries. Austrade and state government representative offices are a great example of how a connection with people on the ground overseas can help open up new market opportunities.

The research and business development component represents the intensity of these important activities. This component reveals that Australian research and business development activity with Asia over the period of the Index has increased markedly, particularly in comparison with activity with the rest of the world.

Figure 7: Research and Business Development Component



The research and business development component, as shown in Figure 7, shows that the pattern of Asian research and business development engagement has tracked engagement with the rest of the world fairly closely over time: when one falls, so does the other, perhaps reflecting forces operating in global markets. But the broad picture is clear: Australian research and business development engagement with Asia has increased at a much greater rate than that with the rest of the world.

Table 6: Trends for Research and Business Development Component

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
Asia25	100.0	186.3	317.8	334.5	325.2	-2.8
ROW ¹¹	100.0	114.2	174.9	195.0	203.9	4.6

The research and business development component comprises:

- the volume of visits between Australia and Asian economies for business or employment purposes
- the number of business organisations and associations in Australia that exist to promote Asian commerce, such as the Australia China Business Council or the Australia India Business Council
- the number of patent applications made by Asians in Australia each year, revealing the intensity of Asian-led innovation in the Australian marketplace
- a count of English-language research articles published on 'Australian-Asian relations' each year.

The research and business development component combines a basket of quite diverse measures and therefore can only be presented as an index. Concrete conclusions about specific movements of this component are difficult to draw, but there has been a downturn displayed in 2001 and recent years. While there has been strong and consistent growth in short- and long-term business visitors from Asia to Australia since 1990 (over fourfold), there has also been strong reciprocal growth in business visits by Australians to Asia (threefold). The pattern for the number of business organisations is more uneven and curiously there appears to be a slight fall-off in numbers in recent years. This is even more apparent for the number of Australian-Asian research articles. Research articles, which include peer-reviewed papers, books and articles from professional societies, peaked between 1997 and 2002, especially for topics combining Australia with ASEAN, Indonesia, East Timor and Hong Kong.

Except for a small hiatus in 2001, there has been a strong increase in applications from Asia to IP Australia, the Australian patent office. In recent years, interest in patenting around the world has increased and Australia has been part of this trend. Japan dominates Asian applications into Australian and in 2007, the Japanese made about three-quarters of all Asian applications. China, India and Korea exhibited very strong rises in patenting activity over the past five years. However, between 2006 and 2007, there was an apparent fall in patent applications from both Asian and other foreign residents¹².

¹¹ "ROW" means the rest of the world (excluding Asia25).

¹² There is a 31-month delay between a PCT patent designation and a real application and accordingly PCT applications between 2005 and 2007 have been estimated based on the ratio of PCT designations that enter the national phase for each originating country during 1989-2004.

“

Australia's innovation-based competitiveness and productivity demands reenergized and accelerated terms of engagement within regional and global innovation systems.

”

Dr Terry Cutler,
Chairman, National Innovation System Review 2008



Components: Education

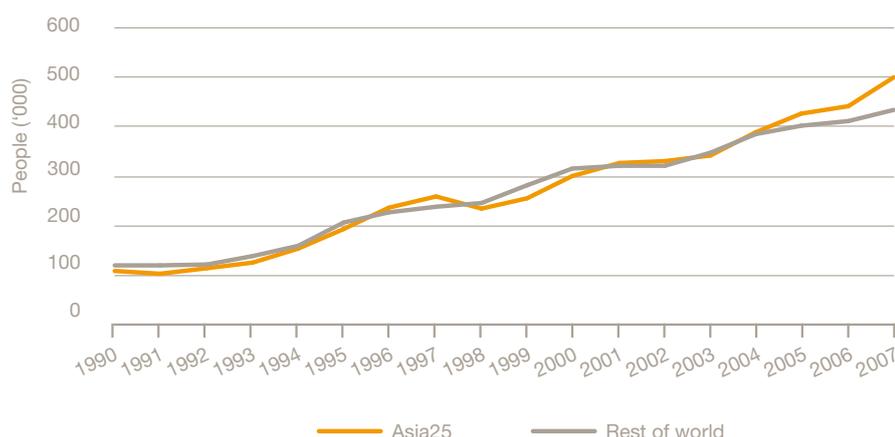


While trade, investment and other components have clear and immediate economic consequences for engagement, education has broader, more nuanced ramifications. Students and conference-goers that travel to other countries do more than bring money and acquire specialist knowledge. They increase their understanding of the culture and customs of their host country, make friends and contacts that often last a lifetime, and create other bilateral relationships that generate benefits to both countries long after the course or conference is finished.

Such effects may be difficult to capture but the growth in sheer numbers of people going back and forth between Australia and Asia is not.

The education component includes data on people coming into Australia for secondary and tertiary education, for intensive English language courses, and to attend business or academic conferences. The largest group of students was those studying in Australian universities, and the fastest growing study areas were vocational training and English language courses. Note that the value of educational exports is incorporated in the trade component rather than the education component.

Figure 8: Education Component



The 18-year period covered by the Index was the era in which education became a globalised commodity. Prior to the 1980s, Australia's approach was to provide educational aid in the form of scholarships or heavily subsidised places, but in limited numbers. In the 1980s, the system was reoriented towards educational trade: quotas rose but so did fees. Throughout the 1990s and beyond, this placed Australia in competition with other English-language education providers such as the US and UK, and the fortunes of Australian universities waxed and waned with the broader economic influences affecting the choices of Asia's burgeoning middle classes.

The education component in Figure 8 shows that the numbers of students and conference-goers arriving on Australia's shores has been on an upward trajectory since 1990, with the notable exception of 1997–98. The dip is likely to have been the result of the Asian financial crisis. The rise in educational engagement with Asia has more or less occurred in lockstep with that of the rest of the world.

“

The luxury of mono-lingualism is not coming back.

”

The Hon Julia Gillard MP,
Deputy Prime Minister

The proportion of international enrolments to domestic enrolments in Australian tertiary education institutions has risen to about 20 per cent – the highest level in the world – from a standing start in the mid-1980s. In recent years, education has replaced tourism as Australia’s largest service export, and is now the country’s third largest export, behind iron ore and coal.

The data summarised in Table 7, which was used to create the education component, reveals that educational engagement with Asia is significantly greater than with the rest of the world. However, the nature of this engagement is quite different: engagement with Asia is underpinned by Asian students studying in Australia, whereas engagement with the rest of the world is driven by Australia students studying overseas. This is despite a range of strategies being put into place to encourage Australian students to study in Asia.

Table 7: Trends for Education Component (inflow/outflow, '000 people)

Component	1990	1995	2000	2006	2007	% change 2006–07
Asia25						
Inflow	77.1	144.7	228.1	356.6	407.1	14.2
Outflow	26.7	43.0	68.0	80.0	86.7	8.3
Total	103.8	187.7	296.0	436.6	493.8	13.1
ROW¹³						
Inflow	57.5	99.9	174.7	235.3	252.4	7.3
Outflow	56.6	100.5	135.5	171.5	177.3	3.4
Total	114.1	200.4	310.2	406.8	429.7	5.6

Close to 500,000 people travelled between Australia and Asia for educational purposes in 2007. This compares with about 430,000 people travelling to the rest of the world. As demonstrated in Table 7, educational traffic between Australia and Asia increased 13.1 per cent in 2006–07, despite a significant appreciation of the Australian dollar and depreciation of the currencies of our competitors for Asian education customers, such as the United States and the United Kingdom.

“

We look at the people who are mid-career working for us and we find we have people who speak fluent Bahasa, fluent Japanese or even fluent Mandarin; but if I look at the youngsters that are joining us now it almost feels like we have gone backwards.

”

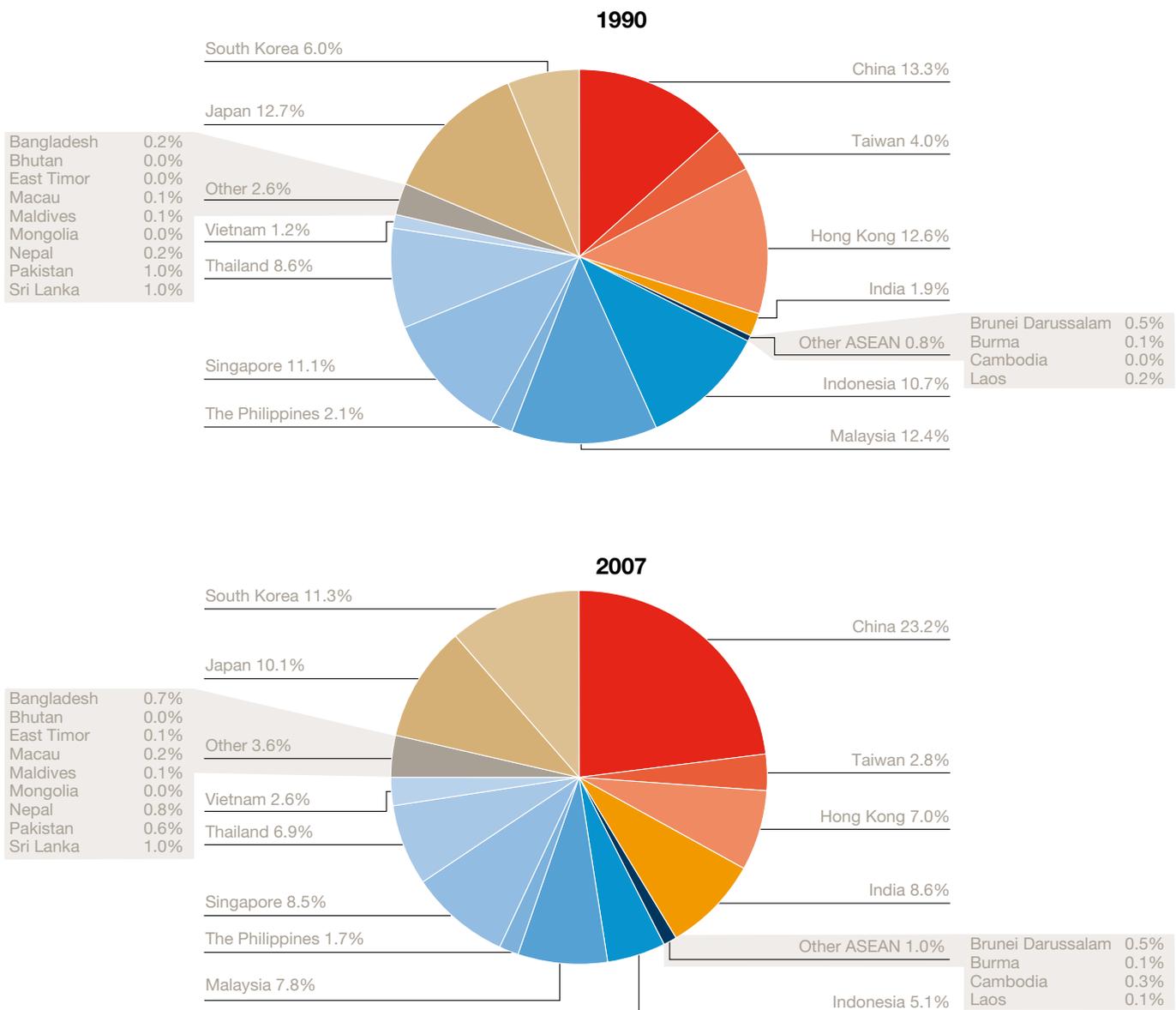
Marius Kloppers,
Chief Executive Officer, BHP Billiton Limited

¹³ “ROW” means the rest of the world (excluding Asia25).

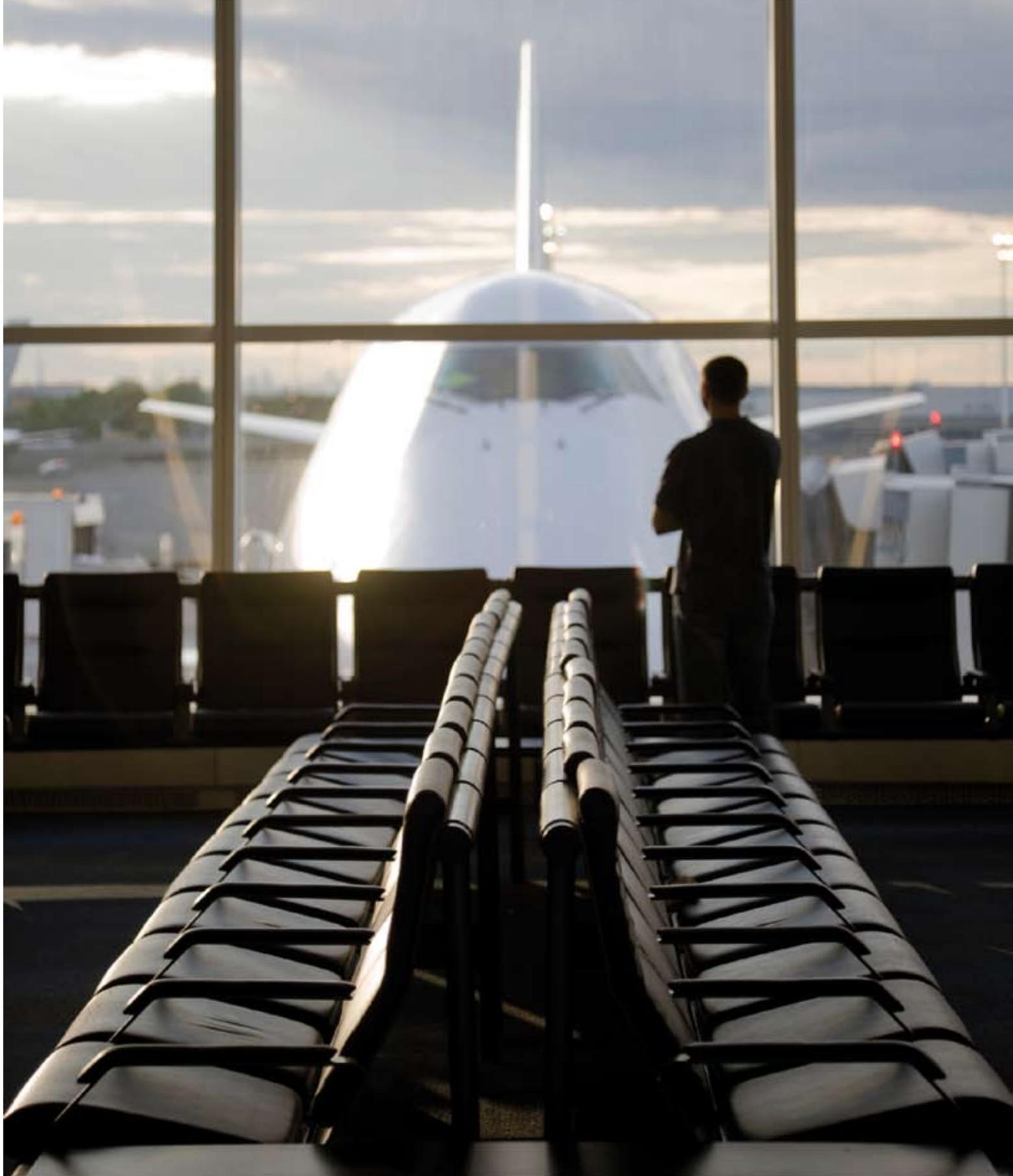
China, South Korea and India increase their share

From 2003–04, the increasing numbers of students arriving in Australia from China and India boosted the Asia25 education component to levels significantly greater than that of the rest of the world. Figure 9 shows that over the course of the 18-year period, China, South Korea and India have become far more important to Australia’s educational engagement with Asia than they were in 1990.

Figure 9: Education Shares by Economy



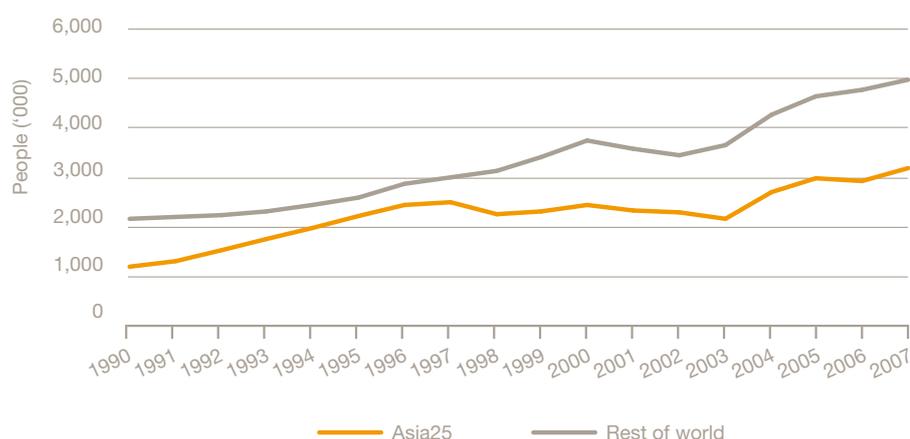
Components: Tourism



Economic growth in Asia over recent years has made Australia a viable tourist destination for many Chinese, Indonesians and Malaysians, in addition to the Japanese. At the same time, Australians have always been keen to explore the tropical jungles of Borneo, the surf beaches of Bali and the temples of Angkor Wat. Lower-cost airfares and the internet have brought short trips within reach of large parts of the population that otherwise would not have considered foreign travel. Holidays abroad provide a unique way to exchange cultures and customs and learn about other ways of life, and can be a key element of effective engagement.

The tourism component includes data on both short-term (less than one year) and long-term (more than one year) passenger movements between Australia and Asia (including working holidaymakers). As shown in Figure 10, passenger flows between Australia and Asia have more than tripled since 1990, but fell between 1996 and 2003. Since then, however, Asian tourism engagement has grown significantly. Although substantial, tourist movements between Australia and Asia are overshadowed by those between Australia and the rest of the world.

Figure 10: Tourism Component



Tourism engagement has been driven by two main factors: real incomes in Australia and Asia and the relative price of travel. In latter years of the Index, the appreciation of the Australian dollar against the US dollar has made the country a relatively less appealing destination for Asian tourists, but this has increased the affordability of Asia trips for Australians.

Australian tourism to Asia first became a significant industry in the latter half of the 1980s. A fall in the value of the Australian dollar made Asia a relatively less expensive destination than Australians' traditional stomping grounds of Europe and North America. Asian tourists visiting Australia more than doubled between 1990 and 2007 – from about 650,000 in 1990 to 1.5 million in 2007. During the same period, the number of Australian outbound tourist trips to Asia grew at an even greater rate, from about 540,000 in 1990 to 1.6 million in 2007.

The tourism component shows a downturn following the 1997 Asian crisis, but it is entirely attributable to the decrease in Asian visitors to Australia. During the crisis, Australian tourists flew out in even greater numbers to Asia to take advantage of the greater buying power of the Australian dollar as Asian exchange rates fell. Indonesia (mainly Bali) was the greatest beneficiary of this trend, attracting almost as many Australian tourists as Britain in 1997, and overtaking the US and Britain to become the

second most popular destination after New Zealand in 1998. The tourism component also clearly shows the fall of two-way tourism traffic between Australia and Asia during the SARS crisis of 2002–03.

Table 8: Trends for Tourism Component (inward/outward, '000 people)

Component	1990	1995	2000	2006	2007	% change 2006–07
Asia25						
Inward	650.1	1564.2	1529.2	1574.2	1540.4	-2.2
Outward	537.7	640.9	905.6	1335.6	1624.7	21.6
Total	1187.9	2205.1	2434.9	2909.8	3165.1	8.8
ROW¹⁴						
Inward	1047.8	1403.9	2124.5	2460.5	2490.8	1.2
Outward	1080.8	1168.3	1576.1	2269.4	2421.0	6.7
Total	2128.6	2572.2	3700.6	4729.9	4911.8	3.8

Data from Table 8 does not include young people coming to Australia on working holiday visas. These people stay for an extended period (up to 12 months) and are allowed to work under certain restrictions. As such, their engagement with Australia and Australian people is usually much deeper and nuanced than that of the average tourist.

Table 9 reveals a strong growth in the number of working holidaymakers from all economies, but an exceptional growth in people coming from Asia. Between 2006 and 2007, the proportion of tourists from Asia rose by 25.6 per cent. Part of the Asian growth since 1990 has been due to the contribution of South Korea (1997), Hong Kong (2003) and Chinese Taipei (Taiwan) (2006) have made to this bilateral program.

Table 9: Number of Working Holidaymakers Entering Australia

Component	1990	1995	2000	2006	2007	% change 2006–07
Asia25	6,692	7,562	11,117	34,953	43,892	25.6
ROW	40,691	31,301	68,122	78,984	90,722	14.9

“

The people to people links between Australia and Asia, whether they are for business or leisure, are vital to the success of our business.

”

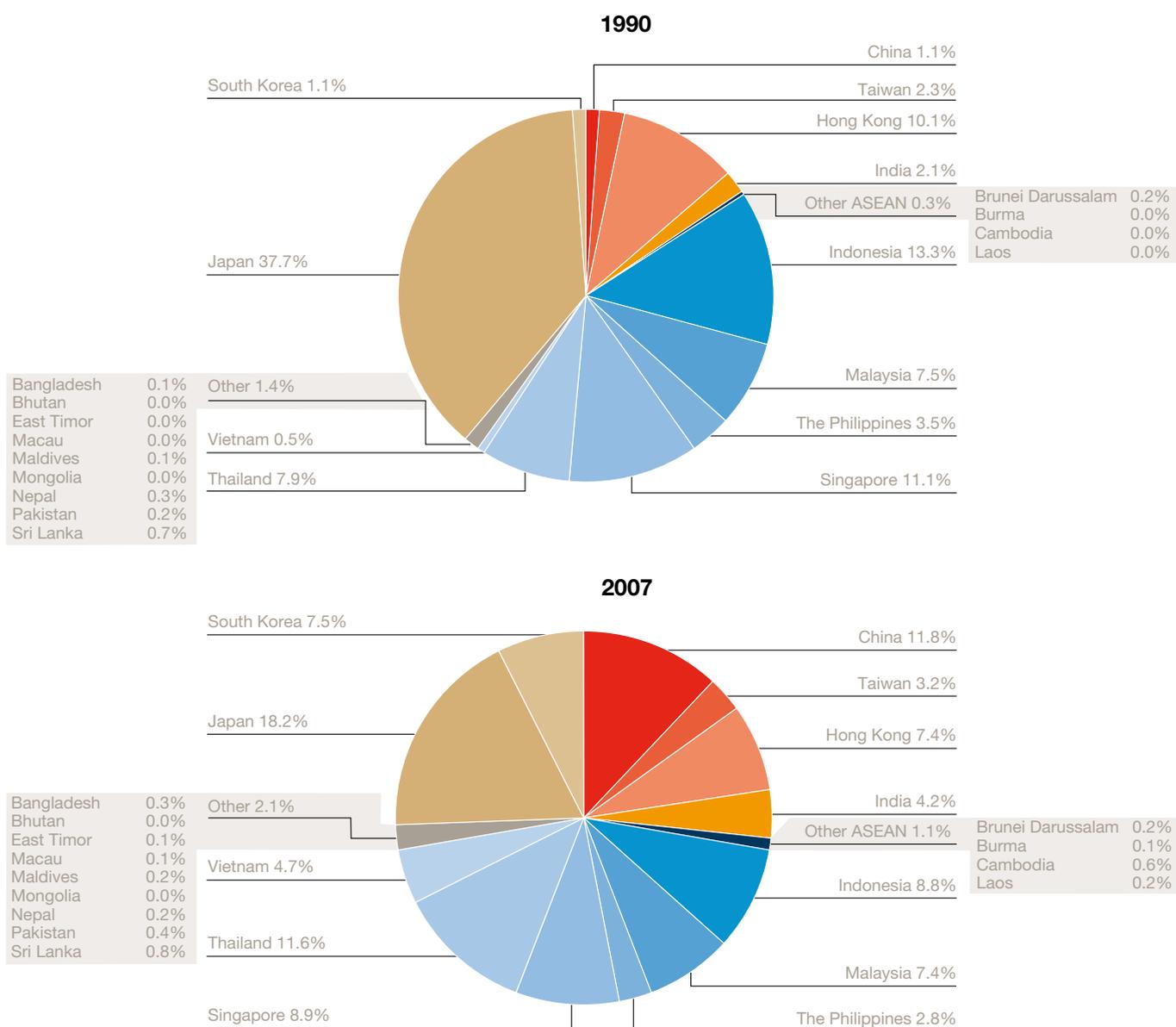
Subhas Menon,
Regional Vice-President, Singapore Airlines Limited

¹⁴ "ROW" means the rest of the world (excluding Asia25).

China and South Korea pick up where Japan left off

Figure 11 shows tourism share by economy. On the incoming side, the story is one of substitution: the reduction in the massive numbers of Japanese tourists that came to Australia in the early 1990s was balanced over the course of the following 18 years by increasing numbers of Chinese and South Koreans. In 1997, the peak year for Japanese tourists, 740,000 visited Australia. Last year that number was 483,000. Meanwhile, tourists from China increased from 32,000 in 1998, (the year before a formal agreement was signed giving Australia ‘approved destination status’ for Chinese citizens to travel for pleasure) to 216,000 last year, and the number of South Koreans visiting Australia as tourists grew from 43,000 in 1998, at the height of the East Asian crisis, to 192,000 last year.

Figure 11: Tourism Shares by Economy





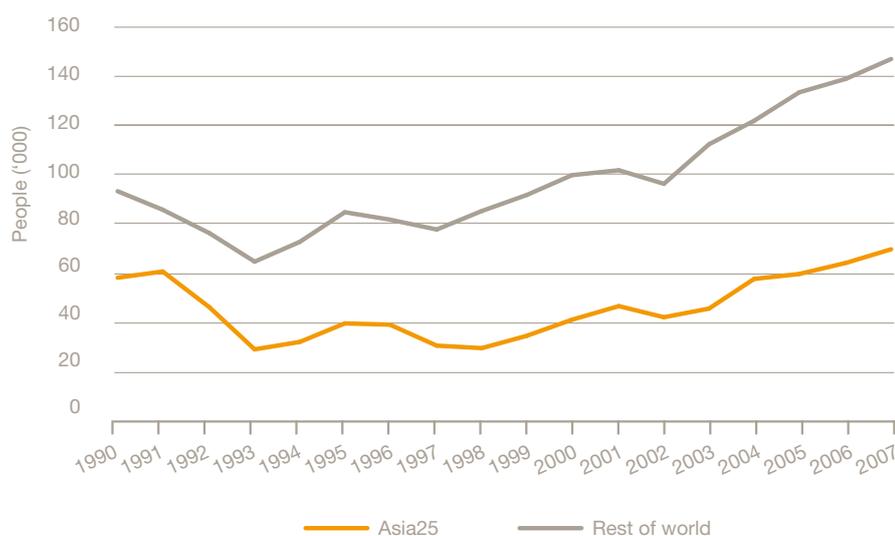
Components: Migration



Migration can be the deepest and most personal form of engagement between cultures.

The migration component measures the level of permanent settler movements between Asia and Australia¹⁵. Figure 12 shows migration with the rest of the world has been approximately double that of migration with Asia over the period of the Index. Although the numbers of Australians moving to Asia has been growing strongly over the past two decades, it is from a very small base.

Figure 12: Migration Component



In the 15 years prior to the Index period, migration from Asia grew from just 8,000 in 1975 to close to 57,000 in 1990. These increasing Asian migration flows in the years up to 1990 were heavily influenced by the exceptional circumstances in Indochina, the Vietnam War and its wake, as well as burgeoning demand for migration from Hong Kong Chinese in the lead up to handover in 1997.

Australia's ability to absorb immigrants rises and falls in line with the economic cycle. As the Australian economy expands, its attractiveness to migrants, capacity to absorb new settlers, and hunger for both skilled and unskilled labour increases. These conditions enable the Government to increase numbers. The opposite is also true. As the early 1990 recession progressed, the Keating government limited immigration, bringing it down from record levels seen under Prime Minister Bob Hawke.

In parallel with the booming economy during the term of the Howard government, total immigration rose steadily to 141,700 in 2007, against 170,000 under Hawke in 1987.

The percentage of Asian immigration has actually fallen over the past 18 years. In 1990, Asian-born people comprised 47 per cent of all permanent settlers compared with 40 per cent in 2007. This shift in country composition (refer Figure 13) may be attributable to the Howard government's focus on skilled migration. Over the period of the Howard government, skilled migrants entered the country in greater numbers, at the expense of those arriving for other reasons such as family reunion. At the same time, humanitarian numbers stabilised. Numbers of migrants from Asia will have been boosted in recent years by a stronger emphasis on converting overseas students into permanent settlers. In the latter years of that government, a focus on English language skills may have had an impact on immigration levels from Asia.

¹⁵ The number of long-term movements – people who move to another country for over 12 months and may stay for many years before returning home – is also an important indicator of migration engagement. Those movements are captured in other parts of the Index, and are not counted here. Long-term visits for tourism and for family visits are counted in the tourism component, long-term movements for education are captured in the education component, and long-term visits for business measured in research and business development.

On the other hand, emigration from Australia to Asia has increased rapidly during the period of the Index, but in absolute terms is still dwarfed by emigration to the rest of the world.

Table 10: Trends for Migration Component (immigration and emigration, '000 people)

Component	1990	1995	2000	2006	2007	% change 2006-07
Asia25						
Immigration	56.9	36.7	33.8	51.6	56.2	8.9
Emigration	1.5	3.1	7.4	12.6	13.6	8.0
Total	58.4	39.8	41.2	64.1	69.8	8.8
ROW¹⁶						
Immigration	64.7	60.2	63.4	82.3	85.5	3.8
Emigration	28.8	24.8	36.4	56.8	61.4	8.0
Total	93.5	85.0	99.8	139.1	146.9	5.5

Vietnamese and Hong Kong Chinese phase out, skilled mainland Chinese and Indians arrive

The makeup of Australia's migration with Asia has changed substantially over the period of the Index. Figure 13 shows clearly that, as noted above, a large proportion of migrants in 1990 were Vietnamese, likely to be family reunion settlers, as well as Hong Kong Chinese settling in Australia prior to the handover to mainland China in 1997. By 2007, the dominant shares of migration engagement claimed by Vietnam and Hong Kong had been replaced by China and India, whose share together makes up approximately 50 per cent of migration engagement with Asia.

“

We're in a global market. We're in a fight for skills among other nations.

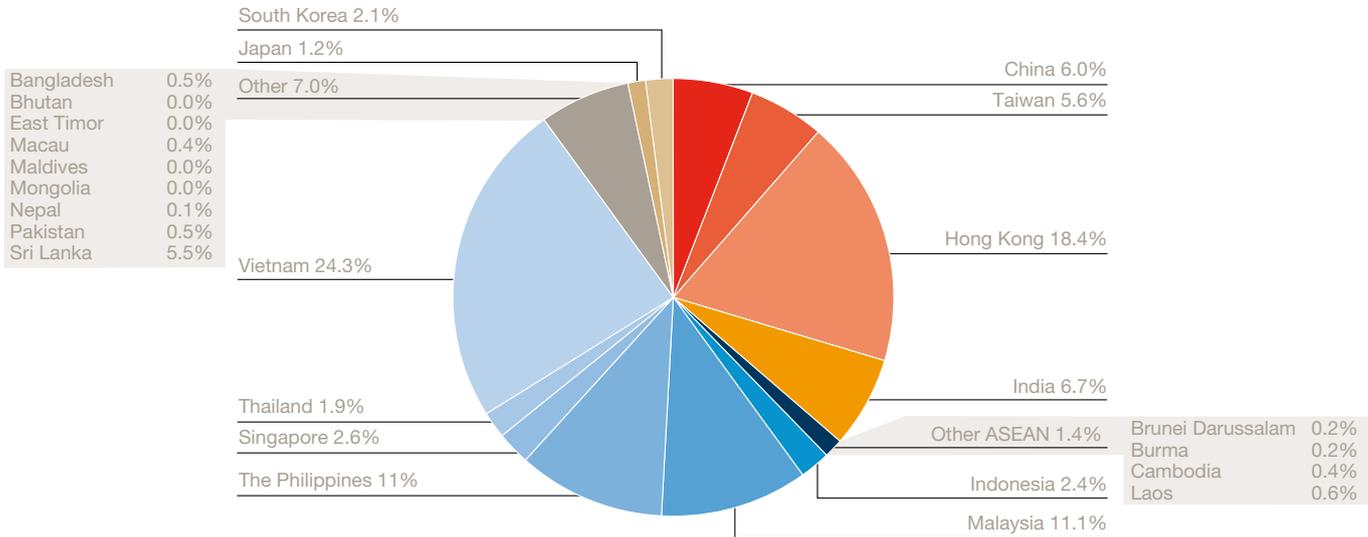
”

Senator Chris Evans,
Minister for Immigration and Citizenship

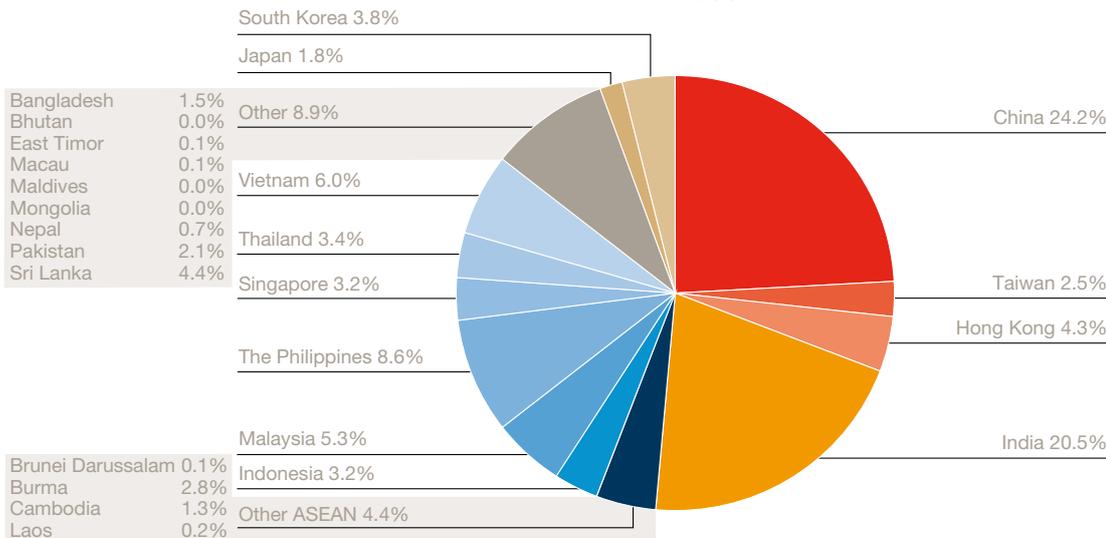
¹⁶ "ROW" means the rest of the world (excluding Asia25).

Figure 13: Migration Shares by Economy

1990



2007



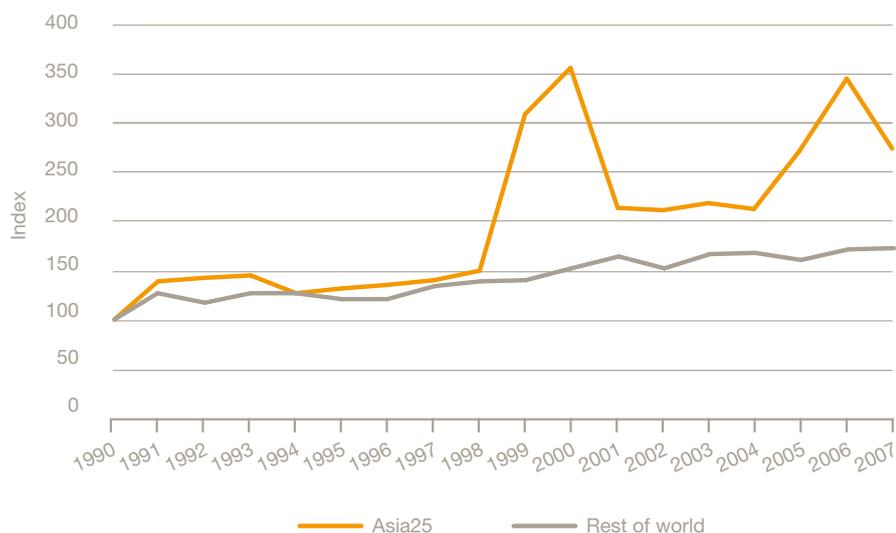
In 1990, inflows from Vietnam and Hong Kong reflected passing political conditions, but the recent rise of China and India is the product of strong economic growth in both economies, the increased levels of education and skill of their workforces, and the opening up Australia's economy to skilled migrants from these regions.

In 2007, 12,600 permanent immigrants arrived in Australia from China, as well as 19,500 from ASEAN and 13,700 from India. The increase in Indian immigration to Australia was the result of the Howard government's stronger focus on skilled workers combined with the increase in prosperity and boost in qualified workers in modern industries such as IT and outsourcing.

Providing help to others in need is often a very positive aspect of engagement. As one of the most prosperous economies in the Asian region, Australia is in a position to provide ongoing development aid, emergency assistance when disaster strikes, and peacekeeping forces for political strife. Australia receives little in the way of humanitarian assistance from its Asian neighbours, so this component does not count two-way flows.

The humanitarian assistance component combines several measures of engagement: AusAID funding of humanitarian, emergency and refugee assistance; the numbers of doctors, nurses and teachers going for long stays to Asia; the number of Australian volunteers working for humanitarian NGOs in Asia; the number of Australian members of UN peacekeeping forces in Asia; and the number of student scholarships offered by AusAID.

Figure 14: Humanitarian Assistance Component



Although general aid flows tend to be relatively stable, year-on-year, other parts of the humanitarian assistance component respond quickly and sensitively to events. Dramatic spikes appear in 1999 and 2000 – related to Australia’s involvement in the creation of an independent East Timor, and 2005-06 – in response to the Indian Ocean tsunami that hit on 26 December, 2004.

Figure 14 shows Australia’s relative humanitarian focus on Asia compared with the rest of the world. It also provides aid to Africa and the Pacific, but much of the growth in Australian humanitarian engagement over the past decades has been focused on Asia. In recent years, Indonesia in particular has received significant humanitarian engagement from Australia. The Australian government’s \$1 billion package of aid to Indonesia following the tsunami was controversial, because Australia refused to enter into the coordinating multilateral World Bank Fund and insisted on applying its funds directly on the ground. It was criticised for taking a long time to disburse its aid, however the effort was also seen as a source of innovation for distributing and managing humanitarian aid in Indonesia and elsewhere.

Table 11: Index Trends for Humanitarian Assistance Component

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
Asia25	100.0	124.3	356.8	345.5	271.9	-21.3
ROW	100.0	112.3	145.3	165.1	166.9	1.1

The humanitarian assistance component displays a 21.3 per cent drop in engagement in 2007, which was a large contributor to the fall in the overall Index between 2006 and 2007. This drop in humanitarian engagement is likely to be the result of decreasing humanitarian activity following the temporary high caused by the Indian Ocean tsunami.

“

SARS, Bird Flu and other regional pandemics have highlighted that infectious disease and health issues for Australia have to be seen in the broader context of a healthy and prosperous region.

”

Tim Costello AM,
Chief Executive Officer, World Vision Australia.

“

Meanwhile in that massive effort to save Indonesian lives, nine Australian rescue workers gave their own lives. We Indonesians will always remember the ultimate sacrifice in the name of friendship and humanity.

”

Dr H. Susilo Bambang Yudhoyono,
President, Republic of Indonesia



Economies: ASEAN

Australia's closest regional grouping, ASEAN, provides a substantial contribution to the country's increasing engagement with Asia. In addition to the deep political, economic and security relationships with ASEAN, the Index confirms the grouping is still Australia's major engagement partner in Asia. In August 2008, Australia and New Zealand concluded a free trade agreement with ASEAN covering a regional market of 570 million people with a combined GDP of US\$1 trillion, that is growing on average at 5.6 per cent per annum.

As shown in Figure 15 and Table 12, in the early part of the Index period, Australian engagement with ASEAN, as measured by the Index, mirrored that with Asia as a whole. Through the early 1990s until the financial crisis in 1997, the relatively gentle updrift of the Asia25 chart is matched by that of the ASEAN Index. Since 2005, we have seen a more rapid increase in engagement with ASEAN.

Figure 15: ASEAN Index



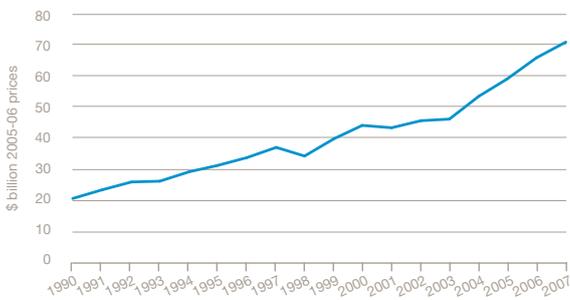
Table 12: Index Trends for ASEAN

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
ASEAN	100.0	169.9	281.5	451.1	518.1	14.8
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

ASEAN was established in 1967 and Australia was the first dialogue partner with the organisation commencing in 1974. It was originally made up of Indonesia, Malaysia, Thailand, Singapore and The Philippines. Through the early 1990s, ASEAN experienced not only a growth in membership to include all ten countries of Southeast Asia, but a stronger focus on integration and supporting frameworks. Australia has participated with ASEAN economies in broader regional organisations such as the ASEAN Regional Forum, APEC and, since 2005 in the East Asia Summit.

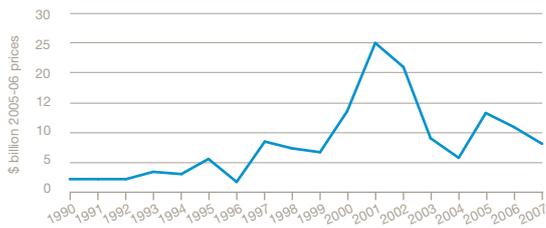
Components of the ASEAN Index

Trade



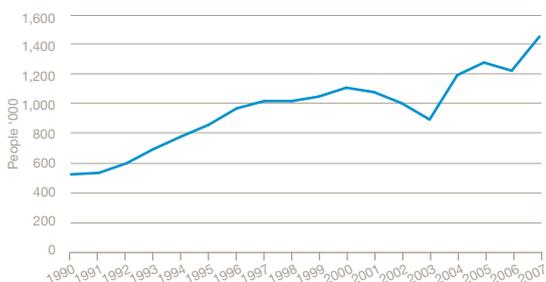
ASEAN as a trading block, has become Australia's largest trading partner, with two-way trade at \$70.1 billion, against China's \$58.0 billion. ASEAN's share of Australia's trade has only increased marginally over the period, from 27 per cent in 1990 to 30 per cent in 2007, but over the period Australian imports from ASEAN have moved up the value chain. In 1990 Australia imported mostly fuel and raw materials from ASEAN nations, and the trade balance was in Australia's favour. But today that relationship has reversed, with Australia importing some \$46.0 billion against exporting \$25.1 billion. Thailand presents a good example of this shift: in 2007, Australia's top exports to Thailand were petroleum and aluminium, while top imports from that country were cars and car parts.

Investment



The spike in investment engagement with ASEAN was driven largely by Singapore's massive investment in Australia earlier this decade. Singtel's \$17.2 billion purchase of Optus in 2001 explains much of the peak, and Singapore Investment Corporation's acquisition of the Mayne Group's portfolio of private hospitals in 2003; and Singapore Power's purchase of the US TXU Corporation's assets in Victoria and South Australia in 2004 contributed to strong inward direct investment flows from ASEAN over the period. Average annual two-way investment flows between Australia and ASEAN over the period were \$8.7 billion.

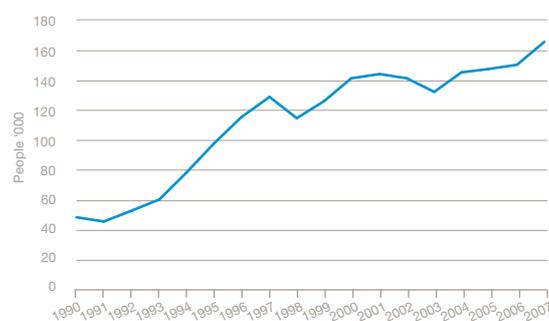
Tourism



While the Asian financial crisis did not affect two-way tourism between Australia and Asia, it seems the war against terror did. A severe downturn in tourism engagement with Indonesia saw numbers of tourists fall by a third from close to 300,000 in 2001 to 200,000 in 2003. But recent years have seen an acceleration of tourism with ASEAN with nearly 1.5 million people travelling between Australia and South East Asia for short trips last year.

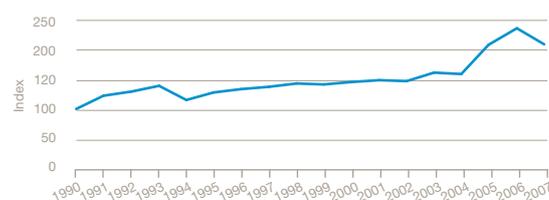
Education

Real progress in accelerating education engagement with ASEAN occurred in the beginning of the 1990s. Slower gains have been made over the decade since the financial crisis. Of Australia's top 10 education related export countries, five are ASEAN economies. Not captured in these numbers is the increase in Australian university programs across ASEAN. According to Universities Australia¹⁷, in 2007 some 24,000 students were enrolled in Australian programs in Singapore, 180,000 in Malaysia, and 3,500 in Vietnam.



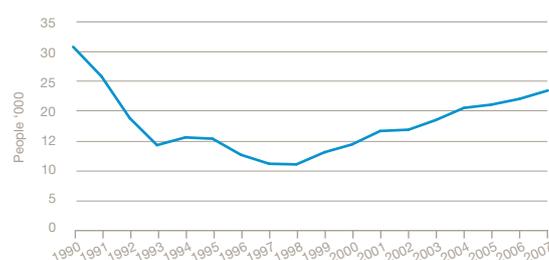
Humanitarian Assistance

The spike in humanitarian engagement with ASEAN from 2004 to 2006 is explained by Australia's response to the Indian Ocean tsunami, which affected countries across the region, most significantly Indonesia and Thailand. A fall in the humanitarian assistance index between 2006 and 2007 indicates that humanitarian engagement may be falling back to pre-tsunami levels, although events will determine movements in the years to come.



Migration

Much of the fall in migration engagement with ASEAN over the first half of the period is explained by a fall in Vietnamese immigration into Australia for humanitarian and family reunion purposes. There were 13,700 permanent settlers from Vietnam in 1990, but just over 1,650 became permanent migrants in 2000. Migration engagement with ASEAN began to increase as policy increasingly focused on attracting skilled migrants.



¹⁷ http://www.universitiesaustralia.edu.au/documents/policies_programs/international/activities/Summary-Documents-Nov2007.pdf.

A swift tour of Australia's engagement with the major ASEAN countries includes the following:

- **Indonesia:** See pages 63-66 for detailed commentary.
- **Malaysia:** Australia and Malaysia have a broad relationship which exists beyond trade and investment to include tourism, education, defence, counter-terrorism and law enforcement. Australia is the largest overseas provider of education services in Malaysia, with education-related travel from Malaysia earning Australia \$600 million of its \$1.3 billion of service exports in 2007. Australia has a large trade deficit with Malaysia, importing a total of \$7.3 billion¹⁸ of merchandise in 2007, including \$2.4 billion of crude petroleum and close to \$1 billion of computers.
- **The Philippines:** The 60 plus years diplomatic relationship with the Philippines has strengthened, particularly in the post-Marcos period. Filipinos are one of the fastest growing immigrant communities in Australia. Behind the United States, Australia is the second largest provider of defence training to the country. Australia's bilateral defence cooperation budget for 2006-07 was \$4.3 million. The trade relationship also increased by over 20 per cent between 1996 and 2007. Two-way merchandise trade in 2007 was \$1.9 billion in 2007 with significant space for growth. Australia is one of the major foreign investors in the Philippines' mining sector.
- **Singapore:** Australia's close relationship with Singapore is based on shared economic, political and security interests. For example, both countries share defence ties with bilateral and multilateral training and cooperative defence research programs. Singapore is Australia's largest trade and investment partner in ASEAN and fifth largest trading partner overall. Australia's first free trade agreement was with Singapore. It took just 19 months to negotiate and was signed in February 2003.
- **Thailand:** Australia and Thailand signed a treaty-level Agreement on Bilateral Cooperation which entered into force on 27 July 2005, complementing a Free Trade Agreement signed earlier that year. Two-way trade with Thailand almost doubled to \$12.3 billion in 2007 from 2004, the year before the Thailand-Australia Free Trade Agreement came into force. Both countries also enjoy education (with members of the Thai Royal Family studying in Australia), security, counter-terrorism and tourism links. The 60 year defence relationship includes the Australian Defence Force and Royal Thai Armed Force serving together in United Nations' operations in Cambodia, East Timor, Somalia and Iraq throughout the Index period.
- **Vietnam:** Diplomatic relations between Australia and Vietnam were established in 1973. Mutual interests and cooperation are now evident in all components of the Index as well as in defence and law enforcement, sport, culture and the arts. Australia is the leading English-speaking provider of education to Vietnam and, in overseas development assistance, has consistently ranked in the top ten donor countries. Vietnam is a potentially hot commercial partner for Australia with export and investment opportunities in a wide range of areas from education to mining. In 2007, two-way trade totalled \$6.0 billion. Recent significant Australian investments have included established Australian companies expanding operations.

¹⁸ DFAT Malaysia fact sheet.

“

An engaged Australia is not only of benefit to the region but it also serves Australia's interest given that Southeast Asia is strategically located in relation to Australia.

”

Goh Chok Tong,
Senior Minister Singapore

Economies: People's Republic of China



Much of the increase in the Index can be explained by the exponential development of Australia's bilateral relationship with the People's Republic of China (China) over the past 18 years. While the Index shows our engagement with Asia has quadrupled since 1990, as shown in Figure 16, the China Index has multiplied 16 times.

China acceded to the WTO in 2001, and its expansion since that time is often explained in terms of its insatiable demand for resources to fuel its growth. However, it should be stressed that Australia's imports from China are even greater than its exports. Statistics describing the country's rapid pace of economic development are legion, but the bottom line for Australia has meant an immense boost for our exports and terms of trade, and a certain amount of economic immunisation from otherwise turbulent global conditions.

Beyond the economic sphere, Australia-China relations through the period have strengthened greatly since the Tiananmen Square crisis of 1989, which damaged Chinese interaction with most Western countries. The great improvement in Australia – China relations since that time is reflected in the China Index, the components of which uniformly show upward trends.

Figure 16: China Index

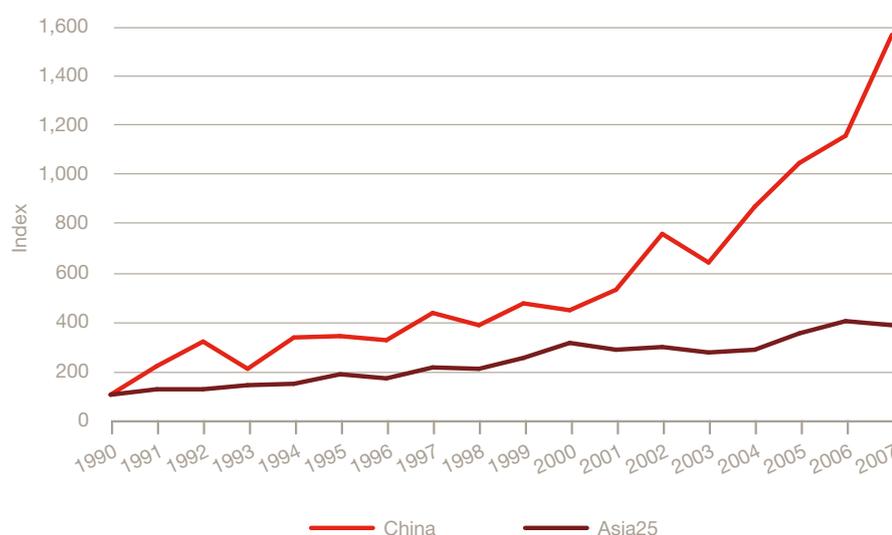


Table 13: Index Trends for China

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006–07
China	100.0	346.3	451.9	1172.7	1589.7	35.6
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

In late 1989, the Australian government stopped ministerial and other political visits in both directions, deferred new loans and suspended new aid to China¹⁹. Relations were normalised again in 1991, but purely for economic reasons, as commentators point out – the Chinese economy was growing strongly, while Australia's was in recession. Around that time the political relationship could have been described as good but not intimate.

Almost two decades later, that situation is transformed. Australia and China's political relationship is described as warm, and economic relations are red hot. These circumstances are reflected in the China Index, the components of which uniformly show upward trends, indicating an ever-stronger relationship between the two economies.

¹⁹ Edwards, P. and Goldsworthy, D. (2003), *Facing North: A Century of Australian Engagement with Asia*, Melbourne University Press, pp. 144–145.

Components of the China Index

Trade

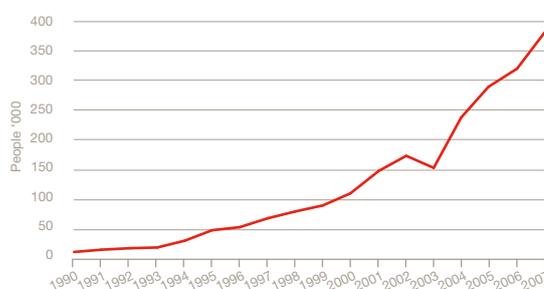
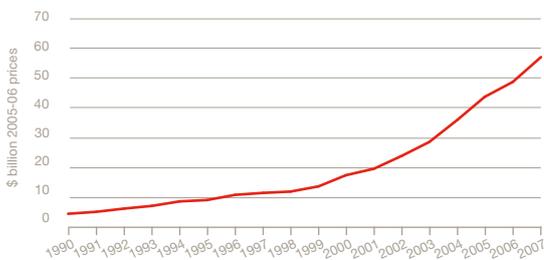
If the average picture is worth 1,000 words, this one is worth a book. And many have been written, almost all of them describing both economies as complementary. Australia has resources, which are helping to fuel China's economic boom. In turn, Australia's demand for China's low-cost manufactures has been consistently strong. Australia now exports three times as much to China as to the UK, twice as much to China as to the US, and more to China than to the entire European Union. As of 2007, the balance of trade with China remains slightly in China's favour, \$30.3 billion to \$27.7 billion. Two-way trade between Australia and China totalled \$58.0 billion in 2007, against just \$3.9 billion in 1990. Although China became Australia's largest trading partner in 2007, comprising 13 per cent of the country's trade, imports and exports to the ASEAN countries were greater at \$71 billion.

Investment

Bilateral investment between China and Australia fluctuated considerably in the 15 years to 2005, but since then has rocketed to more than \$4.5 billion. Until 2001 Chinese companies were not encouraged to invest abroad, but it wasn't until commodity prices really started to rise in 2006 that the Chinese became serious about investing in Australia. This interest is likely to continue as long as the China boom, with the value of Chinese applications lodged with the Foreign Investment Review Board rising from \$10 billion in 2006 and 2007 to almost \$30 billion in the first six months of 2008. This issue carries its own implications for strategic and political engagement. Australian companies in the mining, manufacturing and services industries have been investing in China not only to service their Australian operations but also to exploit the country's exponential growth.

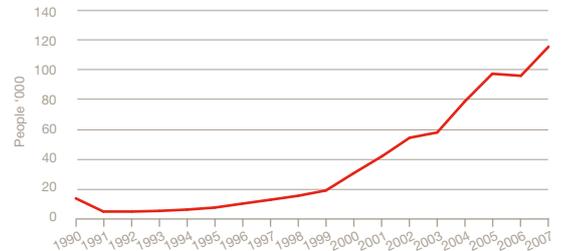
Tourism

Australia was one of the first countries to be granted 'approved destination status' (ADS) in 1999, for the first time allowing ordinary Chinese to visit Australia for pleasure and since then, more than a million Chinese have taken advantage of it. At the same time, China's rise has made it attractive to the Australian tourist, with annual visits to China more than tripling from 52,000 in 2000 to 163,000 last year.



Education

Close to 100,000 Chinese visited Australia for education in 2007, compared to an average of 7,300 a year during the 1990s. Much of this growth has been driven by the huge build-up in demand for tertiary education since education was liberalised in the 1980s and 1990s, as the country's supply of universities has been unable to keep pace.



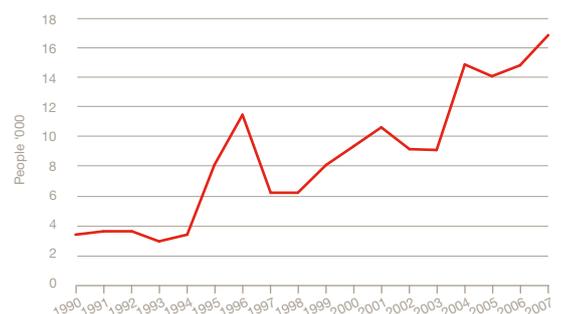
Humanitarian Assistance

Australia's humanitarian engagement with China has increased eightfold since 1990, on a relatively smooth upward curve. Australian government aid to China is estimated at \$34.8 million in 2008–09, but the Index also measures the number of Australian doctors, nurses and teachers moving to China on a long-term basis, and the number of Australians working for NGOs in China.



Migration

Eighteen years ago, migration to Australia from China was extremely difficult. Most Chinese migrants entered the country permanently through the conversion of student visas to permanent residency. Today, family reunion and business visas make migration to Australia both possible and popular, and in 2007 more than 12,600 Chinese people settled in Australia.



“

Economic policy decisions made in Beijing over the coming decades will increasingly shape our external environment.

”

The Hon Wayne Swan MP,
Treasurer



Economies: India



In July 1990, an Australian Senate Standing Committee on Foreign Affairs, Defence and Trade report concluded that Australia's relationship with India was suffering from "shameful" if "benign" neglect. The India Index, in Figure 17, shows that is no longer the case.

Figure 17: India Index

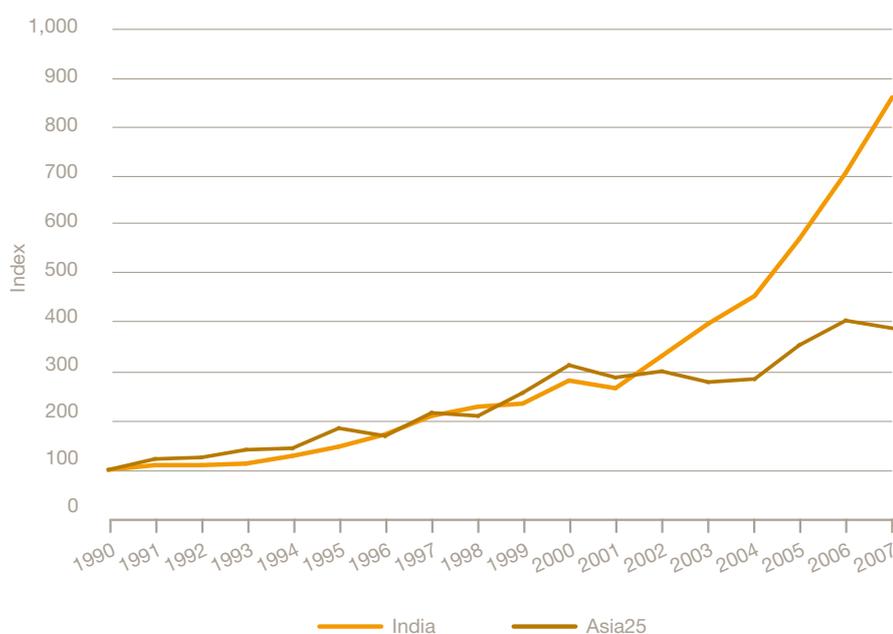


Table 14: Index Trends for India

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
India	100.0	148.0	282.5	706.7	859.1	21.6
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

The 1990 Senate report *Australia India Relations: Trade and Security* laid the foundation for a number of government initiatives designed to redress Australia's lack of meaningful engagement with India. These included a double taxation treaty in 1991, and the foundation of the Australia-India Council in 1992 and a National Centre for South Asian Studies in Melbourne in 1994. At the same time, with the end of the Cold War, strategic relations warmed, and India embarked on a number of economic reforms. It devalued the rupee, lowered tariffs, invited foreign investment and eased restriction on foreign ownership of Indian companies.

The India Index shows solid if unspectacular growth in Australia's engagement with India through the 1990s and into the early 2000s. It also shows, however, that Australia's engagement with India has taken off in recent years, in parallel with the country's economy. In 2003, India broke out of its low-growth pattern, with GDP averaging 7.6 percent over the past five years, and 9.4 per cent in 2007.

This growth led to the emergence of a large middle class hungry for Australian gold, while investment in infrastructure such as a new national highway system, dubbed the 'golden quadrilateral', fed demand for coal and other resources. Demand for Australian manufacturing, investment, tourism and education products also increased. Over the past five years, India has been our fastest growing export market.

Components of the India Index

Trade

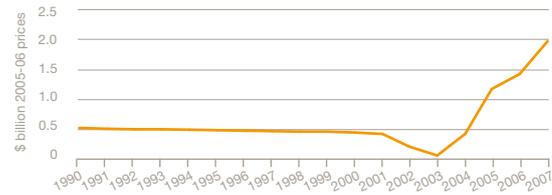
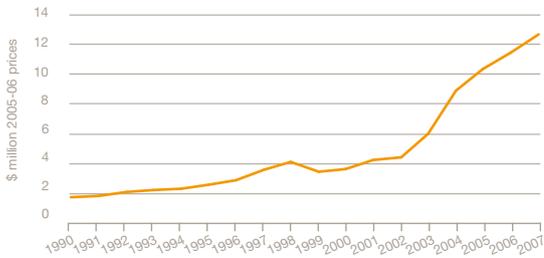
Australian trade with India has taken off since the country was set on its current growth trajectory. This is largely because Indian consumers, with their newfound wealth, are demanding Australian gold in ever greater quantities: \$4.2 billion worth in 2007 alone. Coal accounted for a further \$2.4 billion of our total \$9.3 billion of merchandise exports to India. Imports from India comprise a much smaller share of our trade engagement, at \$1.5 billion²⁰.

Investment

With the boom in Indian GDP has come a dramatic increase in Australian investment in India since 2003 and it stood at \$1.8 billion in 2007. Indian investment in Australia has grown at a more moderate pace reaching \$250 million in 2007.

Tourism

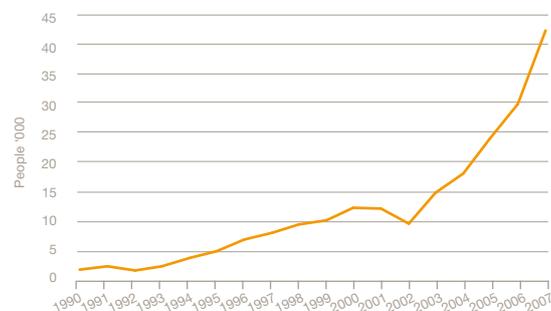
The emergence of India as an economic powerhouse has attracted Australians to the country in ever increasing numbers. Since 2002, the number of Australians visiting India has increased from 33,000 to close to 90,000 last year. In the same period, the number of Indians visiting Australia has also grown, from 22,000 to close to 46,000. The increase in Indian tourists is likely to be linked to the boost in educational activity, with numerous Indian families coming to visit their Australian-resident student offspring. Qantas's launch of direct flights between Sydney and Mumbai in September 2004 would also have increased levels of tourism engagement.



²⁰ DFAT fact sheet, <http://www.dfat.gov.au/geo/fs/inia.pdf>.

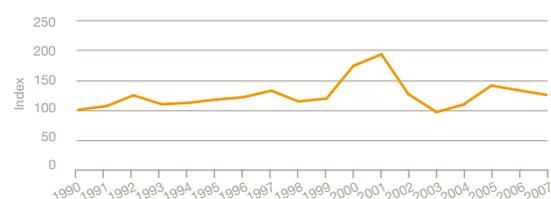
Education

Australia provides a competitive option for Indian families seeking foreign education for their children. Rising middle class incomes in India, combined with easier access to loans, has boosted the number of Indians coming to Australia to study. In 2002, some 8,700 arrived to study, while in 2007 the number was more than 38,000. Just 3,650 Australians went to India to study last year.



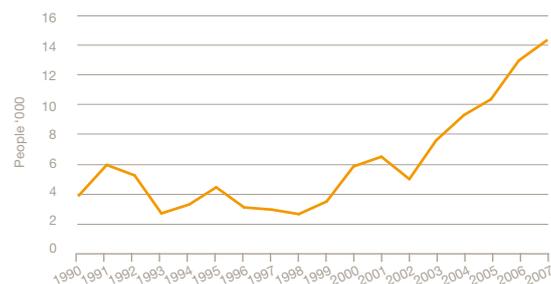
Humanitarian Assistance

In 2003, India decided to phase out government-to-government foreign aid from all but six major donors – the US, Britain, the European Commission, Japan, Germany and Russia. However, foreign governments can provide technical assistance or channel aid through NGOs and multilateral organisations. Although the government of India refused to accept any foreign aid following the December 2004 tsunami, Australian aid distributed through NGOs may have been responsible for a slight increase in Australian humanitarian engagement in 2005–06.



Migration

Migration often follows educational engagement. The increase in migration seen after 2002 is consistent with the increased number of Indian students who arrived in Australia, and thereafter sought permanent residency.



“

India is a great place to tour – the culture, the food, the people, the atmosphere and the crowds over there are just brilliant.

”

Brett Lee,
Australian cricket team

Economies: Indonesia



Australia's relations with its closest Asian neighbour are necessarily complex. Although in the security and political areas there has been vigorous cooperation between the two economies, the Indonesia Index in Figure 18 indicates volatility and relatively slow growth in the components measured.

Figure 18: Indonesia Index

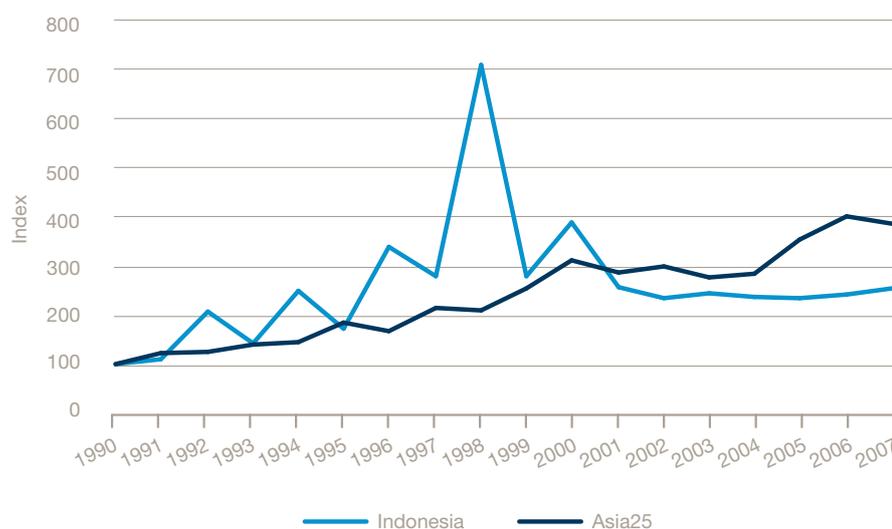


Table 15: Index Trends for Indonesia

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
Indonesia	100.0	174.1	390.8	242.3	255.9	5.2
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

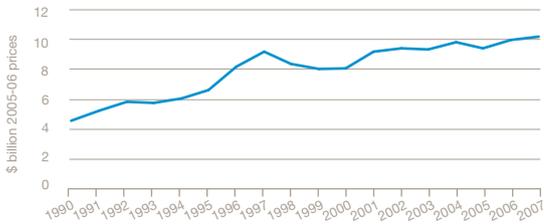
In 1994, Prime Minister Paul Keating declared that “no country is more important to Australia than Indonesia”. Since then, a number of significant events have strained and strengthened Australia's connection with Indonesia. Among the positive developments were the diplomatic partnership formed to push for the declaration of trade liberalisation at APEC's Bogor summit in 1994, and the security agreement signed in December 1995. The gaining of independence by East Timor proved to be a strain on the relationship, with Indonesia's political class accusing Australia of violating its sovereignty, and Australia subsequently engaging in a major diplomatic offensive to repair relations. The Bali bombings and the passage of Australia-bound refugees through Indonesia posed further challenges to the relationship.

The Indonesia Index shows Australia-Indonesia engagement flat-lining since 2001, but beneath that line lie a myriad of rich stories of engagement.

Components of Indonesia Index

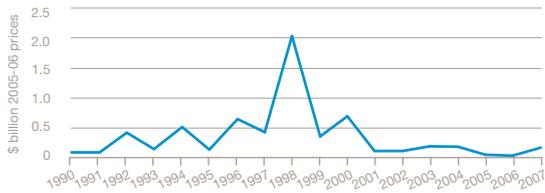
Trade

Two-way trade with Indonesia more than doubled between 1990 and 1997, but took a hit of close to 15 per cent after the Asian financial crisis. While two-way trade returned to 1997 levels only in 2002, it is quickening due to GDP growth of more than 6 per cent in recent years.



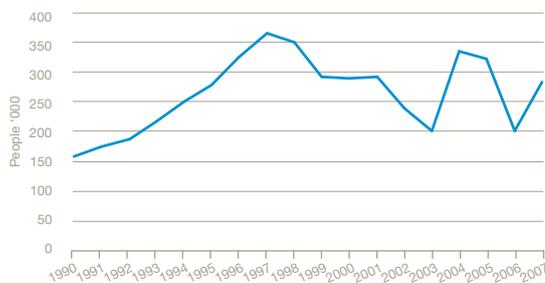
Investment

The spike in investment engagement in 1998-99 represents investment flows from Australia to Indonesia of \$1.5 billion. The figure appears under 'other' investment in the national accounts, which includes trade credits, loans, currency and deposits. Australia has not invested large sums in Indonesia since 2001, most likely due to perceived security and business environment issues. However, the country is attracting significant investment from China, Japan and Singapore.



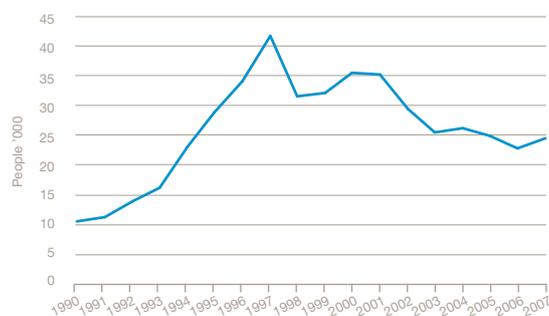
Tourism

Australians love to travel to Indonesia, but the effect of terrorism is clear. The Bali and Marriott bombings and the resulting official travel ban have had a severe impact on tourist numbers. Despite the continuing ban, the number of Australians travelling to Bali is increasing at more than 20 per cent a year.



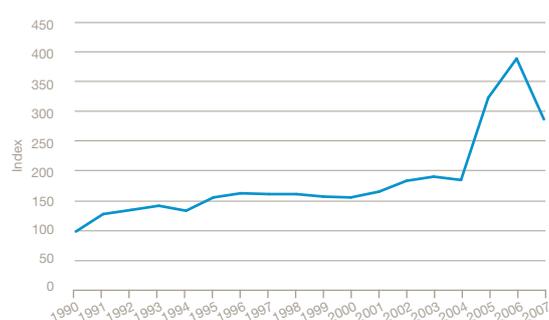
Education

Very few Australians go to Indonesia for education, and Australia is a costly place for Indonesians to study. When the rupiah collapsed in 1997, Indonesians' ability to travel and study abroad was further curtailed. Additionally, Australian universities have been raising their foreign student fees, and in recent years the Australian dollar has appreciated strongly. For those students who can afford to go overseas, Australia has become less attractive than alternative destinations such as the US.



Humanitarian Assistance

The spike in humanitarian engagement with Indonesia in 2005–06 reflects Australia's pledge of \$1 billion in aid after a tsunami hit the country on 26 December 2004. The emergency doubled Australia's official aid to Indonesia and increased the level of NGO engagement with Indonesia significantly.



Migration

Migration between Indonesia and Australia is very small. The peak year of Indonesian migration to Australia over the 18-year period of the Index was 2001, when just 4,733 Indonesians migrated. Since 2001, Australia-Indonesia migration has halved.

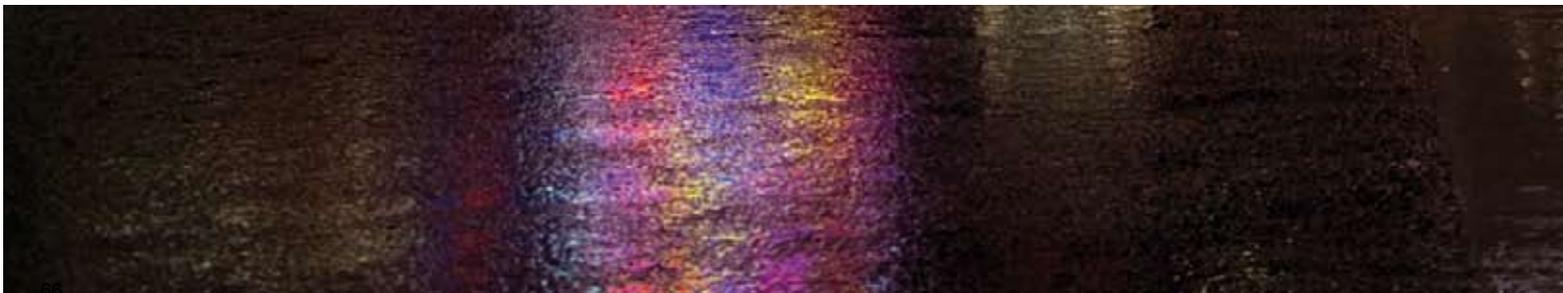


“
Australia mainly sees Indonesia as a market rather than an investment. The sad truth is that without investment that market will never be open to us.
”

Professor Tim Lindsey,
Chairman, Australia Indonesia Institute



Economies: Japan



The era around 1990, the Index's base year, was a turning point for Japan's engagement with Australia as with the rest of the world. The 1980s were Japan's boom years, with GDP growth hitting nearly 7 per cent in 1988, but the boom came to a halt in 1990, with the country entering a long period of slow, occasionally negative, growth from which it has yet to emerge.

The Japan Index, in Figure 19, reveals that Australia's engagement with Japan, despite its reputation for stability and strength, contains some elements which are surprisingly volatile. Despite this, and despite Japan's economic turmoil, it has continued to strengthen, quadrupling over the course of the period and often growing at much stronger rates than Australian engagement with the rest of Asia.

Figure 19: Japan Index

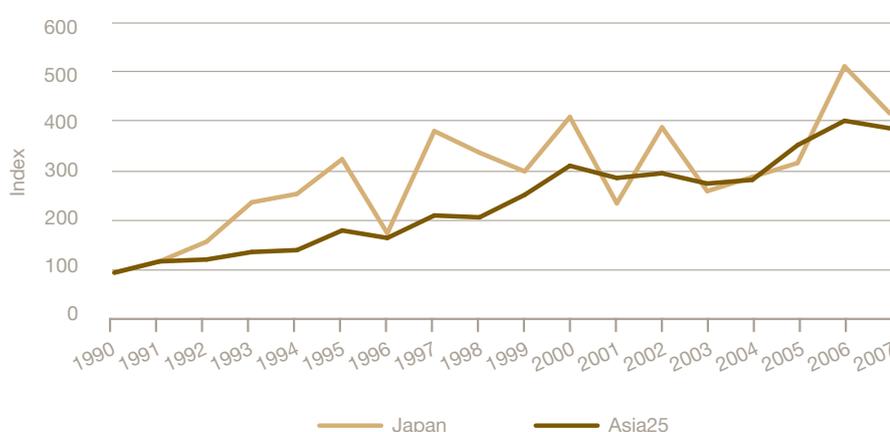


Table 16: Index Trends for Japan

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
Japan	100.0	327.8	411.5	513.5	418.5	-18.5
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

The Japanese boom leading into the Index period provided Australia with a huge economic boost. Australia's major exports to Japan throughout the period were energy and minerals, as well as agricultural products, in particular beef, wheat and sugar. Japan supplanted Britain as Australia's largest trading partner in 1969, and remained so until supplanted by China in 2007. Last year Japan accounted for 12 per cent of Australian trade, as against China's 13 per cent, although ASEAN as a group accounted for 16 per cent of Australian trade²¹.

Australia also provided an attractive destination for Japanese investment capital, both foreign direct investment in Australian companies and real estate as well as portfolio investment in Australian securities. In 1990, total Japanese foreign investment in Australia (direct investment plus portfolio investment) was on par with total American and British investments, with each of these economies holding about 18 per cent of the total²².

At the same time, the Japanese tourist discovered Australia in the early 1980s, and numbers of first time holidaymakers and honeymooners ballooned. In 1990, over 424,000 Japanese tourists visited Australia, and numbers continued to increase until 1997, when they peaked at close to 740,000.

²¹ DFAT numbers, see http://www.dfat.gov.au/trade/fta/asean/AANZFTA_Australia%27s_trade_with_ASEAN.html.

²² Edwards, P. and Goldsworthy, D. (2003), Facing North: A Century of Australian Engagement with Asia, Melbourne University Press, p. 134.

The bursting of the Japanese economic bubble in 1990 is likely to have had a significant impact on each of these engagement factors, giving pause to trade, investment and tourism growth. Nonetheless, many of the component indices display fairly consistent increases over the period. Much of the volatility of the Japan component of the Index is driven by the volatility of Japanese investment flows into Australia.

A free trade agreement with Japan has been under consideration since May 2002 and negotiation since April 2007.

Components of Japan Index

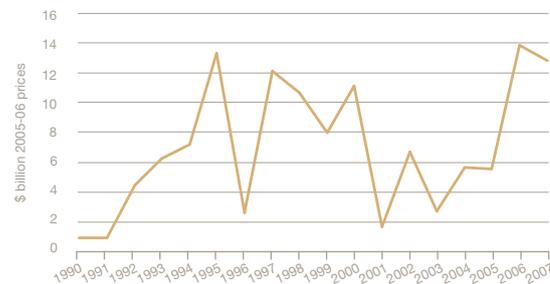
Trade

Imports from Japan doubled to \$20.0 billion over the Index period. Meanwhile, exports to Japan increased by 50 per cent to \$34.6 billion last year. Japan is Australia's top export destination taking 16 per cent of Australian exports. The two periods of falling trade exhibited by the Index, 1994-97 and 2000-03, were the result of both falling exports from Australia and imports from Japan.

Investment

Since 1990, Japanese investment in Australia has averaged \$3.3 billion annually, against total average inbound investment to Australia over the period of \$18 billion.

In recent years, interest rates have been at or close to 0 per cent in Japan, but in Australia have risen from a low of 4 per cent in 2002 to over 7.25 per cent earlier this year. This, when combined with a strengthening dollar, attracted \$8.7 billion in Japanese inward investment in 2007.



“

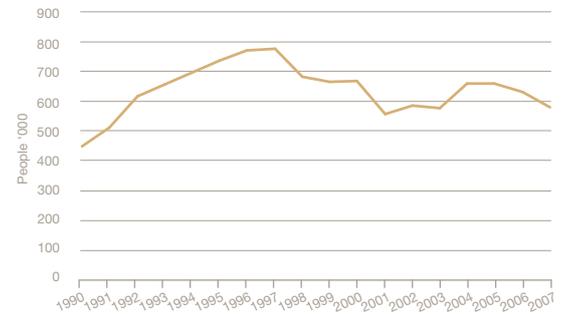
Over the past 50 years, developments in our relationship with Japan have often led the way in our engagement with the region...Its economic presence has made a critical contribution...

”

The Hon Kevin Rudd MP,
Prime Minister of Australia

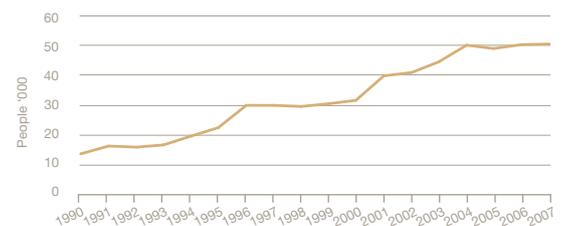
Tourism

Tourism engagement between Australia and Japan is driven largely by Japanese tourists visiting Australia. The number of Australians visiting Japan increased by 42 per cent between 2006 and 2007 (driven, perhaps, by the boom in Japanese skiing holidays), but absolute numbers were still relatively small, just 90,000. In comparison, in 1997 over 740,000 Japanese tourists visited Australia. Since then numbers have fallen to less than 480,000 in 2007. The early 1990s was the tail end of the Japanese discovery of Australia as a tourist destination for first time visitors and honeymooners. Since then a drop in enthusiasm for Australia as a tourist destination in Japan, combined with a relative increase in the value of the Australian dollar against the Japanese yen has had a significant impact on tourist numbers.



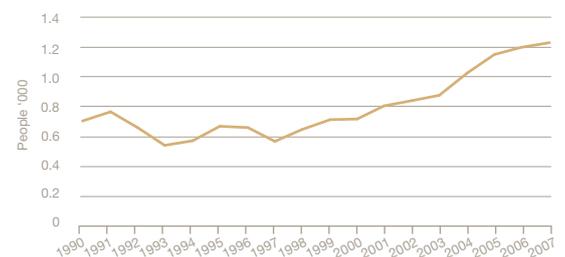
Education

There are few Japanese enrolments at Australian tertiary institutions; most Japanese students in Australia attend English language courses. Australia's competitiveness in the English language market has taken a hit in recent years as the Australian dollar has risen against the yen. The education component includes study visits to attend conferences as well as other forms of education trips; much of the rise in education engagement may be attributable to greater numbers of Japanese conference attendees. There is a significant education imbalance, with the number of Australians going to Japan topping out at just over 10,000 in 2005, while in recent years over 40,000 Japanese have travelled to Australia for study.



Migration

The number of Australians who permanently move to Japan, and the number of Japanese who migrate to Australia is negligible. In 2007, 796 Japanese moved to Australia.





Economies: South Korea



The establishment of democracy in The Republic of Korea (South Korea) in 1987, after a turbulent political period following the Korean War, encouraged a warming of political relations and the creation of numerous bilateral structures. In 1989, Prime Minister Bob Hawke used Seoul as the venue for proposing the establishment of APEC, and in the early 1990s Australia and South Korea created joint committees on economics and industrial technology, as well as the Australia-Korea and Korea-Australia Business Councils.

Figure 20: South Korea Index

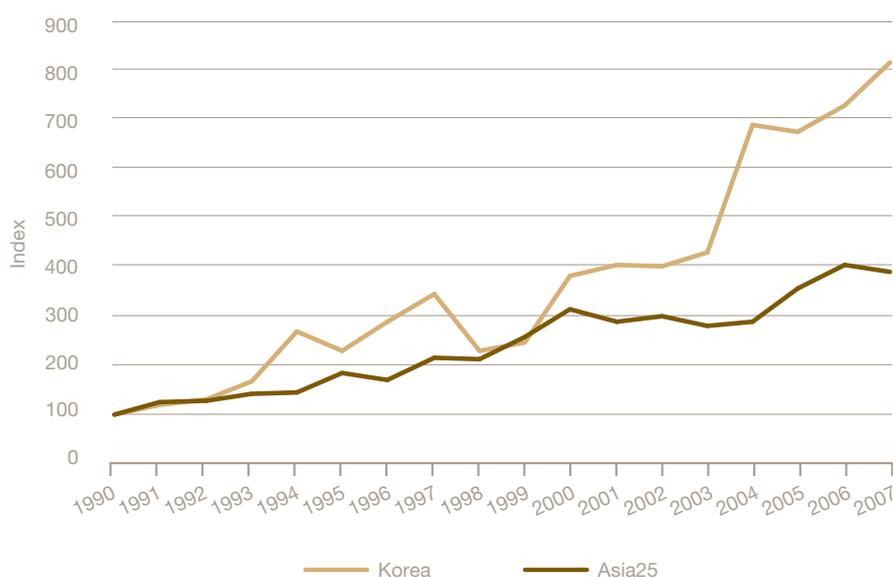


Table 17: Index Trends for South Korea

Index (1990=100)	1990	1995	2000	2006	2007	% change 2006-07
South Korea	100.0	229.8	381.6	728.4	815.3	11.9
Asia25	100.0	184.5	313.5	403.6	389.8	-3.4

Meanwhile, our trade relationship also expanded. By the early 1990s, South Korea's economy had surpassed that of Australia in size, and year-by-year from the mid-1990s it provided Australia with its second or third largest market worldwide²³.

South Korea's rapid economic progress has provided Australia with a valuable trade partner for the past two decades, but its Asian 'tiger' status provided the basis for a significant increase in engagement with Australia, with one notable hiccup: the East Asian financial crisis. The South Korea Index shows our bilateral engagement was hit harder by that crisis in the late '90s than our engagement with Asia as a whole, reflecting the severity of the crisis for South Korea.

Yet that bump in the road has been more than remedied in recent years. The South Korea Index in Figure 20 shows engagement with South Korea has accelerated at a far greater pace than that with the rest of Asia following the country's recovery.

²³ Edwards, P. and Goldsworthy, D. (2003), *Facing North: A Century of Australian Engagement with Asia*, Melbourne University Press, p. 152.

Components of South Korea Index

Trade

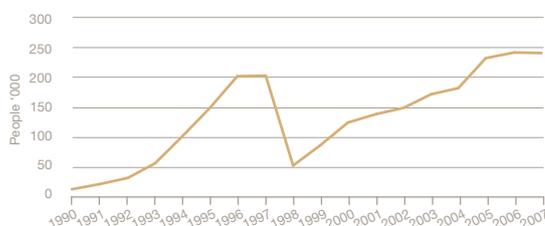
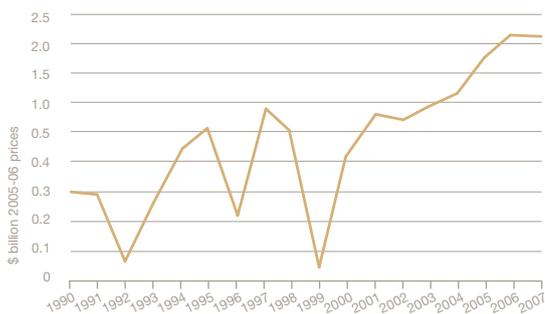
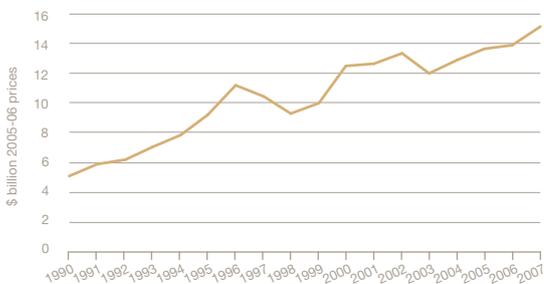
South Korea's industrial manufactures based prosperity requires huge inputs of coal, iron ore, copper and aluminium from Australia. In return, the Australian market absorbs a growing volume of South Korean goods, everything from televisions, household appliances, computers, to cars. In 2007 Australia exported some \$2.4 billion of crude petroleum to South Korea, and imported \$1.3 billion of cars. The financial crisis caused the late 1990s dip, but recovery has been aided in recent years by the expansion of beef exports from Australia, worth about \$800 million in 2007.

Investment

Although investment flows are notoriously volatile, there is a clear trend towards increasing bilateral investment engagement since the end of the financial crisis. Much of this may have been driven by Macquarie Bank's significant South Korean operations in infrastructure and real estate. Currently, Australians invest more in South Korea than vice versa. In 2007, Australian investment was \$1.5 billion compared with an inflow of \$0.7 billion.

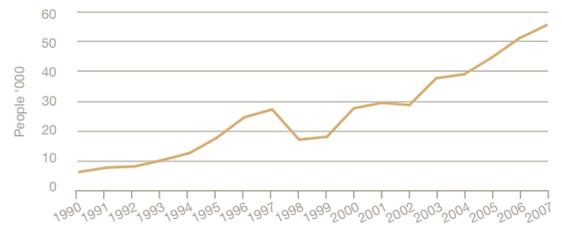
Tourism

Two-way tourism with South Korea has only recently achieved the levels seen in the mid-1990s prior to the East Asian financial crisis. But South Korean tourism, together with that from China, has helped to replace the fall in Japanese tourists to Australia. Recovery following the financial crisis has been steady.



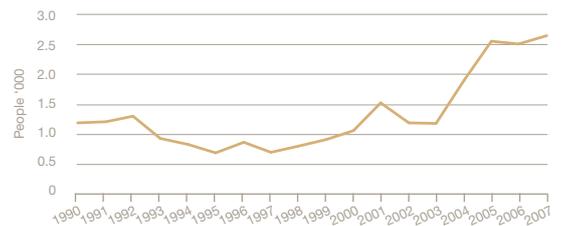
Education

The dip in South Korean students arriving following the East Asian financial crisis has since risen rapidly, doubling since 2000 to 53,000 in 2007. The number of Australians going to South Korea to study is more modest and almost stagnant over the last four years at about 2,500.



Migration

Permanent migration from South Korea to Australia accelerated from 2002 onwards, but numbers remain very small. Just over 2000 South Koreans settled in Australia in 2007.



“
The trade relationship between our two nations is complemented by strong people-to-people links. One good sign of this is that Korea is now Australia’s number one source of working holiday-makers.
”

The Hon Stephen Smith MP,
Minister for Foreign Affairs; Deputy Leader of the House

APPENDIX 1: Construction of the PricewaterhouseCoopers Melbourne Institute Asialink Index

Asia is defined in the Index as the following 25 economies:

- Bangladesh
- Bhutan
- Brunei Darussalam
- Burma
- Cambodia
- Chinese Taipei (Taiwan)
- East Timor
- Hong Kong
- India
- Indonesia
- Japan
- Laos
- Macau
- Malaysia
- Maldives
- Mongolia
- Nepal
- Pakistan
- People's Republic of China
- Republic of Korea (South Korea)
- Singapore
- Sri Lanka
- Thailand
- The Philippines
- Vietnam

The Index is an unweighted average of seven components: Trade; Investment; Research and Business Development; Education; Tourism; Migration; and Humanitarian Assistance. Each component comprises between two to five data series.

Each of the seven components captures a different dimension of the level of engagement between Australia and Asia. Engagement is multi-dimensional – it cannot be adequately measured by a single component or data series. However, it is not logical to add together heterogeneous data series which may be measured as dollar values, people or patents. Accordingly, to combine the data, each data series (for each economy) is scaled to give a score of 100 in the first year of the study period, 1990. These individual data series are then averaged to get an index for each component. The seven component indices are then in turn averaged to get the aggregated Index. The 24 individual data series comprise:

Trade: this component comprises data, deflated by the import and export price deflators, on:

- a) value of imports of goods and services into Australia from Asia, by country
- b) value of exports of goods and services out of Australia to Asia, by country

Investment: this component comprises data, deflated by the GDP deflator, on:

- a) value of foreign investment (foreign direct investment, portfolio flows and other) into Australia from Asia, by country
- b) value of foreign investment (foreign direct investment, portfolio flows and other) out of Australia to Asia, by country

This investment series comprises transactions only and thus excludes non-transactional changes in a country's asset position due to price changes, exchange rate changes and other adjustments. See ABS cat. 5331.0 for a more detailed explanation of the different investment series.

Research and Business Development: this component comprises data on:

- a) number of short-term and long-term visits to/from Australia from/to Asia (by country) for business/employment purposes
- b) number of Asian business organisations and associations in Australia (by country)
- c) number of patent applications filed in Australia by inventors in Asia (by country)
- d) number of research articles published on Australian-Asian relations (by country)

Education: this component comprises data on:

- a) number of short-term visits to/from Australia from/to Asia (by country) to attend a conference/convention or for education
- b) number of long-term visits to/from Australia from/to Asia (by country) for educational reasons (by country)
- c) number of secondary student exchanges between Asia and Australia (by country)
- d) number of students travelling to Australia for English Language Intensive Courses (by country)

Tourism: this component comprises data on:

- a) short-term visits (less than one year) to/from Australia from/to Asia (by country) for holiday
- b) short-term visits (less than one year) to/from Australia from/to Asia (by country) to visit friends/family
- c) long-term visits (more than one year) to/from Australia from/to Asia (by country) for holiday
- d) long-term visits (more than one year) to/from Australia from/to Asia (by country) to visit friends/family
- e) number of visas granted for working holidaymakers in Australia from Asia (by country)

Migration: this component comprises data on:

- a) number of all permanent immigrants moving to Australia from Asia as defined by country of birth
- b) number of all permanent emigrants leaving Australia by Asian country of birth

Humanitarian Assistance: this component comprises data on:

- a) AusAID expenditure on humanitarian, emergency and refugee assistance for Asia (by country)
- b) number of long-term and permanent passenger movements by doctors, nurses and teachers to Asia (by country)

- c) number of Australian volunteers in Asia working for organisations such as the Red Cross and Medecins sans Frontieres (by country)
- d) number of Australian members of UN peacekeeping forces in Asian countries (by country)
- e) number of student scholarships offered by AusAID (by country)

Data have been collected from a wide variety of sources including the Australian Bureau of Statistics (ABS), AusAID, the Department of Immigration and Citizenship, and IP Australia. To arrive at usable data series, the raw data were treated in a number of ways:

- a) Missing observations before 1990 were replaced by the first non-missing observation for that data series and country
- b) Other missing observations were interpolated
- c) AusAID humanitarian funds were logged to reduce extreme variability by country over time
- d) One was added to all raw numbers to avoid dividing by zero. In the case of AusAID data this was 10
- e) Three countries entered the working holidaymaker scheme after 1990 and the rise in numbers from zero was very extreme in percentage terms. Accordingly, we treated the data before 2003, 1997 and 2006 for Hong Kong, Republic of Korea (South Korea) and Chinese Taipei respectively as missing and treated as stated above
- f) Data on the numbers of UN peacekeeping forces since 2005 was updated via media reports

APPENDIX 2: Data Sources

Much of the data used in the construction of the Index comes from public sources such as the ABS. However, in most cases, the ABS did not provide enough disaggregated detail in its publicly available (online) resources. In particular, we required data disaggregated by specific country in order to construct the Index. In these instances, requests were made to the ABS and other organisations to provide data. In this regard, we would like to thank Andreas Stierwald, Athol Maritz, Neil Scott, Jason Chan, Lachlan Quick, Usha Arif, Sue Begley, Chris George, Sean Applegate and Remo Angelini for assisting us in the data collection process and Hal Hill, Lisa Cameron, Val Tot, David Morgan, Sisira Jayasuriya and Frank Bingham for helping steer our way through complex data series.

Balance of payments estimates are subject to revisions. Such revisions generally move the estimates closer to their final published values and therefore the practice of revising estimates is consistent with the aim of providing the highest-quality estimates possible. Our general policy in relation to revisions is to take every possible action to incorporate the most accurate data available at the time.

The data series used to construct the Index are identified below:

Trade:

ABS cat. 5368 Table 14a,b; MERCHANDISE EXPORTS, Country and Country Groups, FOB Value and MERCHANDISE IMPORTS, Country and Country Groups, Customs Value; 5368055004 – International Trade in Goods and Services, Australia, Jul 2008; Table 5.12, 7.12.

Investment:

2001-06: ABS 5352 2006 Table 1, 4, 1991-01: ABS 5352 2001 Table 1a, 1d. Foreign Investment in Australia: Financial Account Transactions by Country and Country Groups by type of investment and year (\$ million). This excludes changes in the investment position arising from revaluations due to price, rate of exchange and other changes.

Research and Business Development:

ABS From 3401.0, unpublished data; business registration databases (various); IP Australia; Google scholar.

Education:

ABS cat. 3401.0, unpublished data: student visas, Department of Immigration and Citizenship, unpublished data.

Tourism:

ABS cat. 3401.0, unpublished data. Department of Immigration and Citizenship working holidaymaker visas.

Migration:

ABS cat. 3401.0, unpublished data.

Humanitarian Assistance:

AusAID Greenbook Table 14, 15; ABS cat. 3401.0, unpublished data; annual reports: Red Cross, Medicines Sans Frontieres; www.un.org/Depts/dpko/dpko/index.asp, www.peacekeepers.asn.au; media reports of Australian Defence Force deployments; Department of Immigration and Citizenship unpublished data; AusAID scholarships.

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In the process of constructing the Index, advice was sought from a consultative committee, which comprised experts from a wide range of fields including academia, foreign policy and business. PricewaterhouseCoopers, the Melbourne Institute, and Asialink gratefully acknowledge the contributions made by:

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