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Contents

Cover image:
On location filming *Cambodia Sun Rising*, a performance directed by 2012 Asialink Arts Resident Ninian Donald.
Photo: Andrew Fraser, Monki Pictures.

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The importance of Asia to Australia's future growth and prosperity is undisputed. Recent developments have again pushed the nature of our engagement with our region to the forefront of public discussion – including renewed free trade efforts, foreign investment proposals and questions about how well Australia is positioned to realise the opportunities presented by Asia's continued rise.

If we are to know where these developments may lead, we need to have a full understanding of where we stand now in terms of our engagement with Asia. Trade and investment statistics tell only part of the story – we need accurate, wide-ranging and long-term information about the depth and context of our many relationships to understand the full picture.

The annual PwC Melbourne Institute Asialink Index provides a clear and multi-layered measure of Australia's engagement with Asia across seven key indicators: trade, investment, research and business development, education, tourism, migration and humanitarian assistance.

The Index is now in its sixth year and provides a dynamic record of the inexorable rise in Asia's importance to Australia. Over the past 10 years, our overall engagement with Asia has increased by 56 per cent, while our engagement with the rest of the world has increased by 23 per cent.

This year's Index presents a marginal fall in Australia's overall engagement with Asia, a small decline in an overwhelmingly positive long-term trend. One of the main reasons for this is a significant fall in Australia's total investment engagement with Asia, particularly China. Despite this, all other measures of engagement with China – which experienced a significant political transition in 2012-13 – increased in this year's Index.

The Index presents many other encouraging trends including strong increases in Australia's tourism and migration engagement with Asia, as well as increases in overall engagement with Indonesia and India. Australia's overall engagement with ASEAN and Japan has remained relatively stable and high.

The 2013 Index is framed within a new political and policy environment. The recent Federal election has led to a special focus on economic engagement in our region, with Prime Minister Tony Abbott presenting ambitious deadlines to conclude Free Trade Agreements (FTAs) with some of our key Asian trading partners. This year's Index features 'Viewpoints' from some of Australia's leading business people, academics and government officials on our FTA negotiations in Asia, including with China, Japan, South Korea, Indonesia and India.

The Index's findings demonstrate that Australia still has a long way to go to realise the potential of our Asian relationships. We are proud to bring together the strengths of PwC, the Melbourne Institute and Asialink to provide this important tool, which we hope continues to be a valuable instrument for policy makers, businesses, the academic community and commentators to understand and strengthen our interactions with Asia.

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Note: We are pleased to provide greater functionality and easier access to the Index's dedicated website – www.asialinkindex.com.au – in order to better meet the needs of our readers.

Positioning Australia for Asia's surge

The Hon Andrew Robb AO, MP
Minister for Trade and Investment

The phenomenal rise of Asia's middle class will be a – if not the – defining global characteristic of this century.

This extraordinary demographic shift will present many challenges, but for Australia it also brings near boundless opportunities particularly in areas that are compatible with several of our country's leading strengths.

If current trends continue, within the next five years the Asia Pacific region will be the world's largest producer and consumer of goods and services. Today there are around 500 million people in the region's middle class, yet by 2030, not 2050 or 2100, that figure is expected to reach a near inconceivable 3.2 billion. This would account for 66 per cent of the world's middle class, up from 28 per cent in 2009.

This transformation will of course drive extraordinary levels of consumption of goods and services.

Consequently, as a government our key focus is to do what we can to align Australia's economic strengths with the growing needs of these burgeoning markets. Central to this strategy is leveraging our relative advantage in sectors as diverse as resources, agriculture, education, medical research, and tourism. The things we do as well as all and better than most.

For example, the government's decision to shift focus from domestic tourism to international tourism is aimed at capitalising on demand driven from Asian markets.

Our core objective is to further promote our country as a destination of first choice for overseas visitors. This will include supporting the development of domestic tourism infrastructure to help enhance our offer to the international market. Moving the tourism portfolio into Foreign Affairs and Trade will help drive the sector's reach into the big Asian markets.

Additionally, Australia has an excellent reputation across a multitude of services which tend to cluster and develop around core industries such as those fore-mentioned.

During a recent visit to Hong Kong I developed a list of 32 services that were raised with me which are in strong and growing demand in China, and all of which Australian providers are capable of delivering at the highest of standards. The list covered everything from banking and financial services, architecture, logistics, healthcare, educational and vocational training services, through to project and events management.

Education is the great enabler in terms of helping to drive the expansion of Asia's middle classes. Australia already has strong education links into Asia, but there is enormous scope to broaden those links. These links stem back to the original Colombo Plan.

Education is Australia's biggest services export worth $15 billion annually to our economy. We currently educate around 570,000 international students and last year I raised some eyebrows when I suggested we should be striving to help educate 10 million students within a decade. Of course the vast majority of these would not be 'in country', but through the utilisation of online and other delivery platforms in concert with our domestic institutions and through facilities and partnerships abroad.

Recently, I had the privilege of representing Prime Minister Abbott at the opening of the Monash University and Southeast University Joint Graduate School and Research Institute in Suzhou, China. Monash was the first Australian university to be granted a licence to operate a graduate school in China. This is an illustration of our growing Asian links. Likewise our vocational training sector has an enviable reputation and can play a major part in providing workers with the skills they need to move out of poverty and into the middle classes in places like India.

The government's New Colombo Plan will provide opportunities for Australian students to study and gain work experience on scholarship in Asia which will help expand understanding, develop languages and to forge new lifelong relationships and networks. This will help us as a country to do future business with the region and to enjoy deeper relations at economic, cultural and social levels.

As demographic shifts drive a change in customer needs and consumption patterns, we can ensure Australia is well placed to take advantage of the opportunities the Asia Pacific region offers. As consumer demand surges what will be niche markets in various parts of Asia will resemble mass markets to Australian providers. Australia is a high cost country and that is why we need to focus at the quality, high margin end in what we strive to do. I have a friend for instance who is selling mangoes into Shanghai for $30 each. That is not to say we are going to have a mango led recovery, but it is an indication of the opportunities available at the quality end.

For decades Australia's distance from global markets was considered a key barrier to economic growth. Today, the advantage of being in the same time zone as our key trading partners cannot be emphasised enough. The tyranny of distance has been replaced with the power of proximity.

We know the opportunities won't fall into our laps. We need to be flexible and responsive so that we can position Australia to take advantage of the growth in the middle class occurring in the region around us. If we don't respond, others will. This is why the government has placed such a strong emphasis on reducing the costs of doing business in Australia which extends to removing unnecessary taxes such as the mining and carbon taxes, cutting red tape to the value of $1 billion each year and streamlining the environmental approvals process.

Australia already has vital and growing trade in goods and services interests in each North Asian market with which we are negotiating a Free Trade Agreement. These interests would be advanced, and other opportunities opened, by the conclusion of the FTAs now under negotiation with Korea, Japan and China. As a government we are determined to conclude these as soon as reasonably possible.

Put simply, we already have FTAs with five of our ten largest trading partners but none with our top three export markets: China, Japan and Korea. Concluding these agreements is fundamental if we are to broaden and deepen our economic relationships and indeed protect and improve our competitive positions.

In Korea for instance, we have been competing against exporters from other countries, and in particular the United States, EU and Chile, which have preferential access because of their FTAs with Korea. The threats to our existing markets in agricultural exports in beef, dairy and horticulture will be neutralised through a successful FTA with Korea and new opportunities will open.

China is already our most important market for agriculture, resources and services. An FTA would help unlock the potential for further penetration into the China market as its huge middle class continues its expansion. It would also enable our industries such as dairy to compete on a more equal footing with competitors in countries like New Zealand which already have an FTA. Since China and New Zealand concluded an FTA, New Zealand has increased its dairy exports to China by more than $1.6 billion, compared to Australia which has grown just $59 million over the same period.

Japan is our second largest export market and second largest agricultural market. But Japan has in place high tariffs on key agricultural products including 38.5 per cent for beef – our largest agricultural export item to Japan. Many of our key competitors – the US, EU, Canada and New Zealand – are also negotiating FTAs with Japan. If we are unable to conclude and our competitors do, our exporters will be facing an uphill battle to maintain, let alone increase, their market share in Japan.

There is a genuine resolve among the Japanese to conclude the FTA and there would be historical significance for Japanese Prime Minister Shinzo Abe should this occur under his leadership. Back in 1957 Mr Abe's grandfather, Nobusuke Kishi, signed the Australia-Japan Agreement on Commerce with the Menzies Government which has anchored our economic relationship for more than half a century. The conclusion of an FTA would be our most significant economic bilateral development since 1957 and it would be fitting for Mr Abe to follow his grandfather in helping to drive bilateral relations to a new level.

Attracting new investment to Australia fully complements our trade agenda hence the priority we as a government have placed on it. As a relatively small open economy, with thin capital markets we have been reliant on foreign investment since the First Fleet. It has provided the capital needed to develop Australian industry and infrastructure in a way simply not possible through domestic sources. It has helped create the jobs and the prosperity that we enjoy as a nation.

When you develop strong trade relationships inevitably investment relationships follow. We have seen this with Australia's traditional economic partners, such as the United States and United Kingdom, both long term major trading partners and investment sources for Australia. Similarly, Japan, which became our largest trading partner in the early-1970s, has been an important source of investment from the 1980s. We should also expect that the profile of major emerging economies as trading and investment partners for Australia will rise as our economic relationships with these countries mature. China became Australia's largest trading partner in 2006-07, and we are now seeing increased investment interest from Chinese firms – a development we greatly welcome.

Like its trade, two-way investment between New Zealand and China has grown rapidly since the two countries concluded a free trade agreement back in 2008, extending to dairy and food industry development. There is little doubt that this will be the century of food and water security and Australia, having built a strong food export industry, is uniquely positioned to leverage this experience.

Australia, similar to New Zealand has a reputation for quality produce and this is something we must further build and promote to take advantage of burgeoning demand throughout the region. The window of opportunity to Asia is now open and this helps explain our resolve to quickly conclude liberating trade agreements with our biggest regional partners.

Engagement at a glance

Australia's engagement with Asia[1] as measured by the PwC Melbourne Institute Asialink Index fell marginally by 0.4 per cent in 2012, with the major drag coming from a 32.2 per cent fall in engagement with China. A slow down in China's rapid economic growth to a more sustainable rate, and uncertainty surrounding this slowdown, contributed to this decline. A smaller fall of 0.2 per cent was recorded in Australia's engagement with the rest of the world (ROW).

The dominant macro factors across the world economy in 2012 were influential in the engagement shifts discussed in this report. World economic growth of just 3.1 per cent in 2012 was sustained by 4.9 per cent growth in emerging market and developing economies, which in turn was significantly underpinned by solid growth of 6.5 per cent in developing Asia.[2]

At the same time, some Index components appeared to buck global trends. The Tourism Index, including inbound tourism, was buoyant – perhaps surprisingly, given the high Australian dollar. Inbound Chinese tourism in particular rose 24.4 per cent, representing the biggest annual jump in numbers in the history of the Index. This was good news for Australian services trade.

Overall, the marginal drop in the 2012 Index may prove to be a temporary pause in what is the long-term increasing trend in Australia–Asia engagement. Since 1990 Australia's engagement with Asia has increased in every year except six (and in one of those six it was unchanged). This is a remarkable achievement.

Economic growth in Australia's most significant trading partner China fell from 9.2 per cent in 2011 to 7.8 per cent in 2012. While much has been made of this, it is widely held the Chinese slowdown was a deliberate government strategy to shift to a more sustainable medium term growth path. Prices of key Australian commodity exports fell significantly as a result, although still remained near historic highs.[3] The value of the Australian dollar (A$) was slow to reflect the associated fall in the terms of trade, remaining at post-float highs through to April 2013.[4]

Whereas world trade growth fell sharply in 2012 (in line with weaker growth in advanced countries), Australia's trade engagement with both Asia and the ROW fared much better. A 3.0 per cent rise in trade engagement with Asia was driven by a 5.3 per cent rise in imports of goods and services and a 1.6 per cent rise in exports. Australia's trade surplus with Asia, with growth in imports continuing to exceed export growth, declined for the third year in a row from a peak in 2009. Trade engagement with the ROW rose by 2.3 per cent in 2012.

Consistent with Australia's comparatively strong growth performance in recent years (GDP grew at an average 2.9 per cent in the three years to end 2012), investment engagement in 2012 suggests positive perceptions abroad of prospects for Australia. Net inbound investment to Australia from Asia rose strongly by 16.3 per cent in 2012. Net inbound investment to Australia from the ROW also grew strongly in 2012.

1 The list of 25 Asian countries included in the definition of Asia/Asia25 used in this report is shown on page 13 of the full PwC Melbourne Institute Asialink Index.

2 Economic growth data: IMF *World Economic Outlook* Update July 2013. World GDP growth slowed from 5.2 per cent in 2010 to 3.9 per cent in 2011 and 3.1 per cent in 2012. Advanced economy growth slowed from 3.0 per cent in 2010 to 1.7 per cent in 2011 and 1.2 per cent in 2012. Developing Asia growth slowed from 9.9 per cent in 2010 to 7.8 per cent in 2011 and 6.5 per cent in 2012. Amongst the advanced economies: EU growth has slowed from 1.5 per cent in 2011 to –0.6 per cent in 2012; US growth rose from 1.8 per cent in 2011 to 2.2 per cent in 2012; Japan's growth picked up from –0.6 per cent in 2011 to 2.0 per cent in 2012.

3 The RBA index of non-rural commodity prices fell by 27 per cent from its peak in July 2011 through to December 2012, but the index was nevertheless still 42 per cent above the January 2008 level at end-2012. Reserve Bank of Australia (RBA) non-rural commodity price index (US$ terms). See RBA Statistical Tables for commodity price data. http://www.rba.gov.au/statistics/tables/

4 In June 2013 US Federal Reserve Bank Governor Ben Bernanke raised the prospect of a gradual winding back of its 'quantitative easing' program when unemployment falls to its target rate, sparking an exodus of offshore investment funds attracted to Australian financial markets by high relative interest rate yields. From mid-April 2013 to end-June 2013: the A$ TWI fell from 80 to around 70 (12.5 per cent); and against the US$ the A$ fell from US$1.05 to around US$0.91 (13.3 per cent). See Reserve Bank of Australia Statistical Tables for exchange rate data. http://www.rba.gov.au/statistics/tables/

Conversely, there was a 46.1 per cent fall in net outbound investment in Asia. This was due in large part to an 86.5 per cent fall in net outbound investment in China following a very sharp rise the previous year. The Index Investment component incorporates volatile portfolio investment flows as well as more 'lumpy' but usually enduring direct investment flows, and hence has a tendency to fluctuate as a result. In this sense the 2012 fall in net outbound investment in China, in the wake of a similarly large rise in the previous year, is not unexpected and may be seen as a return to previous trend levels.

Tourism and migration engagement with Asia were strong in 2012 (up 9.9 and 13.5 per cent respectively), with growth in travel in both directions for both these measures of engagement. Australia's education engagement with Asia rose more modestly by 2.1 per cent in 2012. Finally, Research and Business Development (R&BD) engagement with Asia increased modestly in 2012, while humanitarian engagement declined.

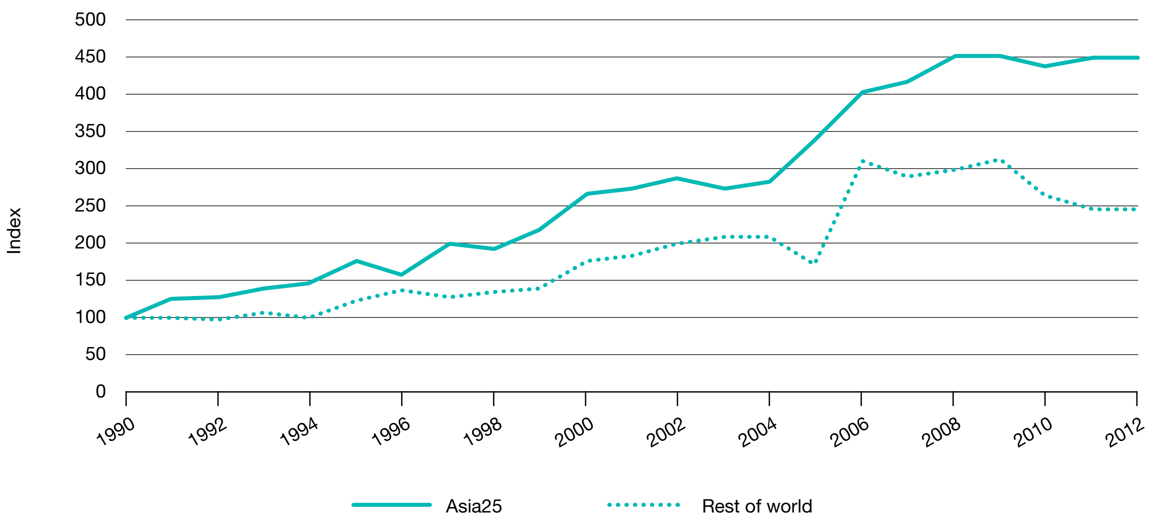
A major shift in this year's report is the sharp 32.2 per cent fall in engagement with China in 2012 following a significant increase of 54 per cent the previous year. Both of these large swings were influenced by the volatile investment flows mentioned earlier. Overall engagement with ASEAN as a group rose modestly by 1.4 per cent in 2012, camouflaging a 9.7 per cent jump in engagement with Indonesia – the biggest increase amongst the major Asian economies. Engagement with India rose by 6.6 per cent, but engagement with Japan and Korea fell.

The strong economic performance of Australia's Asian neighbours has helped underpin Australia–Asia engagement in relation to trade, investment, education, tourism, migration and R&BD in 2012. Exchange rate developments also play an important role in decisions relating to each of the engagement components.

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

Index (1990=100)	1990	1995	2000	2005	2010	2011	2012	% change 2011–12
Asia25	100	175.5	266.7	339	436.7	449.9	448.1	-0.4
Rest of World	100	122.7	177.2	170.7	264.1	244.8	244.3	-0.2

Figure 1: PwC Melbourne Institute Asialink Index



Key findings from the seven engagement components include:

- In contrast with the sharp moderation in global trade in 2012[5], Australia's trade engagement with both Asia and the ROW rose, albeit modestly. Growth of 3.0 per cent in Australia's trade engagement with Asia, driven by a 5.3 per cent rise in imports and a 1.6 per cent rise in exports, continued to underpin overall engagement in 2012. Trade engagement growth with China of 6.4 per cent was particularly important, as was trade with ASEAN, up 4.4 per cent. More modest trade increases were recorded for the other main countries with the exception of India, down 10.1 per cent. Trade engagement with the ROW rose by 2.3 per cent in 2012, although this was solely attributed to a jump in imports.
- Australia's investment engagement with Asia fell significantly by 18.6 per cent in 2012. This was the overall result of a sharp fall of 46.1 per cent in net outward investment, in particular to China, and a rise in net inbound investment of 16.3 per cent. In contrast there was a rise of 6.3 per cent in investment engagement with the ROW in 2012, the result of a 10.7 per cent increase in net inward investment and a fall in net outward investment of 4.4 per cent. The increases in inward and falls in outward investment flows to both regions in 2012 suggest positive perceptions about relative investment and growth prospects in Australia.
- Australia's research and business development engagement with both Asia and the ROW rose slightly in 2012, by 3.3 and 0.6 per cent respectively. This measure of engagement combines a basket of diverse activities which tend to create future connections, open market opportunities and enable and inform future business decisions.
- Australia's education engagement with Asia rose by 2.1 per cent in 2012 following a small fall in 2011, the first such fall in over a decade. The latest rise reflects increases in both inbound visitors from and outbound visitors to Asia for education and conference purposes. Strong growth in outbound movements to Japan and China were perhaps the most notable shifts in 2012, although Education engagement with the ROW rose by 1.7 per cent rise in 2012, with a 7.3 per cent rise in outbound education offsetting a slight fall in inbound visitors.
- Tourism engagement with Asia grew by 9.9 per cent in 2012. The number of incoming travellers rose by 12.1 per cent to almost 1.8 million (despite the strength of the Australian dollar), while the number of Australians holidaying in Asia rose by 8.6 per cent to 3.1 million people (following a 13.9 per cent jump the previous year). The biggest shifts in 2012 were inbound tourism from China and India, and outbound tourism to Japan, India and Thailand.
- China and India dominate Australia's migration engagement with Asia. In 2012 overall migration engagement with Asia rose by 13.5 per cent, with a large increase in inflows and a more modest increase in outflows. Migration engagement with the ROW rose 3.0 per cent and was dominated by inward migration.
- Humanitarian assistance engagement with Asia continued to decline in 2012 from its 2006 peak, although the overall trend since 1990 has been positive. Large spikes in engagement followed both the late-1990s Asian crisis and the December 2004 Indian Ocean tsunami. Australia's humanitarian assistance to Asia continues to exceed assistance to the ROW, which was largely unchanged in 2012.

5 The growth of global trade in goods and services continued to slow in 2012 to just 2.5 per cent, down from 6.0 per cent in 2011 and 12.7 per cent in 2010. The deceleration of trade growth in 2012 reflected slow economic growth in developed economies and recurring bouts of uncertainty over the future of the euro, as well as a moderate slowdown in economic growth in emerging markets and developing countries. Source: IMF World Economic Outlook Update, July 2013.

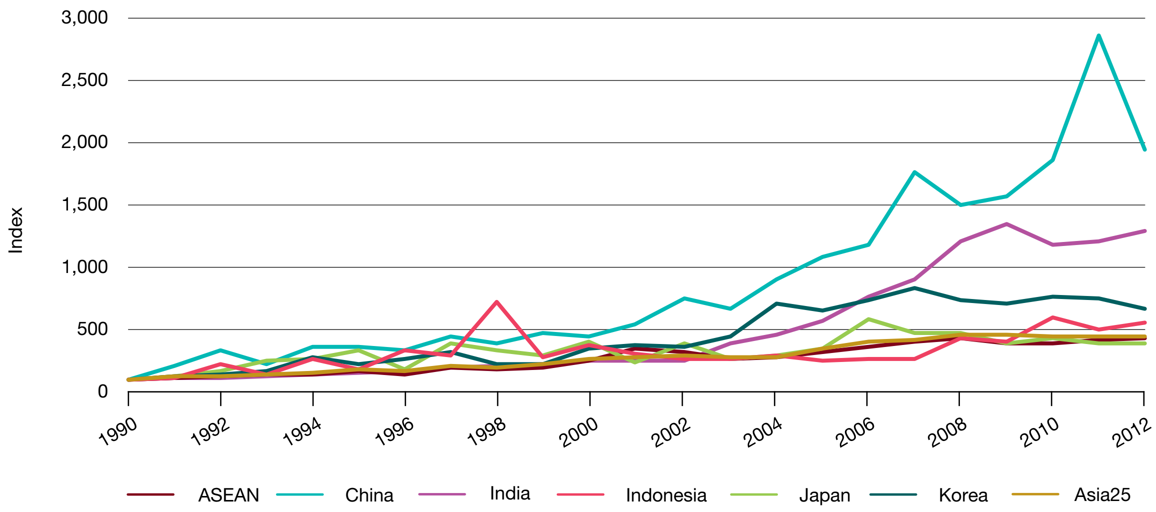
Table 2: Components of the PwC Melbourne Institute Asialink Index

Component	1990	1995	2000	2005	2010	2011	2012	% change 2011–12
Trade (A$bn)†	91.5	128.5	177.2	234.3	329.9	348.2	358.8	3.0
Investment (A$bn)†	8.9	32.7	47.4	33.1	44.0	45.8	37.3	-18.6
Research and Business Development (1990=100)	100	143.7	213.5	306.7	349.3	350.9	362.4	3.3
Education ('000 persons)‡	92.3	176.2	284.5	407.8	562.1	555.2	567	2.1
Tourism ('000 persons)‡	1187.9	2205.1	2434.9	2957.9	4096.1	4444.7	4882.9	9.9
Migration ('000 persons)	58.4	39.8	41.2	59.8	76.1	78.8	89.4	13.5
Humanitarian assistance (1990=100)	100	137.8	213.8	293.7	267.7	259.2	244.8	-5.6

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

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

Figure 2: Major economies



Key findings from the economies analysis include:

- Australia has benefited enormously from China's rapid economic growth in the past decade. China accounted for 20.3 per cent of Australia's total trade in goods and services in 2012 (up from just 13.2 per cent four years earlier) and 26.3 per cent of total exports. While the key driver of this engagement has been trade in energy and resources, service sector exports are increasingly important, in particular education (China is the largest source of overseas students studying in Australia) and tourism services. The 32.2 per cent fall in engagement with China is consistent with slowing Chinese economic growth in 2012.
- Australia's engagement with Japan, its second most important export destination and trading partner, fell by 1.1 per cent in 2012. Increases in trade, tourism, education, research and migration engagement failed to offset a fall in investment engagement. Japan remains Australia's pre-eminent Asian investment partner, accounting for half of net inward investment from Asia (and six times net inward investment from China). Japan's GDP growth recovered to 1.9 per cent in 2012 following a contraction of 0.6 per cent in 2011.
- Engagement with the ASEAN group of countries rose only marginally by 1.4 per cent in 2012, with increases in six component indexes and falls in one. The biggest shift was a fall of 23.6 per cent in investment engagement. This group of countries accounted for almost 15 per cent of Australia's two-way trade in 2012. ASEAN recorded strong GDP growth of 6.2 per cent in 2012, up from 5.0 per cent the previous year.[6]
- Following a sharp fall in 2011, a rise in engagement with Indonesia of 9.7 per cent in 2012 was the biggest recorded increase amongst the major Asian countries. This was driven by a 95.7 per cent increase in investment engagement. While a significant change, this is from a very low base. Australia's net investment flows to Indonesia totalled $452 million during 2012, and this was more than 20 times the net investment flow in the opposite direction. Indonesia's geographic proximity to Australia and large, young and well-educated population suggest substantial opportunities for enhanced future engagement.
- Australia–India engagement rose by 6.6 per cent in 2012, with strong increases in tourism and migration flows and a slight pick-up in education. Both inward and outward flows in relation to these three areas increased in 2012; small falls were recorded in the other components. India's large population, scope for economic catch-up and widespread fluency in English, combined with Australia's relatively low levels of trade and investment engagement in particular with India, have long suggested strong potential for growth. However, the opportunities are proving slow to be realised, and India's internal policy challenges should not be underestimated.
- The Australia–Korea Engagement Index fell by 11.0 per cent in 2012 following a more modest fall the previous year. An almost 30 per cent fall in investment engagement was an important determinant of the latest result.

A note on the Engagement Index:

In addition to the seven key components of engagement addressed in this report, there are a number of other important ingredients in Australia's Asian relations. These include: ministerial and other official visits between Australia and Asian countries; signed treaties and agreements; defence, police and intelligence cooperation; cultural collaboration; twin-city agreements; cooperation among NGOs and professional organisations; and many more.

6 ASEAN growth data: Australian Government Department of Foreign Affairs and Trade.

Viewpoint: Australia, Asia and FTAs

Australia's approach to bilateral and regional Free Trade Agreements (FTAs) in Asia came under increasing focus in the second half of 2013. The new Australian Government has placed a high priority on concluding bilateral FTA negotiations with some key Asian trading partners. There has also been renewed business enthusiasm around the progress of regional FTAs, including the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). The PwC 2013 APEC CEO Survey, for example, found that Asia-Pacific business leaders felt that multiple free trade agreements are creating more growth opportunities for their organisations in the Asia-Pacific.

Given the proliferation of bilateral and regional trade agreements to which Australia is party, it is proving increasingly complex to untangle the 'noodle soup' of FTAs. The Viewpoint section of the 2013 PwC Melbourne Institute Asialink Index provides the insights and perspectives of some of Australia's leading business people, academics and trade officials to enable a better understanding of Australia's diverse FTA activities in the region. These Viewpoints, combined with the broader analysis within the Index, provide a dynamic picture of Australia's current, and prospective, engagement with the Asian region.

What are FTAs?

FTAs are international agreements between two or more countries to remove barriers to trade and facilitate stronger commercial ties and economic integration. These agreements do not just reduce tariffs; they also include commitments on investment, customs cooperation, e-commerce, intellectual property, as well as other 'behind-the-border' barriers that impede the flow of goods and services between member countries. FTAs can provide a number of economic benefits, including:

- Fostering freer trade flows and stronger relationships with trading partners.
- Opening up opportunities for exporters and investors to expand their businesses into key overseas markets.
- Providing consumers with access to an increased range of better value goods and services.
- Improving business productivity through access to lower priced inputs, and by encouraging producers to be more efficient to remain competitive against imports.

Why are FTAs with Asia important to Australia?

The importance of Australia's bilateral and regional FTAs with Asia is linked to three trends.

1. Trade has become an increasingly important part of the Australian economy over the past few decades. By way of example, Australia's trade intensity (exports plus imports divided by GDP) has increased from 34 per cent in 1985 to 41 per cent in 2012. Similarly, more than one in five Australian jobs are now trade related.
2. Asia has become an increasingly important trade partner for Australia. In 1990, Asia accounted for 42 per cent of Australia's total trade. In 2012, this figure stood at 60 per cent.
3. Asia's rapid economic growth and growing middle class mean that the potential benefits from closer economic engagement are immense.

The sum of these trends – the centrality of trade with Asia to Australia's current and future standard of living – highlights the importance of minimising any barriers that might restrict our economic engagement with the region.

The apparent stalling of the World Trade Organisation's 'Doha' round has raised questions around the effectiveness of the multilateral framework for delivering reductions in trade barriers. In light of these challenges, high-quality, comprehensive bilateral and regional FTAs provide an important avenue through which Australia can pursue stronger trade relationships in our region.

What is Australia's approach to FTAs in our region?

Australia currently has seven FTAs in force, including bilateral agreements with New Zealand, Singapore, Thailand, Malaysia, US, Chile, as well as one regional agreement with ASEAN and New Zealand. These agreements collectively account for 28 per cent of Australia's total trade. Beyond these concluded agreements, Australia is engaged in nine FTA negotiations, of which seven are located in the Asian region. These include five bilateral FTA negotiations (China, Japan, South Korea, India and Indonesia) and two regional FTA negotiations (TPP and RCEP). The TPP negotiations include Australia, New Zealand, Brunei, Chile, Singapore, Canada, Japan, Malaysia, Mexico, Peru, the USA and Vietnam. The RCEP includes the 10 ASEAN member states and those countries with which they share existing FTAs – Australia, China, India, Japan, South Korea and New Zealand.

Australia has negotiated, or is currently negotiating, FTAs with a large majority of its most significant trading partners. The China, Japan and Korea negotiations are particularly significant, given that these Northeast Asian countries collectively account for 37 per cent of Australia's total trade.

The current Government has placed a priority on the conclusion of these agreements, including setting a 12-month deadline on the finalisation of the Australia-China FTA. In the lead-up to the September 2013 Federal election, the Coalition indicated that it would take a pragmatic approach to trade negotiations, including through remaining open to utilising investor-state dispute settlement (ISDS) clauses as part of Australia's negotiating position. Additionally, it indicated that it would explore the feasibility of FTAs with other trading partners, including Hong Kong and Taiwan.

The Government's strong focus on economic diplomacy and FTAs raises the possibility of increased engagement with our Asian neighbours – shifts that will continue to be closely monitored through the PwC Melbourne Institute Asialink Index.

FTA-status of Australia's Top 10 trading partners (2012)

Trading Partner	Share of Australia's total trade	Existing FTA entry into force	FTA negotiations begun
1. China	20.3%		2005
2. Japan	11.5%		2007
3. US	9.1%	2005	
4. South Korea	5.2%		2009
5. Singapore	4.7%	2003	
6. UK	3.6%		
7. New Zealand	3.4%	1983	
8. Thailand	3.0%	2005	
9. Malaysia	2.9%	2013	
10. India	2.8%		2010

This year's Index features 'Viewpoints' from some of Australia's leading business people, academics and government officials on our FTA negotiations in Asia, including with China, Japan, South Korea, Indonesia and India.

Watch the full video interviews at www.asialinkindex.com.au

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