

# PwC Melbourne Institute Asialink Index



2010

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**Cover image:**

Her name is Tan Hua 1 2006

A collaborative performance by Taiwanese dancer Mei Li and Australian artist Megan Keating  
(Asialink resident at Taipei Artist Village 2006)

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Australians are becoming more accustomed to the idea of Asia's importance to Australia and to the global marketplace. Yet our financial bias is towards the West, and the United States and United Kingdom in particular. This has the tendency to mask the significance of the changes occurring in Asia, and how profoundly these will affect Australia into the future.

The PwC Melbourne Institute Asialink Index is a major contributor to helping change this mindset. It aims to increase our understanding of the growing relationships between Australia and Asia.

This year we include a series of 'viewpoints' on aspects of our business engagement in the region, all of which happen to also highlight our engagement beyond the world of commerce. MMG's Andrew Michelmore, Justin Breheny of Insurance Australia Group, John Walker of Macquarie Korea, and Sir Rod Eddington and Bob Seidler, from the Australia-Japan Business Cooperation Committee, share with us examples of thriving regional interaction on a grand scale.

The findings of the 2010 Index emphasise the power of the China factor for Australia in what was globally a tough year, and confirm that our traditional strengths in resources, agriculture and tourism continue to underpin our Asia relationships.

The question we have raised previously is even more relevant this year: Are we missing opportunities in Asia - and especially opportunities to broaden our relationships? The Index reveals Australia's investment into Asia continues to be sluggish, the signs are ominous for our two-way education engagement, and our country analysis reveals short-term falls in a number of relationships and ongoing malaise with Indonesia.

The annual PwC Melbourne Institute Asialink Index describes the longitudinal trends in Australia's engagement with Asia, with the aim of challenging Australia's current approach to regional engagement. We commend the researchers and trust that the results continue to be useful to business, to policy makers and analysts, and to students and teachers.

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# Reflective Essay: The Great Task: Managing America and China

Paul Kelly  
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A new, more exacting age of Australian diplomacy has arrived. As the United States moves to balance the rise of China, the task of Australian foreign policy is to reconcile having China as its major trading partner and America as its major strategic ally. It is a path filled with traps given that the global financial crisis has accentuated the relative power shift from America to China.

The first task for Australia is to avoid sudden departures in its policy framework since it has long assumed this evolution in Asia's power balance. The second is to beware the pessimists' warning that having China as primary trade partner and America as primary strategic partner is untenable or that Australia will be forced into a core choice between America and China – the risk being such fatalism merely undermines sound policy. The third is to realise this change in economic and strategic power will bring inevitable tensions and demand adjustments from Australia - but that such tensions need to be met with measured judgement not hyperbolic response. The sort of judgements Australia faces will be diverse and complex – they will range from managing the surge of China's capital outflow and coping with its rising nationalistic hubris, to gauging the extent to which the new US debt burden limits its ambitious pledges to retain a forward position in Asia. Finally, it is important to realise Australia is not alone in coping with this shifting US-China balance. The entire East Asian region is in the midst of this dynamic and, as a result, Australia becomes part of a regional response that seeks a constructive outcome.

Australia's response is reflecting its foreign policy traditions conceived in *realpolitik*, multilateralism, economic self-interest and Asian regionalism.

The *realpolitik* dimension was manifest at the November 2010 AUSMIN talks in Melbourne when the Gillard Government affirmed its support for a strong US strategic presence in East Asia, a greater US military and maritime role in relation to Australia and a deepening of alliance co-operation in the undisguised context of the rise of China. This should have surprised nobody. It reflects sentiment within ASEAN that wants the US to balance the rise of China's power in the cause of stability. There is worry in the region about the extent of China's assertiveness. Seasoned defence analyst, Paul Dibb, says that Beijing is beginning "to push the envelope of what is acceptable behaviour." Warnings about China's military power were prominent in the Rudd Government's Defence White Paper and reflected an assessment of then Prime Minister, Kevin Rudd. Many Australian analysts fear US policy may seek to "crowd" or contain China too much. Yet this discounts the intensity and extent of bilateral US-China dialogue and the sound political judgement successive US administrations have displayed towards China, witness the Asia policies of both George W Bush and Barack Obama to this point.

For Australia, this strategic balancing of China occurs against the backdrop of vast economic and financial interdependence between America and China. Such interdependence guarantees a host of frictions. It does, however, possess an upside since both nations need each other so much. US analyst, Joseph Nye Jr. likens this to a "balance of financial terror"

similar to the Cold War military interdependence between the US and Soviet Union where “each had the potential to destroy the other in a nuclear exchange but never did.”

The multilateral dimension is on display in Australia’s commitment to a rules-based Asia. Australian governments backed China’s entry into the World Trade Organisation. Beyond this, Australia supported the G-20 representing 80 per cent of global GDP as the prime body to drive changes in world economic policy and necessary financial re-balancing. China is at the heart of all such decisions and activity. Kevin Rudd, as Prime Minister, applauded China’s contribution to the world order, yet pressed Beijing to go further in addressing financial imbalances, trade protectionism and climate change. At the same time the Gillard and Obama administrations have called upon China to respect international maritime law in the context of growing maritime rivalry.

In economic terms, China’s rise is an immense bonus for Australia. Our national interest is better served by having a successful China rather than a weak China. It is China’s industrialisation and high growth that has underpinned the post-2003 terms of trade boom that has significantly lifted Australia’s national income. It would have been inconceivable, as recently as 15 years ago, to think China’s growth would become the principal driver for the world economy after the 2008 global financial crisis. Australia is now located in the region that will attract more global production power and higher national incomes over the 21st century. This Australia-China economic complementarity is likely to endure for the long-run based upon commercial and political factors.

It is important, however, that Australia avoids any drift towards economic and cultural complacency off the back of the China boom. The risk is that it looks too easy. Sustained prosperity must be earned and negotiating the rise of China will test Australian values and public opinion. In truth, management of the new resources boom is a daunting task for Australian Governments as the Reserve Bank keeps emphasising. The need is to avoid any descent into economic populism and retain the post-1983 commitment to a pro-market economy. This is part of the broader challenge of managing the China relationship in its trade, investment, political, cultural and institutional aspects. Australia needs to invest more in this project. It is 20 years since Paul Keating popularised the idea of engagement with Asia but Australia’s delivery has not matched its promise. The rise of China and India and the momentum given the region after the global financial crisis should prompt a review leading to renewal of Australia’s Asian engagement project.

Integral to this process is Australia’s abiding focus on Asia-Pacific architecture - in effect, its effort to promote regional co-operation leading ultimately to a sense of regional community. This was at the heart of the Hawke-Keating APEC initiatives and behind the Rudd 2008 Asia-Pacific architecture initiative. In this context, it is significant that America and Russia have now been invited to join the East Asian Summit and that Secretary of State Clinton displays an enthusiasm for US involvement in regional institutions. These are good yet modest outcomes in the direction Australia sought. The utility of regional institutions is often exaggerated in Australia’s debate precisely because they provide a mechanism for Australia to better integrate itself in the region and experiment with its activist diplomacy. The reality, however, is that China and America span the Asia-Pacific and a more effective regionalism is a necessary response to the epic power shifts underway.

In delivering the 70th George E Morrison Lecture in April 2010 Kevin Rudd said it was time to move beyond old Cold War stereotypes of being anti-China or pro-China to find a new framework for the relationship. This project is already underway. It is underpinned by core national realities – Australia’s approach to China is based upon shared interests, our democratic values, our place in the region and our traditional alliances. The unspoken reality is that China, an anti-democratic state, will undergo its own unpredictable political evolution.

It is true, of course, that only China and America can make their relationship work. There is, however, no historical law that dictates the rise of China must climax in a military clash between Washington and Beijing. It is as important for Australia to avoid such fatalism as it is to prepare for the inevitable tests and tensions that are coming. In meeting them, Australia should aspire neither to re-invent its foreign policy nor abandon its core strategic principles. With pragmatism and adaptability, the odds still favour Australia being able to deepen its Asian engagements and enjoy the US as a strategic partner.

# Executive Summary: Engagement at a Glance

The 2010 PwC Melbourne Institute Asialink Index provides Australia's first comprehensive view of how the most difficult year of recent times - in economic terms at least - has impacted on Australia-Asia engagement. Tracking 2009 along seven critical indicators - trade, investment, research and business development, education, tourism, migration and humanitarian assistance - the Index reveals that recent growth in our engagement was substantially curtailed, and there were falls in three components.

Under pressure of the global financial crisis, the flattening was driven by trade - specifically a decline in imports - and overall investment flows between Australia and Asia. A slowdown in the rapid growth of recent years in the education and migration components was also a contributor.

**Table 1: Trends in the PwC Melbourne Institute Asialink Index<sup>1</sup>**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008-2009
<b>Asia25</b>	100	180.9	279.8	337.1	436	438.9	0.7
<b>Rest of World</b>	100	126.4	184.6	172.7	293.5	309.9	5.6

The importance of China and India to Australia was vividly highlighted in the year. A crisis can expose both the vulnerabilities and strengths in economies and in relationships - and what we have seen during 2009 is no exception. The Index shows the China factor in particular buoyed aspects of a number of components: exports to Asia overall continued to rise on par with previous years, incoming capital flows were strong, and tourism numbers remained high. In contrast, engagement with each of the other major Asian economies under review declined. The Australia-Indonesia Index in particular recorded a substantial drop of almost 30 per cent in engagement.

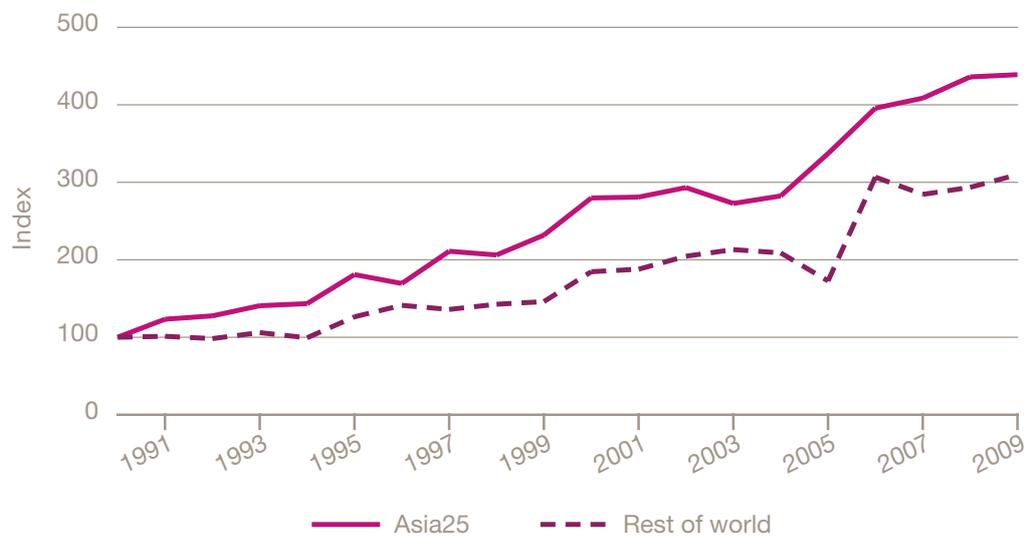
The continued rise in Rest of the World (ROW) engagement through the period can be explained in large part by increased capital flows out of Australia, likely motivated by cheap buys or corporate divestments. There was a substantial rise also in the research and business development component driven by a 40 per cent increase in business trips to and from countries outside Asia.

<sup>1</sup> Table 1 shows the differences in growth between Australia-Asia engagement (439) and Australia-ROW engagement (310). Engagement with Asia has been growing at a faster rate than ROW engagement since 1990. It is, however, only on two measures - trade and education - that Australia's engagement with Asia is larger in absolute terms. The Index is a composite measure with elements weighted to more accurately reflect the quality of the engagement.

## Index in brief

- **China** became our largest trading partner and largest investor (and also overtook Japan as the world's second largest economy). **Exports to China** increased by 39 per cent in real terms, a record rise.
- Australia's **trade surplus with Asia** grew at a faster rate than ever before - with imports from Asia falling by 12.9 per cent while exports continued to rise.
- Tourism engagement continued to increase over 2009. On current trends, China will be larger than Japan as our biggest source of incoming tourists within a year.
- **Australian outbound investment to Asia declined**. Australians investing abroad clearly prefer the United States, New Zealand and the European Union over Asian economies. At the same time, **foreign direct investment (FDI)** from Asia into Australia increased substantially, despite a 43 per cent worldwide decline.
- While the China and India relationships remained extremely robust in the period, Australian engagement declined for each of the other major economies under scrutiny.
- Data on education engagement shows a **concerning slowdown of international arrivals for study** in Australia, and further deceleration anticipated. At the same time, Australians appear to be less and less interested in studying in Asia, a particularly disturbing trend.

Figure 1: PwC Melbourne Institute Asialink Index



## Key findings from the seven engagement components include:

- The financial crisis slowed trade globally<sup>2</sup>. Total flows between Australia and Asia and Australia and the ROW fell along with these trends. The decline in Australia-Asia trade, however, was driven by a 12.9 per cent fall in imports. **Exports to Asia increased by 3.2 per cent**, only slightly lower than the 19-year average of 5.4 per cent. Australia's exports to the ROW fell at the same time by 11.5 per cent.
- While total investment flows to and from Asia decreased by 4.4 per cent, disaggregating the data reveals a complex story. Foreign direct investment from Asia into Australia increased substantially in 2009. However, **outward investment flows to Asia from Australia declined by 11.3 per cent**. Australia does not compare favourably to other developed countries in terms of its investment into Asia (see investment chapter, Table 6, page 21).
- **Research and business development** between Australia and Asia flattened. This is bucking a long-run trend of strong growth. Since 1990, research and business development between Australia and Asia has increased three times, representing an average annual growth rate of just under six per cent. In contrast, engagement in this component with the ROW showed a substantial rise of 20 per cent.
- In 2009 more than half a million people travelled to and from Australia and Asia for educational purposes, including conferences. This represents an increase of 4.5 per cent on the previous year. **The exponential rate of growth of the Asia Education Component is slowing however** - from 13.1 per cent in 2007 to 4.5 per cent last year.
- **Tourism engagement continued to increase** over 2009, with over 3.5 million traveller trips. Despite the crisis, outbound tourists from Australia to Asia rose by nearly 16 per cent in the year.
- In 2009, migration to and from Asia increased by about two per cent, more or less on trend. However, migration to and from the ROW decreased by 7.3 per cent.
- Australian **humanitarian assistance** is focussed strongly on Asia. Humanitarian assistance engagement with Asia has increased nearly three times since 1990, but declined last year by 10.4 per cent. This is due to a decline in Non Government Organisation (NGO) delegates in the region and the numbers of doctors and nurses going offshore.

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<sup>2</sup> See the Department of Foreign Affairs and Trade publication: 2009 Composition of Trade, Australia on page 2 <[http://www.dfat.gov.au/publications/stats-pubs/composition\\_trade.html](http://www.dfat.gov.au/publications/stats-pubs/composition_trade.html)>

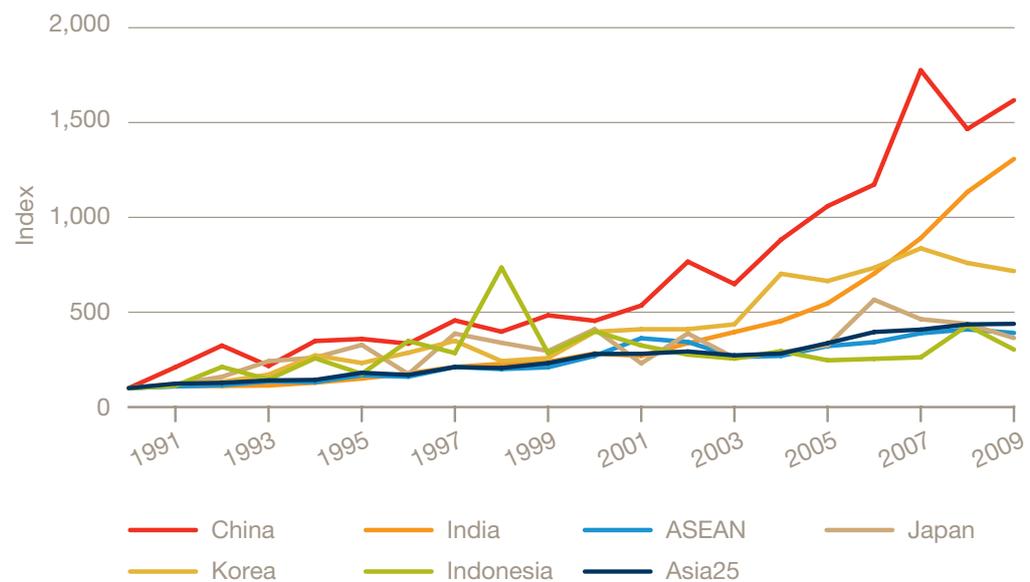
Table 2: Components of the PwC Melbourne Institute Asialink Index

Component	1990	1995	2000	2007	2008	2009	% change 2008-2009
Trade (A\$bn) <sup>a</sup>	86.5	120	165	220.7	295.1	282.7	-4.2
Investment (A\$bn) <sup>a</sup>	7.9	29	42.4	29.5	58.9	56.3	-4.4
Research and Business Development (1990=100)	100	182.4	300.1	315.1	303.4	305.5	0.7
Education ('000 people) <sup>b</sup>	92.3	176.2	284.5	407.8	505.4	527.9	4.5
Tourism ('000 people) <sup>c</sup>	1,187.9	2,205.1	2,434.9	2,957.9	3,252.2	3,541.2	8.9
Migration ('000 people)	58.4	39.8	41.2	59.8	82.6	84.3	2.1
Humanitarian Assistance (1990=100)	100	138.9	218.2	296.8	300.5	269.1	-10.4

Notes: <sup>a</sup> Values are in constant 2007-08 prices. <sup>b</sup> Education figures shown here comprise the number of visits to and from Australia for education, conferences and conventions. The overall education component is broader, also including separate indices for secondary school exchanges and ESL courses. <sup>c</sup> Tourism figures shown here comprise visits to and from Australia for the purposes of holiday and visiting friends and family. The overall tourism component also includes a separate index for working holiday maker visas (see Appendix 1, page 68 for details).

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

Figure 2: Major economies



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## Key findings from the economies analysis include:

- Engagement with China and India continued to increase over the 2008-09 period. In contrast, engagement with the other economies depicted in Figure 2 has declined.
- With a further rise in the relationship with China of 10 per cent in 2009, **China-Australia engagement since 1990 has increased in excess of 16 times. In 2009, China overtook ASEAN to become our largest trading partner.**
- Since 1990, Australia's engagement with India has almost kept pace with engagement with China. Our engagement with **India increased by over 14 per cent between 2008 and 2009 and over 13 times since 1990.**
- Engagement with each of the other major economies declined. The **Australia-Indonesia Index** in particular recorded a **substantial drop of almost 30 per cent** in engagement. The next most dramatic fall was in our engagement with Japan - a fall of 17 per cent - but our engagement with Japan over the course of the past 19 years has seen larger year on year falls. Despite these, the long-term trend continues upward overall.
- The decline in two-way engagement with Indonesia is due to falls in trade, investment, humanitarian assistance and migration. Australia imported less from Indonesia in 2009 and invested significantly less.
- All components in our Japan-Australia relationship, except Research and Business Development, declined in 2009. **Overall trade levels with Japan remain high**, however, and Japan was our second largest trading partner in 2009.
- Australia's engagement with South Korea fell by six per cent last year, driven by falls in trade, tourism and migration. However, the positive long-term trend was unaffected.
- The ASEAN Index also declined last year, by 6.3 per cent. The fall in the Index is due to a decline in trade, investment and humanitarian assistance.

### A note on the Index

Apart from the seven key elements addressed in the Index, there are other important ingredients in Australia's Asian relations: ministerial and other official visits between our countries; the treaties and agreements we sign; defence, police and intelligence cooperation; art collaboration; twin-city agreements, cooperation among NGOs and professional organisations and much more.

Our Asian engagement is complex and likely to become more so. The elements we study here provide an insight into the shifts and subtleties of that engagement. The Index is designed to stimulate discussion, and to provide a source of ideas and point of reference.

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# Understanding the Index

The Index measures engagement between Australia and Asia over the period 1990-2009. In doing so, we analyse both the level and rate of change across seven components and 25 economies.

## List of 7 components

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

## List of Asia25 economies

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

Although there is no single objective way to measure engagement, the report 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.

The analysis of the components, however, presents Trade and Investment in monetary values, and the Education, Tourism, Migration components as numbers of people. Research and Business Development and Humanitarian Assistance are shown in index format.

More details are contained in Appendix 1, page 68.



# Components: Trade

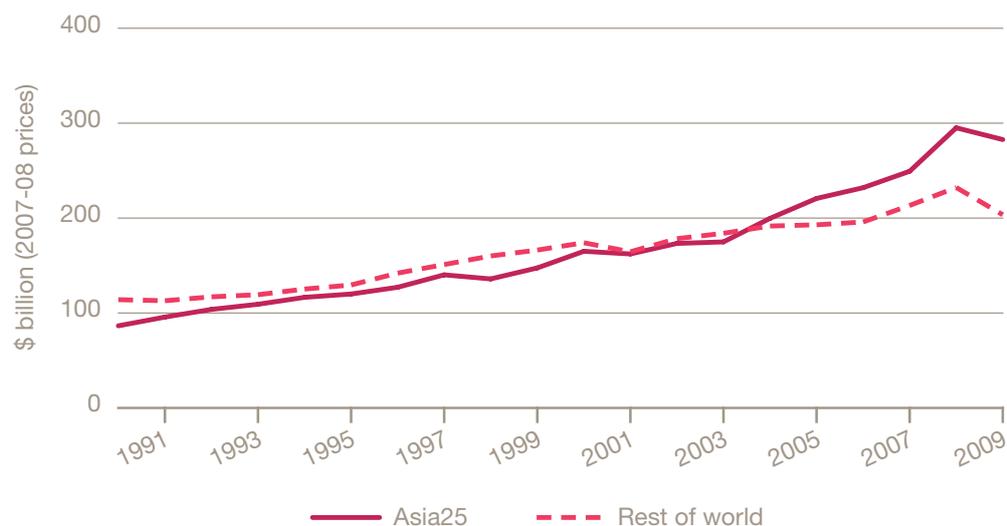
Australia's trade with Asia and with the ROW declined in 2009 - consistent with the global downturn of trade during the global financial crisis. Total trade engagement with Asia declined by 4.2 per cent, much less than the decline with the ROW, at 12.4 per cent.

Australia's trade in 2009 was dominated by China's demand for iron ore and coal. This demand was the one upward trend in an otherwise bearish year. Exports to China increased by a record 39 per cent - overtaking our principal export partner of the past 40 years, Japan. China also replaced ASEAN as Australia's largest trading partner overall.

Australia's exports to Asia rose during the year by 3.2 per cent. Total exports to Asia were valued at \$163.6 billion in constant 2007-08 prices (see Table 3) - more than double the value of Australia's exports with the ROW.

Our top five trading partners are all in Asia, if we include ASEAN as a bloc: China, ASEAN, Japan, South Korea and India. Our trade with the US follows, and a large proportion of that (70 per cent) is in imports. To give some context to this, Japan's largest export markets are China, then the US. Thailand's largest export market is the US.

**Figure 3: Trade Component**



**Table 3: Trends for Trade Component (imports and exports, A\$bn)<sup>a</sup>**

Component	1990	1995	2000	2007	2008	2009	% change 2008-2009
<b>Asia25</b>							
Imports	26.8	34.9	56.0	94.0	136.7	119.1	-12.9
Exports	59.8	85.1	109.0	126.7	158.5	163.6	3.2
<b>Total</b>	<b>86.6</b>	<b>120.0</b>	<b>165.0</b>	<b>220.7</b>	<b>295.2</b>	<b>282.7</b>	<b>-4.2</b>
<b>ROW<sup>b</sup></b>							
Imports	52.2	62.9	80.2	105.8	143.0	124.6	-12.9
Exports	61.8	66.6	93.8	87.1	89.2	78.9	-11.5
<b>Total</b>	<b>114.0</b>	<b>129.5</b>	<b>174.0</b>	<b>192.9</b>	<b>232.2</b>	<b>203.5</b>	<b>-12.4</b>

**Notes:** <sup>a</sup> Values are in constant 2007-08 prices. <sup>b</sup> ROW means the rest of the world (excluding Asia25).

Demand for Australian coal and iron ore both surged in 2009. Buyers in China, India, Japan and Korea buy Australian thermal coal for electricity generation. Buyers in China, in particular, and increasingly in India, also buy Australian metallurgical coal and iron ore to manufacture steel.

Australia's role as an energy supplier to our neighbours in the region grew last year. The Gorgon Liquefied Natural Gas (LNG) project off Australia's north-west coast, expected to be Australia's largest ever resources development, signed a series of long-term contracts to supply LNG throughout Asia. Significant contracts were signed (India - worth \$25 billion; China - worth \$50 billion; Japan and South Korea - worth \$70 billion)<sup>3</sup>.

This increase in LNG trade with Asia contributes to the local economy through new jobs and the purchase of goods and services. For example Clough, a leading Australian engineering, procurement and construction contractor, was awarded a \$2.7 billion contract to manage the LNG downstream and logistics portion of the project. Gorgon Gas is expected to create 15,000 local jobs over the project lifetime.

An increasingly important, but undercounted element of Australia's trade in the region is trade in services. Services are the largest part of Australia's domestic economy (accounting for 80 per cent of GDP) and an important part of our international trade (constituting 21 per cent). But the ABS does not collect data on the services provided by Australian companies and affiliates resident in overseas markets.

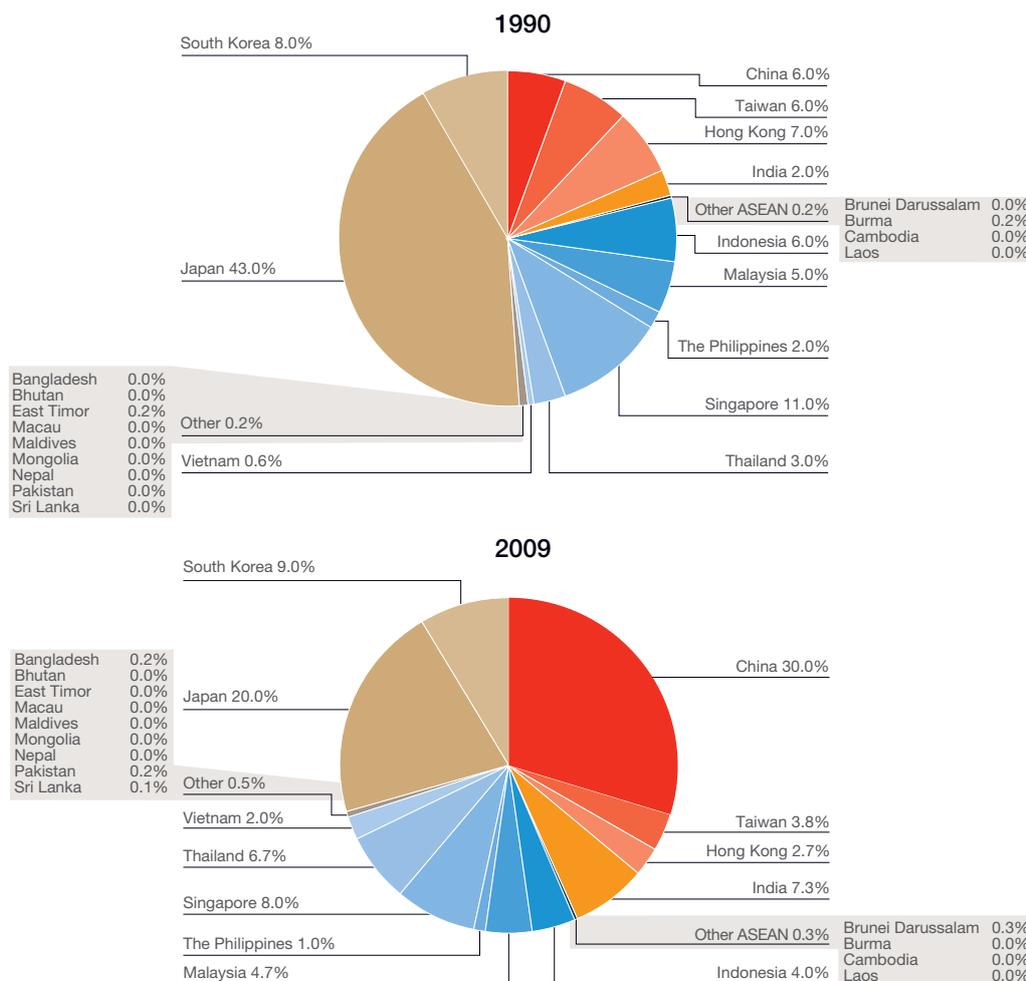
An example of this data gap is that ABS estimates financial and insurance services exports of just \$1.3 billion in 2009-10. But Macquarie Bank has 70 office locations in 28 countries - with approximately \$150 billion in assets under management and \$3 billion in income in 2009-10<sup>4</sup> in overseas markets. The Australian Services Roundtable estimates we are missing half of the picture of Australia's trade in services.

<sup>3</sup> All figures in the text are quoted in nominal prices (not adjusted for inflation) for consistency with publicly available figures measuring short-term trends, except where specifically stated. All figures in the tables and charts are in constant 2007-08 prices - in other words, real terms - to accurately reflect long-term trends.

<sup>4</sup> Drawn from data in the Australian Services Roundtable report, The new economic challenge: responding to the rise of services in the Australian economy, available at <http://www.servicesaustralia.org.au/>

The pie charts below show the changing composition of trade with Asian economies between 1990 and 2009. China's share has grown, primarily at the expense of Japan. India's share has also grown considerably.

Figure 4: Trade Shares by Economy<sup>5</sup>



<sup>5</sup> 'Other ASEAN' includes Burma, Laos, Cambodia, and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

**Table 4: Australia's free trade agreements<sup>6</sup>**

Signed free trade agreements	
Australia - New Zealand Closer Economic Relations	1983
Singapore - Australia	2003
Thailand - Australia	2005
Australia - United States	2005
Australia - Chile	2009
ASEAN - Australia - New Zealand	2009
Free trade agreements under negotiation	
Australia - China	
Australia - Gulf Cooperation Council	
Australia - Japan	
Australia - Korea	
Australia - Malaysia	
Pacific Agreement on Closer Economic Relations (PACER) Plus	
Trans - Pacific Partnership Agreement	
Free trade agreements under consideration	
Australia - India	
Indonesia - Australia	

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

## Key findings for Trade component

- Imports from Asia and from the ROW both fell by 13 per cent.
- China is now Australia's largest export market, accounting for nearly one fifth of total export revenue. Japan is second largest accounting for a little over 16 per cent.
- Australia imports the most from ASEAN, which accounts for nearly 20 per cent of total imports. China and the US are the next largest sources of imports, accounting for 15 and 13 per cent of imports respectively.
- Australia has a trade surplus with Asia, but a trade deficit with the ROW. Australia has traditionally imported more from the ROW than from Asia (in 1990, imports from ROW were almost double those from Asia), but imports from Asia appear to be slowly catching up, and in 2009 were almost equal in value.
- Australia's export of services increased to all of the major economies measured in the Index. The only decline was in service exports to Japan - a decline in tourism (see the Japan chapter for further details).
- Australia's imports of services from major economies in Asia declined in 2009 - consistent with the decline in good imports. The only increase was in service imports from Indonesia - largely \$1 billion spent in the tourism sector.

### What Trade measures:

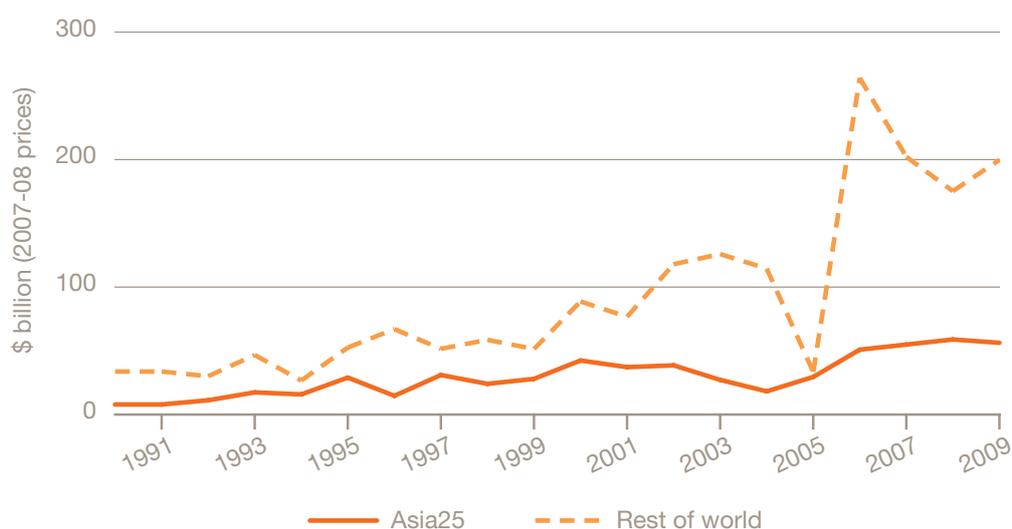
This component comprises data, deflated by the import and export price deflators, on:

- value of imports of goods and services into Australia from other country, by country, and
- value of exports of goods and services out of Australia to other country, by country.

# Components: Investment

The Investment Component below shows that the investment gap - the difference between Australia's investment to and from the ROW and with Asia - has widened. Figure 5 and Table 5 show that in 2009 investment to and from ROW increased by nearly 14 per cent while decreasing with Asia by 4.4 per cent.

Figure 5: Investment Component<sup>7</sup>



<sup>7</sup> The significant shift in ROW figures for 2004-05 was a result of News Corporation's shift of incorporation from South Australia to Delaware in the US. This reorganisation was recorded as both a transaction reducing Australian investment abroad and reducing direct investment in Australia. See FIRB 2008-2009 Annual report, page 55, ABS Investment data series 53520 - International Investment Position, Australia: Supplementary Statistics, 2009 and [http://en.wikipedia.org/wiki/News\\_Corporation](http://en.wikipedia.org/wiki/News_Corporation).

Table 5: Trends for Investment Component (inflow and outflow, A\$bn)<sup>a,b</sup>

Component	1990	1995	2000	2005	2008	2009	% change 2008-2009
<b>Asia25</b>							
Inflow	4.6	18.4	23.0	9.0	43.9	43.0	-2.1
Outflow	3.3	10.6	19.4	20.5	15.0	13.3	-11.3
<b>Asia25 total</b>	<b>7.9</b>	<b>29.0</b>	<b>42.4</b>	<b>29.5</b>	<b>58.9</b>	<b>56.3</b>	<b>-4.4</b>
<b>ROW<sup>c</sup></b>							
Inflow	25.6	35.4	55.1	40.5	99.9	111.9	12.0
Outflow	8.1	17.2	33.6	-7.0	75.3	87.9	16.7
<b>Total</b>	<b>33.7</b>	<b>52.6</b>	<b>88.7</b>	<b>33.5</b>	<b>175.2</b>	<b>199.8</b>	<b>14.0</b>

**Notes:** <sup>a</sup> Values are in constant 2007-08 prices. <sup>b</sup> 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. <sup>c</sup> ROW means the rest of the world (excluding Asia25).

Disaggregating the investment data reveals a complex range of factors at play.

Historically, Australia's top four investment partners have been the US, the United Kingdom, Japan, and NZ. But an examination of inward investment from the US and the UK finds that almost all of this is portfolio investment and financial derivatives. This type of equity investment does not involve acquiring a significant and controlling interest in an investment.

Inward investment from Japan and China, and a large proportion of investment from Singapore, on the other hand, is almost entirely foreign direct investment (FDI), which does involve financial control - and arguably a greater level of engagement.

Last year, Japan, China and Singapore were by far the largest direct investors into Australia. Of the \$11 billion total investment from Japan, \$9.8 billion was foreign direct investment, an increase of 55 per cent on the previous year. Of China's total \$7.8 billion investment, \$4.9 billion was direct investment. Contrast these figures with the FDI from US and the UK: \$1.1 billion and negative \$3.4 billion respectively for 2009<sup>8</sup>.

Foreign Investment Review Board approvals for Chinese FDI last year were almost exclusively for minerals exploration and development. Japanese investment follows the same trend of prioritising minerals but with significant investment in manufacturing. The vast majority of investment from Singapore was in finance and insurance, followed by services<sup>9</sup>.

<sup>8</sup> Negative investment flow numbers represent the selling of investment stock, repayment of debt, or equity transactions. Investment flow statistics include all transactions between the direct investor and the enterprise - not just the initial equity transaction establishing the relationship - and among affiliated enterprises. In the case of banks and other financial intermediaries (depository corporations) in a direct investment relationship, only equity transactions between them are included in direct investment. See the ABS 5331.0 - Balance of Payments and International Investment Position, Australia, Concepts, Sources and Methods, 1998 at: <http://www.abs.gov.au/ausstats/abs@.nsf/66f306f503e529a5ca25697e0017661f/5AE18A82E85AECC3CA25697E0018FBA7>.

<sup>9</sup> This data is drawn from the Foreign Investment Review Board 2009 annual report that lists investment approvals by sector. Although approvals for this year cannot be correlated directly with actual transactions from last year, it is a useful guide to investment patterns by economy.

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Examples of FDI from China include China Minmetals' acquisition of zinc and copper miner, OZ Minerals, and Yanzhou Coal's acquisition of Felix Resources. In 2009, Minmetals acquired OZ Minerals assets for \$1.4 billion, retaining its Australian leadership, and becoming MMG. This was originally a 100 per cent acquisition bid but was revised following the Australian Government's objection, on national security grounds, to the acquisition of the Prominent Hill mine in the Woomera Prohibited Area. (MMG CEO, Andrew Michelmore, shares his experience working with a 100 per cent Chinese company on page 48.) Yanzhou Coal's acquisition of Felix Resources, for \$3.5 billion, was the biggest-ever Chinese deal in the Australian coal sector and was the first state-owned enterprise that was able to acquire 100 per cent of a listed company in Australia.

Japanese investment in Australia's manufacturing sector has a long history and brought with it technology upgrading and skills development. Toyota Motor Corporation Australia, having invested more than US\$1.5 billion in manufacturing and car design facilities since the mid 1990s, recently announced plans for a \$300 million investment to produce a new generation of conventional and hybrid-ready four-cylinder engines in Altona.

The investment will involve an overhaul of local engine production facilities to build at least two new-generation four-cylinder engines. Australian engineers and key staff in the Hybrid Camry project were trained at Toyota plants in Japan, Thailand and the US as part of the upgrade.

The outward investment story is not nearly as substantial. Unlike some of the harder hit developed economies, Australia continued to invest offshore last year<sup>10</sup>. Australian investment to the ROW in 2009 grew 16.7 per cent. However, Australian investment into Asia declined by 11.3 per cent.

To a large extent, the rise in ROW flows is a consequence of the global financial crisis. Flows recognise injections of capital as well as withdrawals, and the crisis triggered an increase in movement. However, Australia's underinvestment in the region is a long-term pattern. Comparing global FDI outflow data over the ten-year period from 1993-2003<sup>11</sup> reveals that Australia is in the mid-range for investing in Asia, despite its relatively favorable geography. Table 6 shows that Germany and the US led direct investment into Asia over this period.

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<sup>10</sup> For example, UNCTAD reports that the UK had the greatest decrease of the top 20 economies in FDI outflows. FDI from the UK decreased by 89 per cent in 2009.

<sup>11</sup> 2003 is the most recent year of data available for each country.

Table 6: Proportion of total FDI outflows (select countries into Asia)<sup>12</sup>

	% of FDI to Asia
Australia	9
Germany	17
Sweden	3
United Kingdom	6
United States	14

Some economists regard this as a consequence of the nature of Australia's economy, focused as it is on agriculture and resources (primary) and on services (tertiary). Many of the opportunities arising in developing and transition economies in Asia, for example, have been, until now, principally in manufacturing (secondary).

However, UNCTAD predicts the financial crisis will only increase the attractiveness of these economies as destinations and sources of global FDI<sup>13</sup>. Last year China rose to second place for FDI inflows after the US. (See China chapter for further investment analysis.)

So while the world is investing in our region, ABS figures show Australians investing abroad clearly prefer the US (\$74 billion), NZ (\$6 billion) and the EU (\$8 billion) over Asian economies. Last year, Australian investment in Asia<sup>25</sup> was \$13 billion in total.

Some Australian businesses argue that national regulatory barriers stop Australians from investing further in Asia<sup>14</sup>. In 2009 a number of countries in the region took measures to liberalise foreign investment. Malaysia increased the foreign shareholding threshold from 49 per cent to 70 per cent for insurance companies and investment banks<sup>15</sup>. China's State Council signaled the threshold of foreign invested projects will be raised to \$300 million, up from \$100 million<sup>16</sup>, and India introduced a 'Consolidated FDI Policy' circular, to make FDI policies more transparent, predictable, simpler and clearer<sup>17</sup>.

<sup>12</sup> The primary data is drawn from UNCTAD FDI Country profiles available at <http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1>.

<sup>13</sup> See The World Investment Report 2010 available at <http://www.unctad.org/Templates/Page.asp?intItemID=1465&lang=1>.

<sup>14</sup> For an overview of foreign investment barriers in Australia, China, Indonesia, Japan and South Korea, see page 26-27 of the PwC Melbourne Institute Asialink Index 2009 edition.

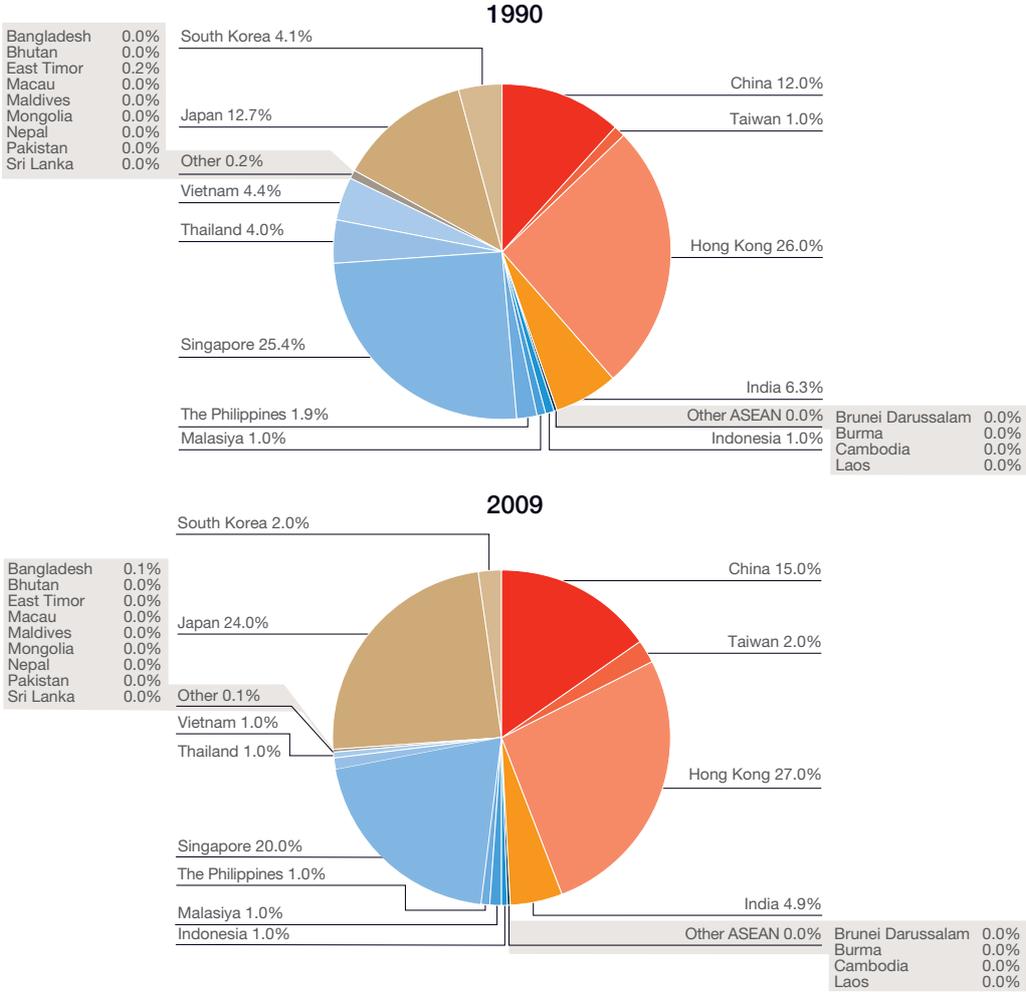
<sup>15</sup> See World Investment Report, page 77.

<sup>16</sup> See World Investment Report, page 78.

<sup>17</sup> See World Investment Report, page 78.

Two-way investment engagement by economy share is show in Figure 6 below.

Figure 6: Investment Shares by Economy<sup>18</sup>



<sup>18</sup> 'Other ASEAN' includes Burma, Laos, Cambodia, and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

### What investment measures:

This component comprises data, adjusted by the GDP deflator, on:

- absolute value of net foreign investment (foreign direct investment, portfolio flows and other) into Australia from Asia, by country, and
- absolute value of net 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.

The Investment Component reveals patterns in the flow of investment in and out of Australia. The Investment Component does not measure the stock of investment - the total amount of foreign held assets in a country.

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# Investment Viewpoint: From Quarry to Cooperation

Extracts from video interview: watch online at [www.pwc.com.au/asialink](http://www.pwc.com.au/asialink)

*The Australia-Japan business relationship has been dominated by resources and agriculture for half a century - industries which, while significant in terms of exports, contribute less than 10 per cent of Australia's GDP. The Australia-Japan Business Cooperation Committee (AJBCC) recently thought it time to broaden the bilateral relationship, and particularly to expand into services, an area of Australian expertise. The result is a coalescence of interests and a focus on Public Private Partnership (PPP) to build much-needed infrastructure across Asia.*

*The AJBCC, with Japanese counterparts, has hosted high-level business missions and workshops both ways, and a joint mission to a third country, India, which was the first of its kind.*

Sir Rod Eddington  
Chairman Infrastructure Australia  
President Australia Japan Business Cooperation Committee  
Chairman J.P. Morgan

What was the stimulus for the new Australia-Japan business partnership?

Australia and Japan both face the same challenges: mature economies, substantial investment already in infrastructure and a need to maintain that infrastructure and then a need over and above that to build new infrastructure, in part because of changing population patterns, in part because new technology has become available.

The real question for both countries is how do you fund and pay for that infrastructure given the other calls on the government purse - education, health and welfare. It's pretty clear in both countries that unless we can find new ways to mobilise private capital into infrastructure, that necessary infrastructure simply won't get built.

Do Australia and Japan have different skill sets?

The Japanese have substantial capital reserves - they're great savers the Japanese, much more so than we Australians. They've got some real strengths in construction, we have some real strengths in construction. We also understand the way in which infrastructure projects can be financed and we have some managerial expertise in many of the Asian countries because they are after all on our doorstep. These skill sets are broadly complementary and that means there's opportunity for us together in many countries in Asia.

Is there a risk that Japan won't need Australia?

Whenever you go into an opportunity like this, you look to learn from one another. But your learnings are transparent, they are there for all to see. So you have to continually challenge what you do and how you do it, you have to update your skill set. Are the Japanese likely to learn from us and duplicate some of it? Yes. Are we likely to learn from them and duplicate some of it? Yes. But while there is mutual advantage to working together, we will work together.

And the great thing about the Australia-Japan relationship is it has been a very strong one now for many, many years. The joint Australia-Japan business groups are meeting for the 49th time next year - it's an annual conference. That gives you some sense of the depth of the relationship and there's a high level of trust on both sides. Both sides have got to continue to learn and grow, otherwise they'll be less useful to the other. That's an opportunity we should be up for; we shouldn't feel threatened by that.

Is the Australia-Japan relationship a model for other bilateral relationships in Asia?

The Australia-Japan relationship is a model for us in a number of ways - it's certainly got lessons for us in a number of ways. It goes back a long way. It's built on mutual respect and trust. We're both democracies. We have a strategic relationship as well as a strong economic relationship and our economies are very much complementary economies: Australia in the



Sir Rod Eddington

Bob Seidler

broad is resource-rich and capital-poor, and Japan is the other way around. It's that complementarity that underpins the relationship. But there are strong people to people links between the countries as well. It demonstrates if you can spend time getting to know the other country, if there is a lot of people to people exchange, then economic opportunities will flow from that.

That's been the basis of our relationship with Japan. It's also been the basis of our relationship with countries like Britain and America and I think there are lessons for us more broadly in that.

**Will the PPP initiative move the Australia-Japan relationship to a new phase?**

The trading relationship, the economic partnership between Australia and Japan, has historically been based on resources and agriculture on our side and precision engineering on their side. Those things still underpin the relationship and we should never forget that. But both of us now operate primarily service-

**Bob Seidler**  
Chairman, Infrastructure Subcommittee,  
Australia Japan Business Cooperation Committee  
Consultant, Blake Dawson

**Why did you pick infrastructure?**

Governments around the world are focusing on infrastructure to stimulate their economies; both Australia and Japan have a huge infrastructure requirement which can't be fulfilled by each country alone, so they need foreign assistance; and thirdly, Australia is a world leader in private sector participation in public infrastructure.

We thought we could use our experience to attract the Japanese to work with us in the Australian infrastructure program. We would work to try and open up the market in Japan for what we call Australian-style PPP - then the Japanese suggested we work together in Asia.

There's an important part of the subtext, and that is that in Japan, they look at Australia as a quarry, a farm and a beach - and when they think of innovation, creativity and so on, they think of America or Europe. One of the subtexts was to show we are a clever country.

driven economies - most of our GDP is services and most of the Japanese GDP is services, as strong as their manufacturing is. We have to find ways to leverage our joint strengths in the service areas without in any way undermining the traditional trading relationships.

**The initiative is now taking Australia and Japan, as partners, into third countries. Was that a natural outcome?**

I think it was a natural extension of learning from one another and looking for opportunities in one another's countries - we then asked a slightly lateral question: are there opportunities for us jointly in other countries, particularly other Asian countries? We started in India a couple of months ago. We took a joint mission to Delhi and Mumbai, we had a very good turnout and some real learnings from that and we are looking to leverage that further in Indonesia next year. So I think it's a natural extension of a strong bilateral relationship.

On our estimates, there are \$21 trillion of investable funds sitting in Japan, of which about 0.4 per cent is allocated towards infrastructure.

Our institutions' [investment in infrastructure] are between five and ten per cent, so if we can get theirs up to one or two per cent, we have a massive amount of money available for us, for them, and for the region.

**Is this a good example of what two countries can do together?**

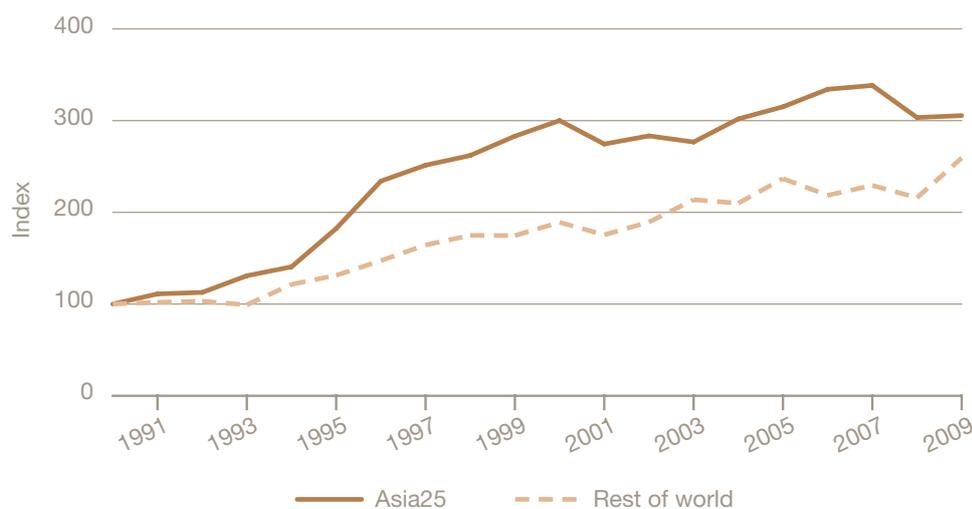
Yes as well as a good example of what the business community can do to shift governments. I spoke at an APEC seminar, a workshop for APEC governments. APEC is trying to encourage a commonality for PPPs around the region and I explained what we have been doing on the Japan side, and a number of the governments came up to me and asked: Can our business communities do the same thing? Because that's where the great pressure will come for change. The business opportunities out of this are just enormous.

# Components: Research and Business Development

This year sees a major shift in the Research and Business Development Component.

While previous years have found Australia's research and business development with Asia increasing at a much greater rate than with the ROW, that trend changed last year. Engagement in this component rose 20 per cent with the ROW in 2009, while Asia continued to flatten. A driving factor was the relative increase in business travel between Australia and ROW: 40 per cent more business trips were undertaken to and from countries outside of Asia.

**Figure 7: Research and Business Development Component**



**Table 7: Trends for Research and Business Development Component**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008-2009
Asia25	100.0	182.4	300.1	315.1	303.4	305.5	0.7
ROW <sup>a</sup>	100.0	131.3	189.1	236.8	216.0	259.3	20.0

**Notes:** <sup>a</sup> 'ROW' means the rest of the world (excluding Asia25).

The R&BD Component measures a basket of diverse activities - short and long-term business visits, the number of business organisations and foreign associations, patent applications and research articles on bilateral relations. These activities create connections, open market opportunities and enable and inform future business decisions. In this way, the R&BD Component is an indicator of future movements in other components measured by the Index.

Research and business development engagement<sup>19</sup> with Asia remained relatively constant between 2008 and 2009. The largest increase was in the number of research articles on Australian Asia relations, particularly between Australia and ASEAN economies, but this was offset by decreases in other indicators.

Worryingly, there were significant decreases in the number of short and long-term business trips from China (18 per cent), Japan (15 per cent) and Korea (14 per cent). Australians also travelled less to Japan (17 per cent) and Korea (17 per cent) for business purposes. The number of Australians travelling to China in 2009 for business stayed about the same.

R&BD engagement between Australia and ASEAN is particularly strong. The numbers travelling for business between Australia and ASEAN decreased slightly last year, but the overall quantum of travellers is the largest of all Asian economies. Over 320,000 people travelled between Australia and ASEAN last year for business trips.

#### What Research and Business Development measures:

This component comprises data on:

- number of short-term and long-term visits to and from Australia from/to other country (by country) for business/employment purposes
- number of international business organisations and foreign associations in Australia (by country)
- estimated number of patent applications filed in Australia by inventors from other countries (by country), and
- number of research articles published on Australia-other country relations (by country).

<sup>19</sup> Note 2009 patent data was not available, so variation in the index reflects change in the remaining components: visits for business purposes, business organs and research article publications on Asian-Australia relations.

# Research and Business Development Viewpoint: Same Bed Same Dreams

Extracts from video interview: watch online at [www.pwc.com.au/asialink](http://www.pwc.com.au/asialink)

*Insurance Australia Group began a major expansion into Asia five years ago and now has interests in Malaysia, Thailand, China, and India. In India, the company has partnered with the State Bank of India, the largest banking institution in the country with 27 per cent market share, and access to 145 million customers and 15,000 branches.*

*IAG's Asia CEO, Justin Breheny, says establishing any business in Asia takes patience, perseverance and relationships. But the growth opportunities are there.*

Justin Breheny  
Chief Executive Officer, Asia  
Insurance Australia Group Limited

## What does it take to be successful in Asia?

Success in Asia is not based on any one thing. Even saying success in Asia is a misnomer - it's success in India, success in China, success in Malaysia - every country has different aspects that will guide you towards success.

But overall, clearly [you need] perseverance, patience and relationships. That is fairly hackneyed in an Asian context - people say relationships are important - but it's hackneyed because it's true. I also don't think you should rush the process. In India, we spent two years very quietly getting to understand the market and our partnership options before we finally took steps and worked closely with a chosen joint venture partner.

I think perseverance is key: if you rush in you tend to make mistakes. They're difficult markets, each of them - they're complex and driven by very different factors. Successful business models, in our case for insurance, look different in every market - some are very heavily

bank assurance driven, some are agent driven, others are motor-linked. You need time to determine what model will work best for your business. And that's what you need to understand first - how does the actual industry work - before you even talk to any partner.

We spend time putting people on the ground to go out and speak to all the various components of the industry. From that we build a model we think will be successful. Then we'll find a partner that suits that model and we'll spend a year or two trying to better understand who is the best partner and build that relationship, before we actually do a deal. So it's persistence, relationships and realistic expectations.

Probably one of the most critical risks in Asia is partnership risk - sharing the right principles and values and particularly sharing the same expectations. The Chinese have a great expression for it: Same bed same dreams. That is so true.



Justin Breheny

### Are there timing considerations?

There's a very good understanding by our board and senior management that this is a medium to long-term play. If you try and inflict [the imperative of] immediate returns in building an Asia business, I think you are doing yourself a disservice, because then you either buy into the wrong sort of business or you try and grow a business faster than it can actually grow. It's very important for any Asia strategy to be realistic about time frames.

### How is Australia positioned to invest in Asia?

If you look at it from an Asian perspective, Australia is very well positioned - we're well thought of as a medium-sized developed country, as a country and a partner from whom [Asia] can get all the modern capability transfer. Politically and economically we are very well thought of; we don't have the historical baggage of some other countries.

I don't believe we've really taken advantage of that. I've seen the amount of engagement and serious desire to invest in Asia increase more in the last five years than I have in the previous 15. But I still don't think we have enough engagement. The real test of Australia and Australian companies' commitment is actually putting people on-the-ground in Asia and investing money in businesses in country. Unfortunately Asia still invests more in Australia than Australia invests in Asia.

That then leads to the other question of whether we have enough people with Asia experience, not just language. I know Asialink refer to it as "Asia Literacy" which is something I really like - to me it's more important to have people who understand and can be effective working in those markets, which are very difficult, very different and challenge you in very different ways. Though language of course would be a bonus on top of that.

# Components: Education

Australia's international education was much in the media last year. There were a number of violent attacks against Indian students, and then accusations of a systematic neglect of the quality of education for international students. Claims surfaced of students being misled by education agents about their courses, work opportunities and migration outcomes. Poor quality providers linking education to migration represented a threat to Australia's reputation for quality education - and the government responded with a number of policy changes.

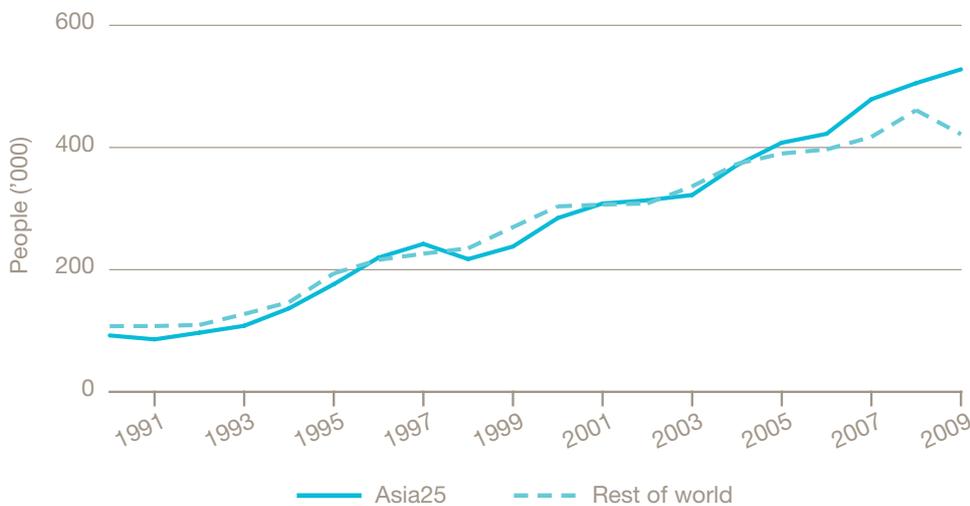
In 2009 the government brought forward the scheduled 2010-11 review of the Education Services for Overseas Students (ESOS) Act - the legal framework for international education. In addition, the Council of Australian Governments developed a National International Student Strategy and agreed to establish the Tertiary Education Quality and Standards Agency (TEQSA).

The government also introduced reforms to the skilled migration program to decouple overseas student visas from migration outcomes.

What had previously been exponential growth in the Asia25 Education Component slowed this year to a comparatively sedate 4.5 per cent rise. In contrast, the 2008 Component recorded a rise of 13.1 per cent.

Slowing of international education has effects not only amongst education providers. Last year's Index found that international education and conference attendance correlates with tourism and migration in the short-term and investment<sup>20</sup> and trade statistics in the years to come<sup>21</sup>.

**Figure 8: Education Component**



<sup>20</sup> The relationship between education and investment is the most fragile of the statistical correlations, due to the erratic nature of investment flows.

<sup>21</sup> The equations underlying these estimates do not include variables such as national GDP, rates of interest, household income, fluctuations in stock prices etc.

All growth in the Asia25 Education Component is attributable to the inward flow of students and conference attendees from Asia. Table 8 shows inflow of visitors for educational purposes increased from 416,000 in 2008 to 452,000 in 2009.

Australians have been less interested in travelling to Asia for education. These numbers decreased last year from a low base of 89,600 to 75,500.

**Table 8: Trends for Education Component (inflow/outflow, '000 people)**

Component <sup>a</sup>	1990	1995	2000	2005	2008	2009	% change 2008–2009
<b>Asia25</b>							
Inflow	65.6	133.2	216.5	330.2	415.8	452.4	8.8
Outflow	26.7	43.0	68.0	77.6	89.6	75.5	-15.7
<b>Total</b>	<b>92.3</b>	<b>176.2</b>	<b>284.5</b>	<b>407.8</b>	<b>505.4</b>	<b>527.9</b>	<b>4.5</b>
<b>ROW<sup>b</sup></b>							
Inflow	50.9	93.3	168.1	215.1	271.6	254.4	-6.3
Outflow	56.6	100.5	135.5	175.1	189.4	167.4	-11.6
<b>Total</b>	<b>107.5</b>	<b>193.8</b>	<b>303.6</b>	<b>390.2</b>	<b>461.0</b>	<b>421.8</b>	<b>-8.5</b>

Notes: <sup>a</sup> Education figures here comprise the number of visits to and from Australia for education, conferences and conventions. The overall education component also includes separate indices for secondary school exchanges and ESL courses. <sup>b</sup> ROW means the rest of the world (excluding Asia25).

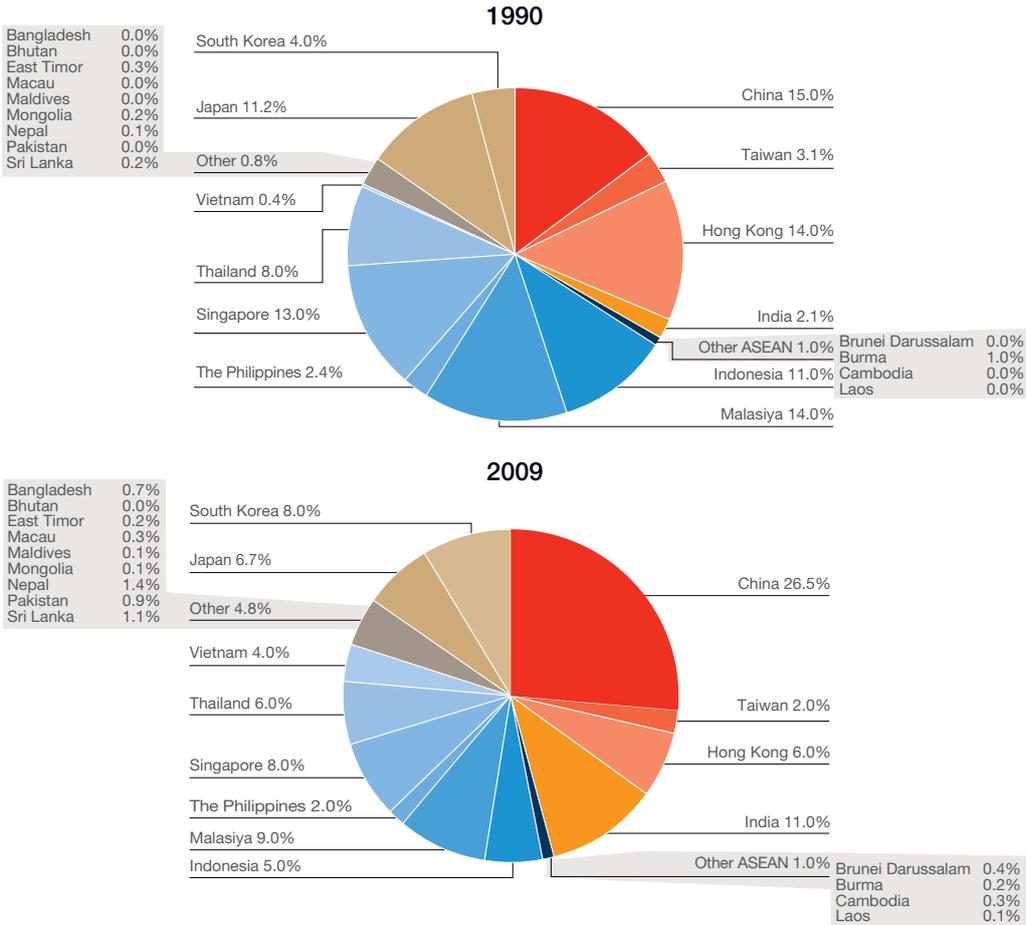
Students arriving in Australia have already been through the process of inquiry, applications to institutions, and applications for visas. Worryingly, anecdotal data from 2009 shows that these preparatory stages of student arrivals are down. And the month-by-month data on student commencements from Australia Education International show the inward education market is slowing considerably. Commencements from India have decreased; students from India and Nepal in the Vocational Education and Training (VET) sector in particular are rapidly disappearing.

## Key findings for Education component

- Visitors for educational purposes to and from the ROW declined by 8.5 per cent between 2008 and 2009 - the largest year-on-year drop since 1990.
- However, 4.5 per cent more people moved between Asia and Australia for purposes of Education in 2009 than in 2008.
- Underpinning an increase in the education component of the Index was a large increase in the number of students and conference attendees coming to Australia.
- Of students and conference attendees coming to Australia for more than one year, the top three Asian country sources are China (48,015), India (32,132) and Malaysia (13,127).
- More long-term arrivals come from China (42,689) than all non-Asian countries combined.
- In 2009 only 4,500 Australian students moved abroad to study for more than one year. About two thirds of these (3100) went to countries outside of Asia.
- Japan is the largest source country in Asia of secondary student exchange. In 2009 the number of secondary students coming to Australia declined from 180,000 to 140,000.

The pie charts below depict the Education shares by economy in 1990 and 2009. These illustrate the strong growth of the educational engagement between Australia and China as well as Australia and India over this period.

**Figure 9: Education Shares by Economy**



**What Education measures:**

This component comprises data on:

- number of short-term visits to/from Australia from/to other country (by country) to attend a conference/convention or for education
- number of long-term visits to/from Australia from/to other country (by country) for educational reasons (by country)
- number of secondary student exchanges between Asia and Australia (by country), and
- number of students travelling to Australia for English Language intensive courses (by country).

# Components: Tourism

The global financial crisis had a major positive effect on Australia's tourism sector. In 2009 fuel prices came down and there was increased competition to traditional carriers from low-cost carriers. All of this meant that travel to and from Australia was cheaper. Last year recorded the highest level ever of passenger traffic to and from Australia.

Both the Asia25 Tourism Component and ROW Tourism Component grew in 2009. Tourism engagement increased between both Australia and Asia (nine per cent) and Australia and the ROW (eight per cent). The 2009 growth rate was above the 19 year average, by about three percentage points.

**Figure 10: Tourism Component**



The largest growth was in Australians travelling overseas. Table 9 shows 284,000 more Australians travelled to Asia in 2009 than in 2008 (a growth rate of 15.6 per cent), and 297,000 more Australians travelled to the ROW than last year (a growth rate of 11.6 per cent). Australian's travelled to Asia on holiday enticed by cheaper flights and discounted accommodation.

**Table 9: Trends for Tourism Component (inward/outward, '000 people)**

Component <sup>a</sup>	1990	1995	2000	2005	2008	2009	% change 2008–2009
<b>Asia25</b>							
Inward	650.1	1,564.2	1,529.2	1,641.5	1,422.2	1,426.3	0.3
Outward	537.7	640.9	905.6	1,316.4	1,830.1	2,114.8	15.6
<b>Total</b>	<b>1,187.8</b>	<b>2,205.1</b>	<b>2,434.8</b>	<b>2,957.9</b>	<b>3,252.3</b>	<b>3,541.1</b>	<b>8.9</b>
<b>ROW<sup>b</sup></b>							
Inward	1,047.8	1,403.9	2,124.5	2,448.9	2,486.2	2,581.4	3.8
Outward	1,080.8	1,168.3	1,576.1	2,146.2	2,558.4	2,855.4	11.6
<b>Total</b>	<b>2,128.6</b>	<b>2,572.2</b>	<b>3,700.6</b>	<b>4,595.1</b>	<b>5,044.6</b>	<b>5,436.8</b>	<b>7.8</b>

**Notes:** <sup>a</sup> Tourism figures shown here comprise visits to and from Australia for the purposes of holiday and visiting friends and family. The overall tourism component also includes a separate measure for working holiday maker visas, see the table below. <sup>b</sup> ROW means the rest of the world (excluding Asia25).

**Table 10: Number of working holiday makers entering Australia**

Component	1990	1995	2000	2005	2008	2009	% change 2008–2009
Asia25 WHM	6,692	7,562	11,117	28,161	51,107	61,065	19.5
ROW WHM	40,691	31,301	68,122	76,463	106,469	133,040	25.0

Inbound travel from the ROW is about double that from Asia. Last year the largest source countries for visitors were NZ, the UK and the US. Japan and China are the next largest.

Interestingly, despite China being the fifth largest source country over the year, Chinese tourists are the second most valuable to Australia, after the UK. As a group, visitors from Asia spent almost twice as much in Australia as visitors from Europe<sup>22</sup>.

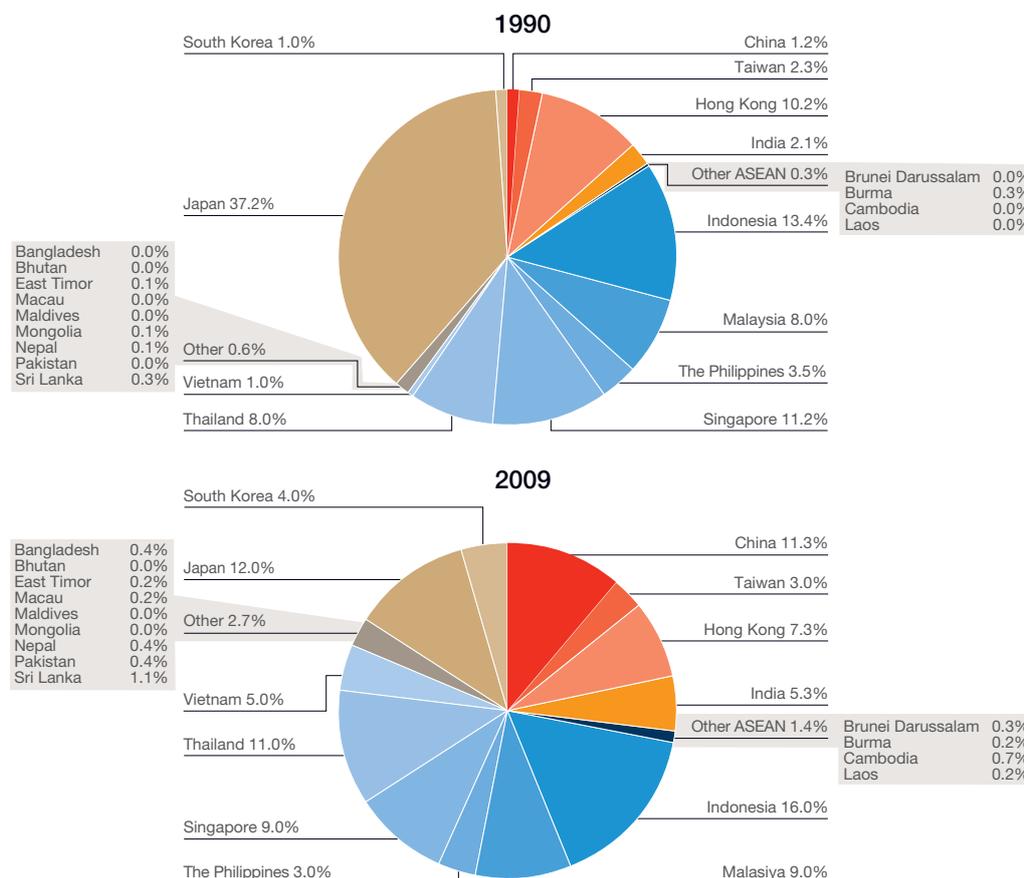
## Key findings for Tourism component

- Indonesia, Thailand and Malaysia were the most popular Asian destinations for Australian tourists, accounting for about 500,000, 350,000 and 180,000 trips respectively. This compares to 2.9 million trips made by Australians to countries outside of Asia.
- Regarding inbound tourism to Australia, Japan is the largest source country (290,000) followed by China (220,000).
- The number of tourists coming to Australia from Japan fell by 26 per cent, following a fall of 24 per cent in 2008. In fact, the number of tourists coming from Japan peaked at 740,000 in 1996 and is now only 290,000, a 60 per cent drop.
- The number of Chinese tourists coming to Australia has been growing at an average of 19 per cent per year over the 19 years between 1990 and 2009.
- On current trends, China will be a larger source of tourists than Japan in one year.
- The number of working holiday makers entering Australia from both Asia and the ROW increased by a significant 19 per cent.

<sup>22</sup> See the four International Visitors Surveys for 2009 at <http://www.ret.gov.au/tourism/tra/international/survey/Pages/default.aspx>.

The pie charts below depict tourism shares by country (both outgoing and incoming). Two main observations are the decline of Japan's share and the increase in China's share.

Figure 11: Tourism Shares by Economy



**What Tourism measures:**

- This component comprises data on:
- short-term visits (less than one year) to/from Australia from/to Asia (by country) for holiday
  - short-term visits (less than one year) to/from Australia from/to Asia (by country) to visit friends/family
  - long-term visits (more than one year) to/from Australia from/to Asia (by country) for holiday
  - long-term visits (more than one year) to/from Australia from/to Asia (by country) to visit friends/family, and
  - number of visas granted for working holiday makers in Australia from Asia (by country).

# Components: Migration

Australia's population has increased significantly over the last five years, with the largest contribution being from people on temporary visas (namely overseas students and temporary skilled migrants). This, coupled with global financial conditions and unease about Australia's humanitarian program and refugee arrivals, resulted in a range of legal and policy changes in 2009. The most significant of these is the review of the General Skilled Migration Program and the basis upon which former international students who have completed their education in Australia may be eligible to apply for permanent residency.

The (then) Minister for Immigration and Citizenship, Senator Chris Evans, cut the skilled migration program twice in 2009, citing the economic slowdown as a result of the global financial crisis. The program was cut by 14 per cent in March, from 133,500 to 115,000<sup>23</sup>, and the planned 2009 -2010 program was cut again to 108,100<sup>24</sup> in May. Overall, this meant a reduction of 20 per cent.

The angry debate about the level of refugee arrivals in 2009 raised questions for Australia about our engagement internationally and in the region, despite the very small numbers concerned.

China and India have now become the greatest sources of migrants from Asia. These migrants tend to come under the skilled migration program rather than family reunion. In 2009, migration to and from Asia increased by about two per cent, more or less on trend. However, migration to and from the ROW decreased by 7.3 per cent.

The Component increase in migration engagement between Australia and Asia was the result of an 8.3 per cent rise off a very low base in the number of people migrating to Asia, and a slight increase in migrants coming from Asia.

Last year, the numbers of Chinese émigrés increased from 4,449 to 4,828 and the numbers of ASEAN émigrés rose from 4,654 to 5,191. Previous analysis suggests that these émigrés, former migrants returning home, perhaps perceive a positive turnaround in their home country circumstances.

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<sup>23</sup> <http://www.minister.immi.gov.au/media/media-releases/2009/ce09030.htm>.

<sup>24</sup> <http://www.minister.immi.gov.au/media/media-releases/2009/ce02-budget-09.htm>.

Figure 12: Migration Component

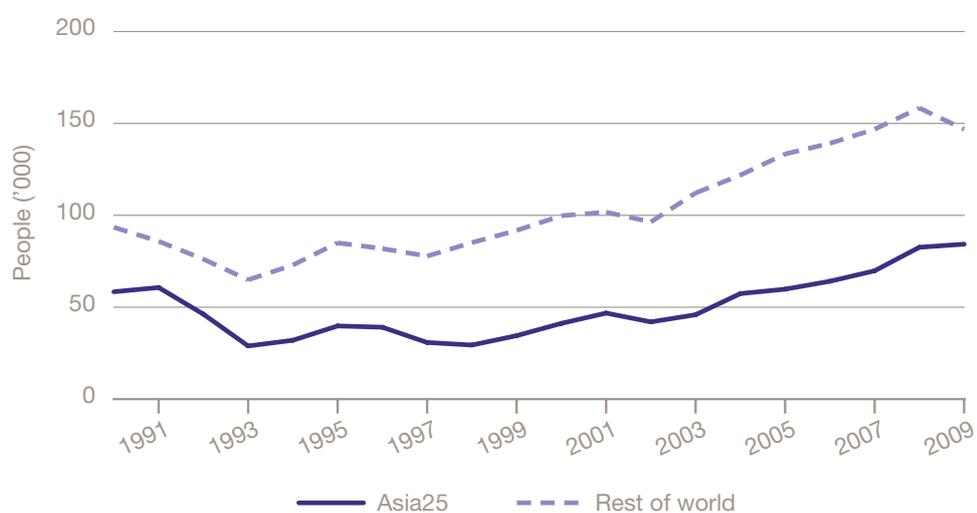


Table 11 shows far greater numbers of Australians emigrate to the ROW (67,100) than to Asia (15,600). Last year, the number of Australians migrating to Asia and to the ROW increased slightly.

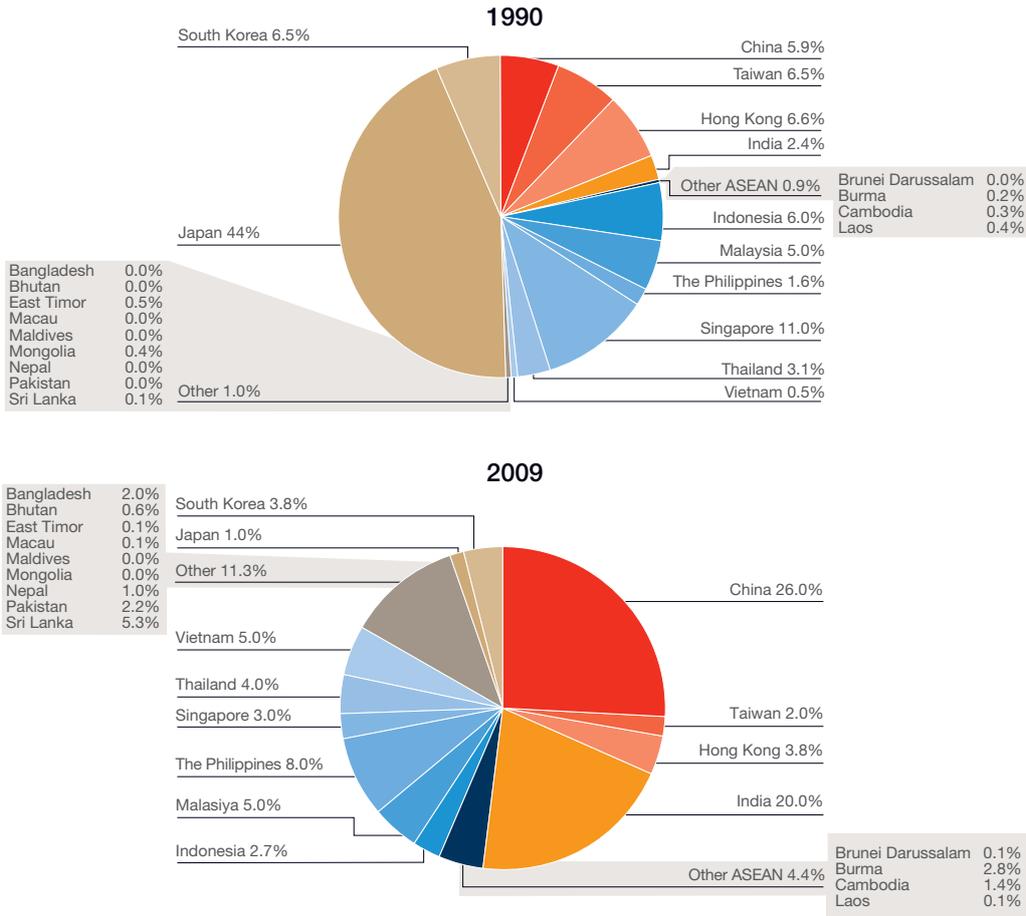
Table 11: Trends for Migration Component (immigration and emigration, '000 people)

Component	1990	1995	2000	2005	2008	2009	% growth 2008-09
<b>Asia25</b>							
Immigration	56.9	36.7	33.8	47.3	68.2	68.7	0.7
Emigration	1.5	3.1	7.4	12.5	14.4	15.6	8.3
<b>Total</b>	<b>58.4</b>	<b>39.8</b>	<b>41.2</b>	<b>59.8</b>	<b>82.6</b>	<b>84.3</b>	<b>2.1</b>
<b>ROW<sup>a</sup></b>							
Immigration	64.7	60.2	63.4	81.4	93.3	79.7	-14.6
Emigration	28.8	24.8	36.4	51.9	65.0	67.1	3.2
<b>Total</b>	<b>93.5</b>	<b>85.0</b>	<b>99.8</b>	<b>133.3</b>	<b>158.3</b>	<b>146.8</b>	<b>-7.3</b>

Notes: <sup>a</sup> ROW means the rest of the world (excluding Asia25).

The pie charts below show how the share of migration has changed between 1990 and 2009. ASEAN as a group made up half of the migrants to Australia in 1990. But by 2009, that share decreased to about one third. India and China have increased their shares.

Figure 13: Migration Shares by Economy<sup>25</sup>



**What Migration measures:**

This component comprises data on:

- number of all permanent immigrants moving to Australia from Asia as defined by country of birth, and
- number of all permanent emigrants leaving Australia by Asian country of birth.

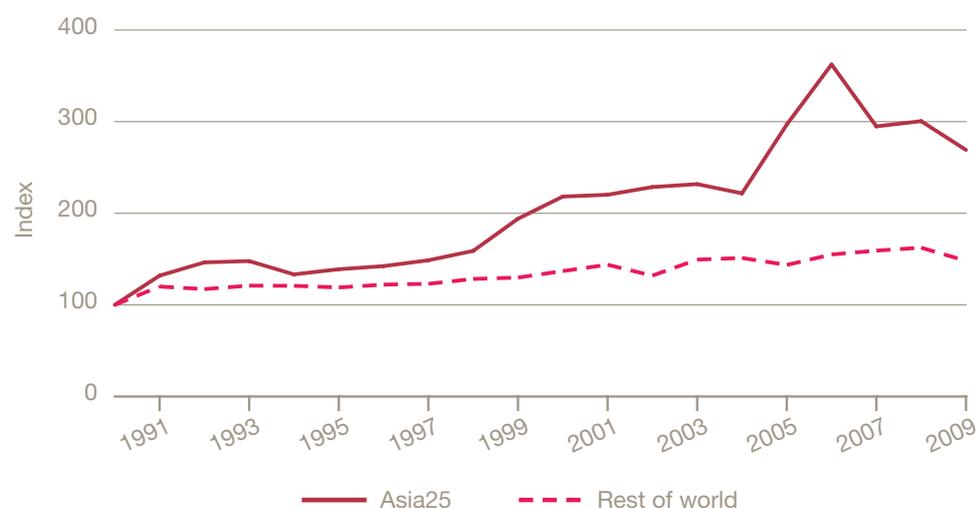
<sup>25</sup> 'Other ASEAN' includes Burma, Laos, Cambodia, and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh, and Pakistan.

# Components: Humanitarian Assistance

The Humanitarian Assistance Component below shows falls in the Asia25 Index and the ROW Index. Engagement with Asia in this area continues to fall from the peak following the 2004 Indian Ocean earthquake and tsunami.

There was a drop of 10.4 per cent in humanitarian assistance engagement with Asia in the period, while the ROW Index fell 8.8 per cent. Considerable declines were recorded in the number of Australian NGO delegates active in Asia and the ROW. The Component was also impacted by a reduction in the number of AusAID scholarships given to students from Asian economies - down 18 per cent.

**Figure 14: Humanitarian Assistance Component**



**Table 12: Index Trends for Humanitarian Assistance Component**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008-2009
Asia25	100.0	138.9	218.2	296.8	300.5	269.1	-10.4
ROW	100.0	119.0	136.9	143.6	162.4	148.1	-8.8

The humanitarian element of the component includes AusAID expenditure on humanitarian, emergency and refugee assistance, movements of doctors, nurses and teachers as well as volunteers and peacekeeping forces, and finally, the number of students offered AusAID scholarships to study in Australia<sup>26</sup>.

Last year AusAID spent about \$3.8 billion on overseas development assistance. A third of AusAID's program is spent directly on Asia. AusAID spends another 23 per cent through multilateral organisations - for example the World Bank and the United Nations - and some of these funds also go to economies in Asia. But the Component measures only those funds that are directly traceable through country-to-country programs.

The largest proportion of AusAID's funds to Asia goes to Indonesia. Last year, AusAID's program in Indonesia totalled \$438.7 million with over 50 per cent being spent on education. The Australia-Indonesia Basic Education Program (AIBEP or BEP) funds 2,000 new or expanded schools and creates over 300,000 new places in junior secondary schools.

NGO delegates included in the Component are Medecins Sans Frontieres and the Red Cross. Medecins Sans Frontieres' work, funded by Australian donors, goes to HIV/AIDS and tuberculosis projects in Cambodia, China and Laos. Funds from Australia also support primary health care in Myanmar, Thailand and the Philippines. In Sri Lanka, Australian funds go to emergency health care, surgery, obstetrics and mental health. Red Cross work in the region is on HIV prevention, disaster management, water and sanitation, and basic health initiatives, as well as supporting Red Cross national societies.

AusAID scholarships make up 20 per cent of Australia's education assistance. Last year more than 900 scholars travelled to Australia for post-graduate tertiary studies. The largest proportion of students came from Indonesia. There are now 100,000 scholars who have passed through this program. This alumni plays a key role in building knowledge and links between Australia and the region.

#### What Humanitarian Assistance measures:

This component comprises data on:

- AusAID expenditure on humanitarian, emergency and refugee assistance for Asia (by country)
- number of long-term and permanent passenger movements by doctors, nurses and teachers to Asia (by country)
- number of Australian volunteers in Asia working for organisations such as the Red Cross and Medecins Sans Frontieres (by country)
- number of Australian members of UN Peacekeeping Forces in Asian countries (by country), and
- number of student scholarships offered by AusAID (by country).

<sup>26</sup> AusAID declined to provide figures for Australia's humanitarian aid expenditure broken down by country for the year 2008-09.

# Economies: ASEAN

ASEAN fell from top place as Australia's largest trading partner in 2009, and engagement across three of the four components declined. Overall, the ASEAN-Australia Index fell 6.3 per cent.

ASEAN is emerging as even more central to Australia's interests in the Asian region, however, with deep and enduring political, economic and security relationships - and a shared purpose in developing strong regional institutions. China's relative rise has tended to diminish the focus on our links in Southeast Asia: these continue to prosper nonetheless.

In 2009-2010, the 10 nations of ASEAN have made significant progress towards an ASEAN Economic Community by 2015 - a single market and production base with free movement of goods, services, investment and skilled labour, and a freer flow of capital. Signs of further regional economic integration in 2009 included the ASEAN-Australia-NZ Free Trade Agreement, and the signing of the China-ASEAN Investment Agreement, together with the already-signed China-ASEAN agreements on trade in goods and services. This free trade zone now includes 1.9 billion people and a gross domestic product (GDP) of \$6 trillion.

For Australia, a more integrated ASEAN presents greater opportunities, improved coordination and regulation, and greater stability for investments - although Australia's current trade with ASEAN is regarded as comparatively trouble free, largely as a result of few competitive overlaps. Agricultural exports differ, for example: ASEAN's strengths are in cocoa, coconut oil, palm oil, pepper, rubber, and tea, while Australia's include beef and dairy products. Australian expertise is also highly valued in a range of areas, from environmental management to institutional capability in the financial industry.

Figure 15: ASEAN Index

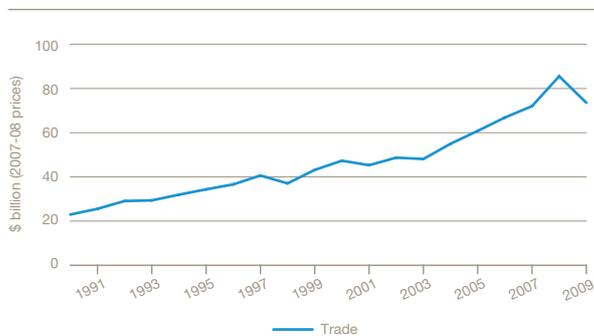


**Table 13: Index Trends for ASEAN**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008–2009
ASEAN	100.0	167.8	269.9	321.4	409.4	390.7	-4.6
Asia25	100.0	180.9	279.8	337.1	436.0	438.9	0.6

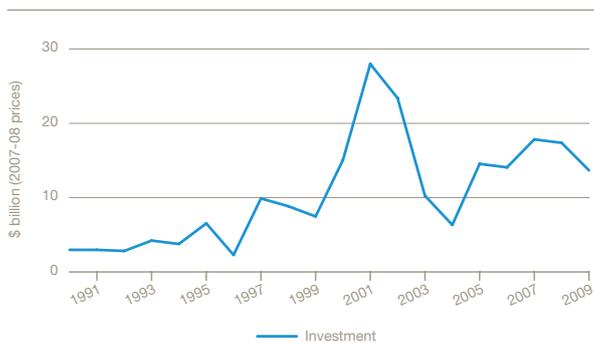
## Components of the ASEAN Index

### Trade



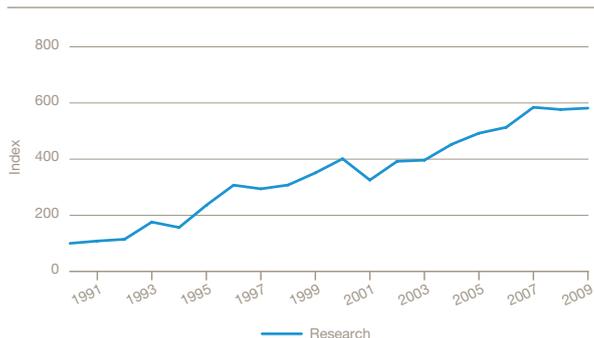
ASEAN, as a bloc of nations, dropped from being Australia’s largest trading partner last year. China took first place. Total trade, in constant 2007–2008 prices, between Australia and ASEAN was \$74 billion whereas total trade with China was \$82 billion. The ASEAN Trade Component plummeted by 16 per cent, with falls in both imports and exports. Imports fell more dramatically, by 18 per cent last year.

### Investment



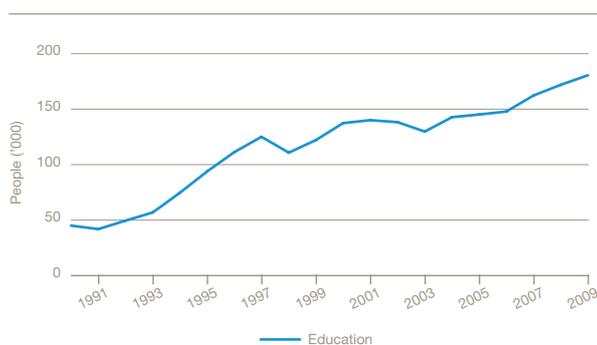
Investment engagement between Australia and ASEAN recorded a decline last year. Outward investment fell 32 per cent. Foreign direct investment from Singapore into Australia rose to \$4.8 billion last year. Australia is involved in various projects across the region including banking, insurance, legal and corporate services in Indonesia, Thailand, Vietnam and Cambodia; and integrated logistics services, including railway operations.

### Research and Business Development



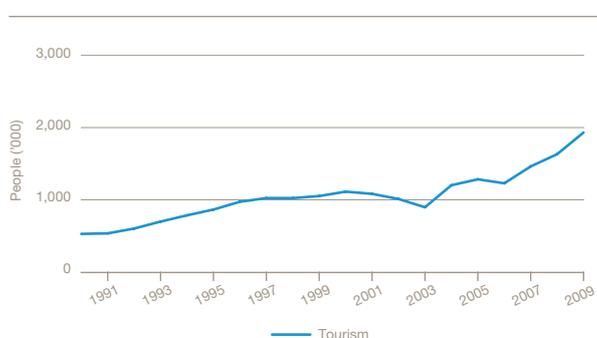
The ASEAN Research Component grew last year. This is based on the doubling of research articles on ASEAN–Australia relations. Significant numbers of people travel between Australia and ASEAN member states - last year 145,000 people travelled from ASEAN for business and employment purposes and 183,000 people travelled to ASEAN member states.

## Education



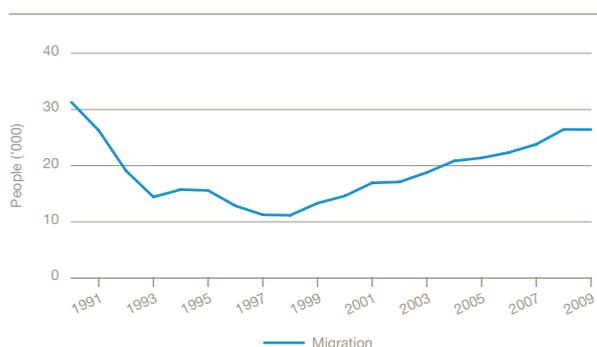
ASEAN is Australia's strongest education partner. As a bloc, the region is the largest source of international students to Australia, and the highest numbers of Australian students study in ASEAN member states. Last year the number of people travelling for educational purposes from ASEAN to Australia increased from 129,000 to 143,000. The number of Australians studying in ASEAN countries declined by 13 per cent but is still substantial (three times the number travelling for study purposes to China, for example) at 37,000.

## Tourism



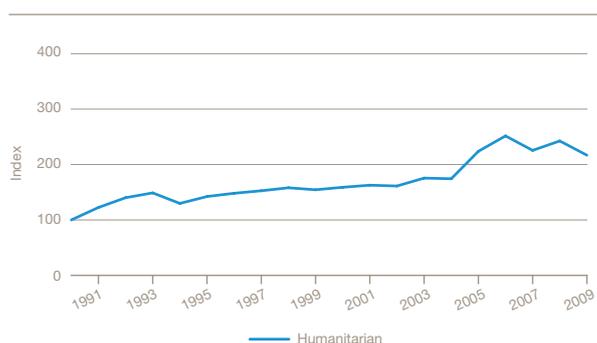
The ASEAN Tourism Component increased by 17 per cent in 2009 with similar rises in inbound and outbound travel. Large numbers of people flow between Australia and ASEAN: outbound and inbound movements total nearly two million people annually. Almost three times as many Australians travel to countries in ASEAN than the other way around - last year 1.4 million Australians travelled to ASEAN and 500,000 tourists arrived from ASEAN states.

## Migration



Migration engagement between Australia and ASEAN remained relatively constant last year. There were no large inflows or outflows of migrants. Last year 22,000 people migrated from ASEAN and 5,000 migrants from ASEAN countries migrated back to the region, similar to the previous year.

## Humanitarian Assistance



The ASEAN Humanitarian Component declined last year by 10 per cent. This was driven by declines in NGO delegates, declines in the number of doctors, nurses and teachers to the region and a decline in AusAID scholarships. AusAID has provided technical assistance to ASEAN in the area of disaster management and emergency response, and capacity building of the ASEAN Secretariat.

# Economies: People's Republic of China

China has moved ahead of Japan as the world's second-largest economy and the country has weathered the global financial crisis with evident resilience. As China's economy has continued to expand, so have geopolitical anxieties, most recently around the South China Sea.

Australia's engagement with China is back on trend with an increase of 10 per cent overall last year, following 2008's apparent hiatus. While trade was still significant, it was not the only driver: the relationship expanded across each component except humanitarian assistance.

Last year, Australia's exports to China grew at a breakneck 39 per cent. At the same time, China's investment into Australia tripled, to \$7.8 billion. China is also our largest single source of international students (ASEAN as a composite sends more students to Australia), our second largest source of migrants, after the UK, and on current trends, will be Australia's largest inbound tourist market within a year.

Last year, Australia's investment flow to China was -\$1 billion, the first year of negative flow since 2004. The specifics of investment data is not always available for privacy reasons, but it can be attributed to equity transactions between banks and other financial intermediaries due to the crisis.

Australia's average annual investment into China over the last ten years has been relatively low (less than \$620 million a year), although 2007 and 2008 saw large outflows of capital (\$2.5 billion and \$1 billion respectively). Most of Australia's direct investment into China is in the finance sector, followed by manufacturing and services, with minimal investment in mining and agriculture. Australian financial institutions have a number of investments in Chinese banks and all of the major Australian banks have a presence in China.

Figure 16: China Index

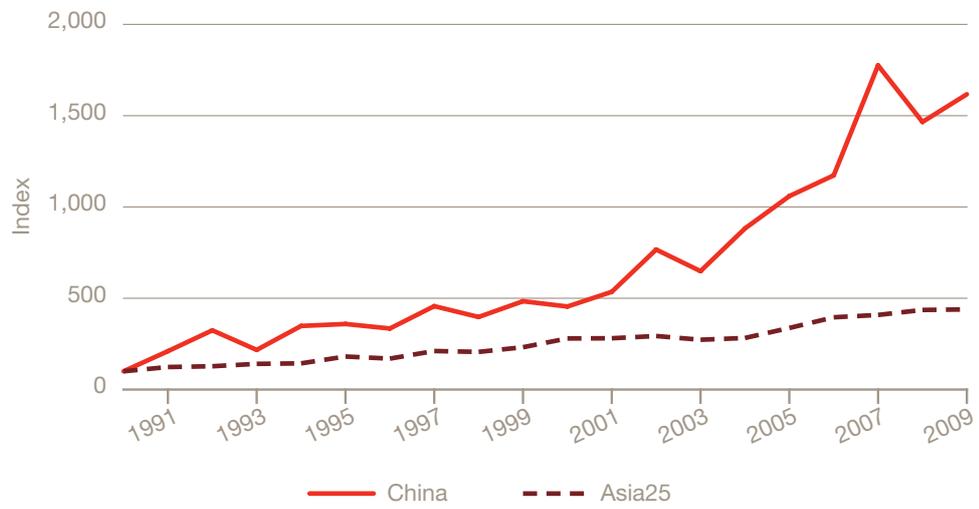
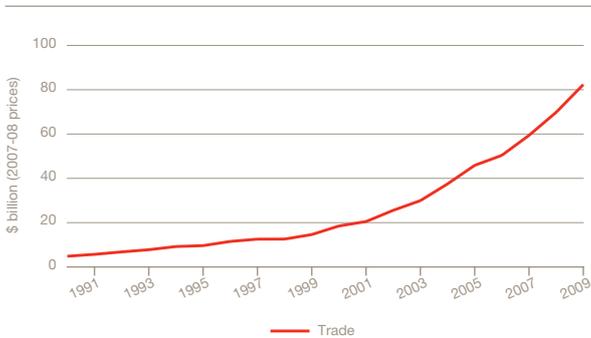


Table 14: Index Trends for China

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008–2009
China	100.0	359.1	454.7	1,059.3	1,465.8	1,617.4	10.3
Asia25	100.0	180.9	279.8	337.1	436.0	438.8	0.6

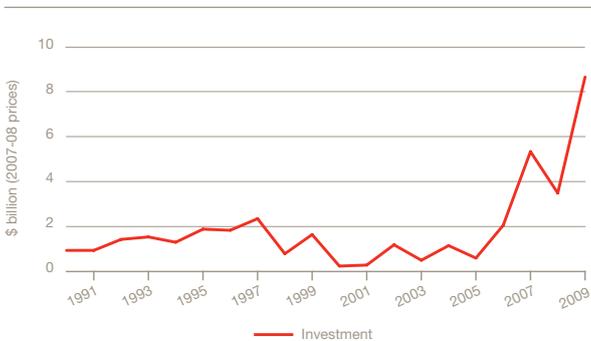
## Components of China Index

### Trade



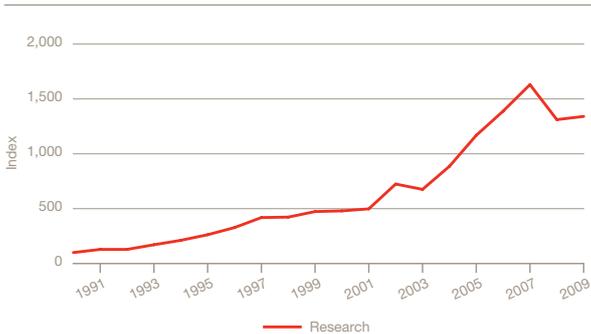
Australia's trading relationship with China continued to grow rapidly in 2009, with the China Trade Component showing an increase of 13.7 per cent. But last year there was a big difference between imports and exports. Australian imports from China decreased by one per cent while exports to China increased by a record 39 per cent. The large increases in exports are mostly due to Chinese demand for Australian coal and iron ore.

### Investment



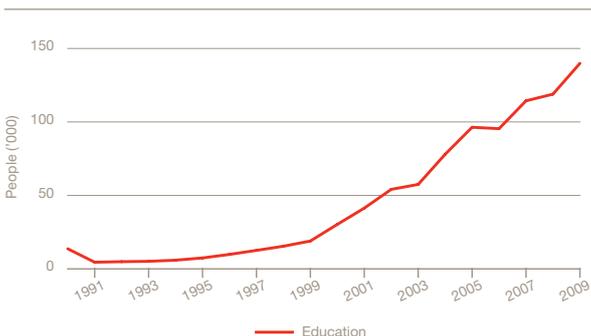
Two-way investment flows between China and Australia continued to grow last year, at an average rate of 13 per cent. China's investment into Australia almost tripled, from \$2.5 billion to \$7.8 billion, while Australia repatriated \$1 billion worth of investment from China. The massive rise of China's investment into Australia - almost exclusively in minerals exploration and development - follows the Chinese government's 'Go Global' strategy, encouraging domestic firms, particularly state-owned enterprises, to invest internationally in order to use huge foreign reserves and also to assist in securing energy supplies. China is now the world's second largest consumer of energy.

### Research and Business Development



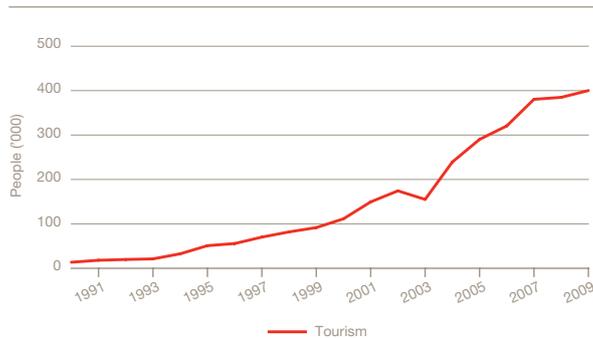
The China Research and Business Development Component rose slightly last year, mostly due to an almost doubling of research articles published on Australia-China relations. The effect of this was moderated by a reduction in short-term and long-term visits between Australia and China for business and employment - a reduction from 63,000 to 51,000 people.

### Education



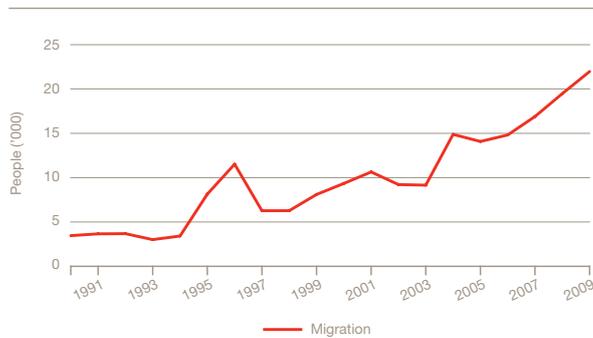
The China Education Component continued to rise, by 22 per cent in 2009. All of this growth was attributable to the number of Chinese travelling to study in Australia for educational purposes. Numbers of students grew from 104,000 to 128,000. Australians studying in China dropped from 14,000 to 12,000 mostly on short-term trips for conferences or education. There are more than twice as many students from China than India studying in Australia.

## Tourism



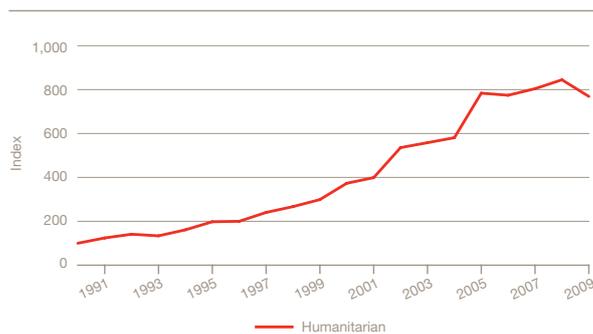
In 2009, 26 million Chinese travelled outside China. About one per cent of these travellers came to Australia, 224,000 people, an increase of three per cent from the year before. The largest part of this market was short-term holiday makers or people visiting friends and relatives. The number of Australians visiting China also increased in 2009, from 167,000 to 176,000. Interestingly, the number of Australians travelling to China for medical travel is increasing. Australians also travel to China to adopt - the vast majority (71 per cent) of the 441 Australian inter-country adoptions in 2008-2009 were from China<sup>27</sup>.

## Migration



The China Migration Component increased again last year, by 11 per cent. The number of immigrants from China increased from 15,000 to 17,000. The majority of migrants from China are skilled: China is the second largest source of skilled migrants after the UK. Between 2000-01 and 2005-06, the number of skilled migrants coming to Australia from China more than tripled, from 3,800 to 12,500 people<sup>28</sup>. The numbers of China-born migrants leaving Australia permanently were smaller, but also increased - from 4,700 to 5,200.

## Humanitarian Assistance



Humanitarian aid from Australia to China reduced in 2009. This is consistent with a reduction following the Sichuan earthquake. The Component was driven downwards by fewer Australian volunteers active in China. There was an increase in the number of AusAID scholarships.

<sup>27</sup> See Adoptions Australia 2008-2009 at <http://www.aihw.gov.au/publications/index.cfm/title/10858>.

<sup>28</sup> See the ABS - Migration: Permanent Additions to Australia's Population at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/0/928AF7A0CB6F969FCA25732C00207852?opendocument>.

# China Viewpoint:

## Rare Earth

Extracts from video interview: watch online at [www.pwc.com.au/asialink](http://www.pwc.com.au/asialink)

*When China's biggest metals trader, China Minmetals, bought \$1.4 billion of assets from OZ Minerals in mid-2009, the company also took on the Australian management team - and became MMG.*

**Andrew Michelmore**  
Chief Executive Officer  
MMG

**What have been some of the challenges and rewards of working for a 100 per cent Chinese-owned company, and are you learning from each other?**

It's certainly been two-way learning. "State Owned Enterprise" (SOE) - it sounds like big government controlling it. No, the State-owned entities own the shares, but Mr Zhou, as head of China Minmetals, sets the strategy, he supports the people in the place, he goes out and delivers it. We interact with a number of managers, most of them are in their early 40s, they speak English very well, they've had some of their education in the West and so they understand what can be done and they work with us in delivering it. On their front, they're interested in how we run the business, what is our corporate governance, what are our business processes.

How do we structure our business? It's actually quite different to how they structure theirs. The interesting part to it was we would present on how we do a process and handle it; they would present on how they do it. Then we'd have a joint discussion about why - and we have learnt from each other. It's actually been very healthy. And because they own us 100 per cent, we've been able to do this quite openly.

As a trading company dealing with a mining and operations company, [we're] quite different businesses. So the way we're doing things, at approval levels for example, doesn't apply in their business. Rather than resisting it because it's different to us, we actually understand their processes.

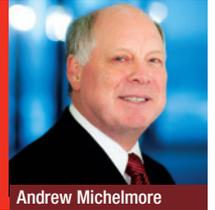
**What have been some of the other differences?**

The culture. [For example] where you sit in a room when you have a meeting. When they came here for the M Cubed [a business exchange program between China Minmetals Non-ferrous and MMG that seeks to provide a common understanding of the two organisations' business systems] meetings, one of the people within our company who was educated here at Monash University - he now works in our office in MMG in Beijing - walked in and said, "Right, we're going to do a western meeting here - instead of the most important person sitting there so he can see the door, and the next most important on his right, and the next on his left and so on, we'll do it the western way. We sit wherever we want. We'll sit around the table and it won't matter." There was a bit of a laugh about that and so they got into it.

**Are there business benefits in accommodating each other's cultures?**

We see it as a competitive edge. Both companies have bureaucracy but we are not competing within the company, we're actually competing with other companies outside. We want to grow, our shareholders want to grow, so the more efficient and faster we are at getting information through, understanding of the issues, agreement, approval - we're actually ahead of other companies.

Chinese companies absolutely understand that. They are fantastic businessmen. They are always in there trying to get the extra edge, get ahead of someone else, get a better performance. So it's improving that that has a real outcome.



Andrew Michelmore

### Is there competition between State Owned Enterprises?

This is one of the great myths that goes around. We often hear it: "China Inc." In reality, the SOEs fight for a better position. They want the funding, they have to show that they are the best company to get the funding, so they compete very strongly against each other. Once they go outside - that is the company that has managed to get the funding and [that company] will go out and compete with other western companies.

In Australia, we see a company coming out madly chasing for something and we think "this is China Inc." [But] they've actually had a real fight to get to that position and be the selected company.

### How have the Australian staff and management responded to the buyout?

Initially, there was the fear of the unknown - big State owned organisation, must be bad. In fact, it's been fantastic. We have our brand, MMG, they see the financial support that our shareholder has brought, we've got on with the exploration, we've got on with the development programs.

If I look at the concerns China Minmetals express when we have our board meeting: number one concern is health, safety, environment, community, government relations, the people in the organisation. They want the people in this organisation to want to work here, and be really proud of working here. That for them is key.

They are acutely aware that they represent China out here by owning 100 per cent of us. They don't want to send any bad messages. There was a fear that we would have thousands of Chinese coming across the border into Laos and running our Lao operations - there were lots of rumors of that - we had to deal with that.

Here we are a year and a half later, our people who were originally there, the local Lao people, are still running those operations but they have the support of China and so they see there's a real benefit of having a very strong shareholder, financially strong and supporting what we're doing and wanting us to grow the business, they see that as a fantastic position.



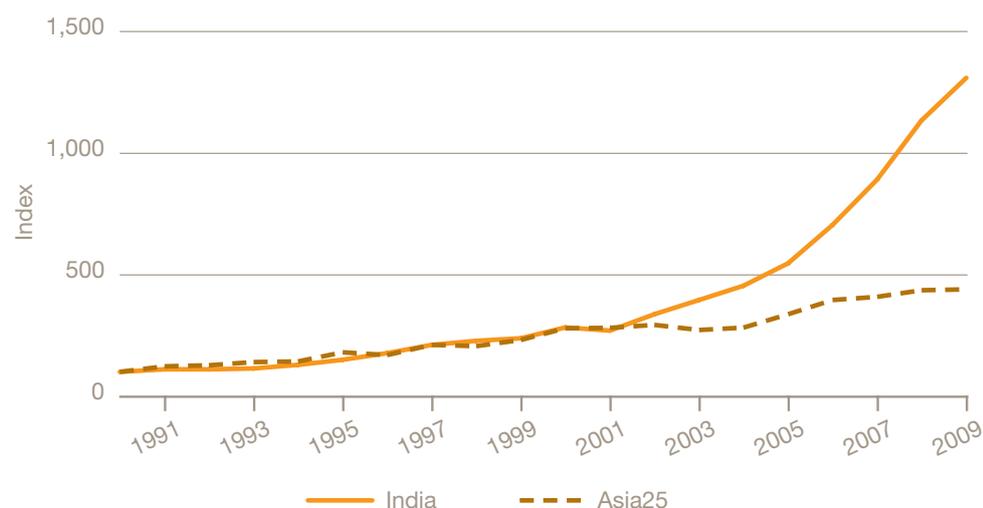
# Economies: India

2009 witnessed the biggest election in world history - the Indian national election. Over 400 million Indians voted and the Congress Party-led United Progressive Alliance (UPA) formed the new government. Dr Manmohan Singh was reappointed Prime Minister on 20 May 2009, only the second Indian Prime Minister to be re-elected after serving a full first term of five years.

Last year the Australia-India relationship was upgraded to the level of a 'Strategic Partnership'. This partnership involves increased efforts to maintain peace, stability and prosperity, and put in place mechanisms to ensure closer and more regular collaboration in security areas, increased diplomatic resources from Australia, and a boost in funding over five years for joint science and technology research projects.

This year sees a steep rise of 15 per cent in the Index with India - shown below at Figure 17. Certain components of the India Index are rising rapidly - trade, investment and tourism. The signs are ominous, however, for education engagement with India, and migration has fallen back. Given the findings of last year's Index - that education engagement in one year may correlate with increased trade and investment engagement several years into the future - this may be cause for pessimism regarding Australia's longer term engagement with India.

**Figure 17: India Index**

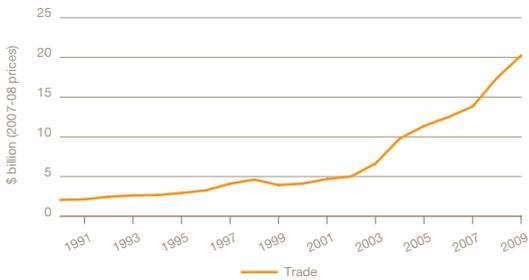


**Table 15: Index Trends for India**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008-2009
India	100.0	150.5	282.6	546.5	1,133.7	1,307.9	15.4
Asia25	100.0	180.9	279.8	337.1	436.0	438.8	0.6

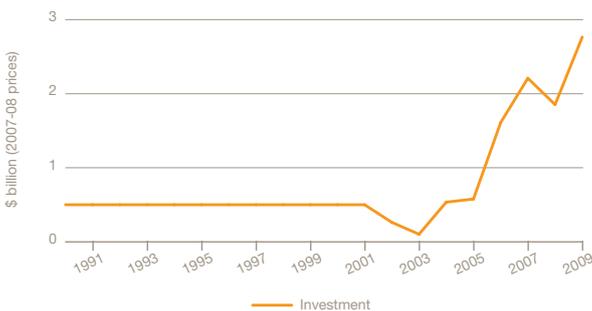
## Components of India Index

### Trade



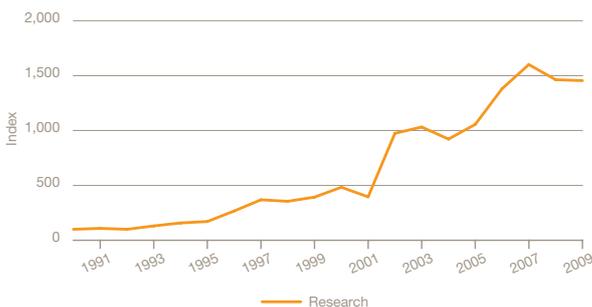
The India Trade Component grew 12.6 per cent last year. This growth was almost solely attributable to Australia's exports, which grew at a rapid 18.8 per cent in 2009. The value of Australia's goods exports (in gold, coal, copper and vegetables) is worth almost four times as much as service exports, but service exports are growing more rapidly (at 32.5 per cent compared to 15.5 per cent). Australia exports ICT, biotechnology, education, tourism, health, film and insurance services to India. The Insurance Australia Group recently signed a joint venture agreement with the State Bank of India to provide insurance services (see interview, page 28).

### Investment



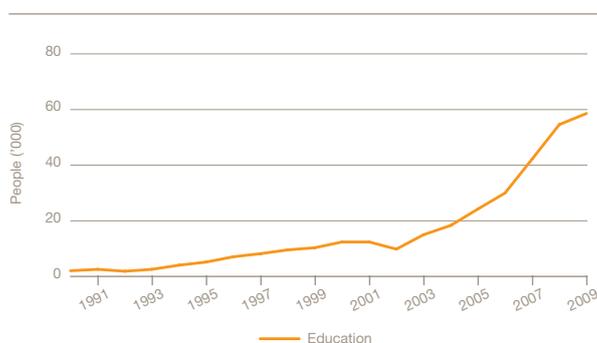
The India Investment Component grew rapidly last year - a steep 67 per cent. But this growth is off a low base: the Component shows two-way investment between Australia and India hovered at \$500 million for many years. Engagement took off from 2005 onwards and this year, Australian investment in India was larger than Indian investment in Australia (at \$1.1 billion as opposed to negative \$1.7 billion). Australia invests in manufacturing, telecommunications, hotels, minerals processing, food processing, oil and gas, and the automotive sector. India invests almost only in the minerals sector. This aligns with a key element of India's foreign affairs agenda - energy diplomacy - securing energy supplies to meet growing industrial and consumer demand.

### Research and Business Development



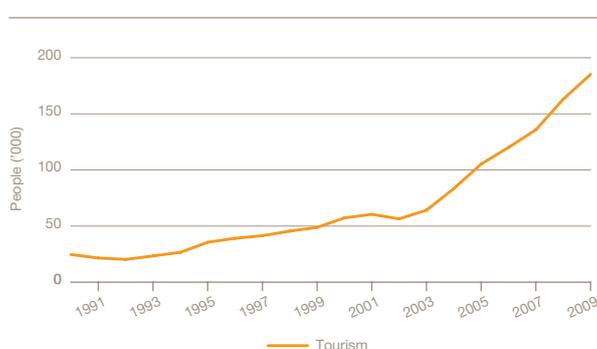
Last year the India Research & Business Development Component dropped slightly. This is based on small falls in business visits from India to Australia and in visits from Australia to India. Visits from India are more than double those from Australia: 42,700 compared to 19,500. There were also falls in the numbers of Indian business organisations and associations in Australia. These falls were partially offset by an increase in the number of research articles published on Australia-India relations.

## Education



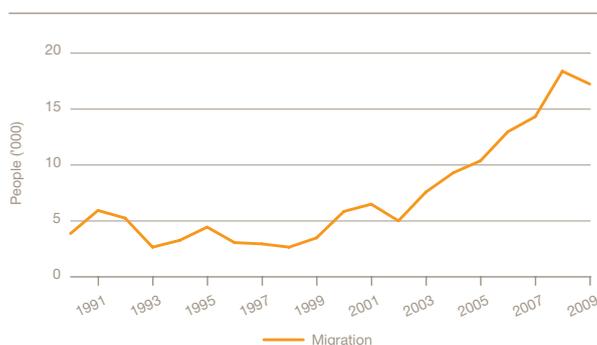
The India Education Component grew last year, driven by a growth in the number of incoming Indian students. In 2009 there were an additional 4,000 students from India. That puts the total annual figure of Indian students commencing studies at 55,300. Though the India Education Component mirrored the overall India Index last year, this year it is growing more slowly, at five per cent. Monthly data from Australia Education International in 2010 shows commencements from India are down.

## Tourism



Almost twice as many Australians travel to India than the other way around. Last year, 119,000 Australians travelled to India and 66,000 Indians travelled to Australia. The India Tourism Component grew at 29 per cent last year, with inbound and outbound tourism contributing to this growth. Not surprisingly given the large resident population of Australians born in India, 308,500 in 2009<sup>29</sup>, most tourists travel to visit friends and relatives.

## Migration



People born in India are the fourth largest group of overseas-born Australian residents at 308,500. Last year, slightly fewer people from India migrated to Australia: 16,500 compared to 17,600 in 2008. While India was the biggest single country source of migrants from Asia in 2008, last year China took that place. 800 Indian migrants left Australia permanently in 2009.

## Humanitarian Assistance



The India Humanitarian Assistance Component rose last year. Last year there was a rise in the number of volunteers working in India for NGOs, including the Australian Red Cross and Medecins Sans Frontieres, probably due to the large-scale floods at the end of 2008 in the far northeastern states of Assam and Bihar. More than seven million people were affected, including 300,000 seeking refuge and shelter. The number of AusAID scholarships offered to students from India also increased last year.

<sup>29</sup> See ABS publication, Migration 2008-09 available at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3412.02008-09?OpenDocument>.

# Economies: Indonesia

Engagement between Australia and Indonesia declined considerably in 2009, as the Indonesia Index shows. The overall drop in engagement was 29.5 per cent, driven primarily by falls in trade, investment and humanitarian assistance.

Falls in trade were due to Australia importing less from Indonesia last year - consistent with import declines from Asia during the global financial crisis. Australia's humanitarian assistance engagement continues to decline from the peak of engagement after the 2004 tsunami crisis.

The one stand-out area of decline in Australia-Indonesia engagement is investment. Interestingly, Japan and China continue to invest substantially in Indonesia. ICBC, one of the big four Chinese banks, has recently acquired the Halim Bank in Indonesia, and textile and automotive companies are relocating elements of their production operations. Zhejiang Geely Holding Group Co Ltd, one of the ten largest enterprises in the Chinese automobile industry, has established assembly plants in Indonesia. PT Gaya Motor has an agreement with Geely Holding Group for the manufacturing, assembly and international marketing of Geely vehicles in Indonesia.

Australia holds \$3.9 billion in investment stock in Indonesia, of which more than \$2 billion is FDI. Last year, investment engagement between Australian and Indonesia declined by 60 per cent.

The 2009 Australian public and media frenzy over refugee movements focused almost entirely on Australia as a country of final destination. The irregular flow of people, however, is an important issue to all of our neighbours in the region, Indonesia in particular. Australia and Indonesia have a strong history of partnership on the issue and co-chair an important regional grouping, the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime<sup>30</sup>.

The institutional links between Australia and Indonesia - the Bali Process, the Lombok Security Cooperation Treaty, the annual Australia Indonesia Ministerial Forum, and the Australia Indonesia Partnership for Development Cooperation among others - were last year further bolstered by frequent ministerial interaction: there have been 70 ministerial visits between Australia and Indonesia since November 2007<sup>31</sup>. This was capped off recently by the visit of the Indonesian President to Australia, where he was awarded the Companion of the Order of Australia for strengthening Australia-Indonesia relations.

<sup>30</sup> The Bali Process involves 38 countries of the region, the United Nations High Commissioner for Refugees and the International Organisation for Migration in a program of operational cooperation - including practical, operationally focused workshops on document examination and air and port security - information sharing, and developing regional strategies to address irregular people movement.

<sup>31</sup> <http://www.foreignminister.gov.au/releases/2010/fa-s100714.html>.

Figure 18: Indonesia Index

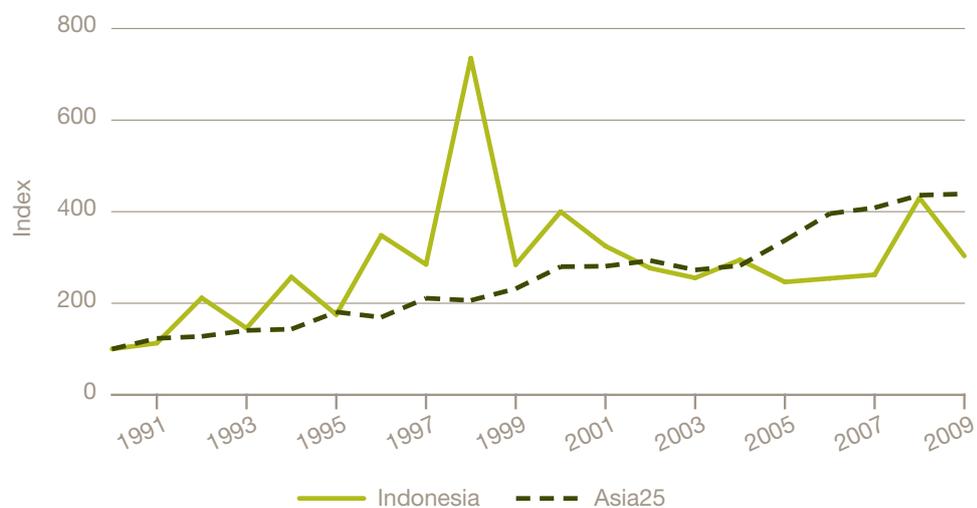
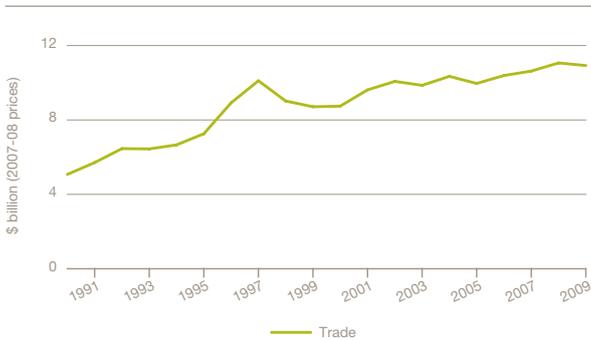


Table 16: Index Trends for Indonesia

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008–2009
Indonesia	100.0	175.1	400.0	246.4	430.1	303.2	-29.5
Asia25	100.0	180.9	279.8	337.1	436.0	438.8	0.6

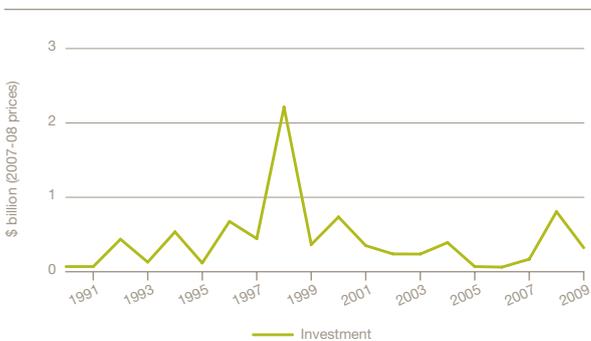
## Components of Indonesia Index

### Trade



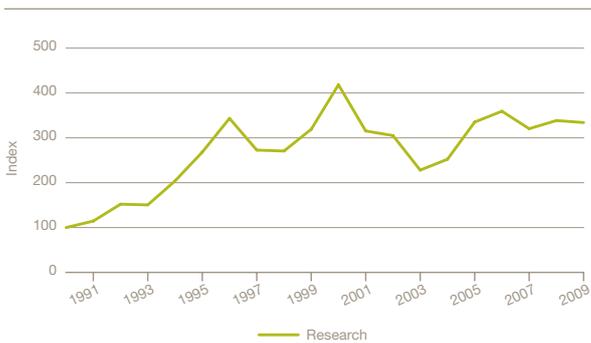
The Indonesia Trade Component fell slightly by five per cent, driven by a fall in imports. Exports to Indonesia increased. While the majority of the more than \$11 billion in trade between the two countries is in goods, services make up a significant proportion. Over \$2.5 billion of services were exchanged between Australia and Indonesia last year, including education and transport services. Wheat, live animals and aluminium dominated Australia's goods exports to Indonesia. Indonesia exported crude petroleum and gold to Australia.

### Investment



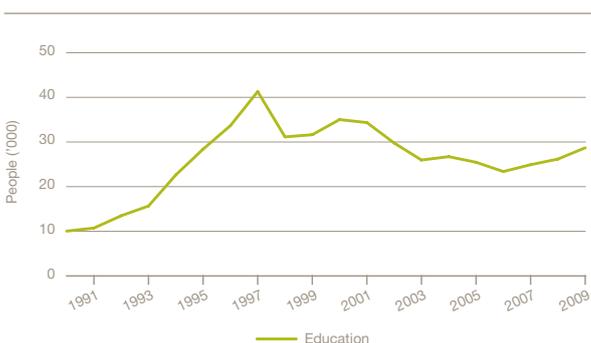
Investment flows between Australia and Indonesia declined in 2009. Flows include portfolio investment, direct investment and financial derivatives, and can be injections of capital as well as withdrawals. Australia holds \$3.9 billion in investment stock in Indonesia, of which more than \$2 billion is FDI. Other Asian countries are investing in Indonesia, especially Japan and China.

### Research and Business Development

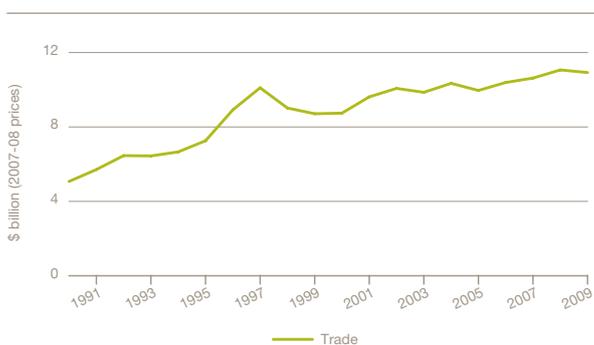


The Indonesia Research Component fell slightly last year. Fewer Indonesians travelled to Australia for business and employment, while more Australians travelled to Indonesia. The changes in numbers travelling were minimal, however about 500 people. There were declines in the numbers of Indonesian business organisations and associations. There was a sharp increase in the number of research articles on Australia-Indonesia relations.

### Education

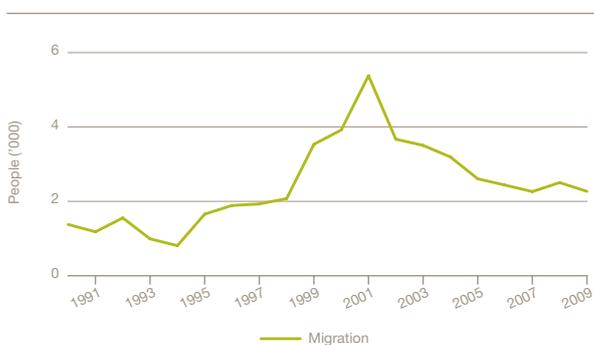


Education engagement between Indonesia and Australia went up five per cent last year. More people travelled each way for education, with 24,000 Indonesians travelling to Australia and 5,000 Australians travelling to Indonesia to study. This is up from 22,000 Indonesians and 4,500 Australians last year.



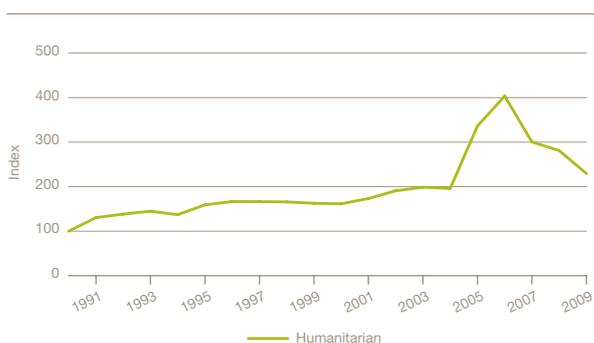
## Tourism

Tourism between Indonesia and Australia continues to grow strongly with almost 600,000 people moving between the two countries. The Tourism Component reached a record high this year. Australia's outbound travel to Indonesia increased by 50 per cent, with over 490,000 Australians travelling to Indonesia last year. The numbers of Indonesians travelling to Australia also increased, by 24 per cent. Overall numbers from Indonesia are much smaller than those from Australia. Last year, 66,000 Indonesians travelled to Australia.



## Migration

Migration between Australia and Indonesia is small, and last year the Indonesia Migration Component decreased slightly. 1,600 Indonesians migrated permanently to Australia last year. This was down from 1,900 the year before, and 700 Indonesian migrants left Australia permanently in 2009. This number was roughly equal to the year before when 600 Indonesians left Australia permanently.



## Humanitarian Assistance

The Indonesia Humanitarian Assistance Component fell significantly last year - by 18 per cent. There were large declines in the number of NGO volunteers working in Indonesia and AusAID scholarships to Indonesian students. The fall in volunteer numbers is to be expected after the peak of the 2004 tsunami and the 2006 earthquake in Yogyakarta. AusAID's funding to Indonesia is its largest bilateral program. In the 2008-09 year the program was valued at \$439 million.

# Economies: Japan

Australia's relationship with Japan is underpinned by key economic and security agreements and dialogues including: the Australia-Japan Joint Declaration on Security Cooperation (signed in March 2007) and the Foreign and Defence Minister annual '2+2' talks - the only formal Foreign and Defence Strategic Dialogue that Australia has in Asia. 2009 marked the inauguration of the Australia-Japan Trade and Economic Ministerial Dialogue. These ties demonstrate the comprehensive strategic relationship that exists between Australia and Japan.

The overall Index of engagement between Japan and Australia on the following page shows a decline of almost 17 per cent in 2009. This is the third year of decline in engagement and is driven by falls in trade, investment, tourism, education and migration. The most recent fall in engagement appears to be a response to the sharp decline in the Japanese economy associated with the global financial crisis, a factor not as important for other Asian economies<sup>32</sup>.

Australia's relationship with Japan is measured from a high baseline. The two countries had existing strong trade and investment relationships in 1990, at the beginning of the Index period. This context is important to remember when reading the relative movement over the last year: trade fell 18 per cent although Japan was our second largest trading partner, and investment flows fell 35 per cent from the record highs of the two previous years.

One area of absolute decline is tourism: in 2009 the numbers of tourists travelling between Australia and Japan were the lowest recorded since 1990.

An encouraging sign is growth in the research and business development indicator. This eight per cent increase in 2009 is in stark contrast to the decline in the previous year of 28 per cent (the second year of decrease).

The Australia-Japan Free Trade Agreement is currently in negotiation. The 11th round of negotiations was held in April 2010. There are signs that the Japanese Government is developing subsidies to replace tariffs in the agricultural sector and that the Australian Government is considering removing protection for the automotive sector. These moves may clear the way for the conclusion of the free trade agreement talks. A joint study from December 2006 showed that the FTA over 20 years would result in a GDP gain of \$39 billion for Australia and \$27 billion for Japan<sup>33</sup>.

<sup>32</sup> Japan's economy was the most affected economy in Asia as measured by changes in GDP, declining by 5.3% in 2009.

<sup>33</sup> The report is available at: [http://www.dfat.gov.au/geo/japan/fta/study\\_group\\_report.pdf](http://www.dfat.gov.au/geo/japan/fta/study_group_report.pdf).

Figure 19: Japan Index

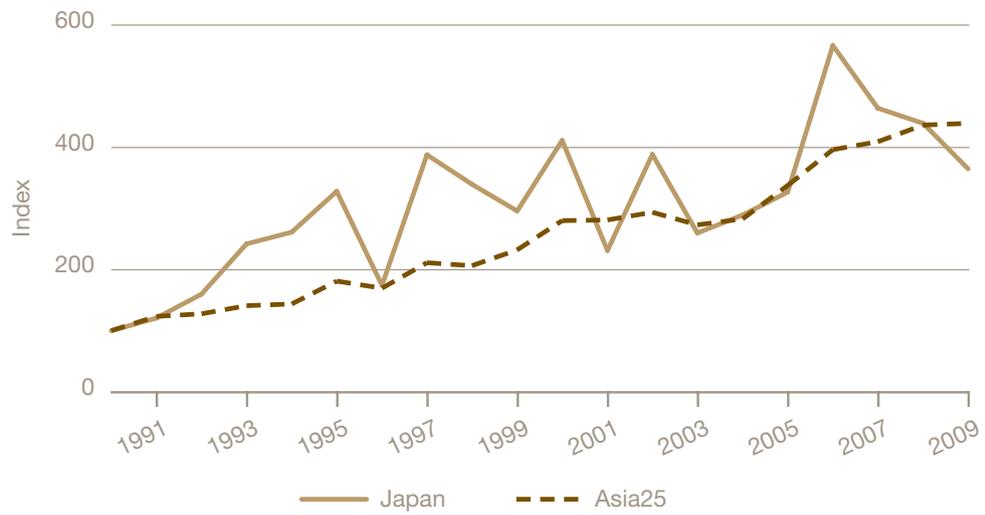
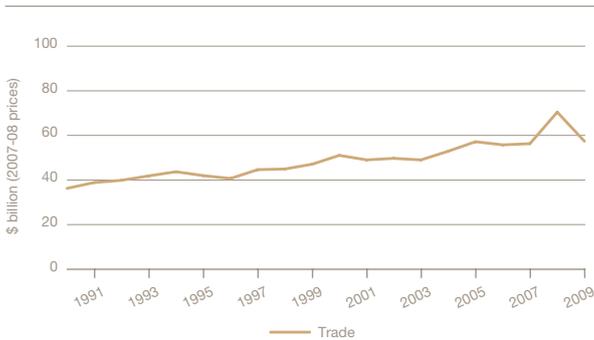


Table 17: Index Trends for Japan

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008-2009
Japan	100.0	327.7	410.6	326.1	438.6	364.3	-16.9
Asia25	100.0	180.9	279.8	337.1	436.0	438.8	0.6

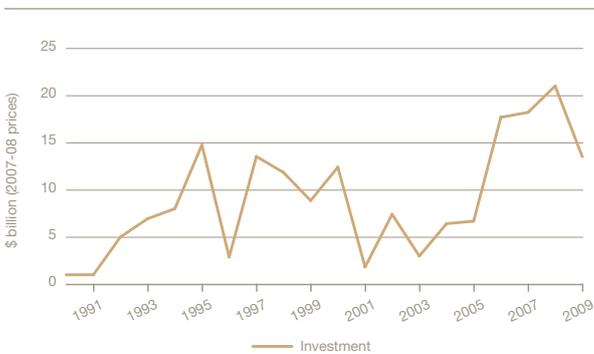
## Components of Japan Index

### Trade



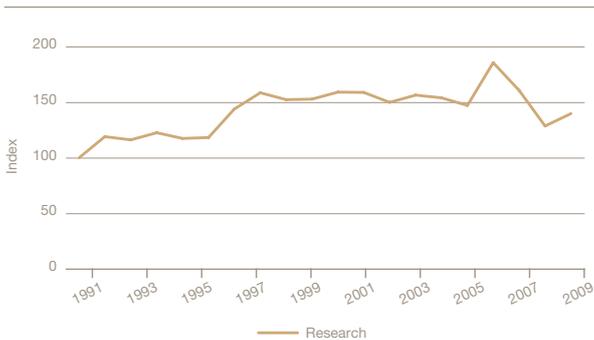
Japan was our second largest trading partner in 2009, but the trade component fell 18 per cent last year. This is due to both imports from Japan and exports to Japan falling. As Australia exports much more to Japan (primarily in iron ore and coal) than Japan exports to Australia (mostly passenger motor vehicles), last year Australia had a significant trade surplus with Japan, at over \$21 billion.

### Investment



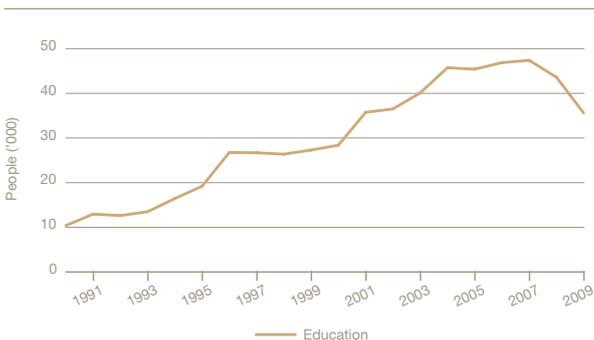
In 2009 the Japan Investment Component fell 35 per cent. This is based on two notable changes: a large decrease in investment from Japan and a fivefold decrease in the amount of investment from Australia. While the amount of inbound investment from Japan has fallen in relation to 2008 (from \$21 billion to \$11 billion), Japan was Australia's fourth largest investor overall. Australia's investment in Japan is through capitalisation of banks and financial institutions and Australian exporters establishing regional offices.

### Research and Business Development

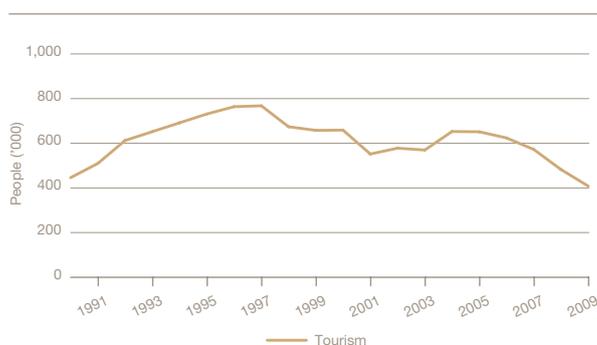


The research and business development indicator grew by eight per cent in 2009. The small declines in travel for business and employment and in Australia-Japan business organisations was offset by an increase in research articles on Australia-Japan relations.

### Education

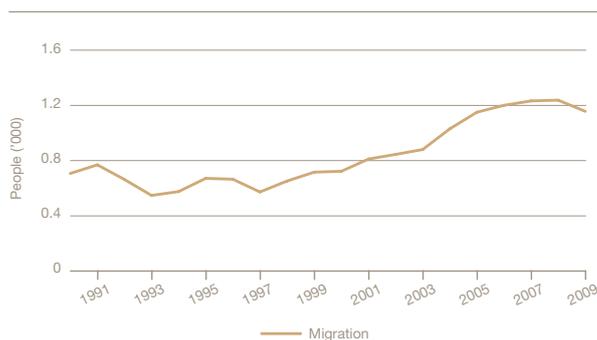


The Japan Education Component dropped by 15 per cent last year. This is on top of a 15 per cent fall the year before. The numbers of both Japanese students coming to Australia and Australian students going to Japan declined. In 2009 there were 27,000 Japanese students studying in Australia. Australia continues to be a popular destination for Japanese school group excursions - three times more popular than the next ranked Asian country, China - but there has been a 20 per cent decline in excursions and study tours from Japan. Japan is a popular country for Australian school visits with over 3,000 Australian students visiting Japan each year.



## Tourism

The number of tourists travelling between Australia and Japan has dropped markedly since the late 1990s. Last year the total tourist numbers dropped to the lowest point since the Index began. The number of inbound Japanese tourists dropped 23 per cent to 290,000. Australia has been an attractive market to Japanese in the 20-29 age range, but this group has become less likely to travel due to cost concerns. Flights to Australia have become more expensive in comparison to South and Central America, Europe and short-haul flights in the region, and there is reduced air capacity on the Australia-Japan route<sup>34</sup>. The Japanese demographic that is much more likely to travel abroad now is the 40-59 age group (mostly businessmen). This group is travelling to China, where leisure and business opportunities are combined<sup>35</sup>.



## Migration

There was a slight drop in the rate of migration between Australia and Japan in 2009, four per cent. While the annual flow of migrants is small, the total migrant population of Japanese in Australia, as measured in the last Census, is significant - around 30,000 residents. Over two-thirds of Japanese migrants are female. These residents tend to be more highly educated and employed at higher skill levels in the Australian workforce. Interestingly, the median income of Japan-born Australian residents was lower than other overseas-born or Australian born residents.

<sup>34</sup> See page xi of Tourism Research Australia's report 'Japan: Changing trends in travel to Australia' at [http://www.ret.gov.au/tourism/Documents/tra/International%20Analysis/Japan\\_FINAL.pdf](http://www.ret.gov.au/tourism/Documents/tra/International%20Analysis/Japan_FINAL.pdf).

<sup>35</sup> Tourism Research Australia has documented the numbers of Japanese travelling to China as increasing at an average rate of 10% - increasing from 2.1 million to 4.1 million between 2000-2007 in 'Japan: Changing trends in travel to Australia'.

# Economies: Republic of Korea

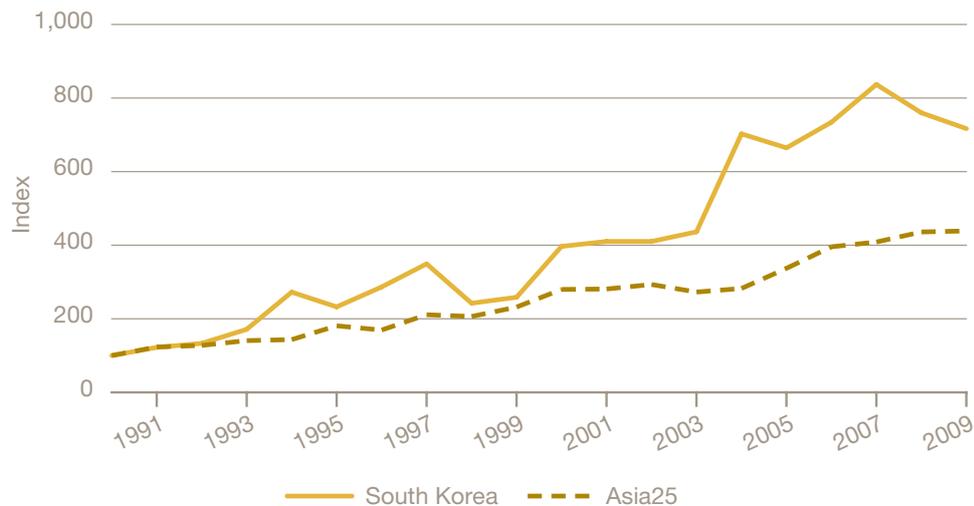
The Republic of Korea (South Korea or ROK) is Australia's third largest country trading partner, about equal to India in economic importance to Australia and ahead of the US. It is also rising in significance as an investor. South Korea's investment stock in Australia is estimated at \$8.7 billion, mostly in resource development (including in New South Wales coal mines), and in import and distribution (e.g. Hyundai, Daewoo, Kia, LG and Samsung).

Australia's engagement with South Korea declined last year, although as Table 18 shows an upward trend at a comparatively high level, almost double that between Australia and Asia as a whole.

Increases in trilateral cooperation between South Korea, Japan and China bode well for ongoing growth in the region. At the second Japan-China-ROK Trilateral Summit in Beijing last year, the countries agreed to push for research on a trilateral free trade pact aimed at eventually creating a single economic bloc.

Australia and South Korea commenced Free Trade Agreement negotiations in 2009. Progress in the negotiations has been rapid with good prospects for conclusion.

**Figure 20: South Korea Index**



The fall of nearly six per cent in the Australia-ROK Index was driven by decreased trade, tourism and migration. The slowing of the South Korean economy during the global financial crisis impacted the country's international relationships generally, with Australia no exception. The downturn may help to explain a fall in the number of South Korean visitors travelling to Australia, however, tourist numbers from South Korea have been in general decline over recent years. Interestingly, Koreans stay longer than the average visitor once in Australia - an average of 71 days<sup>36</sup>.

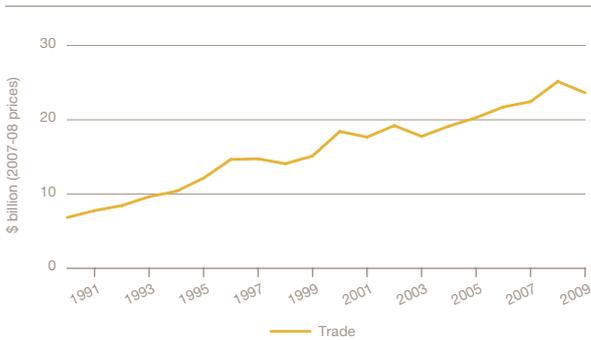
**Table 18: Index Trends for South Korea**

Index (1990=100)	1990	1995	2000	2005	2008	2009	% change 2008–2009
Korea	100.0	232.4	396.7	664.6	759.8	716.8	-5.7
Asia25	100.0	180.9	279.8	337.1	436.0	438.8	0.6

<sup>36</sup> See the four International Visitors Surveys for 2009 at <http://www.ret.gov.au/tourism/tra/international/survey/Pages/default.aspx>.

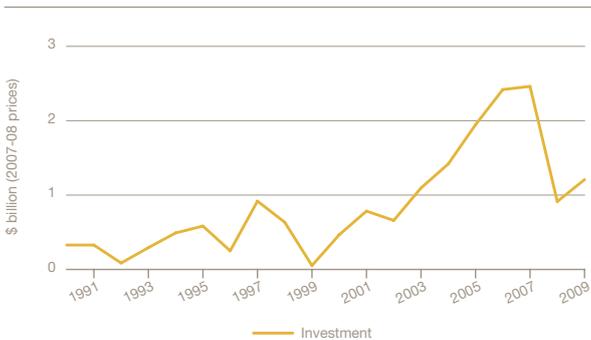
## Components of South Korea Index

### Trade



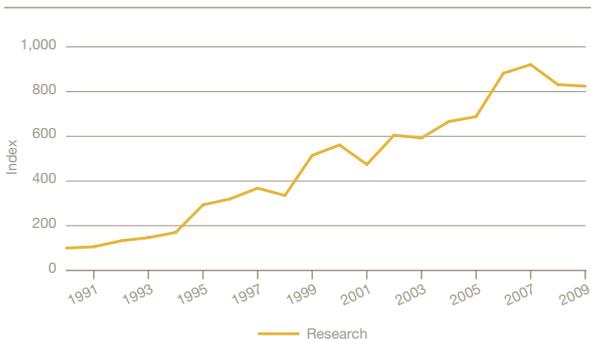
Trade with Korea fell last year. Overall the Korea Trade Component is down five per cent with decreases in both imports (two per cent) and exports (six per cent). Australia exports coal, iron ore and crude petroleum to Korea. The biggest imports from Korea are passenger motor vehicles and refined petroleum. 2009 witnessed the signing of a 15-year agreement between Chevron Australia and Korea Gas Corporation (KOGAS) for the supply of liquefied natural gas from the Gorgon Project to Korea. KOGAS is the single largest LNG buyer in the world.

### Investment



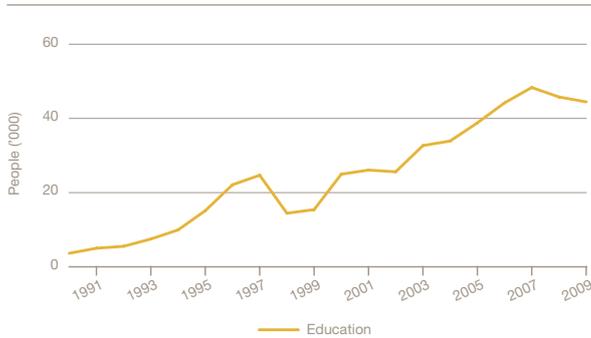
While investment flows between South Korea and Australia recorded a rise last year, much of the increased flow was in the repatriation of investments. In other words, both countries withdrew overseas investments possibly in reaction to the financial crisis. South Korea, however, made a number of applications to Australia's Foreign Investment Review Board, totalling \$350 million, in the mineral exploration and development sector.

### Research and Business Development



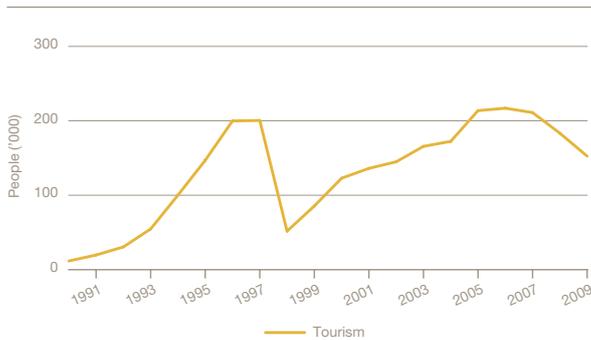
Fewer people travelled between Australia and Korea on business in 2009 than in 2008. Of the 23,000 people who travelled, most were from Korea to Australia (13,000). The number of research articles on Australia-Korea relations increased last year while the number of Australia-Korea business organisations stayed the same.

## Education



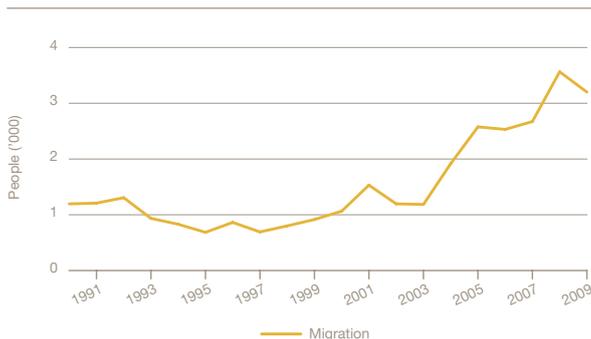
The Korea Education Component declined by five per cent last year. Fewer students from Korea came to Australia for short courses, conferences, exchanges and English-language study. Interestingly, more Korean students came to Australia for long-term study, up from 10,000 to 11,000. The numbers of Australian students in Korea is small: last year this was 3,000. Korean is ranked 14th in terms of the number of enrolments in language courses in Australian schools. The total number of students studying Korean in 2009 was 4,229 up from 3,190 in 2008<sup>37</sup>.

## Tourism



The overall Korea Tourism Component declined two per cent last year. The decline was driven mostly by a fall in tourists from Korea (from 160,000 to 130,000 visitors). Korea is the third largest source country for tourists from Asia, but the second highest spending group overall (taking the rest of the world into account also). Korean tourists spend the longest time in Australia of all visitors, averaging 71 nights in 2009. The number of Australian tourists travelling to Korea last year increased, from 21,000 to 23,000.

## Migration



Overall migration between Australia and Korea is relatively insignificant. The Korea Migration Component dropped by 13 per cent in 2009. The numbers of Koreans migrating to Australia last year was 2,559. The numbers of Koreans migrating from Australia permanently increased from 571 to 641.

<sup>37</sup> See the Asia Education Foundation 2010 Report "The Current State of Chinese, Korean Language Education in Australian Schools Four Languages, Four Stories" [http://www.asiaeducation.edu.au/verve/\\_resources/OverArchingReport.pdf](http://www.asiaeducation.edu.au/verve/_resources/OverArchingReport.pdf).

# Korea Viewpoint: Transformation Korea

Extracts from video interview: watch online at [www.pwc.com.au/asialink](http://www.pwc.com.au/asialink)

*Korea's historic leadership of the G20 meeting in late 2010 consolidates the country's status on the world stage. Yet, very few Australian businesses are entering the Korean market despite a natural synergy, says Macquarie Korea Chairman, John Walker AM.*

John Walker AM  
Chairman, Australia Korea Business Council  
Chairman, Macquarie Group of Companies, Korea

You have a passion for fostering deep Korean - Australian business and cultural relations. Could you describe why this is important to you?

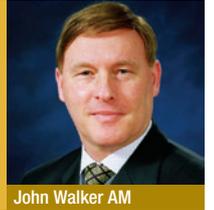
I've spent 10 years in Korea, and I believe I have a very real insight into the wonderful opportunities in this market. From zero assets under management in 2000, Macquarie Korea now has 10 licences, 400 staff, and investments into assets valued at \$20 billion. We've created employment for thousands, when you count the theatres, ports, roads. I think that shows what is possible. Korean companies are internationalising at a rapid rate: the largest single foreign investor in China, with \$39 billion invested there, is Samsung Electronics. Other Korean companies - Hyundai, LG, and so on - are all aggressively developing business offshore and acquiring businesses offshore.

People do get a bit blinded by the opportunities in China or India. We could think more about getting a slice of a perhaps more sophisticated market. Not many people are moving into the Korean market from Australia - and Australia and Korea complement one another. Through the Australia Korea Business Council, I hope I can open up a few more eyes to Korea.

What are some of the opportunities?

The complementarities are enormous, particularly in the services sector - and in services sector development. In tourism, as an example, Korea recently went to a five-day working week, so leisure time has increased enormously. And yet there is not a history of developing resorts here, or of running resorts. Australia is the logical partner for helping Korea to develop tourism and leisure services. We have that history and we should be much more engaged there.

A lot is being said about the ageing population in Korea, as it is in other parts of Asia - the country is still trying to catch up in providing infrastructure in that area. In Australia, we have varying views about the quality of our nursing care, but I can assure you it is much better than what's on offer in a lot of places. Our fine hospitals, our quality aged care, all the homegrown expertise and services we have in Australia - the value we could bring cannot be overstated. There are other areas: in education, there are huge opportunities; in renewable energies; and in the development of superannuation or corporate pension schemes. The partnership opportunities are there.



John Walker AM

### What are the cultural challenges/ business challenges?

It's difficult to separate business and culture anywhere. And it is clear to me that there are a lot of similarities between the culture in Korea and the culture in Australia. Koreans are very open people, perhaps more emotional, a bit like Australians. There's an easy ability to appreciate each other's objectives. In Korea, you get straight down to business - it is a very "can do" culture.

English is widely spoken these days in business - English, and Chinese. The most important thing to understand in a market like this is the culture - the language flows a bit from that - but I think Australians are more culturally sensitive than many. Australians are very flexible and adaptable.

### How do the Koreans see Australia?

No matter who they are, they all say we are lucky. There's a perception that we can sit back: the gas will keep pumping out, the iron ore, the coal; and we have lots of golf courses!

It's an unfortunate image, because those who know us describe us as very professional, very innovative, dynamic. So it is not necessarily accurate, and it is unfortunate because they will look to invest in real estate, in government guaranteed infrastructure and in our resource development - they are not looking to invest in our clever industries. Macquarie is helping to change that image.

### What are the challenges for Australia?

There's a real danger we will get left behind. We have been able to ride off the back of commodity exports to an extent and, because of that, we haven't had to think very hard about other products. The Koreans, for example, think of everything they do as a potential product. We have to begin to see the qualities of our expertise, of our services, and make more of them.

We do have fabulous examples of innovative, transformative companies - in construction, there are Leighton's and Transfield - who have evolved from pure construction to managing and running operations. Australian companies can mitigate some of the risks associated with moving into new areas by looking for complementarity of experience and expertise.

### What are your hopes for the Australia-Korea relationship?

At the AKBC we are developing exchange and internship programs for emerging executives. We aim to help Australians and Koreans get a greater understanding of each other and each other's businesses.

And next year is the 50th anniversary of formal diplomatic relations between Australia and Korea. I hope that during the year we will see the Korea-Australia Free Trade Agreement signed and ratified. It would be a terrific fillip for the relationship, and the publicity should create interest, and encourage Australian companies to come and look.

## APPENDIX 1: Construction of the PwC Melbourne Institute Asialink Index

Asia is defined here as all countries in ASEAN (Indonesia, Singapore, Malaysia, Thailand, Vietnam, Laos, Cambodia, Brunei Darussalam, The Philippines and Burma), South Asia (India, Pakistan, Bhutan, Sri Lanka, Nepal, Maldives and Bangladesh), East Asia (People's Republic of China, Hong Kong, Chinese Taipei, Macau, Mongolia, East Timor) and North East Asia (Republic of Korea [South Korea], Japan). In total, there are 25 countries in our definition of Asia. 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, and
- 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) absolute value of net foreign investment (foreign direct investment, portfolio flows and other) into Australia from Asia, by country, and
- b) absolute value of net 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) estimated number of patent applications filed in Australia by inventors in Asia (by country), and
- 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), and
- 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, and
- e) number of visas granted for working holiday makers 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, and
- 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), and
- 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 and UN peacekeeping forces were logged to reduce its extreme variability by country over time
- d) one was added to all raw numbers to avoid dividing by zero. In the case of AusAID and UN peacekeeping forces data this was 10
- e) three countries entered the working holiday maker scheme after 1990 and the rise in numbers from zero was very extreme in per centage 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. Since the 2008 report, revised historical data are used where available, and
- 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 PwC Melbourne Institute Asialink 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, Anne Leahy, Athol Maritz, Vicky Jackson, Neil Scott, Jason Chan, Matt Orr, Lachlan Quick, Adrian Prouse, Usha Arif, Indrani Sundaralingam, Tim Nicholson, Sue Begley, Chris George, Ryan Kaveney, 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. Trade data expressed in real terms (reference year 2007-08), deflated using implicit price deflator from ABS expenditure GDP implicit price deflators (ABS publication code 5206.0, Table 5, series A2303728F, A2303729J).

### 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. Investment data are expressed in real (reference year 2007-08) dollars. (Implicit price deflator from ABS publication code 5206.0, Table 5, series code A2303730T).

### 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 holiday maker 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; Australian War Memorial, Canberra (historical data); Australian Government Department of Defence media reports (<http://www.defence.gov.au/op/index.htm>). Department of Immigration and Citizenship unpublished data, AusAID Scholarships.

## CONTRIBUTORS

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