Chapter 3: Australia in Asia

The rise of Asia provides great opportunities for Australia

- developing institutional connections
- opening up the Australian economy
- cultural contributions to Australian society
Key points

Australian interactions with the Asian region have a long history and have evolved over time in response to developments at home and abroad.

In the post-war period, Asia’s commitment to internationally oriented development opened unprecedented new opportunities for the resource-abundant Australian economy.

Australia’s economic integration into Asia has accelerated over the past four decades. Steps to open up the Australian economy began in the 1970s with landmark tariff cuts in 1973. Comprehensive reforms to Australia’s economic institutions and frameworks then gathered pace from the mid-1980s.

These reforms and Australia’s more recent successful response to the Global Financial Crisis have laid the foundation for Australians to benefit from the opportunities stemming from the region—such as the surge in resource demand and the rising middle class in Asia—with the gains of success spread across the nation.

More recent policy reforms—including in tax, regulation, skills, school funding, managing the resources boom, increasing connectivity and investing in infrastructure—are important components of our agenda to further strengthen the economy’s resilience and diversity and enhance our ability to engage with Asia.

Cultural diversity is at the centre of Australia’s identity. The face of Australia has changed dramatically in recent decades and Asia is now an important part of our identity.

The Australian Government is engaging more with regional partners through multilateral institutions, regional forums and bilateral exchanges. Australia has built deep and broad relationships within the region, across educational, cultural and social dimensions. Our people-to-people connections with Asia have deepened and have transformed our society.
3.1 Introduction

Australia’s interactions with nations in Asia have shaped our strategic focus and the structure of our economy and society.

In the early decades after Federation in 1901, Australia’s mindset was oriented mainly towards the British Empire and Europe. Following World War II, Australia shifted its strategic focus to the United States and countries closer to home. And over time Australia’s economic focus also has shifted into the region.

Over the past four decades, Australia has transformed its economy, society and institutions as it has become closer to Asia. Asia’s commitment to modernisation and internationally oriented development opened unprecedented new opportunities for Australia to become a highly productive and reliable supplier of resources and related goods and services to the region and the world. Our economic integration with Asia gathered pace as our economic settings were liberalised.

Our people-to-people connections with Asia have transformed our society through migration, business, travel, study and popular culture.

3.2 Developing institutional connections

Successive generations have transformed Australia from a nation that once built defensive walls to shield itself from the region and the globe into an open, outward looking, prosperous society, securing its future in the region.

Australian interactions with the Asian region have a long history, dating back to contact between Indonesian fishermen from Makassar and Indigenous communities in northern Australia before European settlement, and early migration from a number of Asian regions during the colonial period. But all the elements of what has been described as the ‘Australian Settlement’ that underpinned Federation—‘White Australia, industry protection, wage arbitration, state paternalism and imperial benevolence’ (Kelly 1992)—had the effect of stunting the relationship with Asia.1

In the early decades after Federation, Australia’s economic, political and strategic mindsets were oriented mainly towards the British Empire and Europe. While there was an awareness of Asia, and cultural, economic and diplomatic exchanges with countries in the region took place, their development was constrained by Australian institutions. This reflected the values and attitudes of a time when many Australians defined themselves as distant and separate from Asia.

World War II was a major strategic shock for Australia. The fall of Singapore in 1942 marked a new chapter. Australia shifted its attention squarely to Asia and developed a security partnership with the United States.

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1 See Stokes (2004) for a critique of that summary and an alternative formulation.
In the immediate post-war period, Australian policy towards Asia was driven mainly by political, defence and security considerations, particularly decolonisation and its implications for Asian security, and the regional manifestations of the Cold War.

After World War II, the Chifley government was engaged in laying the foundations for a new international order, in which the United Nations was envisaged as playing a central role. Australia lent strong diplomatic support for independence for Indonesia, Myanmar, India, Pakistan, the Philippines and Sri Lanka. Successive Australian governments took the view that Australia should contribute to the region through development assistance. Conceived under the Chifley Government, and established under the Menzies Government in 1951, Australia led in the development of the Colombo Plan, offering scholarships whose recipients included a significant number of emerging Asian leaders.

The rapprochement with Japan in the 1950s, driven by the signing of the Agreement of Commerce in 1957, was a catalyst for Australia establishing itself as Asia’s premier resources supplier and accelerated the shift of Australian diplomatic focus to the region.

Meanwhile, the Cold War reinforced Australia’s preoccupation with sustaining major power (notably United States) military and wider engagement in the region. The conclusion of the ANZUS Treaty in 1951, which cemented our US alliance, was a landmark. Australia also encouraged the United Kingdom to retain its military and wider influence in the region into the 1970s.

These strategic considerations lay behind Australian policy in relation to Vietnam, including the decision to deploy Australian armed forces there. They were also prominent in Australia’s decision to support Malaysia diplomatically and militarily when it was facing threats from the Sukarno government in Indonesia during the confrontation (Konfrontasi) period.

A distinctive feature of the 1950s was the expansion of Australian diplomatic representation in the region. Richard Casey, as External Affairs Minister, led this effort to build relations with the region. By 1960, when he retired from this role, Australia had established diplomatic missions in 14 Asian countries (Gifford 2001).

One of Australia’s distinctive contributions to the region has been to encourage more effective mechanisms for political, strategic and economic consultation and cooperation.

Australia, under the Whitlam Government, became the first external dialogue partner of the Association of Southeast Asian Nations (ASEAN) in 1974 and has participated regularly in the ASEAN Post Ministerial Conference, which brings together ASEAN and its dialogue partners, including Australia, once a year.

Economic ties with the region deepened and broadened under the Hawke and Keating governments, with Australia playing a central role, alongside Japan and South Korea, in the development of the Asia-Pacific Economic Cooperation (APEC) forum in the late 1980s and early 1990s. Although APEC’s agenda is largely economic, it helped
foster positive habits of cooperation and consultation and a stronger sense of shared regional interests. Until the recent formation of the East Asia Summit, annual APEC leaders’ meetings were the only forum to bring together the heads of government of most regional economies.

Working closely with regional partners, notably Indonesia, Australia has encouraged the development of broadly inclusive regional security mechanisms like the ASEAN Regional Forum in 1994 and the ASEAN Defence Ministers’ Meeting-Plus in 2010. We have supported informal networks and processes such as the Pacific Economic Cooperation Council and the Council for Security Cooperation in the Asia–Pacific network of think tanks and academics.

In addition to their functional importance, these processes have helped develop extensive personal networks of ministers, officials, businesspeople, academics and other experts around the region.

Regional and global institutions, like these, continue to evolve partly in response to Asia’s rise. Australia has a growing engagement with regional partners in multilateral organisations. It has been at the forefront of support for reforms to international institutions to reflect the increasing importance of emerging economies. For example, our constituency at the International Monetary Fund has agreed that Australia and South Korea share the constituency’s seat on the IMF’s Executive Board. We have supported the bids of two regional partners, Japan and India, to secure permanent membership of the UN Security Council. The Group of Twenty (G20) gives us close engagement with China, Japan, India, Indonesia and South Korea.

Australia and our regional partners have established strong frameworks for practical cooperation to address shared regional security and related challenges. Australian experts in law enforcement, customs, migration, public health, intelligence and other fields are well regarded and connected in the region.

Central to our approach to engagement in the region has been developing coalitions of like-minded countries that can attract broader support for action. Our major contributions to the United Nations’ efforts in Cambodia and Timor-Leste were examples.

In the security domain, Australia has developed defence cooperation programs with partners in Southeast Asia, including training, joint exercises, specialised exchanges and shared perspectives on defence doctrine.

The Australian Defence Force has a long record of contributing to regional security through peacekeeping and stabilisation operations and responding to regional needs for humanitarian assistance and disaster relief.

A further, longstanding strand in Australia’s engagement with Asia has been our development cooperation program. In 2010, Australia was the sixth-largest OECD Development Assistance Committee donor to Asian countries, which accounted for 58 per cent of our aid program, the second-highest proportion among all donors, after South Korea (OECD 2012a).
Australian development assistance focuses on poverty alleviation and assisting the most vulnerable. It helps countries connect with the economic dynamism in Asia in a self-sustaining way by building skills and capacity, strengthening institutions and governance, and supporting sustainability.

Economic links are another major feature of Australian engagement with the region. Our economic ties became more important in the late 1950s. The 1957 Commerce Agreement between Australia and Japan started a boom in our economic ties and growing recognition that Australia’s future lay in the region (Drysdale 1987). Australia was a reliable supplier to other Asian nations as well (for example, Australia exported wheat to China during the Cold War).

Australia has long been committed to economic integration with the region. The Whitlam Government’s recognition of the People’s Republic of China in 1972 and the establishment of diplomatic ties was a milestone. The 1976 Basic Treaty of Friendship and Co-operation with Japan was another landmark. The loss of British markets, especially when the United Kingdom joined the European Common Market in the early 1970s, also spurred a search for new markets in Asia.

The 1997 Asian financial crisis reinforced Australia’s growing economic interdependence with Asia. Australia was active in responding to the crisis, joining Japan and other countries to support arrangements to assist Indonesia, South Korea and Thailand. Following the crisis, efforts to improve governance, build capacity and develop stronger regional policy cooperation and institutions were intensified.

A final strand in our links with Asian countries—the people-to-people dimension—deepened in the 1970s. This development was given particular impetus by substantial Asian migration to Australia, but has since been complemented by others, such as the boom in international education in Australia and growth in tourism to and from Asia. More recently, other connections, such as social media, have become prominent.

3.3 How our economy transformed alongside Asia’s

Australia’s economic institutions inherited at Federation stood unchallenged, and indeed were extended, in the decades immediately after World War II. The growth strategy in the seven decades after Federation resulted in an economy that was overregulated and underproductive. On a number of occasions, Australia’s inflexible macroeconomic settings buckled under the strain of global economic forces. Households and businesses that were not sheltered by our version of mercantilism were being short changed by a succession of failures in Australia’s winner-picking policies. As Australian policymaker JB Brigden put it, people of all classes not only

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2 In 1990, only 14 years after the Basic Treaty was signed, Japan became one of the biggest investors in Australia. Japan held one-fifth of all foreign investments in Australia—a similar proportion to the United States and the United Kingdom.
expected the government to spend for them, but also to think for them—to help
them find markets and to hold their hand in settling disputes (Coleman, Cornish &
Hagger 2006).

At times during this period, Australians thought that the country was undergoing an
economic revival, and many felt a sense of economic and national security, as
occurred in the 1920s and 1960s. However, while living standards rose in absolute
terms, Australia underperformed relative to comparable economies, especially
between the 1950s and 1980s (Chart 3.1).

**Chart 3.1: Australia’s slide in comparative income has been reversed**

*Australia’s average annual growth in output per person compared with the OECD–20*

![Chart showing percentage points of GDP per person growth from 1900-50 to 2000-10.]

Note: GDP per person adjusted for purchasing power parity at 1990 prices. OECD–20 is the original
and Luxembourg have been excluded due to data limitations.


In 1870, Australia enjoyed the highest average incomes in the world. By 1970, average
incomes had fallen to three-quarters of those in the United States.

Seeing the opportunities emanating from within Asia against the backdrop of
decreasing productivity growth and falling agricultural export prices, from the
mid-1980s successive Australian governments managed a hard-fought transformation
of our economic institutions. This reversed the comparative slide in living standards
and set Australia up as a high-productivity economy (Box 3.1). The reform strategy
taken can be characterised in three steps.

First, Australia opened up its economy over time, which allowed us to develop
partnerships with Asian economies in an open global economic system. Moves to
open up the Australian economy began in the 1970s with landmark tariff cuts in 1973.
Second, Australia adopted a liberal but prudent approach to macroeconomic policy frameworks and capital market regulation, commencing in the 1980s, to make the domestic economy more resilient. Among a long list of institutional changes, Australia floated the dollar, liberalised financial markets under systemic oversight, introduced inflation targeting through an independent Reserve Bank, and introduced a medium-term fiscal policy framework focused on keeping a strong public sector balance sheet. Australia’s high-quality macroeconomic institutions created a stable environment that gave individuals, businesses and governments the ability to plan for the longer term and respond to external events and long-term trends.

Third, Australia then implemented broad microeconomic reforms from the mid-1980s onwards to lift the productivity and flexibility of the domestic economy. Exposure to international competition, especially as Australia integrated into Asian markets, placed pressure on Australian firms to adapt in order to succeed. Microeconomic reforms ultimately embraced goods and services markets, factor markets (including the labour market), the tax system, human services and publicly owned monopolies. In a landmark act of collaboration, the strands of the structural reform process were consolidated and extended in the National Competition Policy agreed by the Australian and State and Territory governments in 1995.3

Since coming to office in 2007, we have continued the reform process, putting into place the essential policy settings that will ensure Australia has an economy that is positioned to address the emergence of Asia. Tax reform, returning the budget to surplus, managing the resources boom, regulatory reform, ensuring that industries under pressure become a successful part of Australia’s future, skills reform, school funding reform, and increasing connectivity through the NBN, are all part of this broad reform agenda.

Building the Australian economy also means investing in critical infrastructure—such as ports, roads and rail—to increase productivity, improve competitiveness, attract investment and drive growth. Infrastructure investments will also better connect Australian regions, helping them to harness their unique strengths.

These reforms of Australia’s economy are essential and will assist in spreading the gains of success to ensure that all parts of society benefit. A resilient and diverse Australian economy, with many sources of strength and growth in different sectors, will able to respond to the opportunities and challenges of the Asian century.

3 The National Competition Policy extended prohibitions on anti-competitive activities to all businesses (previously most government-owned and some private businesses were exempt), introduced competitive neutrality, established reviews of all legislation that restricts competition, established an access regime for nationally significant infrastructure, created a new regulator (the Australian Competition and Consumer Commission, merging the Prices Surveillance Authority and the Trade Practices Commission), as well as advanced reforms in the electricity, gas, water and land transport markets.
Box 3.1: Australia is a high-productivity advanced economy

Australia is a high-productivity economy and a regional leader in production per worker, even though productivity growth has slowed over a long period (Chart 3.2). Australia’s relatively high exchange rate reflects the build-up of investment, our strong macroeconomic performance and our attractiveness as a business destination. The high exchange rate has raised concerns about Australia’s cost competitiveness and led to some to call for Australia’s wage costs to be reduced.

Chart 3.2: Australia’s output per worker is higher than many in the region
Output per worker as a percentage of Australia’s, by country

However, a fall in a country’s wage cost competitiveness does not necessarily translate into a fall in its global market share or damage its long-term economic performance (McCombie & Thirlwall 1994; Kaldor 1978; Krugman 1989).

There are many examples where advanced economies have had rising wage costs at the same time as their global market share has risen. As average living standards and wage incomes and costs surged in Japan and the United States in the post-war period, their share of global trade rose.
Box 3.1 (continued)

Although not necessarily desirable, another way to boost competitiveness would be for employers to reduce the profit share of income and lower the nation’s capital costs (Felipe & Kumar 2011).

However, the best way to increase Australia’s real income in future, as has been done in the past, is to boost our productivity and participation and to engage with the region. This will require supporting our innovative firms (Chapter 5) and building Australia’s capabilities (Chapter 6) so they can tap into global production networks (Chapter 7) (Chart 3.3).

Chart 3.3: Australia’s real income
Average annual growth in real gross national income (RGNI) per person, by source

Opening up our economy: accelerated economic integration

Australia’s economic integration with Asia gathered pace as our economic settings were liberalised. The opening up of our economy was begun by incremental, typically unilateral, decisions to liberalise restrictions on trade. Australia’s sequence of reductions in tariff assistance began with a 25 per cent cut in the tariff rate at the beginning of the Tokyo Round of the General Agreement on Tariffs and Trade in 1973.

After a decade’s hiatus, during which policymakers vacillated, liberalisation accelerated with the abolition of quantitative restrictions on imports from the mid-1980s. Controls were lifted from a range of consumer goods that Australian households wanted and needed, including clothing, textiles, whitegoods and, particularly, cars. The rate of assistance to industry fell significantly (Chart 3.4). While the transition was difficult for some firms, greater openness ultimately reaped economic dividends and made Australians better off (Box 3.2).

Chart 3.4: Fall in average effective rates of industry assistance

As tariff barriers fell, and a succession of Asian economies emerged to become major players in global markets, our trade ties with Asia burgeoned—supported by our geographical proximity and complementarities with industrialising Asian economies.

Asia’s rapidly expanding industrial sectors and abundant labour supplied Australians with the finished industrial goods that they wanted, such as electronics and cars. The source of those goods moved around the region as Asian economies successively industrialised and moved up the value-adding chain—starting with Japan, then to Taiwan, South Korea, the ASEAN economies and China.
The Organisation for Economic Co-operation and Development (OECD) has undertaken extensive research quantifying the benefits of openness. It estimates that for a 10 percentage point increase in trade exposure there is a corresponding 4 per cent increase in income per working-age person in the long run (OECD 2003).

Separately, the OECD has confirmed that greater market openness is a necessary condition for a sustained improvement in economic performance (OECD 2009). Lower regulatory barriers to competition (including between domestic and foreign suppliers) could result in a 2–3 per cent increase in GDP per person in OECD countries. Opening up an economy creates more opportunities and, over time, new jobs, while protectionism has a significant negative impact on employment.

Research in Australia has reached similar conclusions. The Centre for International Economics suggested that trade liberalisation since 1988 may have added 2.5 per cent to Australia’s GDP in the long run, representing an increase in real income of around $3,000 to $4,000 a year for the average working family (CIE 2009). The importance of an open economy for employment is also evident in the research, with more than one in five Australian jobs now trade-related.

Other studies show a similar positive relationship between market openness and working conditions. For example, one study shows that open economies outperform closed economies in terms of pay (Flanagan & Khor 2011). Based on 2008 figures, the study concluded that workers in the manufacturing sectors of non-Asian economies have pay rates three times greater in open economies than in closed systems. In Asia, manufacturing workers in open economies have pay rates nine times greater than those of workers in closed economies.

An Australian Bureau of Statistics study of small to medium-sized Australian exporters using 2006–07 data for 14 different industries showed that those businesses paid more than 40 per cent higher average wages than non-exporters (ABS 2009).

Recent studies by the International Collaborative Initiative on Trade and Employment, led by the OECD, confirmed previous findings that economic opening must be complemented by other policies in order to ensure inclusive growth. Such policies include investment in education, active labour market policies, promotion of labour market flexibility and the development of social safety nets (Campos-Vázquez & Rodríguez-López 2011; Iapadre 2011).
In turn, the large industrial sectors of densely populated Asian countries boosted global demand for Australia’s raw materials. Increasing affluence in emerging Asian economies lifted demand for high-value goods and services—such as education, business services and niche manufactures—that Australia supplies as an advanced economy.

In 1960, Asia accounted for only one-fifth of Australia’s goods trade, with Japan being our biggest regional trading partner. By 1980, that fraction had risen to over one-third (Japan took up one-quarter of Australia’s goods trade) while by 2010, Asia accounted for two-thirds of Australia’s goods trade. China, Japan, India, the four ‘tigers’ and our ASEAN neighbours absorbed around three-quarters of our merchandise exports and supplied half of our imports (RBA 1997; ABS 2012d). While Australia’s services trade has not grown as fast, a number of Asian markets have become more important. The Chinese and Indian markets for Australia’s services exports have increased fivefold over the past decade.

In contrast to the trade story, Australia’s direct financial market ties with Asia have been slower to develop. Like other countries and regions in Asia, Australia has been more financially integrated with other parts of the globe than with the region (Pongsaparn & Unteroberdoerster 2011). The United States and Europe continue to be the main sources of Asia’s portfolio finance, although intra-Asian foreign direct investment has been rising, especially investments to integrate value chains over the past three decades.

Nevertheless, the more open financial markets in Australia and in parts of Asia led to rises in foreign investment from Asian economies as they emerged as economic powers. Hong Kong, Japan and Singapore continue to be the most important sources of finance from Asia; together, they hold one-tenth of all foreign investments in Australia. Starting from a low base, other rapidly emerging Asian economies have gained greater prominence, particularly in the resources sector. While investment from China has accelerated in recent years, it remains small in absolute terms. China was only Australia’s 13th largest investor by the end of 2011 and it still has less than 1 per cent of the total stock of inward investment.

Our economic performance has become more synchronised with that of the region, and less with that of the United States (Box 3.3). And since 1998, Australian equity markets have become more synchronised with equity markets in Asia—particularly markets in Hong Kong, Indonesia, Japan, Singapore and South Korea (Boao Forum for Asia 2012).
Box 3.3: How closely is Australia’s economic performance tied to the global economic powers?

Over the past two decades, China’s economic influence on Australia has rapidly caught up with that of the United States. A decade or so ago, movements in Australian GDP were highly correlated with quarterly movements in US GDP (Chart 3.5), but that correlation has since declined. As Australia’s economic ties with China deepened, the correlation between quarterly movements in Australian and Chinese GDP increased steadily in the lead-up to the 2008 Global Financial Crisis. While Australia outperformed other advanced economies during and after the crisis, China’s recovery outpaced Australia’s and the correlation declined.

Chart 3.5: Correlations between Australian, United States and Chinese output growth
Rolling correlation of real quarterly growth, 10-year window

Integration with Asia unleashed transformative economic forces

Australia’s integration with a resurgent Asia unleashed forces that continue to transform our economy and the economic activities of Australians. The globalisation of economies in Asia has made Australian consumers better off. Demand from Asia for Australia’s natural resources has changed the shape of our economy and the rising affluence in Asia has created broad new opportunities for Australian firms.

Because of Asia’s abundant labour and integrated transnational production chains, it has a powerful advantage in producing many goods, especially manufactured goods. The expansion of Asia’s industrial producers into global markets, together with improvements in business practices and technology, has constrained growth in the prices of the goods and services they produce.
At first, these benefits came in the form of cheaper, labour-intensive, simply transformed consumer goods. As Asian producers have moved up the value-adding chain, their impact has since been felt more strongly in the markets for high-technology goods (Spence 2011; Riad et al. 2011; WTO & IDE-JETRO 2011).

As Asian imports penetrated Australian domestic markets, their prices fell (Chart 3.6). In 2011, household electrical imports were on average half the price they were 25 years ago. By comparison, the price of a representative basket of goods and services has doubled over the same period.

Capital goods import prices have fallen rapidly since the 1980s, driven down by cheaper information and communications technology. The prices of consumer goods—clothing, household electrical goods and cars—have grown slower than wages and general prices.

While the transition was difficult for some firms and workers, lower prices have meant that the purchasing power of Australians has improved—we have been able to buy more for less and dedicate more of our income to other things.

**Chart 3.6: Globalisation of Asia has been good for consumers**

Exports by country or region (as a percentage of world trade) | Australians’ import prices
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ASEAN-4 | 0
China | 5
Germany | 10
Hong Kong | 15
Japan | 20
Singapore | 25
South Asia | 30
South Korea | 35
United Kingdom | 40
United States | 45

Notes: Prices are in Australian dollars and have been influenced by exchange rate movements. See glossary for country groupings.

As Asian producers became bigger players in global markets, heightened competition placed pressure on many businesses around the globe, including in Australia. Firms that competed head-on, such as in textiles, clothing, machinery and equipment, felt the pressure most.
In response to these challenges, Australian industry innovated and evolved in ways that were ultimately responsible for boosting Australia’s productivity. Many firms improved their processes and ‘did the same things better’. And rather than trying to compete head-on with producers in developing Asian economies, many Australian businesses changed their business models and took advantage of complementary capabilities. Instead of trying to defy Australia’s comparative advantages, they created their own niche in domestic and overseas markets. And rather than producing more generic ‘commoditised’ goods, many sought to differentiate their products through design and value-adding. To complement this, they changed their marketing to target changing consumer tastes and export markets. While it was difficult times for some, many were successful.

Some businesses also moved away from labour-intensive, lower-skilled mass assembly operations and developed partnerships with complementary industries overseas (including firms in textiles and machinery industries with marked import penetration), developing production and value chains within the region. They moved parts of their production to lower-cost overseas locations, including in Asia. At the same time, the production of premium and specialised goods—as well as design services, marketing services, intellectual property and management acumen—was retained domestically (Box 3.4).

The surge in Asia’s demand for resources, and our comparative advantage in these resources, has complemented Asia’s development and driven both our labour market and industrial structures.

Since World War II, Australia has emerged as an important and reliable supplier of mineral and energy resources, which have helped fuel economic growth in Asia. Australia currently provides Japan with well over three-quarters of its domestic consumption of coking coal (for steel production) and half of its consumption of thermal coal (for power generation) and iron ore (Chart 3.7).

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4 For case studies showing how some firms adapted to competitive pressures during this period of liberalisation in Australia, see Clark et al. (1996).
Box 3.4: Blundstone

In the past few decades there have been significant changes in the Australian business environment for labour-intensive manufactures such as footwear. These changes led Blundstone to move the remaining 50 per cent of its value-adding in leather manufacturing offshore to a number of facilities located throughout Asia. If the company had not taken this decision, its 142-year presence would have vanished. Instead, Blundstone was able to retain the manufacturing of gumboots at its base in Hobart. Blundstone now defines itself as a proud Tasmanian company, competing on a global basis. It designs and sells highly innovative work boots and leisure footwear in more than 30 countries around the world.

Asia is a key enabler of Blundstone’s strategy to compete globally—more than 90 per cent of the world’s footwear is now manufactured in Asia. The company has entered partner business relationships with three footwear manufacturing facilities in Vietnam, China and India. It has some of its own employees working within these factories and has invested heavily in training personnel in its manufacturing techniques. It sees these suppliers as long-term business partners, with whom it shares intellectual property and a mutual interest in growing the Blundstone business. To this end, it has regular audits of its combined business practices, covering employee and industrial relations, environmental management practices and quality management systems.

From Blundstone’s headquarters in Hobart, the company is able to successfully manage product design and development, production and logistics, sales and marketing, and administrative support of its global operation. Having transformed its business, Blundstone is now in a position to compete well beyond the next decade and sees its Asian partners as an important enabler in that future.

Source: Blundstone.

Australia also supplies one-sixth of Japan’s natural gas imports and is the largest supplier of industrially important minerals such as zinc and bauxite. The Japan-driven minerals boom began long ago, during Japan’s period of rapid growth in the 1960s and 1970s. Like what is happening now, it revived or created towns in Australia’s mining regions.

Since 2003, however, the pace of the economic emergence of China and India has lifted the demand for Australian commodities to a new scale. Australia now supplies around 40 per cent of Chinese demand for iron ore, accounting for two-thirds of Australia’s total iron ore production. China is a relatively small but growing market for Australian coal and natural gas. India, on the other hand, is the second-biggest importer of Australian coking coal (behind Japan).
A surge in resources demand since 2003 has led to the biggest and most sustained boom in Australia’s export prices in our history. Our terms of trade are around three-quarters higher than our 20th-century average.

More moderate export price booms in the past have ended in high inflation and rising unemployment, due to weaknesses in our macroeconomic settings. Australia’s more robust and transparent settings this time around have played an important role in sustaining our strong economic performance (Box 3.5).
Box 3.5: Australia’s macroeconomic frameworks have served us well over the past decade

Australia’s macroeconomic frameworks and settings have worked well over the past two decades, with Australia having recorded 21 years of continuous economic growth, a record unmatched by any other advanced economy over this period. Sound macroeconomic frameworks and decisive policy responses have allowed Australia to successfully weather significant economic shocks, including the Global Financial Crisis. The Australian economy has also sustained the longest mining boom in our history, managing to convert high commodity prices into more enduring export capacity. This has been achieved at the same time as contained inflation and low unemployment.

The Government’s commitment to fiscal discipline, and the return to surplus in 2012–13, will ensure Australia’s balance sheet remains one of the strongest in the developed world. The strength of Australia’s public finances is a key reason behind Australia’s AAA/stable credit rating from all three major rating agencies.

In the absence of sound macroeconomic policy frameworks, past booms, such as the Korean War wool boom of the 1950s and the commodity boom of the early 1970s, ended badly. Annual inflation spiked at more than 20 per cent in 1951–52, while in the mid-1970s inflation rates hit 15 per cent and unemployment rose to around 6 per cent by the end of the decade.

In these cases, the shock from the rise in the terms-of-trade fed directly into the economy through a fixed exchange rate. The shock was spread throughout the economy through the centralised wage fixing system, leading to inflation and considerable erosion of competitiveness in those sectors not linked to the booming sectors.

In contrast, while the terms-of-trade rise during the first phase of the recent mining boom was larger than in either the 1950s or 1970s, the economy was buffered by the floating exchange rate and more flexible labour markets. With prudent fiscal policy, a floating exchange rate and an independent, inflation targeting central bank, Australia’s more robust and transparent settings have helped spread the gains.

The strength of our macroeconomic frameworks was shown during the Global Financial Crisis. In response to the global downturn, the Reserve Bank of Australia eased monetary policy significantly and swiftly. The cash rate was reduced by 3.75 percentage points over four board meetings from October 2008 (after Lehman Brothers collapsed) to February 2009. At the same time, the Reserve Bank provided significant liquidity support to money markets.
In addition, fiscal policy provided critical support. The Government implemented a significant and rapid fiscal stimulus package to support growth and jobs, consistent with the Government’s medium-term fiscal strategy. Without the support of fiscal stimulus, the Australian economy would have experienced a technical recession.

At the same time as enacting fiscal stimulus, the Government introduced a clear and credible plan to return the budget to surplus through the introduction of strict fiscal rules which included allowing the level of tax receipts to recover naturally as the economy improves and holding real growth in spending to 2 per cent a year, on average, until the budget returns to surplus (Chapter 5).

The impact of the crisis on Australia’s financial system was further reduced as a result of our decisive action to support the financial sector, for example, through guarantees for deposits and wholesale debt securities. The strong whole-of-financial-system oversight of the Council of Financial Regulators (comprising the Australian Treasury, Reserve Bank of Australia, Australian Prudential Regulation Authority and Australian Securities and Investments Commission) also supported the safety and stability of the financial sector through the crisis.

Strong demand for Australia’s mineral commodities has led to strong growth in mining investment over the past decade. In 2010–11, mining investment was above 4 per cent of GDP—around eight times its share 50 years ago—and it is expected to remain high over the medium term (Australian Government 2012a).

In recent years, there has been strong employment growth in the mining and related construction sectors. While sectors like health and social services, professional services and education have recorded more moderate rates of employment growth, they continue to be the largest source of jobs growth given their greater share of Australian employment (Chart 3.8). In contrast, some industries have faced more difficult conditions, with some finding it harder to attract workers and compete. The purchasing power of average earnings has risen across the board, even though it has grown more quickly in the mining and mining-related sectors.

Although many people are moving into mining-related industries and enjoying higher returns for their work, large numbers of jobs continue to be created in the services industries, particularly health services, professional services and education and training.

Across both mining and non-mining communities, unemployment has declined. Despite the structural change occurring within the economy, unemployment has become less widespread as the aggregate level of unemployment has declined with the overall strengthening economy (Gruen, Li & Wong 2012).
An increasingly affluent Asian region has opened up market opportunities for enterprises beyond the resources sector. Demand for Australian agricultural goods has expanded as Asian countries have become more affluent (Chart 3.9), and Australian exporters have diversified away from a traditional focus on wool and cereals.

Education is the largest of our services exports, and the number of Asian students studying in Australia (particularly students from the ASEAN countries, China and India) has grown strongly in the past decade.

Asia has become the biggest source of visitors for the Australian tourism sector, contributing around 40 per cent of visitor arrivals. Even so, Australia’s reliance on Asian tourism is relatively low compared to that of most Asian countries (Boao Forum for Asia 2012)—more than 70 per cent of arrivals to China, Hong Kong, Japan, Malaysia, South Korea and Taiwan come from Asia.

Business services are Australia’s third-largest class of services exports (ABS 2012d). Australian firms in business, financial, professional and mining services and niche manufacturing, however they are categorised, have taken their considerable expertise and experience to Asian markets. This is especially true for a number of services firms in the areas of finance, engineering and design.

Thriving Australian businesses have not usually succeeded by competing against rivals solely on cost. Despite the high exchange rate and cost pressures, they have responded to opportunities and challenges by evolving and innovating their business models (Box 3.6).

**Box 3.6: Tangalooma Island Resort**

Tangalooma Island Resort is a family-owned, eco-style holiday destination on Moreton Island, not far from Brisbane. In the late 1990s, when it began to tap demand in Asia, its customer base was 80 per cent domestic and 20 per cent international. Today, the split is 50:50. The number of Chinese tourists visiting Tangalooma has quadrupled to 20,000 in the past four years.

They have representatives in China, India and Thailand and a managed office in South Korea. And Tangalooma invests heavily in relationships in the Asian region. The sales and marketing director spends around five months of the year in Asia, and several other sales and marketing managers travel to Asia every couple of months.

A range of unconventional marketing approaches have been developed by Tangalooma, such as co-marketing with retail chains that serve its target demographic. It has worked to develop products for the specific needs of its Asian customers. Staff members are Asia-literate, and marketing materials are available in a range of languages. Tangalooma offers personal experiences customised for customers from Asian countries, who are often looking for experiences that are unavailable at home, such as participating in the resort’s wild dolphin feeding program, customised helicopter or quad-bike tours and parasailing.

Their success in attracting tourists from many parts of Asia has helped shield Tangalooma from downturns and low-season cycles, as different parts of the region have different holiday periods. Initiatives such as the opening of a hospitality and English training school have also diversified Tangalooma’s offering.

Many Australian businesses have found ways to add value, differentiate themselves from the competition and target changing demands. Rather than just engaging in transactions, they have built relationships and partnerships with others and formed clusters with complementary firms and industries. Some have accessed large regional markets by integrating into regional value chains.

Others have taken advantage of the high exchange rate and used their purchasing power to establish enterprises elsewhere in Asia, just as Japanese businesses did in the 1980s and 1990s in response to an appreciating yen (Chapter 4). Making the most of complementary interests and working collaboratively with partners in Asia, rather than competing against them, has been the best recipe for success.

Notwithstanding Australia’s recent strong performance, competition has been increasingly fierce in the services sector. As the region has become more affluent, its business services sector has expanded and developed. The size and quality of the region’s domestic education sectors have risen. And tourism infrastructure has improved, increasing competition for global tourism spending.

To make the most of the benefits flowing from the region, individual Australian firms and industries will need to make big decisions about their futures, changing and innovating to compete on the global stage.

3.4 How our society transformed alongside Asia’s

Since 1945, about 1 million migrants a decade have settled in Australia. Few nations have absorbed so many migrants as a proportion of their populations in so short a period. The dramatic changes in the ethnic and cultural composition of Australia that have occurred in the space of the most recent generation and a half are as big as those wrought in Canada over three generations, and over more than six generations in the United States (National Multicultural Advisory Council 1999).

Today, nearly one-quarter of Australians were born overseas. Four million Australians speak a language other than English at home. In all, Australians identify with over 300 ancestries, speak as many different languages and observe a wide variety of cultural and religious traditions. Cultural diversity is at the centre of Australia’s identity.

More people from Asian countries live, study and work in Australia than ever before. Of the 5 million overseas-born people living in Australia, almost 2 million were born in Asia—an increase from 276,000 in 1981. Close to 1 in 10 of Australia’s population identifies with Asian ancestry. Today, there are more speakers of Chinese languages in Australia than speakers of Italian or Greek. In 2010–11, for the first time in Australian history, Britain was not the main source of permanent residents—more people moved here from China than from any other country, and in 2011–12, India was the number one source of permanent migrants. Australians are also increasingly living, working and travelling in the region.
The dramatic shift in orientation towards Asia in the past 40 years has changed the face of Australian society and strengthened our connections with our region. The scope of our ties has been broad, driven by trade, migration, tourism, education and exchanges in business, arts, ideas and information.

Asia has become an important part of our Australian identity.

Australia’s people-to-people links with Asia grew stronger throughout the 1970s and these connections deepened into the 21st century.

Many Indian professionals, such as doctors, teachers and engineers, came to Australia in the late 1960s and 1970s. Further growth in migration from the region occurred in the late 1970s, when Indo-Asian refugees and their families came to Australia following the Vietnam War. Between 1975 and 1989, around 120,000 were resettled here (Quilty & Goldsworthy 2003). Vietnam remained the main source of migrants from the region through to the early 1990s. The period from the mid-1980s to the mid-1990s brought an increase in migrants from elsewhere in Asia, such as the Philippines, Malaysia and Hong Kong.

In 1984, for the first time, Asia-born permanent arrivals to Australia outnumbered permanent arrivals born in Europe (ABS 2012a).

In the past 15 years, permanent migration from throughout Asia to Australia has grown more than four-fold from around 25,000 in 1997–98 to about 112,000 in 2010–11. India and China have driven this growth in the skilled and family migration streams; the Philippines, Sri Lanka, Vietnam, Malaysia and South Korea are also important sources of permanent migrants from these streams. In this time, Australia has resettled around 32,000 refugees and people in humanitarian need from the Asian region, mainly from Myanmar and Sri Lanka.

And more Australians are living in and around the region. Nearly 4 in 10 of those Australians who emigrated moved to an Asian country in 2011–12. China was the fifth most common destination after the United Kingdom, New Zealand the United States and Singapore. Of those Australians who were born overseas, 4 in 10 have moved to live in an Asian country, most commonly China. Asia will become an even more important emigration destination over time, reflecting the evolving composition of Australia’s population, the rising incidence of dual nationality and the increasing economic opportunities from a resurgent Asia.

More recently, along with other nations, Australia has benefited from the increasingly complex and circular people flows in the region. These two-way flows include people travelling for leisure and enjoyment, short-term visits to friends and family, entrepreneurs, and people living, working and studying in multiple countries. Ideas, culture and experiences are now more easily shared as technology and cheaper travel make it easier to maintain relationships across the region.

There has been a large increase in the number of people from Asia who spend time here studying or working temporarily. Around 40 per cent of long-term temporary
skilled migrants to Australia are from countries in Asia—the number more than doubled from 20,000 in 2001 to 48,000 in 2011. Many are from China, the Philippines and India (Box 3.7). Some temporary migrants become permanent residents in Australia; others return home or move to another country to pursue new opportunities.

Box 3.7: Dr Kanthanathan’s ‘Australian dream come true’

Dr Vijay Kumar Kanthanathan was working as an anaesthetist in the bustling city of Chennai, India, when he chanced across an advertisement in a medical journal for medical practitioners to work in Australia. He researched Australia thoroughly and became excited about the lifestyle and career opportunities a move offered him and his family.

He arrived in Australia on a temporary business (long stay) 457 visa in 2006 and worked as a general practitioner at Mareeba hospital in Queensland. He moved to the Mulungu Aboriginal Medical Centre nearby in 2007 where he still works today. ‘It has been a rewarding experience to see the lifestyles of patients change over the last five years and the standard of living of the community improve,’ Dr Kanthanathan said. He also feels as if he makes a contribution to the education of medical students at James Cook University at Townsville—who are posted to Mulungu as part of their rotations.

Through federal funding the centre has expanded into having a ‘Mums and Bubs’ clinic, which screens children for developmental problems and provides services in collaboration with Mareeba hospital. It also started a ‘Well Being’ clinic to help patients with chronic disease, empowering them to take control of managing their own health care.

Dr Kanthanathan became an Australian citizen in May 2011. ‘Ever since we moved to Australia, me and my family have never looked back,’ he says. ‘This seems to be the Australian dream come true.’ His story highlights the value of Australia’s multicultural society and the valuable contribution skilled migrants from Asia make to the Australian community.

Australia has by and large managed its increasing ethnic diversity successfully. The contributions of Australia’s Asian communities to Australian life have been diverse, with Australians with Asian heritage being active participants in Australian community and civic life. There are many longstanding community organisations and associations; for example, the Chinese community’s Chung Wah Association of Western Australia dates back to 1909.

But there have, from time to time, been difficulties. Australia needs to continue to strengthen and build upon our institutional frameworks to address racial discrimination and to preserve and promote social cohesion and inclusion (Chapter 6). There are indications that many Australians hold misperceptions about some Asian nations. For example, a Lowy Institute poll in 2011 found that many believe that
‘Indonesia is essentially controlled by the military’, despite Indonesia’s democratic system of government (Hanson 2011).

The Australia Indonesia Business Council has argued that a misalignment between business perceptions of parts of Asia and new economic realities ‘is in large part responsible for the under-performance of the Australian trade and investment relationship with ASEAN and with Indonesia in particular’ (AIBC 2012). And Australian media could more accurately represent our ethnic and cultural diversity (Law 2009).

The benefits of Australia’s cultural and religious diversity have become apparent in other cultural and leisure activities. Following a rich history of European influences, Chinese, Indian, Japanese, Malaysian, Thai and Vietnamese cuisines have permeated Australian food culture. The calendar features an array of cultural celebrations, from welcoming Chinese New Year or observing Ramadan to celebrating Diwali, the Festival of Lights. In 2012, more than a million Australians participated in over 5,000 events on Harmony Day, which celebrates Australia’s cultural diversity.

Migrants from countries in Asia generally fare well in the Australian labour market, with low unemployment rates and, among those employed, high proportions in skilled employment. The level of educational attainment among the Asia-born population is higher than among the population as a whole (ABS 2011c).

However, there are gaps in participation in some of Australia’s institutions and organisations, such as in our parliaments, businesses, labour movement and civil society organisations. Our parliamentary representatives do not reflect fully our diverse population (Anthony 2006; Kennett 2012). In business, while there is encouraging cultural diversity among accounting and business services firms, there is a shortfall in the proportion of senior executives and up-and-coming executives who originate from non-English-speaking countries and who speak languages other than English (Diversity Council of Australia 2011).

Educational institutions, volunteering, exchanges and study programs continue to be important ways for Australians to learn more about Asia and build lasting relationships with people from the region.

Successive Australian governments have recognised the benefits of increasing Australia’s knowledge and appreciation of Asian languages, cultures and countries. In the 1970s and 1980s, building on efforts in the 1950s, a number of universities opened specialist Asian and Southeast Asian studies departments, and there was an expansion of language learning. For example, the majority of Australian universities have some kind of program of Japanese studies.

But the growth in Asian studies in universities and schools has not been sustained on a broader scale, and in many cases has declined (Asialink 2012; ASAA 2012). And while more Australians are studying in Asia, even more need to be encouraged to take up the opportunity, particularly as the quality of Asian universities continues to improve (Chapter 6).
Australia’s university system is a powerful link with the Asian region through the number of students who come to Australia for their education, and more can be done to strengthen these links (chapters 6 and 9). Since the late 1980s, the number of Asian students studying in Australia has increased rapidly following the lifting of limits on the number of international students. In the past decade, there have been around 2.5 million enrolments of international students in Australian educational institutions, of which 1.9 million were by students from Asia.

Australia’s cultural diversity and creative links to Asia have increased the vitality of our cities and regions (Box 3.8). The efforts of government, private sector and community organisations and individual artists have sparked an enthusiasm for Asian-Australian creative connections that has developed a life beyond official institutions (Quilty & Goldsworthy 2003). Connections and exchanges between Australia and Asia in the creative and performing arts increased during the 1990s: Asialink Arts began in 1990 and the Asia–Pacific Triennial of Contemporary Art was established in 1993 by the Queensland Art Gallery.

**Box 3.8: Asian influences in Australian arts and culture—OzAsia Festival and the Asia–Pacific Triennial of Contemporary Art**

Established in 2007, South Australia’s OzAsia Festival is an annual two-week event devoted exclusively to exploring links between Australia and our neighbours, presenting works by Australian artists who identify with an Asian heritage, collaborative projects between Australian and Asian artists, and activities that include a cross-section of the traditional and contemporary cultures of Asia.

The OzAsia Festival includes theatre, dance, music, film, visual arts, literature, food, design and multimedia. The 2011 program featured almost 450 artists from Japan, China, Hong Kong, India, Indonesia, South Korea, Malaysia, Thailand and Vietnam, as well as Australia’s best.

The Asia–Pacific Triennial of Contemporary Art is the flagship contemporary art event of the Queensland Art Gallery and Gallery of Modern Art. For two decades it has been the only major exhibition series in the world to focus exclusively on the contemporary art of Asia, the Pacific and Australia.

Since the first triennial in 1993, more than 1.8 million people have visited the event. The most recent triennial averaged a record-breaking 4,400 visitors daily. The gallery is also one of few public institutions to collect both contemporary Asian and Pacific art and it has built these collections in tandem with the series.

Many governments in Asia have played a formal role in promoting people-to-people links; Japan’s support for Japanese language learning in Australia and, more recently, the establishment of a number of Chinese Confucius Institutes in Australia are examples. Independent bilateral and regional foundations, councils and institutes—many supported through grants programs administered by secretariats in the Department of Foreign Affairs and Trade—have also been established to foster connections and cooperation. Along with many sister-state and sister-city
relationships, these groups have created multifaceted, informal connections. A typical example is the Latrobe City Council’s a sister-city relationship with Taizhou in China. There have been exchanges in education, health care and culture since 2000 and the focus is being broadened to include business opportunities and links.

Beyond government, many institutions across the region have developed relationships over the years to nurture people-to-people connections. Bilateral and regional business councils have supported business people to strengthen links. Young people are building connections through new organisations such as the Australia–Indonesia Youth Association, the Australia India Youth Dialogue and the Australia–China Youth Association, which has amassed more than 2,000 members since its formation in 2008 and has run a range of successful projects, dialogues and events, including promoting the study of China in Australian schools.

Tourism and short-term travel to Australia from countries in Asia have grown considerably, adding to our links. While the number of tourists from traditional markets, such as Japan, declined in the past decade, the number of visitors from China and India has grown. Arrivals from China have nearly increased by about six-fold, partly as a consequence of the Chinese Government’s decision in 1999 to grant Australia ‘approved destination’ status. And the total number of visitors coming from Hong Kong, Singapore, South Korea and Taiwan was almost double the number coming from mainland China in 2010. Indonesia, Malaysia and Thailand are also significant sources of visitors.

And more Australians are taking holidays in the region. In 2011, 3.5 million Australians left for visits to Asia, mostly Southeast Asia (Chart 3.10). By 1995, Asian countries were the main destinations for almost 40 per cent of Australians, and in 1998 Indonesia overtook the United Kingdom and the United States as a tourist destination.

**Chart 3.10: More Australians have been travelling to Asia**

**Departures by destination**

**Departures to Southeast Asia**

Note: See glossary for definition of country groupings.