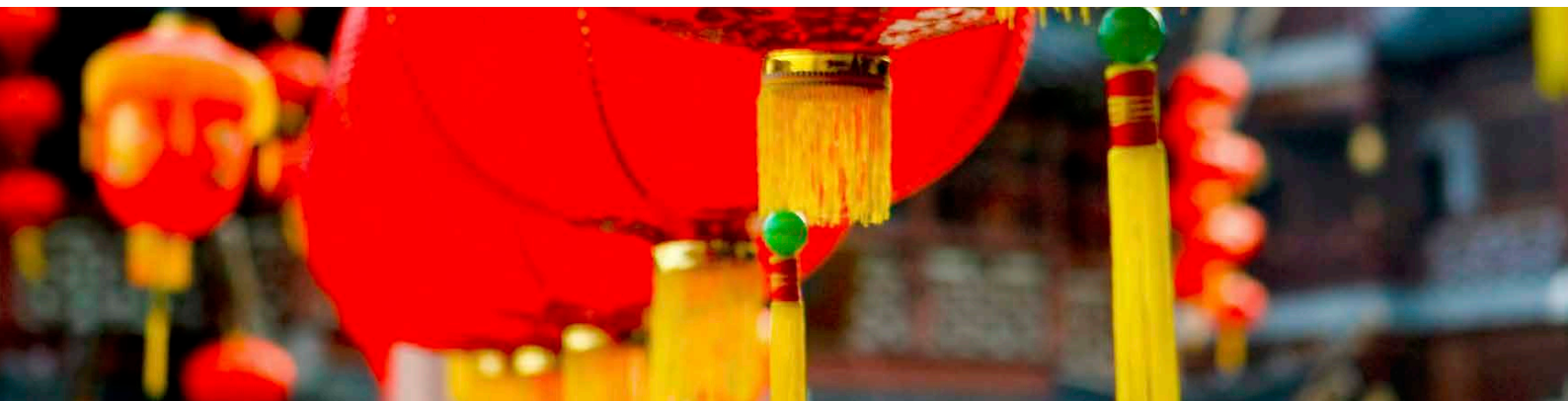


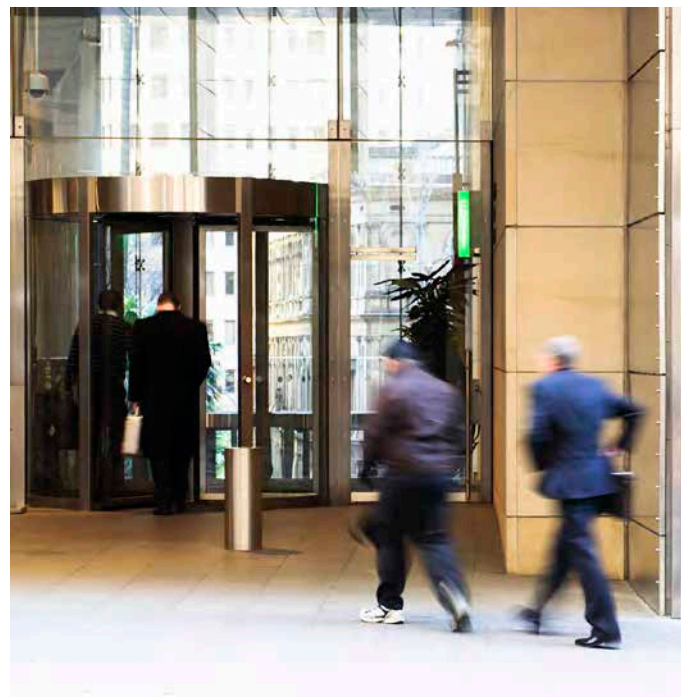


Australian Government

# AUSTRALIA IN THE ASIAN CENTURY



Issues paper  
December 2011



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A copy of this document is also available on the Australia in the Asian Century website at: [asiancentury.dpmc.gov.au](http://asiancentury.dpmc.gov.au).

## Introduction

On 28 September 2011, the Prime Minister commissioned a White Paper on Australia in the Asian Century, the terms of reference for which are attached.

The purpose of the White Paper is to identify what action Australia should take to seize the opportunities and meet the challenges arising from the Asian Century which is already unfolding.

Making the most of these opportunities, dealing with these challenges and advancing Australian interests in the next five years and over longer time horizons will require a national conversation within and among governments, business, academia, other organisations and the wider community.

This Issues Paper forms part of a wider consultation process. It outlines broad issues and asks questions to prompt discussion as input into the White Paper. It is not a draft White Paper; nor does it set the balance of issues that will be examined in the White Paper. Policy frameworks and actions will be considered after a careful examination of the issues raised and information gathered.

You are invited to provide submissions to the White Paper. Your analysis and comments will assist in shaping and strengthening Australia's future and enhancing the quality of our engagement with Asia.

The deadline for submissions is 26 February 2012. Further information about the submission process and other public engagement activities is on the website. Unless otherwise requested, submissions will be published online shortly after they are received. Submissions can be uploaded to [asiancentury.dpmc.gov.au](http://asiancentury.dpmc.gov.au) or mailed to:

### Submissions

Australia in the Asian Century Task Force

PO Box 6500

Canberra ACT 2600

### Discussion points on community engagement

What form of consultation should the White Paper task force undertake to maximise the quality of its analysis and policy advice?

What are effective ways to promote an ongoing national conversation about Australia's engagement with Asia beyond the White Paper process?

## What is the purpose of the White Paper?

The White Paper will examine Australia's past and future links with the diverse nations in Asia. It will review our current government policy settings and strategies, consider the potential contribution of business, non-government organisations and individual citizens and provide a blueprint to navigate the Asian Century – a period of transformative economic, political, strategic and social change.

The scale and pace of Asia's transformation is unprecedented. Hundreds of millions of people have been lifted out of poverty, many moving from rural areas to new megacities. Asia's demand for resources and other goods and services has grown rapidly. Its diverse and rich cultural traditions co-exist with cutting edge modernity. Asia's increasing economic weight is boosting its capacity and willingness to engage politically and strategically in the region and across the globe.

Australia's integration into the region gathered pace in the post-war period with a series of landmark events including: our support for Indonesia's independence in the late 1940s; the 1957 Commerce Agreement with Japan; our recognition of China in 1972; our reception of Indochinese refugees in the 1970s; our contribution to the Cambodian Peace Process; our role in establishing and participating in APEC; and our contribution to other forums such as the G20. An extensive web of bilateral, regional and global links now brings Australia and our Asian neighbours together.

Australia's integration into Asia has been and is contributing to our national prosperity, to our vibrant and diverse society and to our security. Geographic proximity is important, as are the soundness of our national fundamentals: the depth of skills and expertise of the Australian people; our diversity and social cohesion; the acumen of our businesses; the richness of our natural resources; our stable and effective institutions and regulatory frameworks; the openness and flexibility of our economy; our forward and outward looking policy settings; our values; and our general capacity to absorb change and adapt successfully.

While the Asian Century offers unprecedented opportunity, it poses challenges for Australia, the region and the world. Australia and other countries in Asia must adapt to fluid and interconnected regional dynamics. We also face difficulties originating from other parts of the globe, including the consequences of what looks likely to be a prolonged period of economic and financial fragility in the world's most advanced economies. Australia, like many Asian nations, is also grappling with domestic challenges relating to demographic change and risks to environmental sustainability. Ensuring access to opportunity for all Australians is also becoming more complex.

The White Paper will be complemented by other government reviews recently completed, such as the update to the National Long-term Tourism Strategy; processes currently underway, such as those relating to the International Education Advisory Council, the Prime Minister's Task Force on Manufacturing and the Cyber White Paper; and future scheduled reviews, such as the next Defence White Paper.

### Discussion points on the White Paper's terms of reference

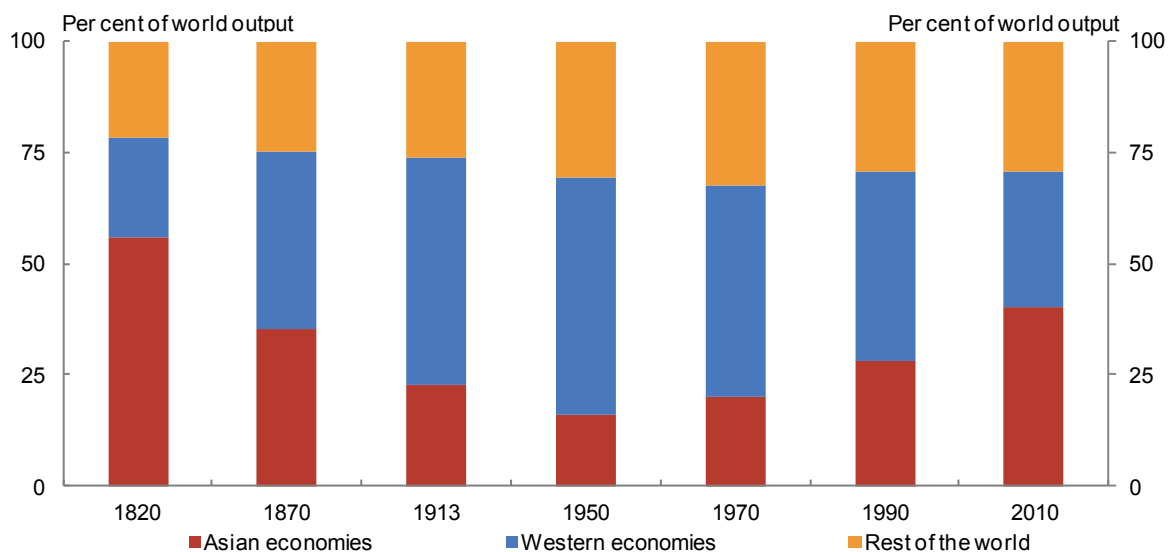
Within the White Paper's terms of reference what should be the focus of analysis and policy discussion and why?

What are the defining elements of the 'Asian Century'? What is new and different about what is happening in Asia across economic, political, strategic and social dimensions?

## The Asian Century – what is happening in Asia?

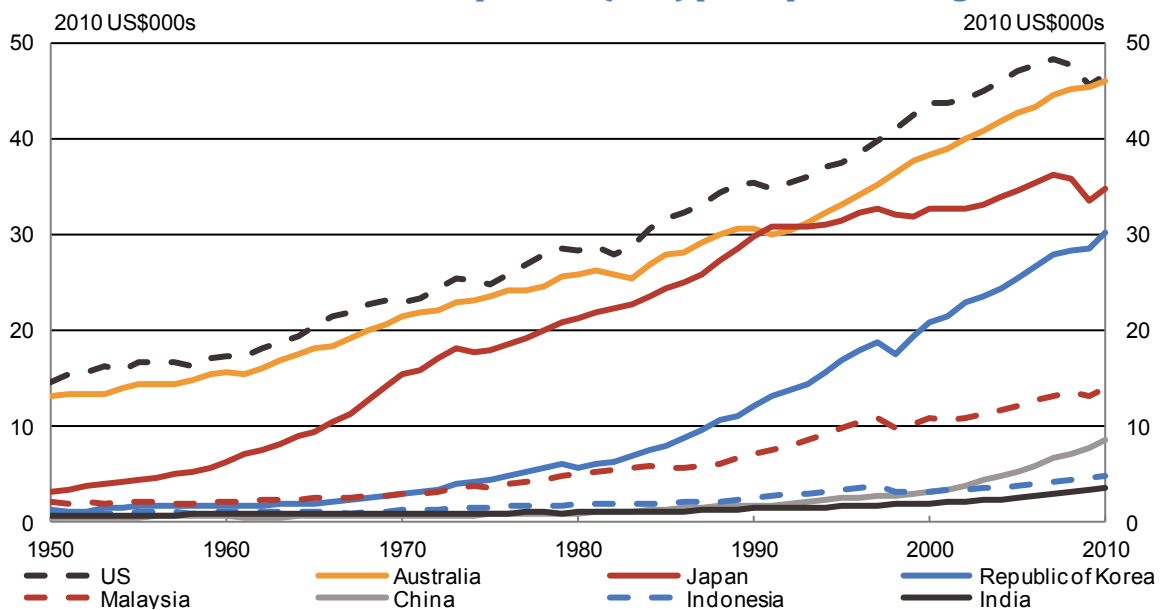
Over the past half century, dramatic economic growth in a succession of Asian economies has seen an increase in their global economic and strategic weight. Two or three centuries ago, Asia’s share of world output may have been greater than that of Western Europe and North America combined (Chart 1). This share declined as Western economies industrialised and developed. However, starting with Japan in the 1950s, followed by a range of East and Southeast Asian economies and more recently some South Asian economies, there has been a remarkable rise in living standards (Chart 2). Asia’s role in the global economy and decision making will continue to grow in importance.

**Chart 1: Shares of world output**



Note: Purchasing parity adjusted GDP. Western economies are defined as: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, the UK and the US. Asian economies are defined as: Bangladesh, China, Hong Kong, India, Indonesia, Japan, Republic of Korea, Malaysia, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.  
Source: Maddison (2010) and Conference Board (2011).

**Chart 2: Gross domestic product (GDP) per capita convergence**



Note: Purchasing parity adjusted GDP.  
Source: Conference Board (2011).

Despite Asia's complexity and diversity, there are common features amongst countries which have enjoyed sustained high growth. The phases of development in Asia have been underpinned by: greater access to, and integration with, open global markets for goods, services and capital; domestic policy reform; and a growing focus on knowledge and technology. Of particular importance has been a stable regional security environment largely underwritten by the United States (US).

Economic prosperity has been linked with broader developments: populations are increasingly urbanised; the ranks of the middle class are growing quickly; and the take-up and development of information and communications technology have been rapid.

Asia's performance during the global financial crisis has highlighted its resilience. This resilience, in part, arises from reforms undertaken in response to the Asian financial crisis a decade earlier. In contrast, recovery in many advanced economies — some of which also face major long-term fiscal challenges — remains fragile.

Asia's development has not, however, been free of stresses and strains: pressures on infrastructure and natural environments have grown; there are increasing concerns about broader sustainability challenges, including climate change and food, water, energy and resource security; opportunity remains elusive for large numbers of people; and many economies are facing challenges associated with ageing populations.

While there is a lively debate over the precise forces that will influence Asian economies, there is a loose consensus that their future prospects depend on a range of interrelated drivers and constraints, including:

- technological absorption, innovation, entrepreneurship and allocative efficiency;
- openness to competition, trade and investment and the proximity and scale of markets;
- the growth, stock and composition of physical and financial capital, including infrastructure;
- the accumulation, depth and quality of skills, knowledge and expertise;
- the quality of policy and institutional settings, including those that support productive efficiency and macroeconomic and financial market stability;
- the management of transitions in changing industrial structures and, for some economies, the rebalancing of expenditure towards consumption;
- demographics, including the age and gender profile of the workforce and population;
- urbanisation and the forces affecting its success, including infrastructure;
- social cohesion, in particular, giving people the capabilities and opportunities to participate effectively in economic activity and the wider community;
- access to natural resources, sustainability and environmental considerations; and
- a stable and peaceful political and strategic environment.

### **Discussion points on economic development**

How will economic growth and structural change in Asian economies evolve? What are the risks and opportunities ahead for Asian economies?

Economic development in Asia has been accompanied by changes in the pattern of trade, characterised by greater access to global markets. Asian trade flows, in absolute terms and as a share of global trade, have increased at a rapid rate since the 1960s, with the share of imports and exports in GDP more than doubling and, for some regions, trebling. Supply chain networks for goods and services within the region, especially in East Asia, have also become more integrated – increasing economic interdependence. This has boosted intra-Asian trade, the value of which rose more than threefold from 1995 to 2010. More than half of East Asia’s trade now takes place within the region, which is comparable to intra-regional trade in the European Union. In contrast, South Asia’s production networks are less integrated, with intra-South Asian trade accounting for around 7 per cent of this region’s total merchandise trade in 2010.

### Discussion points on trade in goods and services

What forces might affect the pace and shape of trade flows in individual Asian economies, the region and beyond? Integrated supply chains have been an important factor driving trade flows within Asia. What factors might influence trade integration in future?

Capital flows in Asia have also become increasingly integrated (World Bank 2007). For example, in 2007, around 60 per cent of foreign direct investment (FDI) inflows into China originated from within the region. Intra-regional FDI flows represented around 40 per cent of total inflows in the wider Asian region. While the US and euro area continue to be the main sources of portfolio finance, the Asian financial centres – especially Hong Kong and Singapore – are important financial intermediaries. During 2004-07, these centres accounted for more than half of regional portfolio investment in other Asian economies (Pongsaparn and Unterberdoerster 2011). However, constraints on inbound foreign investment remain.

### Discussion points on investment flows

What forces might affect the pace and shape of investment flows in Asia and beyond? How might changing capital flows and financial market integration influence economic, political and strategic relationships?

Income growth in the region has been accompanied by changes in social structures. Fast economic growth in Asia has reduced poverty and expanded the ranks of Asia’s middle class. While recent studies differ on how to define and measure the global middle class, they all point to the sheer magnitude of the shifts in Asia which have occurred and are likely to continue.<sup>1</sup>

Despite these achievements, living standards in China, India and ASEAN on the whole, remain considerably lower than those found in Australia, the US, Japan and the Republic of Korea (ROK) (Chart 2). South Asia, in particular, has the world’s largest concentration of poor people, with more than 1 billion people living on less than \$2 a day (World Bank 2011).

<sup>1</sup> For example, using survey data, Asian Development Bank research (Chun 2010) estimates that only around 20 per cent of the population of developing Asia (550 million people) lived on more than \$2 a day in 1990. This proportion could be as high as 57 per cent (1.9 billion people) in 2008. In 2030, 80 per cent (3.4 billion) could live on more than \$2 a day with 20 per cent (850 million) living on more than \$20 a day. Using a slightly different approach and excluding those who are poor by advanced countries standards from the global middle class, Kharas and Gertz (2010) estimate that the size of the middle class in the Asia Pacific could rise from 500 million to 3.2 billion people between 2009 and 2030.

The large numbers of new middle class citizens are profoundly influencing national and global markets. Spending patterns, social and cultural preferences, use of technology and occupations are already changing. Higher agricultural commodity prices, including food prices, could be one consequence. Increasing demand for energy will be another, bringing with it associated environmental pressures. Rising spending on international travel and education is also likely.

Technology is enabling ideas and culture to be transmitted more easily across national borders. Some governments in the region, such as in Singapore and Hong Kong, are investing heavily in promoting the arts, such as developing new facilities and major events.

A web of interpersonal connections is bringing people in Asia closer together. But other forces, such as nationalism, often linked to historical and cultural frictions, challenge this trend.

### **Discussion points on social developments**

What are the cultural and social trends in Asian countries? What are the implications of the rising middle class for social, political, environmental and economic developments? Are there distinctive regional trends, or are they reflections of wider global trends, such as growing social media use, increasing population mobility and changing attitudes towards social and political participation?

Are social attitudes in Asian countries toward Australia changing and, if so, how? What influences these attitudes?

As well as changes in social and spending patterns, industrial structures in Asia are likely to evolve. Following an established pattern, as costs rose and new technologies were adopted, the 'early industrialisers' in Asia moved up the value chain and their economies became more services oriented. Increasing depth in knowledge, skills and capital over time has seen the early industrialisers transition from being producers of labour-intensive manufactures to exporters of capital and technology-intensive goods and services.

In addition, the size of enterprises and the way they do business and organise themselves could also change as industrial structures and production methods evolve. A large share of Asian workers — a clear majority in many countries— is employed in small, micro or medium enterprises. Around half of manufacturing workers in China work in such enterprises and this figure is around three quarters for India, the Philippines, Indonesia and the ROK (ADB 2009).

### **Discussion points on industrial structure and possible constraints**

How will industrial structures and business practices and models evolve in Asian economies? What factors are influencing these shifts?

What are the implications of social change and economic development for environmental, resource and capacity constraints?

The overall strategic and political environment in Asia has been relatively positive and stable since the 1970s. There have been low level internal conflicts in several countries, maritime and territorial disputes and terrorist attacks. But generally solid bilateral relations between the regional powers – the US, China, Japan, India and Indonesia and its neighbours – have reflected a willingness to contain and avoid an escalation of frictions. US active engagement in the region has been an important factor underwriting regional security.

The sustained effort of countries to establish and consolidate bilateral ties and regional institutions has strengthened cooperation and eased tensions. Regionalism, in which ASEAN has played a central role, has complemented important bilateral diplomacy and other contacts in the region. Australia's initiative to establish and consolidate APEC – with its economic and trade focus and a wide Pacific Rim mandate – enhanced regional cooperation. The expanded East Asia Summit, which recently met for the first time, brings together leaders of all major powers with others in the region.

Links between nations in Asia have been strengthened by common challenges and adversity. Responses to the devastating Boxing Day 2004 Indian Ocean and March 2011 Japanese tsunamis have highlighted changes in attitudes towards humanitarian and disaster relief. Shared concerns about pandemics, terrorism, transnational organised crime and the threat of proliferation of weapons of mass destruction have encouraged regional cooperation in parallel with bilateral activities. New thinking and coalitions of interest are emerging to address rising challenges, such as: energy, other resource and food security; environmental sustainability; and macroeconomic stability. Countries in the region are increasingly dependent on shared critical infrastructure, such as the internet and satellite enabled communications. Their effective functioning and security demands regional and wider international cooperation.

Political and strategic relations in Asia and across the globe have entered a period of adjustment. The increasing economic importance of Asia raises questions about accompanying global and regional political and strategic changes. The presence of significant nuclear and missile arsenals in the region and increasing military modernisation are affecting regional security dynamics. A number of longstanding and important regional security issues, including competing maritime and territorial claims, remain unresolved. Regional and multilateral cooperation is likely to be increasingly relevant in helping to navigate the strategic and political opportunities and challenges of the Asian Century.

### Discussion points on political and strategic issues

How will the web of political and strategic relationships in the region develop? How will political and strategic relationships of the US, China, Japan, India, the Republic of Korea, Indonesia, Vietnam and other ASEAN members change? How will these changes influence regional and global stability?

What is the role of global, regional and bilateral institutional arrangements? How do these strands of engagement inter-relate and how should they be prioritised?

## Country Snapshots

Japan in the 1950s was the first of a range of Asian economies to forge a path to strong growth and development. More recently, attention has shifted to China and India, the two most populous nations on earth. Nevertheless, Japan continues to be influential in the region and globally, even after two decades of slower growth and its current recovery from the 2011 tsunami. Japan is the world's third largest economy – despite having less than 2 per cent of the world's population.<sup>2</sup> Japan remains Australia's second largest export destination as well as being a valuable source of foreign investment.

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<sup>2</sup> Measured by purchasing power adjusted GDP.

### Discussion points on Japan

What forces might affect the pace and shape of economic and social change in Japan? How will Japan manage its fiscal, demographic and other challenges?

What are the implications of strategic shifts in Asia on Japan's relationships with other nations in the region and across the globe?

The ROK rose from the devastation of the Korean War to become a prosperous nation underpinned by a lively democracy. The ROK has continued its economic development, although at a less rapid pace since its rebound from the Asian financial crisis. It has also managed tensions on the Korean Peninsula arising from the destabilising actions of the Democratic People's Republic of Korea. The ROK is an active regional and global player, including in the G20, and is becoming an influential 'soft' power, as a result of its advanced technology and popular culture.

### Discussion points on the Republic of Korea

What forces might affect the pace and shape of economic and social change in the Republic of Korea? What are the reform challenges?

Developments on the Korean Peninsula could have significant strategic implications. What are the prospects for peace and security on the Peninsula?

With around 1.3 billion citizens, the Chinese economy has experienced three decades of sustained high growth to become the second largest in the world in 2001. It is on track to overtake the US economy in the decade ahead.<sup>3</sup> Over the past thirty years, China's growth has created 370 million jobs and lifted half a billion people out of poverty. Gradually, the pattern of economic growth is expected to shift to new sectors such as services and to less developed regions within China. As China's economy has expanded, its regional and global influence has increased.

### Discussion points on China

What forces might affect the pace and shape of economic and social change in China? What are the risks to sustained Chinese development? How will China manage the pressures accompanying change?

How will China's regional and global role evolve? What will be the implications for China's relationships in the region and beyond?

India, the world's largest democracy, had the second largest population in the world in the early 1990s and was then the ninth largest economy. Supported by major reform in the early 1990s, India's economy became the fourth largest in 2006 – and today is similar in size to Japan's, adjusted for purchasing power.<sup>4</sup> By 2050, the population in India is projected to expand by 486 million, making it the world's most populous nation. Such population growth raises new challenges such as providing infrastructure, water and food.

<sup>3</sup> Measured by purchasing power adjusted GDP. At current market prices China became the 2<sup>nd</sup> largest economy in 2010.

<sup>4</sup> At current market prices, India was the 10<sup>th</sup> largest economy in 2009.

### Discussion points on India

What forces might affect the pace and shape of economic and social change in India? What are the risks to sustained development and how will India manage the pressures accompanying change?

India has become more outward looking and is redefining its regional and global roles. The Eastern Indian and the Western Pacific Oceans were previously thought of as separate strategic arcs but could now be seen as one. What are the implications of such developments for India's relationships with its neighbours throughout the Asian region and beyond?

Developments in Southeast Asia, with a combined population of more than 600 million, are contributing to new economic and strategic dynamics in Asia.

Indonesia is the world's fourth most populous nation, predominantly Muslim, and the third largest democracy. Since the late 1990s, Indonesia's regional and global influence has grown as its democracy and economy have developed and prospered. Indonesia's economy has been growing at around 5 per cent per year over the past decade and is now larger than Australia's.<sup>5</sup> Indonesia's resilience is shown by its emergence from the global financial crisis – underpinned by strong domestic consumption and investment and commodity export performance.

### Discussion points on Indonesia

Indonesia plays an economic and wider leadership role in Southeast Asia and beyond. How are economic and social structures in Indonesia likely to evolve? How will these changes affect Indonesia's relations with other countries, its role in ASEAN and wider regional and global forums?

Other ASEAN members have experienced sustained economic growth and developed active international profiles. Vietnam is one example. Its economy has been transformed through trade liberalisation and land and market reforms. With a population expected to approach 100 million by 2020, Vietnam will play an increasing role in the region. An exception to the generally successful ASEAN model has been Burma, which has languished under authoritarian rule and international isolation. But, Burma too is now showing signs of greater openness.

### Discussion points on other Southeast Asian countries

What forces might affect the pace and shape of economic, social and other change in other ASEAN member countries? How will they manage the inevitable pressures accompanying change?

What are the risks to sustained development in Vietnam and other ASEAN members such as Malaysia, the Philippines, Singapore and Thailand?

How will relations within ASEAN evolve? What are the prospects for relations between ASEAN members and other nations in the region and beyond?

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<sup>5</sup> Measured by purchasing power adjusted GDP. At current market prices, Indonesia's economy is still smaller.

## What does the Asian Century mean for Australia?

Australia's policy frameworks seek to enhance the wellbeing of the Australian people, which is shaped by economic development, opportunities and security. Wellbeing covers all aspects of Australian society and needs to be considered for current and future generations.

In its consideration of regional developments and policy responses, the White Paper Advisory Panel proposes applying a framework that emphasises the capabilities and opportunities available to people to lead a life they value.

The White Paper will examine Australia's links with the diverse nations of Asia, analyse implications of the Asian Century for Australia's economic, social, political and strategic environments and consider current Australian policy settings and strategies.

## The Australian Economy

Australia is playing an integral role in Asia's transformation.

We have seen a sharp shift in our pattern of trade. A decade ago, Australia's most important trading partners were largely in the developed world, although much of our merchandise trade was already oriented towards Asia. Today, China, Japan, the ROK, India and our ASEAN neighbours absorb around three quarters of our merchandise exports and supply half of our imports.<sup>6</sup> China alone absorbs one quarter of our merchandise exports and supplies one fifth of our merchandise imports.

While growing, the investment relationship between Australia and Asia has not shifted as sharply as our trading relationship.<sup>7</sup> Australia's overseas investments are still primarily held in the US, United Kingdom (UK) and New Zealand. The leading foreign investors in Australia continue to be from traditional financial centres. However, investment sourced from emerging economies is increasing in significance, particularly FDI.<sup>8</sup>

Asian demand is most evident for our natural resources, education, tourism and agriculture. The resource and energy intensity of Asia's development has fed strong demand for resources, outpacing the expansion of global supply, and pushing up prices for many of Australia's commodity exports to historical highs.

The combination of historically high export prices and constrained import price growth has significantly lifted Australia's real national income. Australian consumers have benefited from the industrialisation of Asian economies through lower prices for manufactured goods and some services. Real wages (that is, nominal wages relative to consumer prices) have broadly risen across all sectors, in part through the high dollar lifting Australian purchasing power.

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<sup>6</sup> Another example of the relevance of geographic proximity is the importance of the US as a trading partner to Canada, another resource abundant developed economy. In 2010, the US absorbed 73 per cent of Canada's exports and supplied 63 per cent of its imports.

<sup>7</sup> At the end of 2010, the leading national inward investors to Australia were the US (28 per cent of the stock of foreign investment in Australia), the UK (24 per cent) and Japan (6 per cent). The leading destinations for overseas investment were the US (35 per cent of the stock of overseas investment), the UK (16 per cent) and New Zealand (6 per cent).

<sup>8</sup> For example, China's FDI in Australia has grown from \$0.55 billion at the end of 2006, to \$12.82 billion and was the ninth largest source at the end of 2010.

The benefits of the Asia-driven mining boom are not isolated to resource-rich regions. The overall impact of a stronger national economy is that a higher proportion of Australian regions experience lower unemployment.

Australia's current set of institutional arrangements – including its flexible exchange rate – have helped smooth demand pressures from the commodity boom. However, the high exchange rate moderates demand by putting pressure on export and import-competing sectors, including parts of manufacturing, tourism and education. These shifts are adding to existing pressures on businesses. They already face challenges from current weak consumer demand and the ongoing effects of globalisation — including supply chain consolidation and shifts to lower-cost locations — and technological change.

These developments are not the only manifestations of Asia's rise. The burgeoning Asian middle class is opening up other opportunities. As consumers in Asia become richer and continue to change their consumption patterns, this will likely continue to boost demand and prices for Australia's food commodities. The ongoing growth of global supply chains for goods and services also creates niche opportunities for many small and medium Australian enterprises to expand internationally through specialisation. Large infrastructure and capital projects in Asia offer good prospects for Australian companies. In addition, income growth in Asia has led to increasing numbers of Asians, especially Chinese and Indians, coming to Australia for study, leisure and business.

Australia's success in Asian markets is not guaranteed. Australia will face competition for the opportunities arising in Asia. Our task is to reinforce our strengths, while also expanding our areas of comparative advantage in new sectors and markets. We will need to adapt and innovate, which in some cases will require a change in mindset as well as building new skills and capabilities.

### **Discussion points on economic opportunities and challenges for Australia**

What are the opportunities of the transformation occurring in Asia for Australia's economic performance, trade, investment and financial markets?

How well placed is Australia to take advantage of these opportunities? Are Australia's policy settings appropriate? Will our market, regulatory and institutional arrangements enable our ongoing success and maintain social support for integration?

What are the challenges and risks for Australia arising from Asia's transformation?

How can Australia promote flexibility in responding to structural change, including in areas such as innovation, business adaptability, labour mobility, education and training and capital market efficiency. How do we manage the economic transition in a way that spreads the benefits across society more generally?

How can Australia best address environmental, resource and capacity constraints that might arise?

How should Australia progress its economic agenda through bilateral, regional and global processes and arrangements?

How should Australia position itself as Asia's role in global economic decision making grows?

## Australia's Strategic and Political Engagement

Australia has deep, purposeful and multifaceted bilateral, regional and global connections with Asian nations. Successive Australian governments have emphasised interaction with decision makers and opinion leaders in Asia, including through high-level visits and sustained diplomatic and other engagement. There has been broad bipartisan support in Australia for strong two-way exchange and cooperation with our Asian neighbours to promote growth, prosperity and security.

Australia's policies on Asia consistently emphasise the importance of closer regional integration through: sustaining trade and investment liberalisation; strengthening institutional rules and arrangements; and practical cooperation. They reinforce regional stability through: strengthening bilateral ties with regional partners; our US alliance and other arrangements; and promoting rules-based cooperation in regional and global forums. Providing development assistance to alleviate poverty is another strand to our engagement. Official engagement with Asia complements extensive interactions across society – on a business, community organisation, family and individual basis.

### Discussion points on political and strategic implications for Australia

Australia and our Asian partners are entering a political and strategic transformative period. What priority should Australia place on global, regional or bilateral relationships to best secure our interests?

Are there lessons that Australia could learn from our past experience, such as our longstanding and mature relationship with Japan, in developing relations with other Asian countries?

Australia is becoming more economically integrated with Asia, notably but not exclusively with China and we have close security ties with the US. How will the US-China relationship evolve and what principles should guide Australia's responses?

How will the domestic political evolution of individual Asian countries impact upon Australia's interests and agendas? While recognising the diversity of the region, are there broad regional political trends?

## Australian Society and Culture

Australia's social and cultural links with Asia are not recent; they go back at least to the 19<sup>th</sup> century when there was an initial phase of migration from Asia to Australia.<sup>9</sup> These emergent links were not, however, supported by the attitudes and policies of the time.

In the middle of the 20<sup>th</sup> century, Australians began to embrace links with our Asian neighbours. While economic, political and strategic links developed earlier than migration flows, there has been significant migration from other parts of Asia into Australia since the 1970s. There are now two million Australian residents who were born in Asia. China, India and the Philippines are in the top five source countries for migrants, with the share of permanent migrants coming from these three countries doubling over a decade to be 29 per cent in 2010-11.

<sup>9</sup> As one example, during 1857, the Chinese share of population in Victoria peaked at 6 per cent. In Queensland, the Asian-born population also peaked at 6 per cent in 1876.

Large numbers of people from Asia continue to come to Australia to study and visit. The flow of international students into Australia has more than doubled over the past decade. Nine of the top ten source economies of international students in Australia are from Asia – including China, India, the ROK, Vietnam, Malaysia, Nepal, Thailand, Indonesia and Hong Kong. Australia also continues to welcome large numbers of tourists from Asian countries, but with variations in the pattern of source countries. Visitors from China and India have more than doubled over the past decade and over half of the top 15 visitor countries to Australia in 2010-11 were from within the region.

The flow of people goes both ways, with hundreds of thousands of Australians regularly holidaying in Asian countries every year. The increasing diversity and mobility of the region's population, growing business and political engagement, globalisation and technological developments, as well as growth in international education and in-bound tourism from Asia, have opened up new opportunities for social, cultural, scientific, sports and other forms of people-to-people exchange.

Australians in different parts of the country - for example, many Western Australians, Northern Territorians and Queenslanders - have different perspectives on Asia than those living in the south eastern part of the country. This reflects regional differences in the population make-up, geographic proximity and trade links with our neighbours.

While some Australians and counterparts in the region are making the most of these opportunities, there is much work still to be done to extend and deepen such people-to-people connections. These links provide a base upon which to build deeper Asian cultural literacy in Australia, including proficiency in Asian languages, to enhance mutual understanding and respect, to encourage the exchange of ideas and to boost productive collaboration with regional partners.

### **Discussion points on social, cultural and intellectual engagement for Australia**

What opportunities and challenges will emerge for Australia from changes in Asia's demographics, including cultural diversity and patterns of migration and travel?

Have Australia's social and cultural links with Asia kept pace with our economic integration? How could such links be developed? For example, could more be done through networks of Australians living and working in Asian countries?

How important is Asian cultural literacy? What could Australian governments, business and wider community be doing to enhance their Asian cultural literacy?

How have attitudes in Australia to Australia's place in Asia changed over time? What factors influence these attitudes (such as tourism, migration and media)? How do mindsets towards Asia differ from region to region in Australia? What are the implications?

How well positioned is Australia to connect productively with Asian countries in relation to innovation, research and development, including transfers and collaboration of knowledge and skills?

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## Attachment: Terms of Reference

The greatest influence on the future prosperity of Australia is the dramatic shift of economic power and, as a result, strategic weight to Asia.

This shift has been underway for some time but has never been more rapid or more profound for Australia's interests.

We are a decade into the Asian Century. Is Australia ready to take advantage of the great opportunities this transformative event will bring? Is Australia prepared for the changes – here at home and in our external relations – that will also come? What do we need to do to better prepare Australia?

### Scope

The Australian Government has commissioned a White Paper on Australia in the Asian Century. The work on the White Paper will be led by Dr Ken Henry AC and will be completed by mid-2012. The White Paper will involve a comprehensive review of economic and strategic change in Asia and its implications and opportunities for Australia.

The White Paper will consider:

- the current and likely future course of economic, political and strategic change in Asia, encompassing China, India, the key ASEAN countries as well as Japan and the Republic of Korea;
- the domestic economic and social opportunities and challenges of the Asian Century for Australia;
- opportunities for a significant deepening of our engagement with Asia across the board, including in the economy, science and technology collaboration, clean energy, education, business-to-business and people-to-people links and culture;
- the political and strategic implications of the Asian Century for Australia; and
- the role of effective economic and political regional and global cooperation.

The White Paper will, most importantly, consider current Australian policy settings and make judgements on:

- a high-level strategy to enhance Australia's navigation of the Asian Century, including appropriate policy settings. The focus will be on opportunities to increase the economic and other net benefits to Australia from the global economic and strategic shift to Asia in the short, medium and long term;
- early actions which are able to be taken within five years of the submission of the review; and
- further policy initiatives which may be developed over the medium-to-longer term, out to 2025.

## Governance and Timelines

As Advisor to the Prime Minister, Dr Ken Henry AC, will lead work on the preparation of the White Paper.

Dr Henry will be supported by a high-level Advisory Panel, comprising senior officials and external advisers. The Panel is comprised of:

- Professor Peter Drysdale AM, Emeritus Professor of Economics, Australian National University;
- Mr John W H Denton, Partner and CEO, Corrs Chambers Westgarth;
- Ms Catherine Livingstone AO, Chair, Telstra Corporation;
- Dr Gordon de Brouwer, Associate Secretary, Department of Prime Minister and Cabinet;
- Dr David Gruen, Executive Director, The Treasury; and
- Dr Heather Smith, Deputy Secretary, Department of Foreign Affairs and Trade.

Dr Henry will also work with a task force based in the Department of the Prime Minister and Cabinet with representation from the Treasury and the Department of Foreign Affairs and Trade and other agencies as required.

A Committee of Cabinet, supported by an appropriate Secretaries Committee and including Dr Henry and his external advisers, will be established to review progress on the White Paper, which will be considered by the full Cabinet in the first half of 2012.

The White Paper on Australia in the Asian Century will be released in mid-2012.

## Public consultation

The White Paper will include an intensive process of consultation with the Australian community, business, academia and international partners.

A series of public consultation forums will be held and the process will call for submissions from interested parties.