

PwC Melbourne Institute Asialink Index



Cover image:

Pip&Pop, *Bing, Bong, Big Bang*, 2011

Installation view

Asialink tour in Taipei as part of the Kuandu Biennale 2012

Contents

Messages	
PwC, Asialink and the Melbourne Institute	3
Reflective Essay	
A Tradition of Engagement	4
Executive Summary	
Engagement at a Glance	7
Understanding the Index	12
Components	
Trade	13
Investment	17
Research and Business Development	20
Education	22
Tourism	25
Migration	28
Humanitarian Assistance	31
Viewpoint: SME Engagement with Asia	33
Economies	
ASEAN	37
People's Republic of China	41
India	45
Indonesia	49
Japan	53
Republic of Korea	57
APPENDIX 1: Construction of the PricewaterhouseCoopers Melbourne Institute Asialink Index	61
APPENDIX 2: Data Sources	63



The Prime Minister's 2011 announcement that Dr Ken Henry would lead the drafting of a White Paper on Australia in the Asian Century has placed our relationships with the countries of Asia at the centre of public debate. Now more than ever, it is crucially important that Australians have access to accurate and reliable information on the size and shape of those relationships.

The PwC Melbourne Institute Asialink Index provides a clear and comprehensible measure of Australia's engagement with Asia across seven key indicators. It also tracks our dynamic relationships with six of Asia's most significant economies. This year, we are proud to announce that the Index is even more accessible, through a dedicated website containing the full text, with tables, figures and video content. Whether at your desk or on your tablet device, www.asialinkindex.com.au brings the Index to you.

This edition of the Index marks five years since the publication of the first Index in 2008. In that period, China has become the second largest economy in the world and our largest export market, and the Global Financial Crisis has gutted growth in many of the developed Western economies. Our overall engagement with Asia has grown by 8 per cent, whereas engagement with the rest of the world has slumped by 13 per cent. Asia is driving Australia's economic prosperity, and that reality is made all the more clear in this year's Index by the remarkable 53.5 per cent year-on-year growth in our engagement with China.

However, Australia's Asia story is about more than buying from and selling to China. Trade with ASEAN is up by 8.8 per cent, buoyed by a 14 per cent rise in trade with Indonesia. Our engagement with the diverse countries of Asia is also underpinned by strong people-to-people links, engendered through migration, education, tourism, research and humanitarian assistance. In that vein, the fact that our education engagement with Asia fell in 2011, for the first time since the Asian Financial Crisis, should be cause for ongoing vigilance.

The Asia story is also one that plays out beyond the big end of town. This year's Index again features a 'viewpoint', this time on Australian small and medium enterprises (SMEs) and their engagement with Asia. As many SMEs now export to China as to the whole of continental Europe, yet small business can pose great challenges. Interviews with Laurie Smith (Austrade), Lisa Goodhand (China Blueprint), and Nic Davies and Bao Nguyen (Infrarisk) inform the findings in this special 'viewpoint'.

We are pleased to bring together PwC, the Melbourne Institute and Asialink to construct this important tool, and will continue to provide the PwC Melbourne Institute Asialink Index to meet the needs of policy makers, businesspeople, academics and the general public alike in understanding Australia's relationship with Asia.

Mr Luke Sayers
CEO PwC Australia
Deputy Chairman
PwC Asia region

Mr Sid Myer AM
Chairman
Asialink

Professor Glyn Davis AC
Vice Chancellor
The University of Melbourne

A Tradition of Engagement

Senator the Hon. Bob Carr
Minister for Foreign Affairs

Forty years ago, Australia had no diplomatic relationship with the People's Republic of China. Locked for decades in a Cold War paradigm, Australian governments saw much of Asia through a prism of fear and potential conflict. Beyond the major strategic issues, we struggled to see ourselves as part of Asia. Our roots were British, European, and our strongest strategic, cultural and economic links were with the United States. We developed trading relationships with the emerging Asian economies over decades – our economic relationship with Japan was already significant – but our links with much of our own region were under-developed.

At the end of 2012, we will mark the 40th anniversary of Australia's Asian watershed. In December 1972, the Whitlam government recognised China. Whitlam is well remembered for that. The benefits to Australian society of that decision are profound, and still being felt today. Less well remembered is that Whitlam's desire to link Australia to Asia was broader than a single decision to overturn this country's China policy. Whitlam sought to establish and deepen Australian relations with Asia more broadly. He recognised North Vietnam in February 1973. He addressed the Indonesian parliament in October 1973. In a little over a fortnight at the start of 1974, he undertook a six-nation tour of Southeast Asia – Malaysia, Thailand, Laos, Myanmar, Singapore and the Philippines. One of his specific objectives "was to establish or reinforce personal contacts with Southeast Asian Heads of Government".

He met President Suharto, President Marcos, Malaysia's Prime Minister, Thailand's King, the Chairman of the Revolutionary Council of Myanmar and the Singaporean Prime Minister. In some cases, he was adding to relationships that had already been established. In others, he was setting foundation stones for the complex, dynamic relationships that would evolve.

As Whitlam told the Australian Parliament on his return from the 1974 tour, he had been to all the major countries of the Asia-Pacific in his first 15 months of office. Even reading the Hansard nearly 40 years later, you can hear Whitlam's voice: "No former Prime Minister has done more". If you look back on that tour today, that statement rings out in light of the modern reality of Australian-Asian links, detailed through the 2012 Asialink Index.

This country's links with Asia are today the opposite of our fearful posture 40 years ago. Asia's economic and social transformation is something that we have wanted to see, and worked to help make happen, for decades. Today, we are bound to Asia in a myriad of ways – political, economic, cultural, social and personal. This publication maps some of those connections, and points to their continued dynamic growth.

It is a complex picture, across the seven engagement components the Index maps, but one that tells the story of how deeply enmeshed modern Australia is with Asia – to our immense benefit.

As global trade shrank in the wake of the Global Financial Crisis, the Index shows our trade engagement with Asia actually grew in real terms. As we all know, China is a big part of that story, with bilateral trade up nearly 11 per cent. But the Index also points to strong growth in our trade with Indonesia and Japan – up nearly 14 and 6 per cent respectively in the past year. More broadly, our trading relationship with Japan and Korea combined has only recently been exceeded by our trade with China.

As the report notes, although public debate has in recent months focussed on Chinese investment into Australia, the stock of Australian investment in China is on the same scale. Japanese investment stock in Australia has

a longer history and is still almost ten times that of China. Korean investment also plays an important role. Australians are demonstrating an increasing confidence in investing in Asia.

Our educational research and development links with Asia continue to grow. Student numbers from Asia are significantly higher in 2011 than they were in 1990 – an increase from 65,000 to 455,000. And our education market is reaching students across the region – for example, we are the number one destination for Indonesian students.

Our tourism engagement with Asia is growing also, as more and more Australians travel overseas. Indonesia is now the second most popular destination for Australian departures, after New Zealand. As Asian prosperity grows this century, we will see more and more middle class Asian tourists coming here to see our country.

The story of Australia as a successful, multicultural nation in Asia is well-known, and tens of thousands of people come here from Asia every year. But the report also brings out the growing number of Australians moving to Asia, tying our own culture more deeply into our region. Between 1990 and 2010, the annual number of Australians migrating to Asia increased more than ten-fold.

The Government's Australia in the Asian Century White Paper tells other parts of that same story. Led by Japan, Korea, Singapore, Hong Kong and Taiwan – and more recently China, India and Indonesia – economic weight has been coming back towards Asia since the end of the Second World War. That positive trend has come simultaneously with Australia's efforts – over many decades – to continually drive our relationship closer to our region. Australia's interaction and enmeshment with Asia has grown year by year, even as Asia's re-emergence has pulled the centre of global economic gravity back

towards our region. In the future, irrespective of short-term ups and downs in national economies, that will be even more the case.

One thing the report doesn't capture – because it can't – is the nature of links between Asia and Australia at the political level. Those links are fundamental to the development of our other ties. Governments can set the tone: inclusive, open, free connections between different states; or closed, constricted, divided relations that stymie further development.

Forty years ago, the Australian Government made a decision to open links, and expand them where they were already in embryonic existence: with China, with Vietnam, with our immensely important northern neighbour Indonesia.

Political leaders today still work to establish personal links across our region. But in contrast to the 1970s, they are building ties on top of a platform of existing friendships, not reaching out for the first time. What is striking today is how those political and personal ties have matured and deepened. As the pattern of interaction has intensified, so we have built greater trust and understanding. This has been aided by the steady dissipation of the old post-colonial mindset in many parts of Asia.

Australia has been active as a partner in supporting and encouraging a sense of community in the region, as demonstrated by our early partnership with ASEAN, and founding membership of the ASEAN Regional Forum, East Asia Summit, and APEC, bringing the region's political leaders together on a regular basis.

Australian leaders, ministers and parliamentarians meet frequently with their regional counterparts, building long-lasting ties. Those links at the top political level help set the tone for the myriad of interactions across our economies and societies.

Both Bob Hawke and Paul Keating included Indonesia in their first overseas trips as prime minister. Former Prime Minister Howard attended President Yudhoyono's inauguration in October 2004, the first to attend such an event, setting the tone for a mutually supportive and deeply respectful relationship between the two leaders. Under these two leaders, bilateral relations were placed on a sustainable and solid footing with the signing of the Lombok Treaty in 2006, ratified by the Rudd Government in 2008. During President Yudhoyono's 2010 visit, he became the first Indonesian president to address the Australian Parliament.

My first official act, after taking office as Minister for Foreign Affairs in March, was to co-host the inaugural 2+2 dialogue between Australia and Indonesia's foreign and defence ministers. My first visit was to Cambodia, Vietnam and Singapore. Prime Minister Gillard visited Singapore in April and hosted Prime Minister Lee here this month – only a few weeks after our two countries' joint foreign, defence and trade ministerial meeting. Her visit to India in October 2012 has elevated the Australia-India relationship to a new level.

These relationships have real impacts – they mean we can work with regional partners on the critical issues we face in ways and at a speed that couldn't have been imagined during Whitlam's 1974 tour of Asia.

Speaking in Parliament in 1974, Whitlam went on to say: "[I]nitiatives in foreign affairs open up new possibilities for progress and understanding. Such initiatives will not always produce predictable or entirely desirable results, but log-jams are broken, stale habits of mind are abandoned, and movement is often preferable to a dogged perseverance with an outmoded status quo."

What a transition that decision to develop Australia's links with Asia provoked for our country. I am sure future editions of this Index will show it has continued to open more doors for Australians in Asia in coming decades.

Engagement at a Glance

Australia's engagement with Asia has increased every year except five of the past 20 years (and in one of those five it was unchanged). This is a remarkable achievement. In 2011 engagement, as measured by this Index, rose by 3.4 per cent, in large part due to a further massive rise of 53 per cent in engagement with China, which continues to drive Australian engagement with Asia. In contrast to this, there was a fall of 5.0 per cent in the Index of engagement with the 'rest of the world' (ROW) group of countries in 2011.

Even as global trade growth halved,¹ Australia's trade engagement with Asia25 (and the ROW) rose, signalling the national economy's relative resilience.

This update is in many respects a flow-on from last year. As then, one of the most significant factors influencing developments in the respective Asia and ROW indices, and across the different component indices, is the differing economic growth performance across these regions. Australia and Asia continued to outperform

economic growth in much of the ROW for the fourth year since the onset of the global financial crisis (GFC) in 2008. In particular, uncertainty in relation to prospects for the European Union has created instability in global markets and dampened consumer and business sentiment. Meanwhile, economic growth in China of 9.2 per cent in 2011, while lower than in 2010, has played a critical role in cushioning the impact (for Australia and elsewhere in Asia particularly) of weak growth in the United States and Europe.

Other factors driving changes in this report include the record-level mining and resource prices and the associated impact on Australia's terms of trade and the value of the Australian dollar. While non-rural commodity prices (as measured by the RBA index) fell 13 per cent from their peak in August 2011 to December 2011, they were nevertheless still 70 per cent above the January 2008 level.² Meanwhile Australian dollar exchange rates continued to fluctuate around record post-float levels.

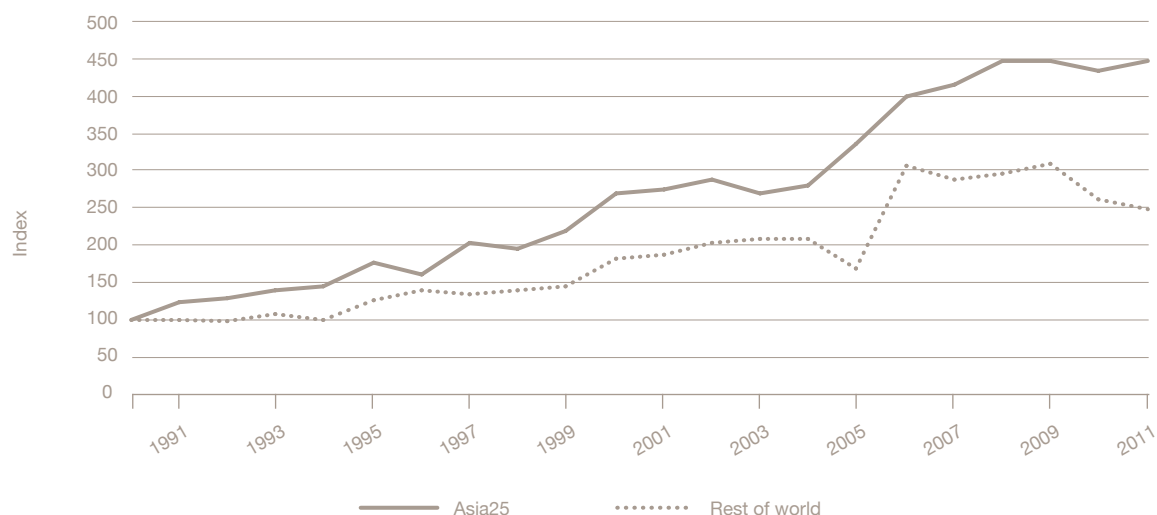
Table 1: Trends in the PwC Melbourne Institute Asialink Indices of Engagement

Index (1990=100)	1990	1995	2000	2005	2010	2011	% change 2010-11
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4
Rest of World	100.0	125.8	182.0	168.8	261.6	248.5	-5.0

¹ IMF World Economic Outlook Update July 2012. World growth slowed from 5.3 per cent in 2010 to 3.9 per cent in 2011. Advanced economy growth slowed from 1.6 per cent to 1.4 per cent in 2011. Developing Asia growth slowed from 9.7 per cent in 2010 to 7.8 per cent in 2011.

² The increase in the RBA non-rural commodity price index from January 2008 to the month of August 2012 was 58 per cent. The Index fell by 20 per cent between August 2011 and August 2012.

Figure 1: PwC Melbourne Institute Asialink Index



Index Highlights

- Overall engagement with China grew by a staggering 53.5 per cent in 2011. Consistent and dramatic growth in this bilateral relationship for much of the past decade has driven overall growth in Australia’s engagement with Asia. The rapid recovery in engagement with China since the Global Financial Crisis stands in stark contrast to Australia’s engagement with the rest of the world and indeed with most other Asia25 economies.
- Australia’s net investment balance with Asia shifted from a net inflow in 2010 to a net outflow in 2011. This reflected a 34.8 per cent fall in net inward investment and a 70.1 per cent rise in net outward investment, in direct contrast with the general tone of the Australian public debate on investment which has focused exclusively on inward investment, mostly from China. In fact, Chinese investment flows into Australia have been in decline since 2009 and the stock of Australian investment in China (\$17 billion) is now comparable with that of China in Australia.
- The strong Australian dollar appears to be driving a number of the trends observed in this year’s Index. Australia’s trade surplus with Asia25 declined by 7.7 per cent in 2011 as growth in imports continued at about double the rate of growth in exports. Positively, the number of Australians holidaying in Asia increased by 13.9 per cent. Recent post-float highs in the value of the dollar are also contributing to concerns that the competitive position of some export sectors, particularly education services, are being weakened.
- Education engagement fell overall in 2011, for the first time since the Asian Financial Crisis of the late 1990s. Considering education services remain Australia’s fourth biggest export earner, this is a noteworthy occurrence. Incoming student numbers were down on 2010 figures for all major economies covered by this Index except China. The most significant impact was from a slump in the value of education exports to India of 37 per cent.
- It has now been five years since the publication of the first PwC Melbourne Institute Asialink Index in 2008 (i.e. using 2007 data). Australia’s engagement with Asia has increased by 8 per cent over that period, whereas engagement with the rest of the world has declined by 13.3 per cent. An analysis of five years of engagement with the Asia25 reveals that long-term growth in engagement with China is masking significant, if volatile, growth in engagement with other economies. Engagement with Indonesia is up 95 per cent since 2007, from a very low base following a long period of gradual decline from 2000-2005. Engagement with China and India is up 61.7 and 34.3 per cent respectively. However, Australia-China engagement has been trending up since 2009 while engagement with India has fallen away.

Key findings from the seven engagement components include:

- Having rebounded in 2010, growth in global trade halved to 5.9 per cent in 2011 in line with a slowdown in world growth. Despite this Australia's trade engagement with Asia and the ROW rose steadily in 2011. Total trade with Asia25 was up by 5.8 per cent, driven by an 8.1 per cent rise in imports and a 4.2 per cent rise in exports. Growth in trade with China and Indonesia was particularly important, up by 10.7 and 13.7 per cent respectively. Trade with ASEAN overall was also strong, while trade with India fell sharply. Perhaps surprisingly, growth in trade engagement with the ROW exceeded that with Asia – rising by 7.6 per cent due entirely to a 14.6 per cent increase in imports, countering a 5 per cent fall in exports.
- Australia's investment engagement with Asia rose marginally in 2011, reflecting a fall in inbound investment of 34.8 per cent but a rise of 70.1 per cent in outward investment, in particular into China. There was a sharp fall in net investment flows to and from the ROW in 2011. The downturn in net inward investment may reflect slower economic growth in both Asia and the ROW, the relative strength of the Australian dollar, and/or a deterioration in perceptions about relative investment prospects in Australia.
- Australia's research and business development engagement with both Asia and the ROW picked up in 2011. Engagement with Asia rose by 5.8 per cent and engagement with the ROW rose by 6.6 per cent. Business visitors to Australia from Asia25 rose by 9.5 per cent in 2011, and Australian business visitors to Asia25 rose by 3.3 per cent.
- Australia's education engagement with Asia fell by 1.2 per cent in 2011. Although only a modest fall, this is noteworthy as it was the first time in over a decade that education engagement has fallen. Given that this Index has previously found that a correlation exists at the country level between education services and tourism and migration, in the short term, and investment and trade, in the long term, any decline in education engagement with Asia could have broader effects for years after the fact.³ The 2011 decline reflected a modest 1.9 per cent fall in inbound visitors from Asia and a 2.2 per cent rise in outbound visitors to Asia for education and conference purposes. There was a small rise in engagement with the ROW of 1.2 per cent in 2011.
- Growth in tourism engagement with Asia moderated to 8.5 per cent in 2011 from almost double that rate in 2010. The number of incoming traveller movements stabilised at around 1.6 million (camouflaging a big jump in incoming Chinese tourists) but the number of Australians holidaying in Asia jumped by 13.9 per cent to almost 2.9 million people. There were big increases in particular in travel to Thailand, Indonesia and India, presumably encouraged by the relative strength of the Australian dollar.
- China and India continue to dominate Australia's migration engagement with Asia. In 2011 overall migration engagement with Asia rose by 3.4 per cent, with small increases in both inflows and outflows. Engagement with the ROW rose more significantly, by 7.4 per cent, due entirely to a 15.9 per cent jump in inward migration; outward migration to the ROW fell by 1 per cent. The ongoing poor economic performance in much of the ROW would seem to be encouraging people in some of those countries to migrate to Australia.
- Australian humanitarian assistance engagement with Asia has declined in recent years following the jump in the wake of the Asian financial crisis in the late 1990s and then again following the Indian Ocean tsunami in December 2004. Despite more recent declines, Australia's humanitarian assistance to Asia continues to exceed assistance to the ROW.

³ PwC Melbourne Institute Asialink Index 2009.

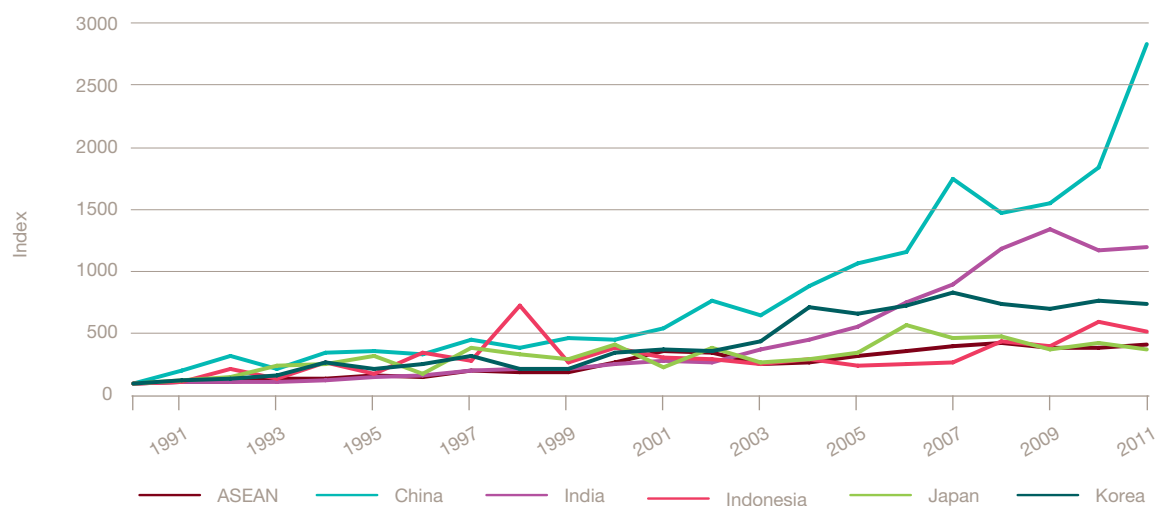
Table 2: Components of the PwC Melbourne Institute Asialink Index

Component	1990	1995	2000	2005	2010	2011	% change 2010–11
Trade (A\$bn) [†]	82.2	115.1	160.0	215.1	302.7	320.4	5.8
Investment (A\$bn) [†]	8.4	30.9	44.7	31.2	41.4	42.1	1.7
Research and Business Development (1990=100)	100.0	150.0	226.3	285.2	320.6	339.1	5.8
Education ('000 persons) [‡]	92.3	176.2	284.5	407.8	562.1	555.2	-1.2
Tourism ('000 persons) [‡]	1,187.9	2,205.1	2,434.9	2,957.9	4,096.1	4,444.7	8.5
Migration ('000 persons)	58.4	39.8	41.2	59.8	76.1	78.9	3.7
Humanitarian assistance (1990=100)	100.0	137.8	213.9	293.8	267.6	259.3	-3.1

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

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

Figure 2: Major economies



Key findings from the economies analysis include:

- The PwC Melbourne Institute Asialink Index of Engagement with the ASEAN group of countries rose by 7.6 per cent in 2011. This rise reflected increases in almost all components of engagement.
- Despite a slight (and engineered) moderation in China's rapid economic growth in 2011, at 9.2 per cent, growth continued to far exceed that of the other major countries and world average growth in 2011. Australia remains well placed to benefit from Chinese growth through energy, resources and services trade and associated investment, including tourism engagement. While education engagement almost stalled in 2011, due to a decline in outgoing movements, gains were recorded across most of the other engagement components, contributing to an enormous leap in overall engagement of 53.5 per cent.
- Australia-India engagement rose much more modestly by 2.3 per cent in 2011 with declines in trade, investment, education and migration engagement offset by rises in tourism, research and humanitarian engagement. Given the size of its population and scope for economic catch-up, India should provide substantial opportunities for increased bilateral engagement in the years to come, although hindrances to development (e.g. low literacy rates and poor infrastructure) also exist
- Australia's engagement with Indonesia fell by 13.5 per cent in 2011 following a sharp rise of 47 per cent in 2010. These swings were driven by sharp fluctuations in investment flows in particular. Indonesia's geographic proximity to Australia, relatively large, young and educated population, and scope for economic catch-up suggest substantial opportunities for enhanced engagement in the coming years.
- The Australia-Japan Engagement Index fell by 9.9 per cent in 2011, offsetting a rise in 2010. While trade engagement recovered in 2011, investment, tourism and education were much weaker. Japan remains Australia's second biggest trading partner and major investment partner in Asia (due mainly to inbound investment to Australia).
- The Australia-Republic of Korea Engagement Index fell by 3.2 per cent in 2011, following a big rise the previous year. Falls in education and tourism engagement were influential in the latest fall.

A note on the Engagement Index:

Apart from the seven key components addressed in this report, there are other important ingredients in Australia's Asian relations not covered by the Engagement Index. These include: ministerial and other official visits between Australia and Asian countries; the treaties and agreements signed; defence, police and intelligence cooperation; cultural collaboration; twin-city agreements; cooperation among NGOs and professional organisations; and much more.

Understanding the Index

The PwC Melbourne Institute Asialink Index of Engagement provides a measure of two-way 'engagement' between Australia and Asia over the period 1990–2011. In providing this analysis we assess both the level and rate of change across seven components and 25 economies.

List of seven components

- Trade
- Investment
- Tourism
- Education
- Research and business development
- Humanitarian assistance
- Migration.

List of Asia25 economies

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

Although there is no single objective way of measuring engagement, this report focuses on seven important and quantifiable measures. The Index is an unweighted average of these seven components, each of which has a base year of 1990=100.

The analysis of the components, however, presents some components in terms of monetary value (the Trade and Investment measures) and some in terms of number of persons (the Education, Tourism and Migration components). Research and Business Development, and Humanitarian Assistance are presented in index format.

More details are provided in Appendix 1.

Trade

Growth in the Trade component of the Index of Engagement with Asia continued its overall upward trend of the past decade in 2011, highlighting once again the importance of Asia to Australia's trade and economic performance. Looking at the period since 1990, as shown in Figure 3, having overtaken trade with the ROW in 2004 the relative importance of Australia's trade engagement with Asia was maintained in 2011.

Trade engagement with Asia grew by 5.8 per cent in 2011 to a level around 40 per cent above that of trade with the ROW. Trade with the ROW grew by 7.6 per cent in 2011, but despite this remained below its pre-global financial crisis (GFC) level. The 2011 increases in engagement with Asia and the ROW were the second consecutive rises following declines in 2009 associated with the GFC.

China remains Australia's single most important trading partner, accounting for 19.9 per cent of total (world) trade in 2011, and almost 34 per cent of trade with Asia. Trade with China rose by 10.7 per cent in 2011, below the five-year average growth rate. An orchestrated easing in economic growth in that country, from 10.4 per cent in 2010 to 9.2 per cent in 2011,⁴ is likely playing a role in the moderation in demand and the prices of some of Australia's commodity exports from record highs.

Meanwhile, growth in trade with Japan, Australia's second largest trading partner, eased slightly to 4.3 per cent in 2011; trade with the Republic of Korea (Australia's fourth largest world trading partner and third largest in Asia) grew by 2.7 per cent; and trade with ASEAN was up by 8.8 per cent in 2011.

Australia's exports of goods and services to Asia rose by 4.2 per cent in 2011 to \$180.3 billion,⁵ more than double the value of exports to the ROW. Exports to Asia are dominated by energy and resources, although service exports are increasingly important, in particular education and tourism services. Meanwhile imports from Asia rose by 8.1 per cent in 2011, supported by the strength of the Australian economy and dollar, and accounted for just under half of Australia's total imports. Australia's overall imports and imports from Asia are dominated by mineral fuels and machinery and transport equipment.

Four of Australia's five biggest single trading partners, accounting for around 41.8 per cent of total world trade in 2011, are located in Asia (China, Japan, Republic of Korea and Singapore); when ASEAN as a group (which includes Singapore) is included, this share rises to just over half of Australia's total trade. The United States and the European Union account for just under 9 and 13.4 per cent respectively of total Australian trade.⁶

⁴ IMF World Economic Outlook Update July 2012.

⁵ In constant 2008–09 prices.

⁶ DFAT Composition of Trade 2011, Table 4.

Figure 3: Trade component

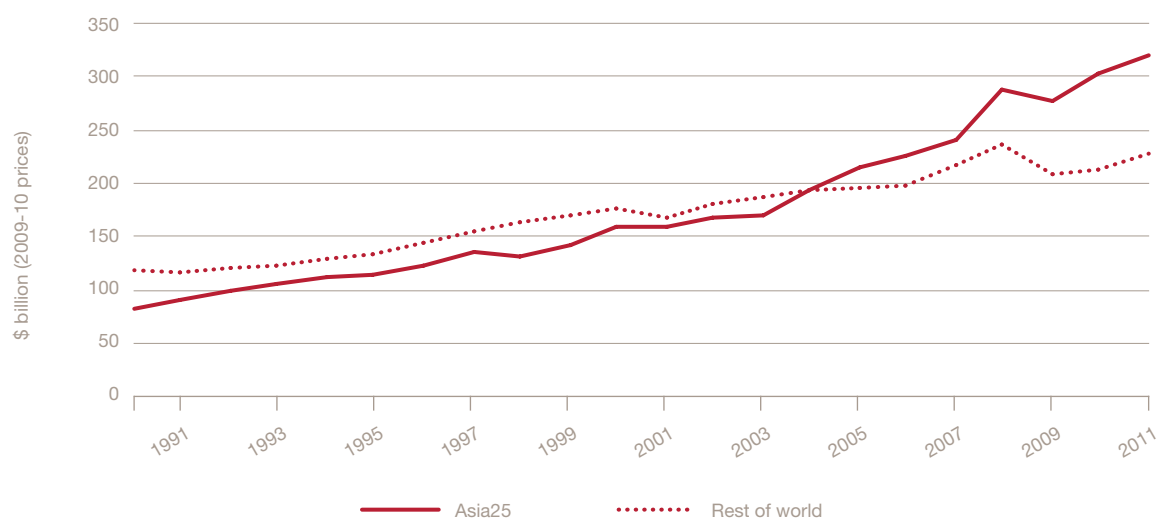


Table 3: Trends for Trade component (imports and exports, A\$bn)[†]

	1990	1995	2000	2005	2010	2011	% change 2010-11
Asia25							
Imports	25.6	33.5	53.6	89.4	129.6	140.1	8.1
Exports	56.5	81.6	106.4	125.7	173.1	180.3	4.2
Total	82.1	115.1	160.0	215.1	302.7	320.4	5.8
ROW							
Imports	52.7	63.0	79.3	105.1	136.5	156.4	14.6
Exports	64.7	69.6	96.0	90.6	75.8	72.0	-5.0
Total	117.4	132.6	175.3	195.7	212.3	228.4	7.6

Notes: † Values are in constant 2008-09 prices.

Australian energy and mineral resources accounted for more than half of total goods and services exports and 61 per cent of total merchandise exports in 2011, and remained significant in our exports to Asia. Having said this, the growth rate in the value of energy and resource exports moderated significantly in 2011, partly reflecting declines in prices from record high levels. The value of Australia's iron ore exports (the biggest merchandise good export) rose by 29.8 per cent in 2011 (following growth of 64 per cent in 2010); growth in the value of coal exports – the second biggest earner – was steady at 8.8 per cent in 2011; and growth in the value of petroleum and natural gas exports rose by 9 and 17.6 per cent respectively in 2011 (down from 46 per cent and 23 per cent in 2010).⁷

The Reserve Bank's non-rural commodity price index fell by 12.8 per cent in the four months to December 2011 from its peak in August 2011.⁸ In addition, most resource and agricultural commodities have historically been priced and traded in international markets in US dollar terms, thus the rise in the value of the Australian dollar to post-float highs in recent years has partially offset the benefit of higher commodity prices to the producers and economy.

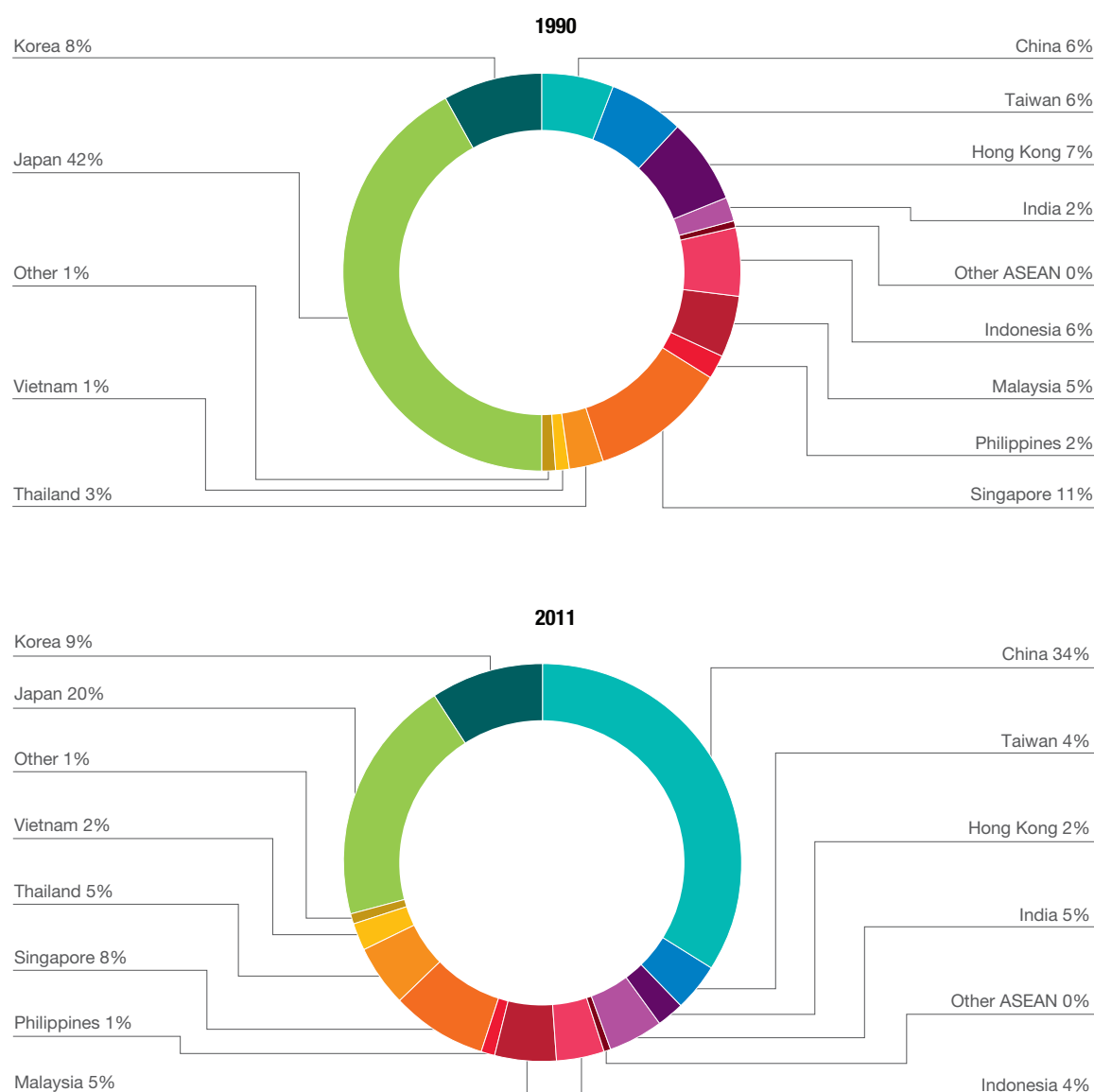
China, Japan, the Republic of Korea and India remain Australia's most important export markets in general and also specifically in relation to energy and resource exports, and this is likely to continue in the coming years. In particular, there remains significant scope for economic catch-up and associated demand for resources in India and China. China, India and Japan are also big investors in energy and resources – Japan and Korea for many decades, with investments in mining and LNG, but China and India more recently. Such investments in Australia typically facilitate subsequent increased exports.

⁷ DFAT Composition of Trade 2011, Table 2.

⁸ RBA Index of Commodity Prices, RBA Statistical Bulletin.

It often goes unremarked that the services sector represents the largest part of the Australian economy – accounting for more than 82 per cent of total gross value added (or GDP) in 2010–11, and swamping the contributions of mining (9.5 per cent), manufacturing (8.3 per cent) and agriculture (2.8 per cent).⁹ Meanwhile, services accounted for 16 per cent of the value of total goods and services exports in 2011, 20 per cent of total imports and 17.9 per cent of Australia’s total trade in 2011.¹⁰ Consistent with this there has been an increase in service exports to Asia in particular. Education and tourism exports were the fourth and fifth single most important export earners in 2011, and much of this was related to exports to Asia. In addition, financial and business services engagement with Asia is also on the rise and will also generate increases in services trade as well as investment, for example, through the merger of one of Australia’s leading law firms, Mallesons Stephen Jaques, with Chinese law firm King & Wood in March 2012.

The charts below show the change in the composition of Australia’s trade in goods and services with Asian countries from 1990 to 2011. The growth in trade with China stands out, with India’s share also increasing considerably. Meanwhile Japan’s share of Australia’s trade with Asia has more than halved in the past decade.



⁹ ABS Cat.5204.0, 2010–11, Table 11.

¹⁰ DFAT Composition of Trade 2011 Table 1.

Figure 4: Trade shares by economy¹¹

Key findings for Trade Component

- Australia's trade with Asia rose by 5.8 per cent in 2011 (down from 9.4 per cent the previous year).
- Trade with the ROW grew by 7.6 per cent in 2011 (up from 2.2 per cent in 2010), due significantly to strong growth in imports fuelled by the strength of the Australian dollar.
- Australia's exports of goods and services to Asia rose by 4.1 per cent in 2011 to \$180.3 billion (in constant 2008–09 prices), more than double the value of exports to the ROW.
- Imports from Asia rose by 8.1 per cent in 2011 – supported by the strength of the Australian dollar. Asia accounted for just under half of Australia's total imports, which are dominated by mineral fuels and machinery and transport equipment.
- Energy and mineral resource exports (in particular iron ore and coking coal) continue to dominate Australia's trade account in general and with Asia. The RBA's non-rural commodity price index indicates that resource prices eased by 14 per cent in the three months to December from their peak in August 2011.
- Services exports are increasingly significant, with education and tourism exports the fourth and fifth biggest export earners in 2011; much of this is related to exports to Asia, in particular China and India. However, the strength of the Australian dollar and competition from elsewhere appear to be having a negative impact on demand for Australia's education services.
- China remains Australia's single most important trading partner, accounting for 19.9 per cent of total trade in 2011, and almost 34 per cent of Australia's overall trade in Asia. There was an orchestrated slowing in economic growth in China in 2011, aimed at reducing inflationary pressures in property markets in particular.
- Japan, Korea and Singapore were Australia's second, fourth and fifth most important trading partners in 2011, accounting for 11.9, 5.4 and 4.6 per cent of total trade respectively.

What 'Trade' measures

This component comprises the following trade data in constant price terms (i.e. deflated by the import and export price deflators):

- the value of imports of goods and services into Australia by source country; and
- the value of exports of goods and services from Australia by destination country.

¹¹ 'Other ASEAN' includes Myanmar, Laos, Cambodia, and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Investment

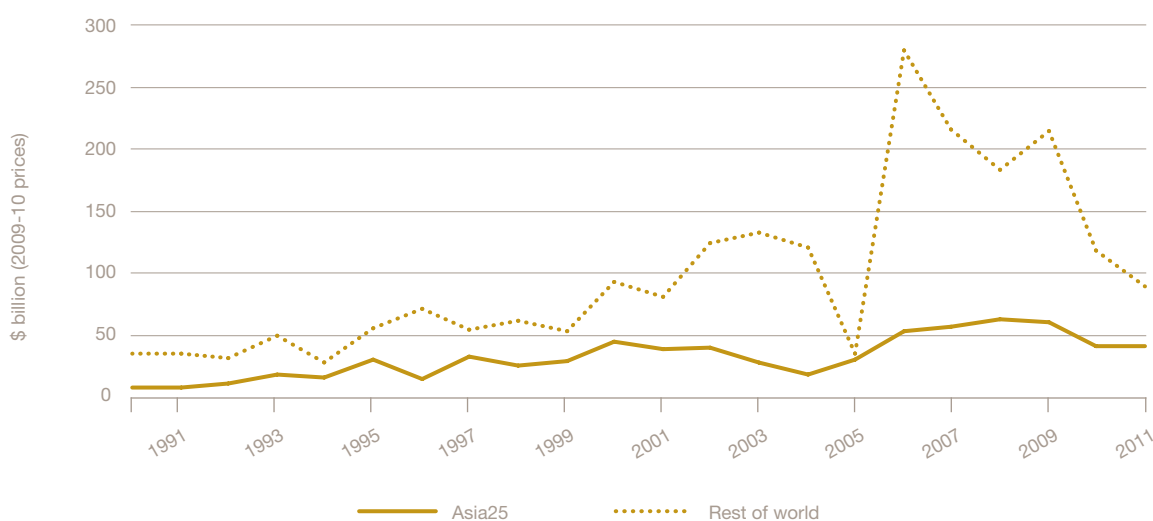
Following sharp falls in Australia's Investment component of engagement with both Asia and the ROW in 2010 (of 31.9 and 54.6 per cent respectively) the story is only marginally improved for 2011. Investment engagement with Asia rose by just 1.7 per cent in 2011, while engagement with the ROW fell sharply again, by 24.5 per cent.

There were further significant falls in the net inflow of investment to Australia from both Asia and the ROW in 2011 – of 34.8 and 12.5 per cent respectively. Meanwhile, the net outflow of investment from Australia to Asia rose sharply by 70.1 per cent, but Australia's net investment in the ROW fell sharply again by almost 43 per cent.

One can only speculate as to the drivers of these developments, which are likely to include slow economic growth in the United States, Europe and Japan in 2011 (of just 1.7, 1.5 and –0.7 per cent respectively on 2011); ongoing uncertainty about the financial stability of Europe; a moderation in developing Asia's growth (from 9.7 per cent in 2010 to 7.8 per cent in 2011);¹² ongoing strong economic growth in Australia and an Australian dollar at record post-float highs; and perhaps changes in domestic public policy which affect investment.

The falls in the net inflow of investment to Australia from *both* Asia and the ROW suggest that domestic Australian factors may be relevant. Meanwhile increases in outflow of investment into Asia but not to the ROW are consistent with those regions' respective divergent growth performances and associated investment prospects.

Figure 5: Investment component¹³



¹² IMF World Economic Outlook Update July 2012.

¹³ The significant shift in ROW figures from 2003 to 2005 was the result of News Corporation's shift of incorporation from South Australia to Delaware in the United States. This reorganisation was recorded as a transaction which both reduced Australian investment abroad and reduced overseas direct investment in Australia. See FIRB 2008–09 Annual Report, page 55; ABS Cat. 5352.0 Investment Position, Australia: Supplementary Statistics, 2009.

Table 5: Trends for Investment component (inflow and outflow, A\$bn)[†]

	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25							
Inflow	4.9	19.6	24.3	9.5	27	17.6	-34.8
Outflow	3.5	11.3	20.5	21.7	14.4	24.5	70.1
Total	8.4	30.9	44.8	31.2	41.4	42.1	1.7
ROW							
Inflow	27.2	37.6	58.1	42.9	71.4	62.5	-12.5
Outflow	8.6	18.3	35.5	-7.5	46.8	26.8	-42.7
Total	35.8	55.9	93.6	35.4	118.2	89.3	-24.5

Notes: † Values are in constant 2008–09 prices. Investment series comprise transactions only and thus exclude non-transaction changes in a country's asset position due to price changes, exchange rate changes and other adjustments. See ABS Cat. 5331.0 for a more detailed explanation.

While Japan continued to dominate Australia's two-way investment engagement with Asia in 2011 (Figure 6), its share fell sharply from 42.7 per cent in 2010 to 32.4 per cent, largely reflecting a 32 per cent fall in inward investment from Japan; this decline may partly reflect the disruption to normal Japanese life in the wake of the March 2011 earthquake and tsunami. This relationship has traditionally been dominated by Japanese investment *into* Australia, which, despite the 2011 fall, was still more than twice the level of outward investment that year. While historically Japanese investment has been focused on direct investment in energy and mineral resource development, consistent with its lack of such natural resources, it has more recently reached into diverse sectors such as financial services, infrastructure, ICT, property, food and agribusiness. Like Japan, China has also been actively investing in Australia outside the traditional resources sector (in particular, and controversially, in agricultural farmland).

There has been much debate about the sustainability of investment and prosperity in Australia's resources sector in the wake of the BHP Billiton deferral in August 2012 of development of its \$30 billion Olympic Dam prospect. In fact, the federal government's Bureau of Resources and Energy Economics was at that time pointing to a \$500 billion pipeline of new projects from 2012 to 2017, and the RBA similarly was projecting further resource investment "to continue to increase rapidly over the next year or so, broadly in line with previous expectations".¹⁴ Thus foreign investment interest in the sector is likely to continue for some time. The RBA also believes the economic impact of an eventual decline in resources investment will be roughly offset by an increase in export volumes and a gradual strengthening in the non-resource economy.

As with trade engagement, investment engagement in the services sector in Asia is becoming increasingly important, as evidenced by the number of major Australian financial companies, such as ANZ and IAG, setting up operations in Asia over the past decade. More recently, the merger of major Australian law firm Mallesons Stephen Jaques with Chinese firm King & Wood in March 2012 represents a complex two-way investment arrangement and highlights Australia's increasing engagement with Asia.⁷

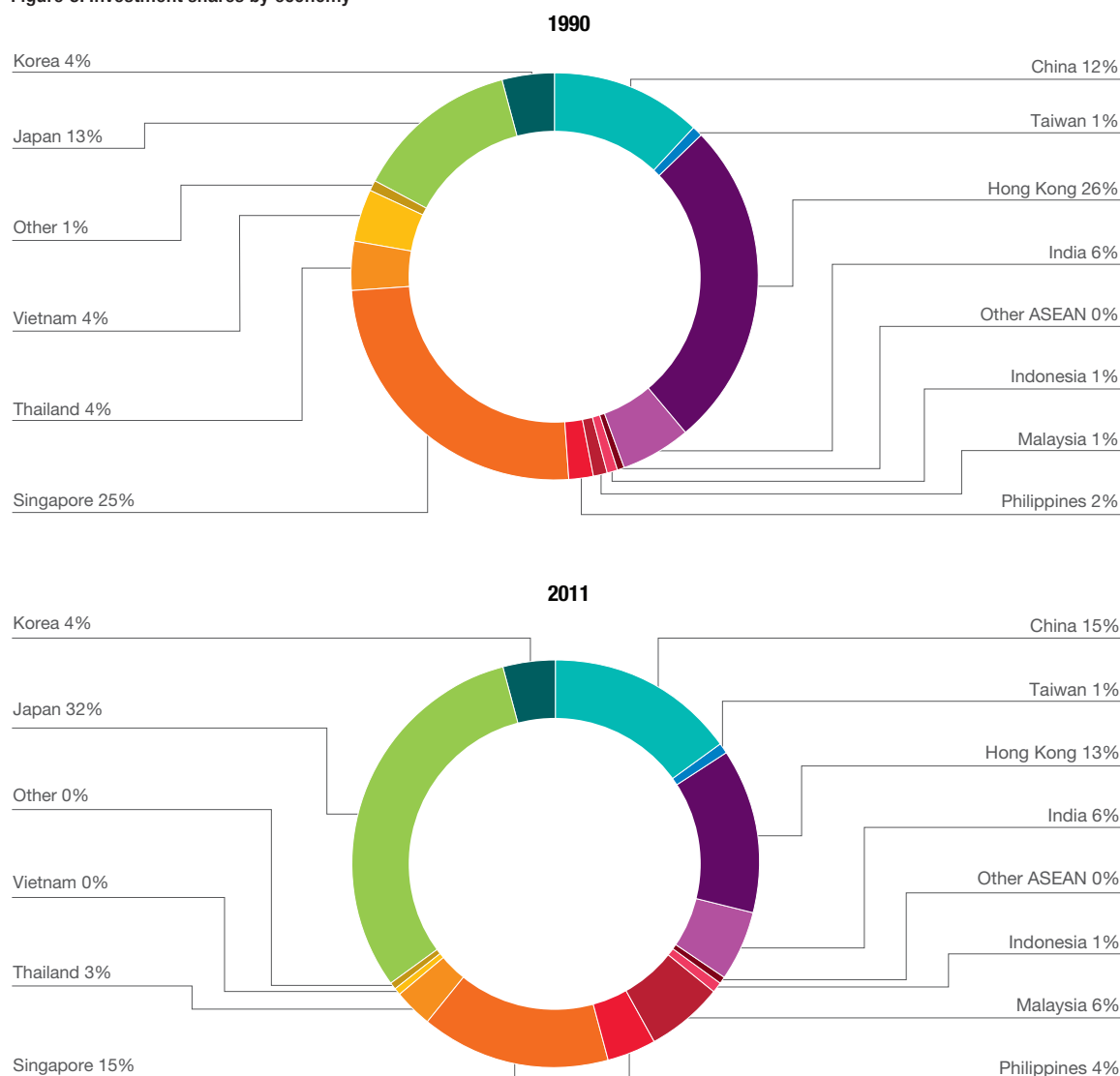
After Japan, Singapore was Australia's second most important investment partner in Asia in 2011 (15.4 per cent of Australia's total investment flows with Asia), followed by China (14.6 per cent), Hong Kong, (12.6 per cent), and Malaysia (6.2 per cent). India dropped from third place to sixth most important investment partner in 2011.

Historically, Australia's top four investment partners have been the United States, United Kingdom, Japan and New Zealand. While inward investment from the United States and the United Kingdom has largely been portfolio investment (in equity and debt securities) rather than direct investment (acquiring a significant or controlling interest in a company), inward investment from China, Hong Kong and Singapore is largely direct investment (or FDI), which represents a higher level of engagement than more easily-withdrawn portfolio investment. Australia's foreign investment in ASEAN as a group in 2011 was largely direct investment while investment in China was largely portfolio investment. Meanwhile, Australia's outward investment in the United States, the United Kingdom and Japan is largely portfolio investment. Investment figures can be quite volatile from year to year.

¹⁴ RBA Minutes of the Monetary Policy Meeting of the Reserve Bank Board, 7 August 2012. <http://www.rba.gov.au/monetary-policy/rba-board-minutes/2012/07082012.html>.

Shifts in two-way investment engagement shares by country between 1990 and 2011 are shown below.

Figure 6: Investment shares by economy¹⁵



What 'Investment' measures

This component comprises the following investment data in constant price terms (deflated by the GDP price deflator):

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

The Investment component comprises transactions only and thus excludes non-transactional changes in a country's asset position due to price changes, exchange rate changes and other adjustments.

The Investment component reveals patterns in the flow of investment to and from Australia; it does not reflect the stock of investment – the total amount of foreign assets in a country.

¹⁵ 'Other ASEAN' includes Myanmar, Laos, Cambodia, and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Research and business development

Australia's Research and business development (R&BD) engagement with the Asia25 group rose modestly by 5.8 per cent in 2011. Growth in R&BD engagement with Asia appears to have slowed since around 2006, although time will tell if the strong upward trend from 1990 is resumed in the coming years. Encouragingly, despite ongoing weak economic growth and business conditions in the ROW, Australia's R&BD engagement with that group of countries grew by 6.6 per cent in 2011, that is, by more than that with Asia.

Figure 7: Research and business development component

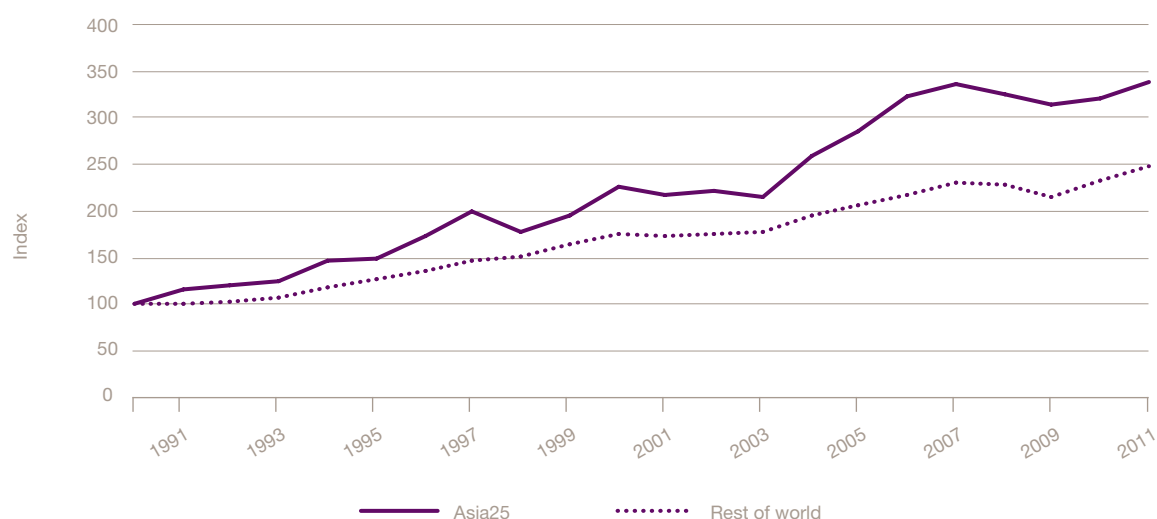


Table 6: Trends for Research and business development component

Index (1990=100)	1990	1995	2000	2005	2010	2011	% change 2010-11
Asia25 Index	100.0	150.0	226.3	285.2	320.6	339.1	5.8
ROW†	100.0	126.5	174.7	205.7	232.3	247.6	6.6

The R&BD component measures a basket of diverse activities, as outlined in the 'box' below. These activities create connections between people and companies, open market opportunities and enable and inform future business decisions and activities. In this way, the R&BD component is an indicator of future movements in other components measured by the overall Engagement Index.

R&BD engagement with Asia25 was buoyed by increases in all components of engagement in 2011. Business visitors to and from Australia rose by 9.5 and 3.3 per cent respectively in 2011, patent applications were up by 3.2 per cent, and research article publication was up 4.3 per cent.¹⁶

R&BD engagement with each of Australia's major trading and investment partners rose strongly in 2011, with the exception of Japanese engagement which showed only a marginal rise. R&BD engagement with ASEAN as a group rose by 7.6 per cent in 2011, with rises in all components with the exception of research article publication.

There were across-the-board increases in all the components of Australia's engagement index with the ROW in 2011.

What 'Research and Business Development' measures

This component comprises the following data:

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

¹⁶ Note there have been some small changes in calculation of the index in the latest report reflecting, primarily, data availability. See Appendix 1 details.

Education

The Education component of the Asia25 Engagement Index fell slightly by 1.2 per cent in 2011, but there was a slight rise of 1.2 per cent in ROW engagement. While the gap between Australia's education engagement with Asia and the ROW narrowed marginally in 2011, Asia continues to dominate Australia's education market. In the case of both regions there was a small fall in the number of people travelling to Australia for education purposes in 2011, of 1.9 per cent in the case of Asia and 1.3 per cent for the ROW. Meanwhile there was a bigger rise (4.8 per cent) in the number of Australians travelling to the ROW than to Asia (2.2 per cent).

The consistent pattern of people flows for education purposes for Asia and the ROW as outlined above suggests that the strength of the Australian dollar may have been playing a part in people movements in 2011, for example by reducing Australia's relative attractiveness to overseas students from a purely cost-competitiveness perspective, and by making it cheaper to travel overseas for Australians wanting an overseas education experience.

The countries dominating growth in Australia's education exports to Asia in the two decades from 1990 have been China, India, Korea, Malaysia and Indonesia, as shown in Figure 9. This development was driven by geographic proximity, increases in the range of courses and available places at various Australian tertiary institutions and colleges, as well as (up until recently) relative cost (e.g. vis-à-vis studying in the United States). Importantly, it was also facilitated by rapid economic growth and development, which has increased incomes in Asia, and subsequent demand for education services abroad, over recent decades.

In the past decade the education of foreign students in Australia has become a key export earner for Australia. However, in 2008–09 a range of factors led to questioning in some Asian countries, India in particular, of Australia's reputation as a quality education provider, prompting a federal government review, the development of a National International Students Strategy, and the passing of a number of related bills through parliament in the first half of 2010 to address these concerns.¹⁷ These concerns about Australia's reputation combined with the appreciation of the Australian dollar from early 2009 meant that previously strong growth rates in the inflow of students has eased and the value of educational exports to Asia stalled in 2010 and fell in 2011, having grown by 20 per cent per annum on average in the previous three years.¹⁸

Despite this, the number of people travelling from Asia for education purposes in 2011 was 77 per cent higher than the number coming from the ROW. Education services were the fourth largest export earner in 2011, accounting for 4.8 per cent of total exports of goods and services (after iron ore, coal and gold, which together made up 40 per cent of all exports).

¹⁷ These bills involved changes to the skilled migration program to decouple student visas from migration outcomes, measures to ensure student safety, and changes to accreditation requirements, among other things.

¹⁸ DFAT Trade in Services 2011.

Figure 8: Education component

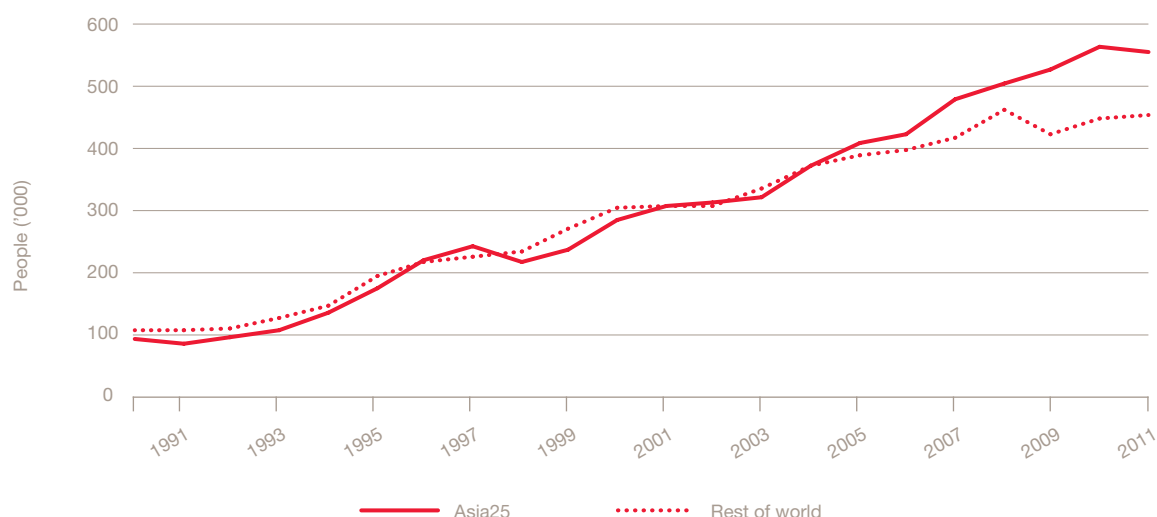


Table 8: Trends for Education component (inflow/outflow, '000 persons)

	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25							
Inflow	65.6	133.2	216.5	330.2	464.6	455.7	-1.9
Outflow	26.7	43.0	68.0	77.6	97.5	99.6	2.2
Total	92.3	176.2	284.5	407.8	562.1	555.3	-1.2
ROW							
Inflow	50.9	93.3	168.1	215.1	260.6	257.1	-1.3
Outflow	56.6	100.5	135.5	175.1	188.9	198.0	4.8
Total	107.5	193.8	303.6	390.2	449.5	455.1	1.2

Notes: The indicators comprising the education component have been selected so that they are weighted according to their impact on engagement. This implies that the education indicators are not strictly additive and involve a double count of secondary student exchanges and intensive English language courses.

Australia's two key export markets for education services in 2011 were China and India, accounting for 26 per cent and 10.4 per cent of total education-related export revenue respectively in that year. While the number of people coming from China to study in Australia rose by 2.8 per cent in 2011, the overall value (in current dollar terms) of education-related service exports to China was down by 5.8 per cent. Meanwhile, the number of people coming from India for education and conferences fell by 5.1 per cent but the value of education exports to that country slumped by 37.4 per cent.¹⁹ The apparent discord between the number and value figures above may partly reflect different coverage of the underlying data (for example, in terms of the courses included).

The federal government body Australian Education International (AEI) measures the number of student *enrolments* in higher, vocational training, school education and ELICOS²⁰ courses.²¹ According to AEI, the total number of overseas student enrolments in higher education courses in Australia was steady in 2011 at around 242,351; the number of *enrolments* in vocational education and training courses fell by 16.6 per cent to 171,237; and school enrolments fell by 13.6 per cent.²²

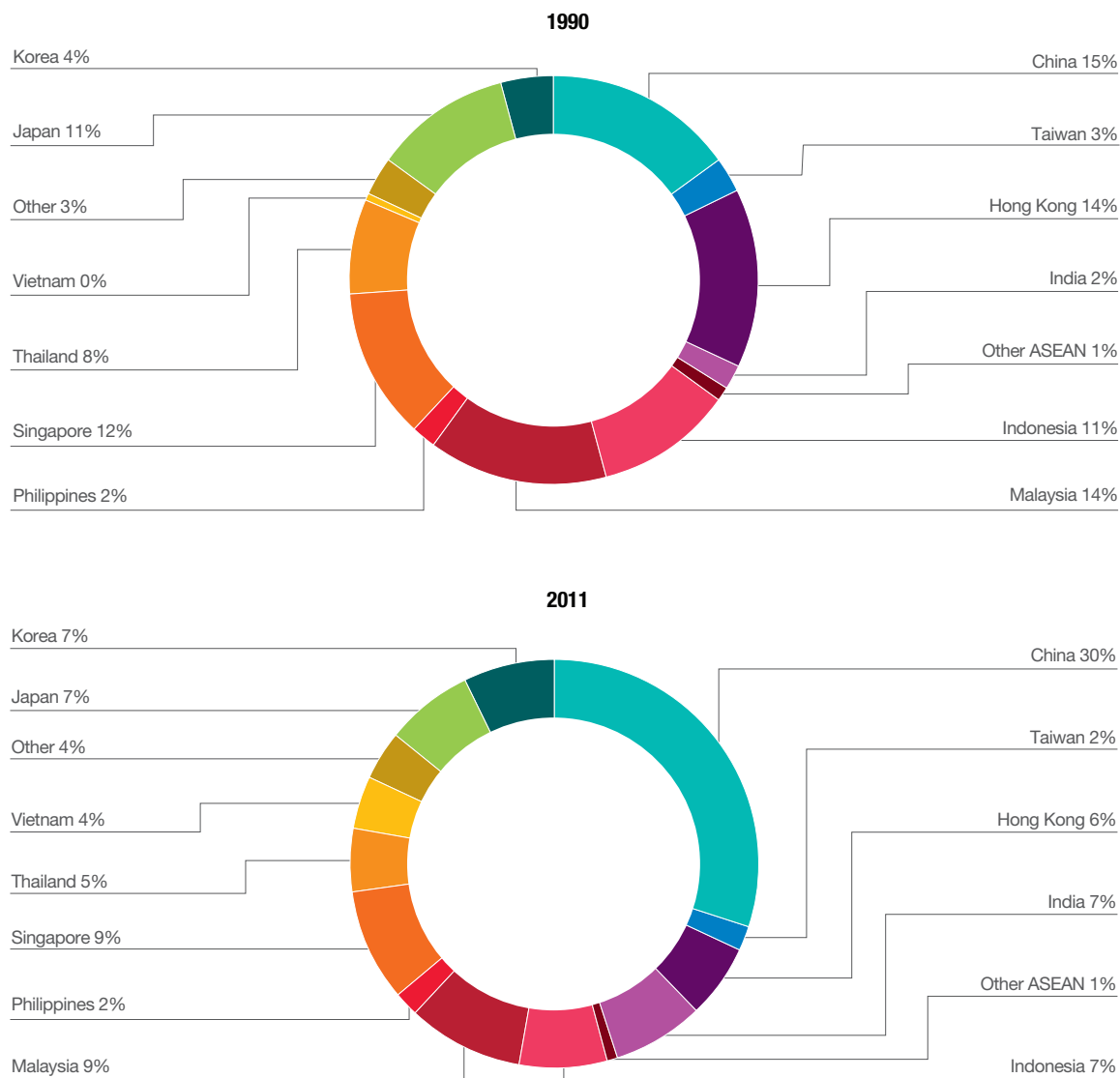
¹⁹ The value of trade figures quoted here are in current dollar terms. DFAT Trade in Services 2011 Table 53.

²⁰ ELICOS: English Language Intensive Courses for Overseas Students.

²¹ Note that one student may enrol in more than one course so this is yet again a different measure from 'the number of people travelling' measure used in the indices of education engagement presented in this report.

²² DFAT Trade in Services 2011 Table 56.

Figure 9: Education shares by economy²³



What 'Education' measures

This component comprises data on:

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

²³ "Other ASEAN" includes Myanmar, Laos, Cambodia, and Brunei Darussalam. "Other" includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Tourism

The Tourism component of engagement with Asia grew by 8.5 per cent in 2011 (following stronger growth in 2010), with just under 4.5 million traveller movements. This outcome was due entirely to growth of 13.9 per cent in the number of Australians travelling abroad, as growth in the inflow of tourists was minimal. Outgoing movements made up 64 per cent of total traveller movements in 2011, up from 61 per cent in 2010, suggesting that the strength of the Australian dollar was encouraging Australians to travel abroad.

This development is also confirmed by the ROW tourism component, with the outflow of travellers to the ROW up by 7.7 per cent in 2011 to almost 3.4 million and exceeding the inflow from ROW countries for the fourth year in a row; the inflow of tourists from the ROW fell 3.7 per cent. The relative weakness of economic growth in the ROW countries, notably in the United States and particularly Europe, as well as the rise in the value of the Australian dollar to post-float highs, are undoubtedly driving these trends.

Inbound travel from the ROW was 55 per cent higher than that from Asia in 2011, down from 61 per cent in 2010. The major source countries for tourist visitors to Australia in 2011 were New Zealand, the United Kingdom, China, the United States then Japan, in that order.

Short-term holidays are the biggest component of incoming and outgoing tourism engagement with both Asia25 and the ROW.

Figure 10: Tourism component

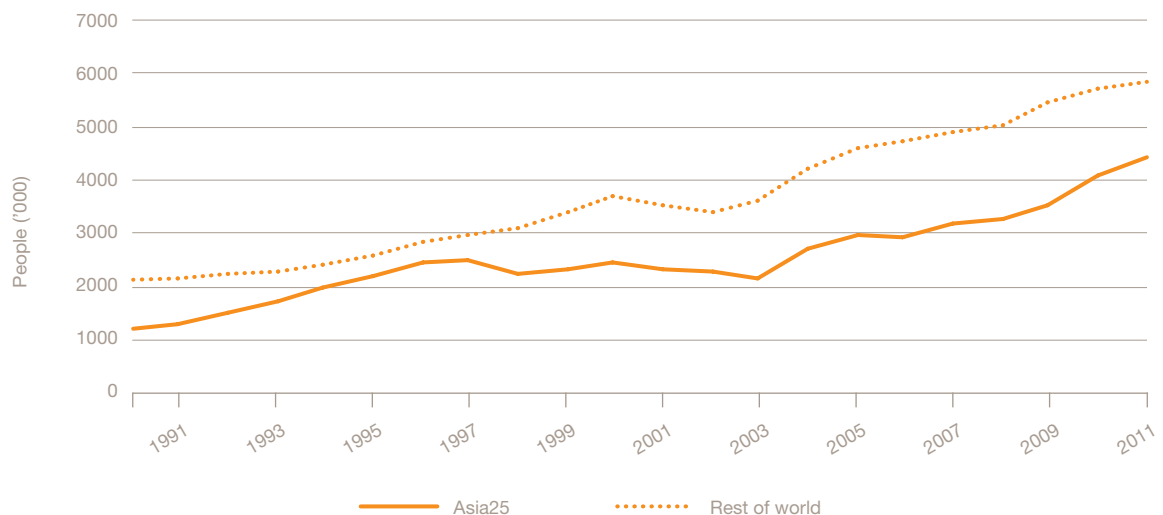


Table 9: Trends for Tourism component (inward/outward, '000 persons)

	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25							
Inflow	650.1	1,564.2	1,529.2	1,641.5	1,591.9	1,592.6	0.0
Outflow	537.7	640.9	905.6	1,316.4	2,504.2	2,852.1	13.9
Total	1,187.8	2,205.1	2,434.8	2,957.9	4,096.1	4,444.7	8.5
ROW							
Inflow	1,047.8	1,403.9	2,124.5	2,448.9	2,558.4	2,462.7	-3.7
Outflow	1,080.8	1,168.3	1,576.1	2,146.2	3,133.7	3,376.3	7.7
Total	2,128.6	2,572.2	3,700.6	4,595.1	5,692.1	5,839.0	2.6

Table 10: Number of working holiday makers entering Australia

	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25	6,692	7,562	11,117	28,161	57,532	57,325	-0.4
ROW	40,691	31,301	68,122	76,463	125,631	135,599	7.9

The shift in (two-way) tourism shares with Asia since 1990 are shown in Figure 11. The most outstanding changes are the declining tourist travel with Japan, Singapore and Hong Kong, and rising importance of China, India, Indonesia and Thailand.

More recently, there was a 20.6 per cent jump in the number of Chinese traveller movements to Australia in 2011 (from 2010) to 342,204, with the result that Chinese tourists accounted for 21.5 per cent of total incoming tourists from Asia and 8.4 per cent of total (world-wide) incoming tourists in 2011 (up from 17.8 and 6.8 per cent respectively in 2010). Short holidays or visits to friends accounted for 98 per cent of incoming traveller movements from China in 2011. Outgoing traveller movements to China rose by 11.7 per cent to 241,414 in 2011 (equal to 70.5 per cent of inward movements).

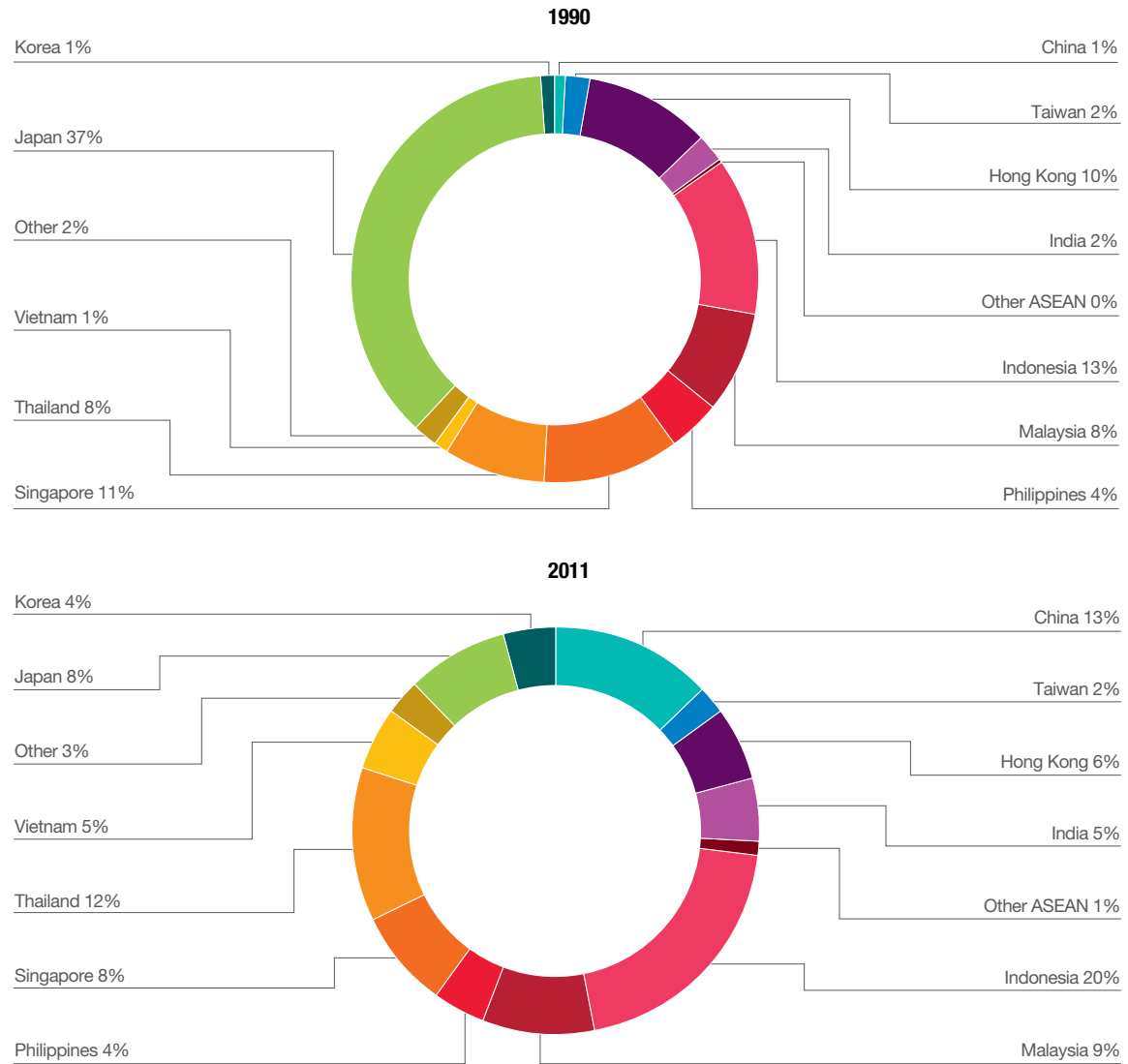
Japan and Korea are the second and third most important sources of incoming tourists from Asia to Australia, accounting for 16.4 and 9.3 per cent respectively of all incoming traveller visits from Asia in 2011. ASEAN countries as a group were the source of another 35 per cent of incoming Asian tourists in 2011.

The most popular destinations in Asia for Australian holiday makers in 2011 were Indonesia (Bali) and Thailand, which accounted for 28.1 and 17.6 per cent respectively of outgoing traveller movements to Asia in 2011. China, India and Japan accounted for relatively modest shares of 8.5, 5.5 and 3.4 per cent respectively of outgoing tourists to Asia. The sharp appreciation of the Australian dollar against the currencies of many of these countries in recent years would appear to be encouraging increasing numbers of Australians to holiday abroad.

The number of working holiday makers from Asia coming to Australia was virtually static in 2011, following a fall of 5.9 per cent in 2010 and strong growth of 19.5 per cent in 2009. The latest result contrasts with growth of 7.9 per cent in the number of working holiday makers arriving from the ROW, which arguably reflects weak economic growth, high unemployment and poor job prospects in many ROW countries.

Tourism shares (both outgoing and incoming) by country are shown below. The two areas that stand out are the decline of Japan's share and the increase in engagement with China.

Figure 11: Tourism shares by economy²⁴



What 'Tourism' measures

This component comprises data on:

- short-term visits (less than one year) to/from Australia from/to Asia (by country) for holiday;
- short-term visits (less than one year) to/from Australia from/to Asia (by country) to visit friends or family;
- long-term visits (more than one year) to/from Australia from/to Asia (by country) for holiday;
- long-term visits (more than one year) to/from Australia from/to Asia (by country) to visit friends or family; and
- the number of visas granted for working holiday makers in Australia from Asia (by country).

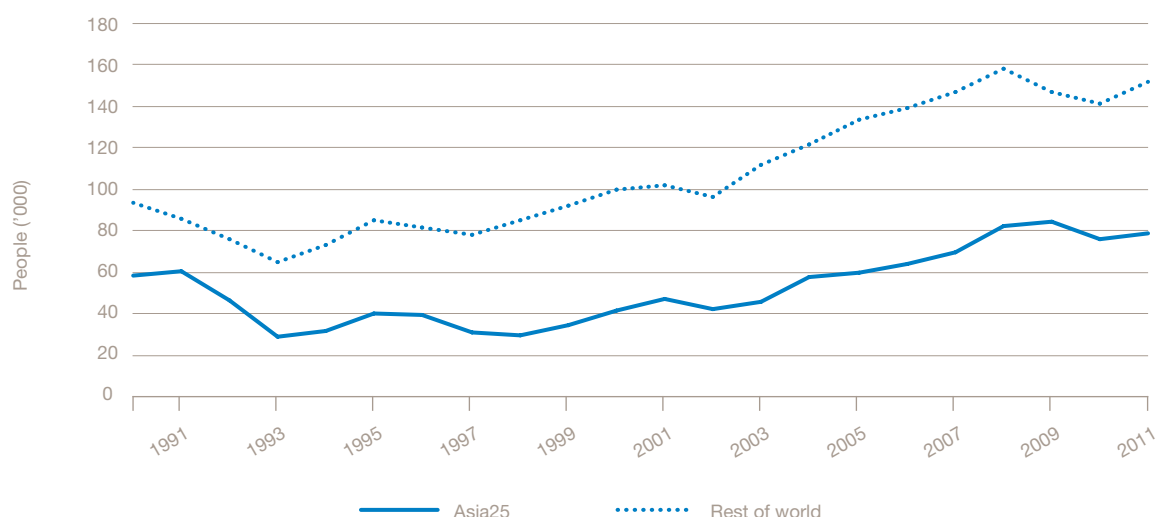
²⁴ "Other ASEAN" includes Myanmar, Laos, Cambodia, and Brunei Darussalam. "Other" includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Migration

Australia's population grew by 1.4 per cent in the year to December 2011 to 22.485 million. The average annual increase in Australia's population in the five years to 2011 was 1.5 per cent. Natural increase (from births) and net migration accounted for 45 per cent and 55 per cent respectively of the overall increase in 2011. All Australian states recorded positive population growth in 2011, with Western Australia recording the strongest growth rate of 2.9 per cent, most likely helped by interstate movements in response to demand for labour related to the resources boom.²⁵

The Migration component of Australia's engagement with Asia has grown strongly since the early 1990s, and rose by 3.4 per cent in 2011 following a fall in 2010. The 2011 result was the outcome of a 3.6 per cent rise in the number of people immigrating to Australia from Asia (following a fall in 2010) and a 2.9 per cent rise in the number of Asian-born residents returning to live in Asia (following a bigger rise in 2010). The pattern of movements displayed in relation to the ROW was somewhat different and more pronounced in 2011: overall engagement rose by 7.4 per cent, driven by a sharp rise of 15.9 per cent in immigration to Australia and a marginal fall of 1.0 per cent in the number of residents emigrating to live abroad.

Figure 12: Migration component



²⁵ ABS Cat. No.3101.0 Australian Demographic Statistics, Dec 2011

The modest rise in inward migration to Australia from Asia in 2011 (vis-à-vis a bigger fall in 2010) masks a varied pattern across countries. While inward migration from China, Indonesia and ASEAN rose strongly by 8.2, 12.7 and 10.3 per cent respectively (following significant falls in 2010), immigration from India fell sharply by 11.8 per cent following a fall of 20.6 per cent in 2010 (consistent with falls in inward education travel from India in the past two years). The growth in emigration from Australia to Asia of Asian-born Australian residents was moderate at 2.9 per cent in 2011. The number of Chinese and Indian-born émigrés rose by 7.0 and 3.3 per cent respectively, while the number of ASEAN-born émigrés was virtually unchanged. Possible reasons for the return of these former immigrants to their home countries include improved perceptions about prospects at home.

By contrast there was a big jump of 15.9 per cent in the number of people migrating to Australia from the ROW in 2011 and a small fall in ROW-born residents leaving, arguably reflecting the better economic opportunities on offer in Australia vis-à-vis ongoing weak growth and economic uncertainty elsewhere, in particular in Europe and to a lesser extent the United States.

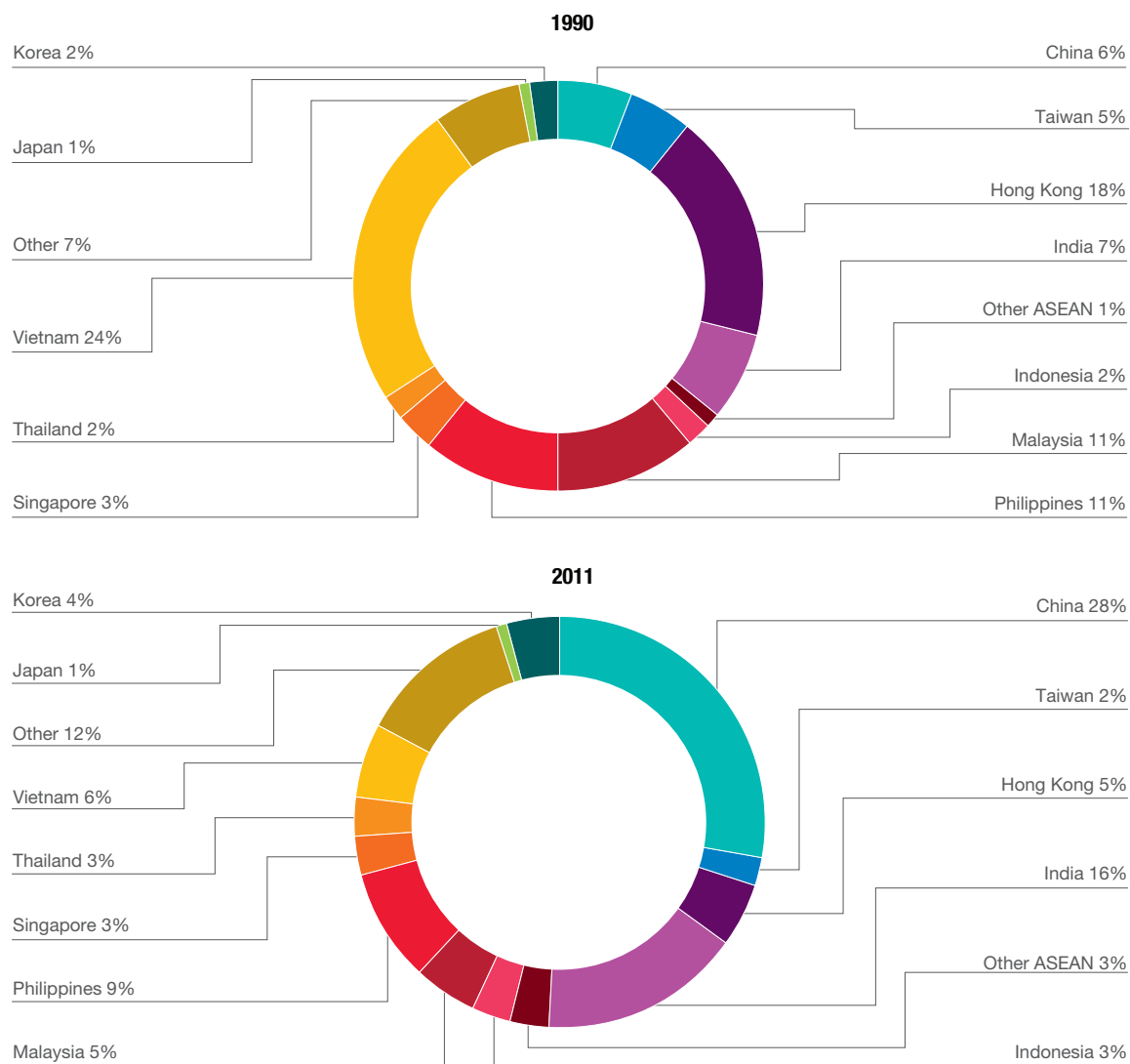
Table 11: Trends for Migration component (immigration and emigration, '000 persons)

	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25							
Immigration	56.9	36.7	33.8	47.3	59.0	61.1	3.6
Emigration	1.5	3.1	7.4	12.5	17.2	17.7	2.9
Total	58.4	39.8	41.2	59.8	76.2	78.8	3.4
ROW							
Immigration	64.7	60.2	63.4	81.4	70.4	81.6	15.9
Emigration	28.8	24.8	36.4	51.9	71.0	70.3	-1.0
Total	93.5	85.0	99.8	133.3	141.4	151.9	7.4

Notes: † ROW Rest of the world (excluding Asia25).

The charts on the next page provide evidence of the dramatic shifts in migration flows between Australia and Asia in the past decade. The sharp increases in migration engagement with China and India, and declines in engagement with Hong Kong and Vietnam, during the two decades stand out.

Figure 12: Migration shares by economy²⁶



What ‘Migration’ measures

This component comprises data on:

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

²⁶ “Other ASEAN” includes Myanmar, Laos, Cambodia, and Brunei Darussalam. “Other” includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.

Humanitarian assistance

The post-2006 downward trend in the Humanitarian Assistance component of engagement with Asia25 continued in 2011, with a modest fall of 3.1 per cent. Meanwhile, engagement with the ROW was virtually steady following a significant rise in 2010. Engagement with Asia dominates Australia's humanitarian assistance programs.

As shown in the following chart, Australian humanitarian assistance engagement with Asia escalated during the East Asian financial crisis in the late 1990s, and spiked again following the Indian Ocean tsunami in December 2004 before moderating more recently.

The 3.1 per cent decline in 2011 was driven primarily by an 11.3 per cent fall in the number of longer term medical staff and teachers working in Asia; there was only a marginal decline in peacekeeping activities. In contrast there was a significant rise of 6.2 per cent in the number of Australian NGO delegates active in Asia, as well as a 6.2 per cent rise in the number of students offered AusAID and defence force scholarships to study in Australia. Official development assistance to Asia was virtually unchanged in 2011.

The marginal fall in engagement with the ROW reflected primarily: an increase of 20.9 per cent in the number of NGO delegates operating in those countries; a 5.8 per cent increase in the number of ROW students offered AusAID and defence force scholarships to study in Australia; and a 17.2 per cent fall in the number of longer term medical staff and teachers working in the ROW. Changes relating to the other components were modest.

Figure 14: Humanitarian assistance component

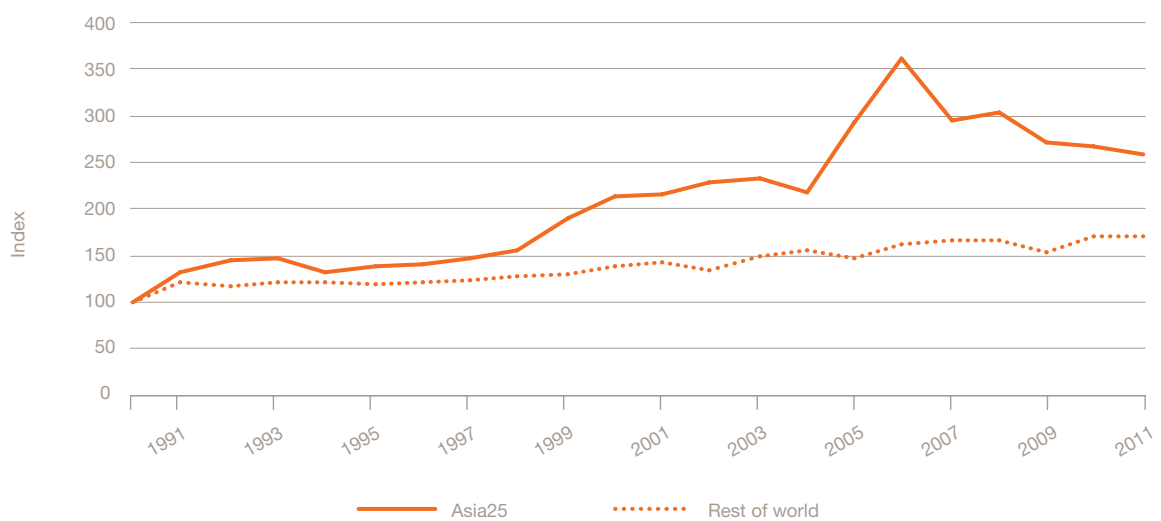


Table 12: Index trends for Humanitarian assistance component

Index (1990=100)	1990	1995	2000	2005	2010	2011	% change 2010–11
Asia25	100.0	137.8	213.9	293.8	267.6	259.3	-3.1
ROW	100.0	119.4	138.1	148.0	170.8	170.1	-0.4

In 2010–11 AusAID spent just under \$4.4 billion providing official development assistance (ODA) to other countries, with \$1.6 billion (36 per cent) of this amount spent in Asia. The biggest single recipient of ODA in Asia in 2011 was Indonesia (accounting for 29 per cent of Asian ODA, with much of this spent on education), followed by Vietnam, Pakistan, the Philippines and East Timor, each with shares from 7 per cent to just over 8 per cent of total ODA to Asia.²⁷

Following a review of Australia’s aid program, the Foreign Minister announced in July 2011 that Australia’s aid budget would increase significantly to more than \$8 billion over the next five years, with Australia’s nearest neighbours remaining the priority. Subsequently in May 2012 the Foreign Minister announced that Australia’s overall ODA would increase from around \$4.9 billion in 2011–12 to \$5.2 billion in 2012–13, and projected an increase in the ODA to Gross National Income ratio in coming years from 0.35 per cent to 0.5 per cent by 2016–17.²⁸

NGO delegates included in the Humanitarian Assistance component are representatives of Médecins Sans Frontières and the Red Cross. The Australian Red Cross, working in conjunction with Red Cross partners in Asia, engages in projects across a range of countries focused on community health; preparing for and recovering from disasters; developing the skills of regional partners; and preventing the spread of HIV/AIDS. The work of Médecins Sans Frontières Australia in Asia, which is funded by Australian donors, is focused on HIV/AIDS, tuberculosis and primary healthcare projects in Cambodia, China, Laos, Myanmar, Thailand and the Philippines.

AusAID and Defence scholarships were offered to more than 2800 Asian students in 2011, with ASEAN students accounting for 68 per cent of these, of which Indonesia accounted for 27 per cent, Vietnam 16.7 and the Philippines 11.9 per cent. Pakistan and Bangladesh were the next most significant scholarship recipients, together accounting for 13.5 per cent of total Asian recipients. China and India by comparison account for just 1.4 and 0.9 per cent respectively of AusAID and Defence scholarships offered in Asia. The students graduating from these programs go on to have a significant impact in terms of developing cultural and economic ties between Australia and the region.

What ‘Humanitarian Assistance’ measures

This component comprises data on:

- total Australian AusAID Official Development Assistance (ODA) to eligible partner countries in Asia (by country);
- number of long-term and permanent passenger movements by doctors, nurses and teachers to Asia (by country);
- number of Australian volunteers in Asia working for Red Cross Australia and Médecins Sans Frontières Australia (by country);
- number of Australian members of UN Peacekeeping Forces in Asian countries (by country); and
- number of student scholarships offered by AusAID or Defence to study a full-time course in Australia (by country).

²⁷ AusAID Annual Report 2010–11.

²⁸ AusAID Budget Speech, 8 May, 2012.

SME Engagement with Asia

SMEs employ about 70% of all Australian workers. In the two industry sectors with the greatest number of goods exporters (wholesale trade and manufacturing), small and medium enterprises accounted for 17.2% and 10.4% of value respectively but 91.6% and 87.9% of the total number of exporters in those sectors.

The ongoing economic and employment contribution of SMEs to Australia has been buoyed by consistently healthy prospects in Asia and the effects of the Global Financial Crisis on Western economies. Australian SMEs that export have traditionally fared better than those that rely on the domestic market and are more confident of business success. Asia has rapidly emerged as an export destination of choice for SMEs.²⁹

“SMEs are the engine room of the Australian economy and getting them more involved with other small and medium enterprises in the region will provide enormous benefits, not just for Australia but for other regional economies.”

The Hon Brendan O'Connor MP,
Minister for Small Business, August 2012

Trends

An increasing proportion of SMEs is looking to export markets; June 2012 HSBC research showed that 35% of SMEs surveyed already import or export, but an additional 21% planned to trade internationally within the next twelve months.³⁰ In a reversal of 2011 results in the same survey, SMEs ranked the global economic climate a secondary concern after the strength of the Australian domestic economy, indicating the potential for even more export-oriented strategies.³¹

As many Australian SMEs now export to China as to the whole of continental Europe.³² New Zealand, the US and the UK remain Australian SMEs' largest export markets, but China and ASEAN have in the last decade emerged as very real competitors, with the latter now serving as an export market for a quarter of exporting SMEs.³³ Asian markets dominate the top ten destinations for Australian SME exports.

Another market survey, though not solely conducted within the SME sector, reveals that increases in export orders are most significant in Indonesia, China, Southeast Asia and the Middle East.³⁴ Though authoritative and survey data on imports are less readily available, and official data focuses on goods trade rather than services, evidence from interviews conducted for this report indicates that Australian SMEs are also active importers of goods from Asian markets and are heavily involved in the services trade.

²⁹ Tim Harcourt, Australian SME Exporters and China August 2008.

³⁰ HSBC, Media Release: SMEs See International Trade as Key to Success 14 June 2012.

³¹ Ibid.

³² Sensis Business Index – Small and Medium Enterprises September 2012.

³³ Ibid.

³⁴ DHL Export Barometer (August 2012).

Determinants of Success and Barriers to Entry

SME exporters to and importers from Asia face several barriers to market entry, some of which are quantitatively different from those faced by larger companies, and others that are unique to the particular nature of SMEs.

One of the greatest threats to smaller operators wanting to access Asian markets can be the simple issue of cashflow. In an interview conducted for this report (video available via our web app – www.asialinkindex.com.au), Lisa Goodhand, Managing Director of China Blueprint Consultants, observed that Chinese buyers will generally not pay for goods until they are received. When importing from China, on the other hand, a significant percentage of the payment is often required upfront. Given the time required for shipping and customs processing, and for stockists to pay for the goods to eventually sell onto Australian customers, it is not unusual for months to pass before the registers of SMEs can be restored to balance.

For companies that import components or packaging from China and export the final consumer good back to Asian markets, delays in payments can be ever more painful to endure.

For Nic Davies and Bao Nguyen, co-founders of Infrarisk, a software developer for the financial services sector (video available via our web app - www.asialinkindex.com.au), the biggest challenge in expanding their business into Asian markets has been “building relationships directly with prospective clients”. Infrarisk has an offshore development centre in Vietnam but also sells its software there and in other Asian countries. According to Mr Davies:

“When we go into Asia, it’s very much the case that we need to build a relationship and establish credibility with a bank before they’ll even consider working with us. To do that, Bao and I are intimately involved because we need to establish that banking knowledge and credibility. To scale that type of relationship-building exercise in Asia, we need to be very selective and it’s very people-based. So our biggest challenge is the scalability of that model.”

Austrade’s Executive Director (International Operations), Laurie Smith (video available via our web app - www.asialinkindex.com.au) noted that there is an “individual dimension” to success in Asia and then there are “more corporate capabilities” that are required. Mr Smith highlighted the need for organisations to have a strong commitment to their Asia strategy and

a capacity to tailor their organisational structure to suit each market. In terms of individuals, flexibility and inter-cultural and language skills were valuable.

SMEs are not necessarily disadvantaged by size. There are other characteristics associated with small businesses that can actually facilitate engagement with Asian markets. Ms Goodhand observed that large businesses can have difficulty changing strategic direction quickly or entering new markets, whereas SMEs can often be more adaptable, flexible and change-oriented by virtue of their size.

Recent Regional Multilateral Activity

Asia-Pacific Economic Cooperation (APEC) established a Small and Medium Enterprises Working Group in 2000, upgrading what had been since 1995 an Ad Hoc Policy Level Group. The 19th SME Ministerial Meeting was held in Saint Petersburg, Russia, in August 2012. The Hon Brendan O’Connor MP, Minister for Small Business, gave a speech at the meeting outlining the current government’s policy initiatives enacted in support of SMEs. At the meeting, the Ministers:

- Agreed that corruption imposes a significant market access barrier and high costs for SMEs. To address this challenge, they endorsed principles for voluntary codes of business ethics for the medical device, biopharmaceutical, and construction/engineering sectors;
- Agreed that effective protection of intellectual property rights (IPRs) and simultaneous reduction of trade and investment barriers in this field are among the key issues for further SMEs development in the APEC region; and,
- Welcomed work that promotes the exchange of best practices for instruments that support innovative SMEs and instructed officials to develop capacity-building activities to deliver effective economic and technical cooperation.³⁵

Definitions of Business Size

Readers should be mindful of definitional issues when dealing with data on the SME sector. In Australia, the ABS defines an SME as having less than 200 employees while the Taxation Office refers to an aggregate turnover of less than \$2 million. Other definitions also operate, inside and outside of government. The surveys and reports quoted here do not necessarily adhere to any of these definitions.

³⁵ APEC, Small and Medium Enterprises. <http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises.aspx>.

Significant Investor visa

Of interest to Australian SMEs seeking to attract investment from Asia, the Australian government has announced a new visa pathway for migrant investors coming to Australia. The Significant Investor visa will commence from 24 November 2012, subject to the legislative change process. This new stream will be part of the Business Innovation and Investment visa.

To be eligible, visa applicants must make complying investments of at least \$5 million. Direct investments into private Australian companies not listed on the Australian stock exchange are allowable as long as the company has an ABN and is registered with ASIC.

Visa holders are required to spend 160 days in Australia over four years and do not need to satisfy the innovation points test. There is no upper age limit.

Interview Extracts

Laurie Smith

Executive Director – International Operations, Austrade

Where do the biggest opportunities for Australian SMEs lie in Asia?

China and India are the two giant economies of the Asian region. They're both growing very fast. Our resources trade in particular is very strong with both of those countries. But there's a range of other very significant economies in the region. Of course, Japan was our biggest market for forty years or so but with Korea, Taiwan, the markets of ASEAN, and Indonesia, there's a whole diversity of locations of opportunity now for Australian companies. I think it's well worth pausing and thinking about that diversity before necessarily assuming that it has to be India or China. Asia is very diverse geographically. Sometimes, small companies find great niches that don't necessarily reflect a big change going on at the macro level. It requires a lot of knowing what you're good at and sticking to that but then also digging deep and digging widely to find the right opportunity for them.

What services does Austrade offer for SMEs looking to move into Asia or to enlarge their Asian footprint?

Around 60% of our 580-600 offshore staff are based in Asia and we're in about 30 locations across Asia. We're in major capitals but we're also in a host of second-tier regional cities. For example, in each of India and China, we're in ten or twelve locations. That's a broad network that can provide an in-market presence to support Australian companies. We can help Australian companies to access networks of decision-makers and potential commercial partners and distributors. We can provide information and insights about a market, we can help to give advice about particular issues businesses might face as they're wondering which step to take next or how to deal with a particular next step in their business development program. There's a range of practical support we can provide, particularly where there's no obvious alternatives available to help companies to develop programs or to meet potential business partners. Another of our key tasks is to identify opportunities that are potentially attractive and able to be addressed by Australian companies that are already in those markets or that are looking to get access to new market opportunities offshore.

Lisa Goodhand

Managing Director, China Blueprint

One of the central findings of this year's Index is that engagement with China is up by over 50 per cent from last year. Are SMEs contributing their share to this spike in trade and investment or are they lagging behind big business? If so, why?

Australian SMEs really are contributing to this spike in trade with Asia, and China is definitely a popular destination. Most businesses these days, especially in the SME category, realise that the Australian market is quite small in size. Whether it be to expand their current margins or to look for new opportunities or even just to internationalise their business, they realise that they need to go overseas. Because of their size, it's actually easier for SMEs to look at going into international markets and it's easier for them to make change and adopt new services and strategies. I don't believe they're lagging behind big business, I think big organisations can sometimes find it very hard to strategically just change their direction overnight or enter a new market, whereas SMEs are much more adaptable. They can change their business quite easily and they are contributing to this increase in trade because they realise that they need to internationalise their business.

In your experience, what are the two or three classic pitfalls that claim Australian SMEs trying to work in China?

The classic pitfalls that I see SMEs fall into when expanding their business into trade with China are, firstly, knowing who to trust. A country like China is quite complex and different to our own. With that language and cultural barrier, knowing who to trust can be really complex. It's not like entering another Western country where English is a common language and some of the consumer behaviours and activities are similar to our own market. A saying we have in the consultancy area is 'same bed, different dreams'. Another trait of Australian SMEs is that they often send their senior managers to China as a first point of contact. That can reflect on the way the company is perceived in China. Typically, where a senior manager goes straight into a meeting as the first point of contact with a potential partner in China, they might be perceived as a small business or a business that doesn't have sufficient resourcing or scope to be taking on the China challenge. Finally, understanding the size of taking on a China project is another big problem. Australian SMEs quite often underestimate the complexity of the China market, the size of the China market and the nuances that each province entails. We should think of China like Europe and we would never go to Europe with a 'one Europe' strategy. Double your budget, halve your expectations, is what we quite often say.

Nic Davies and Bao Nguyen

Co-founders, Infrarisk

You are an exporter to Asian markets but you also run an offshore development centre in Vietnam. Why Vietnam? How important is having access to that alternative labour market to your overall business performance? And do you intend to expand your presence in Vietnam or open development centres in other Asian countries at all?

ND: We went to Vietnam after looking at a number of different markets. We looked at places like the Philippines and India but we're very industry-specific in terms of banking and lending so the attraction of Vietnam for us is the mathematical skills sets that you generally find in pretty significant abundance in Vietnam. The education system there is much more heavily weighted toward math and sciences. Many of our developers also have very strong mathematical backgrounds. When we're doing sophisticated pricing systems with complex calculations, they already have an understanding of those sorts of principles. We're not just looking for a developer as a commodity skills set. We have our own centres because we want to get those people skilled up with banking skills sets in addition to technological capability. If we are to scale up and if we were to create more development centres, I think we would do that in Vietnam. So far the experience has been pretty good, not without its trials, but generally we've had a pretty smooth experience and the skill sets have been excellent.

How has your ability to speak Vietnamese and comprehend Vietnamese culture affected your business there?

BN: I have been away from the country for 35 years. When I went back to Vietnam, they called me by the term 'overseas Vietnamese'. Up until last year, when I talked to the banks, I had to speak in English. One of my staff would translate. It didn't work too well, but in the past six months, I started to learn all the words. You have to learn Vietnamese just like a new language. In the past three or four months, I started talking directly to the banks, working with them operationally in Vietnamese, and things just worked better. However, people still want to see experts from Australia, so it's very important to show two sides of the business. We need to have people like Nic and other experts to come in and show that we come from Australia, we work with very large banks, and these are our credentials. When it comes to operations, if you speak Vietnamese, they feel more comfortable, so we need two sides of the business, and we're working on both sides.

ASEAN

The PwC Melbourne Institute Asialink Index of Engagement with the ASEAN group of countries rose by 7.6 per cent in 2011, following modest falls in the previous two years. Engagement with ASEAN rose across almost all of the component measures of engagement in 2011, the sole exception being humanitarian engagement. Tourism and migration engagement rose particularly strongly in 2011. Developments relevant to these components of engagement are discussed in the following pages.

Having become ASEAN's first 'Dialogue Partner' in 1974, Australia has an important and longstanding relationship with the region across a range of areas including security, culture, trade, education and development. This was reflected in the 2007 Joint Declaration on the ASEAN–Australia Comprehensive Partnership, which provides a framework for engagement from 2008 to 2013, covering political, security, economic, socio-cultural and development cooperation.³⁶ Meanwhile the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA), covering 600 million people, came into force on 1 January 2010 and is the largest free trade agreement Australia has joined, and the most comprehensive FTA that ASEAN has signed.

The 24th ASEAN–Australia Forum in Canberra in September 2011 acknowledged progress in developing and implementing these arrangements, as well as Australia's role in supporting the ASEAN Connectivity Initiative aimed at enhancing ASEAN's integration efforts, contributing to the narrowing of the development gap in the region, and supporting ASEAN's disaster management initiatives. The Forum also pledged to continue to advance East Asia Summit cooperation in the existing five priority areas of finance, energy, education, pandemic prevention and disaster management.³⁷

³⁶ Other dialogue partners are Canada, China, the European Union, India, Japan, Republic of Korea, Russia and the United States.

³⁷ The East Asia Summit (EAS) is a regional leaders' forum for strategic dialogue and cooperation on key challenges facing the East Asian region. Members include all 10 ASEAN countries plus Australia, China, India, Japan, New Zealand, Republic of Korea, the United States and Russia. DFAT <http://www.dfat.gov.au/asean/eas/index.html>

Figure 15: ASEAN Index

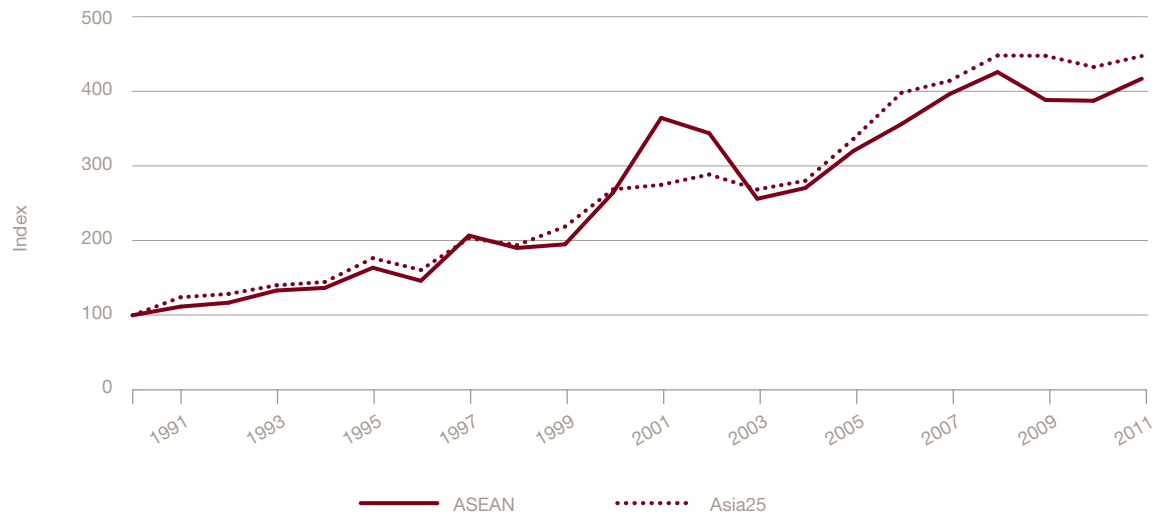


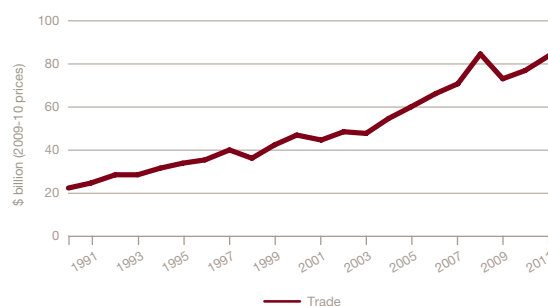
Table 13: Index trends for ASEAN

Index	1990	1995	2000	2005	2010	2011	% change 2010-11
ASEAN	100.0	163.7	264.4	320.2	387.5	417.0	7.6
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

Components of the ASEAN Index

Trade

ASEAN as a group was overtaken by China as Australia's major trading partner in 2009 and the gap has widened since. Nevertheless trade with ASEAN rose by 8.8 per cent in real terms in 2011 to \$83.3 billion (\$88.4 billion nominal), reflecting an almost 9 per cent rise in imports and a 9 per cent rise in exports. ASEAN accounted for 15 per cent of Australia's total (world) trade in goods and services and 26 per cent of Asia25 trade in 2011.



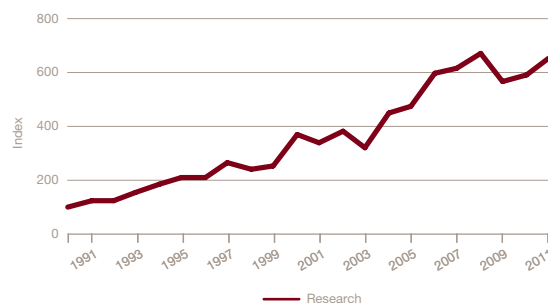
Investment

The value of bilateral investment flows with ASEAN is less significant than trade, equivalent to less than 14 per cent of trade engagement in 2011. Investment engagement rose sharply by 31 per cent in 2011, due wholly to a 49 per cent rise in net outward investment. The rise in outward investment was due significantly to a big increase in outflows to Singapore, an important entrepôt trading and financial centre in Asia and Australia's main investment partner in ASEAN. The strength of the Australian dollar may have encouraged the rise in net outward investment.



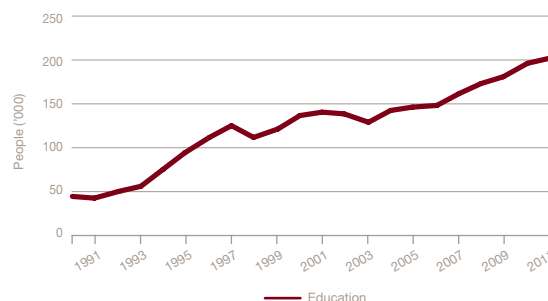
Research and business development

The ASEAN research component rose by 11 per cent in 2011 reflecting, largely, significant increases in patent applications (28 per cent) and business visits in each direction (6 to 7 per cent). Research article publication fell by 18 per cent. Last year 168,000 people travelled from Australia to ASEAN countries for business purposes, while there were 212,000 such visits in the other direction; these figures are 6 to 7 per cent higher than for 2010.



Education

The ASEAN education engagement component has been rising strongly in recent years and was up by 3.6 per cent in 2011. ASEAN as a group is a more important source of international students than China (Australia's biggest single source), and was the source of 148,000 student arrivals in 2011, marginally less than in 2010. Meanwhile 53,800 Australians travelled to ASEAN member countries for educational purposes in 2011, up by 19 per cent compared with 2010.



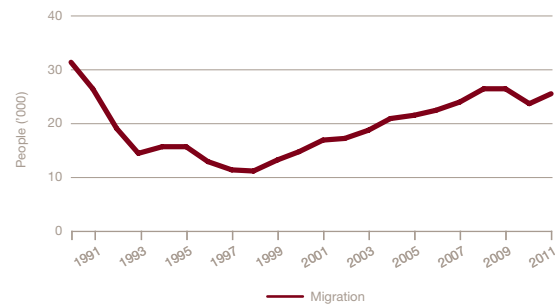
Tourism

Tourism engagement with ASEAN has also increased sharply in recent years and this continued in 2011 with a rise of 14 per cent. The strength of the Australian dollar would seem to be encouraging Australians to holiday abroad, especially in Indonesia and Thailand. There was a 17 per cent increase in outbound tourists and a more modest 2 per cent increase in incoming tourists in 2011. Total tourist movements in 2011 were 2.6 million, up from 2.3 million in 2010. Just over 557,000 ASEAN tourists visited Australia, while more than 2 million Australian tourists visited ASEAN countries in 2011.



Migration

Migration engagement with ASEAN recovered by 33 per cent in 2011, reflecting a 10 per cent fall in outward migration, while inward migration was virtually steady. It is possible that the stability of the Australian economy is encouraging more ASEAN-born residents to remain in Australia, while the strength of the dollar is acting as a deterrent to immigration to Australia at the moment.



Humanitarian Assistance

The ASEAN humanitarian assistance engagement component fell by almost 5 per cent in 2011, largely reflecting a fall in the numbers of doctors, nurses and teachers going to work in ASEAN countries. The number of Australian NGO delegates going to the region rose, as did AusAID and Defence scholarships offered to ASEAN students to study in Australia. Official development assistance to the region was broadly steady.



People's Republic of China

Australia's Index of Engagement with China rose dramatically by 53.5 per cent in 2011 reflecting, in particular, buoyant growth in investment flows, especially outward investment from Australia into China. Strong growth in tourism also contributed (inward and outward), while education engagement with China rose only slightly.

Despite undergoing an engineered slowdown aimed at deflecting inflationary pressures, particularly in the property sector, China's economy continued to grow faster than the other major countries and world average growth in 2011, further securing its position as the second biggest economy after the United States, and ahead of Japan.³⁸ The Chinese economy grew by 9.2 per cent in 2011 (down from 10.4 in 2010) compared with world growth and growth in the advanced economies of just 3.9 and 1.6 per cent respectively; the IMF forecasts growth for all three will be more moderate in 2012.

Australia has benefited enormously from China's growth in the past decade. While the key driver of this engagement and economic benefit for Australia has been trade in energy and resources, service sector exports are increasingly important, in particular education and tourism services (as discussed in the following pages). China accounted for 19.9 per cent of Australia's total trade in goods and services in 2011, up from 13.2 per cent just three years earlier.³⁹

While Australia's investment relationship with China is less important than the trade relationship (in dollar terms), it is increasingly significant. Australia's investment in China over the past decade has been relatively modest, consisting of a mix of portfolio investment and direct investment in the finance sector, followed by manufacturing and services. Meanwhile Chinese investment in Australia has increased rapidly, especially investment in energy and resources but also elsewhere. In 2011 there was a rebound in investment engagement with China, reflecting a fall in net inward investment of 51 per cent and a huge rise in net outward investment of 278 per cent. While there have been concerns in China about Australia's foreign investment guidelines, approvals processes, rising cost structures, the high dollar and taxation changes,⁴⁰ concerns have been voiced in Australia about the ownership of some entities buying Australian assets and Chinese investment in Australian farmland in particular.⁴¹ These aspects of the relationship require careful ongoing management.

Australia's important and diverse relationship with China was highlighted by the Foreign Minister in May this year (2012) as part of the program to celebrate the 40th anniversary of the establishment of diplomatic relations between China and Australia in 1972. He noted that in addition to our significant resource exports (including supplying 50 per cent of China's iron ore imports and 25 per cent of its coal imports in 2011), "we are also building a stronger commercial relationship in services and agriculture. So there's no doubt that the global and economic power is shifting to Asia and a large part of the shift is the re-emergence of China".⁴²

³⁸ In nominal \$US terms the United States, China, and Japan accounted for an estimated 22.0, 10.5, and 8.4 per cent respectively of world GDP in 2011. In PPP terms these shares are 19.1, 14.3 and 5.6 per cent respectively. Source: IMF WEO online database

³⁹ DFAT Composition of Trade Australia 2011, Table 5.

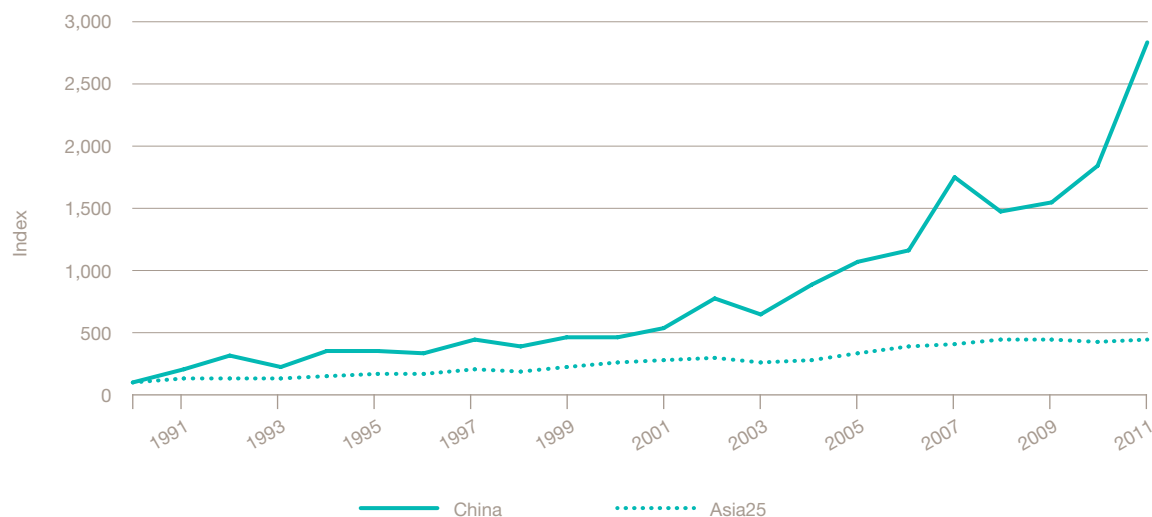
⁴⁰ <http://au.news.yahoo.com/thewest/business/a/-/news/10082726/chinese-finding-mining-investment-tougher/>

⁴¹ See the debate about the sale of Cubbie Station, Australia's biggest cotton farm.

⁴² http://www.foreignminister.gov.au/articles/2012/bc_ar_120524.html

Also in May this year, the Foundation for Australian Studies in China (FASIC) was established as an independent non-profit organisation to support Australian Studies Centres located in leading universities across China, and to provide funding and other assistance to the BHP Billiton Chair of Australian Studies at Peking University in Beijing.⁴³ The Australia–China Council is a key partner of the Foundation and the Council Chair, the Hon Warwick Smith AM, will lead the creation of the Foundation, which he believes “will add an important new dimension to already robust Australia–China bilateral engagement in education, science, society and culture”.⁴⁴

Figure 16: China Index



With China’s economy forecast by the IMF to increase in size by 57 per cent by 2016, when it will account for 18 per cent of world GDP, it will clearly remain an important focus for Australian business, government, and cultural relations in coming years. In addition, China’s large population also means that its per capita GDP will lag that of the US and many other developed countries for some years after it becomes the biggest world economy (in both US\$ and PPP terms), implying ongoing scope for economic catch-up (albeit less resource-intensive catch-up).

Table 14: Index trends for China

Index	1990	1995	2000	2005	2010	2011	% change 2010–11
China	100.0	356.9	455.3	1,062.9	1,843.5	2,829.9	53.5
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

⁴³ The latter was formally announced by the Prime Minister in Beijing in April 2011.

⁴⁴ DFAT Media Release 16 May 2012.

Components of the China Index

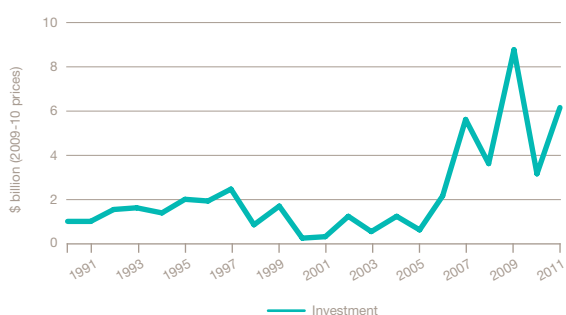
Trade

Australia's two-way trade with China continued to grow strongly by 11 per cent in 2011. This reflected strong exports growth of 10 per cent (largely energy and resource exports) and similarly strong growth of 8 per cent in Chinese imports to Australia (comprising, largely, manufactured goods). China has become Australia's largest single trading partner and export market, with shares of 20 and 25 per cent respectively of Australia's total trade and exports in 2011.



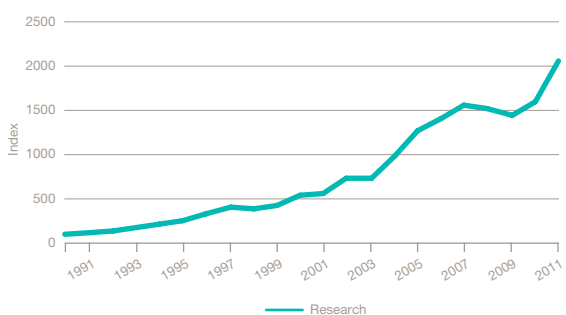
Investment

There was a sharp rebound in investment engagement with China in 2011 reflecting a fall in net inward investment of 51 per cent and a huge 278 per cent rise in net outward investment; direct investment flows can be notoriously 'lumpy'. The strength of the Australian dollar, as well as concerns about approval processes and tax changes, arguably dampened inward investment in 2011 for the second year in a row. The stock of Chinese investment in Australia at the end of 2011 is estimated by the ABS at \$19 billion, 70 per cent of which was direct investment. Australia's investment in China at end 2011 was \$17 billion, 37 per cent of which was direct investment.⁴⁵



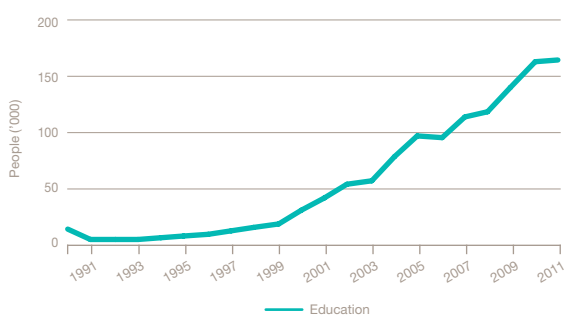
Research and business development

The China R&BD component rose by 29 per cent in 2011, with increases across all sub-components. The biggest shifts were a substantial 58 per cent rise in the number of patent applications filed in Australia by Chinese inventors, as well as a 26 per cent increase in business visitors coming to Australia from China.



Education

Growth in incoming student numbers from China slowed dramatically from 13 per cent in 2010 to just 3 per cent in 2011. China has become Australia's largest source of foreign students in the past decade, with 148,000 (or 32 per cent of total Asian students) coming to Australia in 2011. The number of Australians travelling to China to study fell by 14 per cent in 2011 following a big rise in 2010. As a result of these movements the overall education component rose only marginally by 1 per cent in 2011.



⁴⁵ DFAT China Fact Sheet.

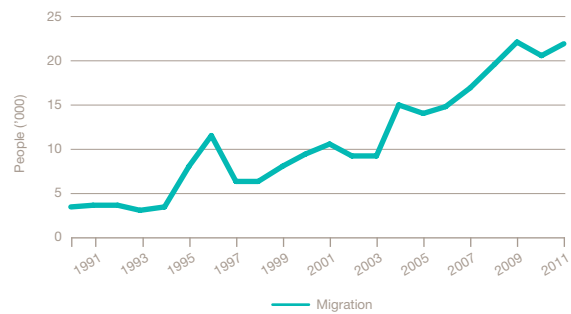
Tourism

Tourism between Australia and China has escalated since the early 2000s to a level of around 584,000 person movements in 2011. In 2011, 342,204 Chinese tourists visited Australia, 42 per cent higher than the number of Australians visiting China. Increasing prosperity and incomes in China are facilitating increased travel abroad. Almost all tourist movements in both directions are for short-term holidays or visits to friends.



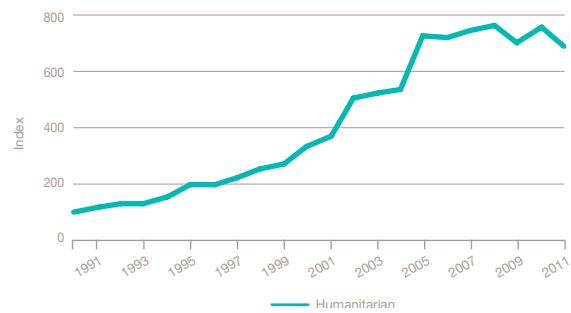
Migration

The number of Chinese people immigrating to Australia rose by 8 per cent in 2011, following a fall in 2010, while the number of Chinese-born people returning to live in China rose 7 per cent in 2011. The overall migration component rose by 8 per cent in 2011. Chinese-born residents living in Australia accounted for 1.8 per cent of the population in 2011.⁴⁶



Humanitarian assistance

The humanitarian assistance component fell by 9 per cent in 2011. This primarily reflected a fall of 10 per cent in the number of doctors, nurses and teachers travelling to China, as well as a fall of 9 per cent in AusAID and Defence scholarships granted for study in Australia. The other components were little changed in 2011.



⁴⁶ ABS Cat. No. 3412 Migration, 2010–11.

Australia–India engagement rose modestly by 2.3 per cent in 2011 following a significant fall of 12.5 per cent in 2010. Trade, investment, education and migration engagement all fell in 2011 but were offset by rises in the other components. While the strength of the Australian dollar and competition from elsewhere (such as the United States) may have discouraged some Indian students from coming to study in Australia, the downturn in education engagement is also likely to reflect lingering concerns about the quality of the education services and student experience being offered in Australia, as well as security concerns, as discussed last year.⁴⁷ These concerns may have spilled over to influence those considering migrating to Australia. In contrast, two-way tourist flows between India and Australia rose strongly in 2011.

Despite the sobering moderation in engagement in more recent years, particularly when compared with China, Australia's engagement with India remains significant. India retained its position as Australia's fourth largest global export market for goods and services in 2011, after China, Japan and the Republic of Korea (though, if ASEAN is taken as a group, trade with India is worth less than a quarter of that with ASEAN). Two-way goods and services trade with India totalled more than \$20 billion in 2011 and the prospects for future trade continue to improve as India's trade liberalisation progresses. Australian investment in India in 2010–11 totalled almost \$5 billion and encompassed manufacturing, telecommunications, hotels, minerals processing, oil and gas, and the automotive sector. Meanwhile, there has been strong Indian interest in investing in Australian resource deposits, and the top Indian software firms have a small but growing presence in Australia.⁴⁸ As for education, Australia remains a major destination for Indian students studying abroad, with 72,273 Indian enrolments in 2011.⁴⁹

Consistent with these developments, in May 2011 the Australian and Indian trade ministers met in Canberra to formally launch negotiations to conclude a Comprehensive Economic Cooperation Agreement (CECA) between the two countries, which includes coverage of investment and trade in goods and services. This was followed by the first round of the CECA negotiations in India in July, which focussed on the broad architecture of the agreement. Meanwhile, joint Ministerial Commissions between Australia and India are held regularly, enabling interaction at the government and business level on a range of issues.⁵⁰

Thus, both the Australian and Indian governments recognise the significant potential for further expansion and cooperation as India's nascent economic development continues. Australia's strength in exporting primary products, particularly minerals and fuels, positions us well to supply growing industrial and consumer demand in India.

⁴⁷ These concerns were addressed by an Australian government (COAG) review resulting in an International Student Strategy and the passing of a number of related bills through parliament in the first half of 2010. Measures taken related to ensuring student safety, accreditation requirements for certain education providers, and decoupling student visas from migration outcomes.

⁴⁸ These firms include Tata Consultancy Services, Satyam, Infosys, Pentasoft and HCL.

⁴⁹ DFAT Composition of Trade Australia 2011; DFAT Country Brief.

⁵⁰ Australian and Indian Foreign Ministers meet annually for the India–Australia Foreign Ministers Framework Dialogue (FMFD); Trade Ministers meet annually for the Joint Ministerial Commission (JMC); and Education Ministers meet annually for the India–Australia Ministerial Dialogue on Education Cooperation.

Having said this, a slowdown in Indian economic growth to 7.2 per cent in 2011 (from 10.6 per cent in 2010) and a projected further slowdown to 6.9 per cent in 2012, alongside high food price inflation, are cause for concern.⁵¹ With a population almost as big as China (1.21 billion people cf. 1.35 billion for China) but a per capita GDP less than half that of China, significant development challenges remain for India.

Figure 17: India Index

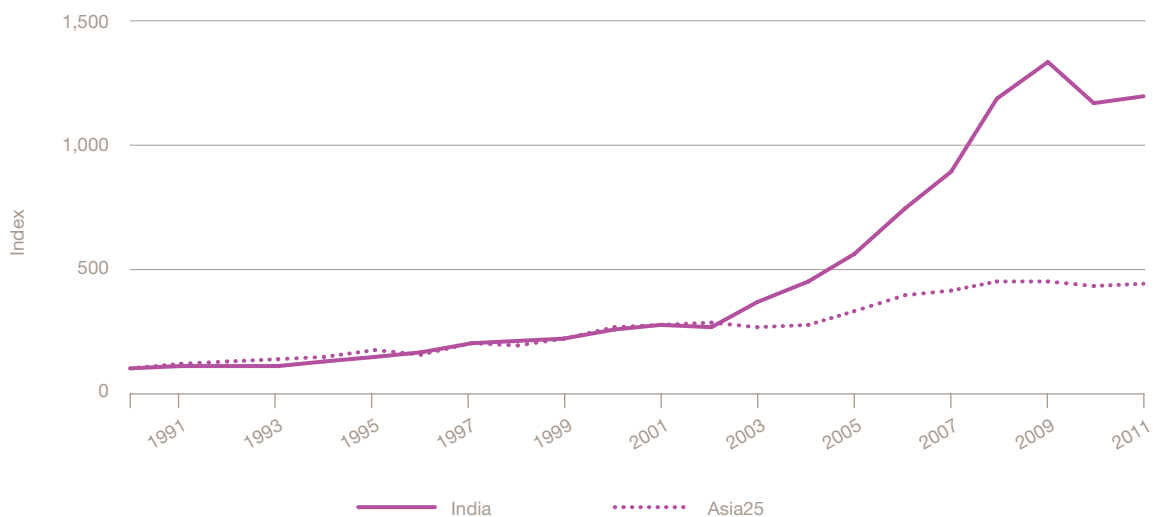


Table 15: Index trends for India

Index 1990=100	1990	1995	2000	2005	2010	2011	% change 2010-11
India	100.0	149.0	255.0	562.3	1169.7	1,197.0	2.3
ASIA25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

⁵¹ IMF WEO database.

Components of the India Index

Trade

Australia's trade engagement with India declined by 13 per cent in 2011 (following a 3 per cent fall in 2010) reflecting an 18 per cent fall in exports of goods and services to India and a 19 per cent rise in imports. Trade with India accounts for 5 per cent of Australia's overall trade with Asia. Although 88 per cent of total exports to India are goods (particularly gold, coal, copper and crude petroleum) service exports have become more important, particularly education exports. Education accounted for 77 per cent of all service exports to India in 2011 and around 10 per cent of total exports (down from 15 per cent in 2010).



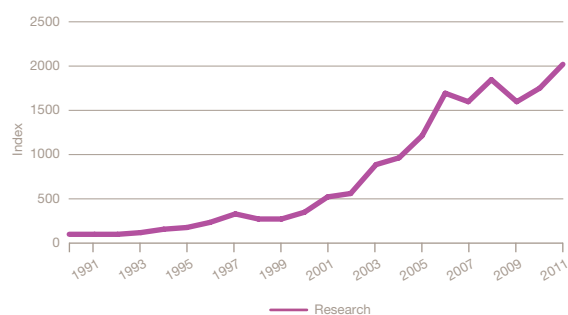
Investment

After increasing dramatically for several years, investment engagement with India has eased, falling by 30 per cent in 2011. Australia's two-way investment with India accounted for just 6 per cent of total two-way investment with Asia in 2011, down from 8 per cent in 2010. Net inward investment was roughly constant in 2011 but net outward investment fell sharply by 60 per cent in 2011. The ABS estimates that the stock of Indian investment in Australia in 2011 was just under \$11 billion.⁵²



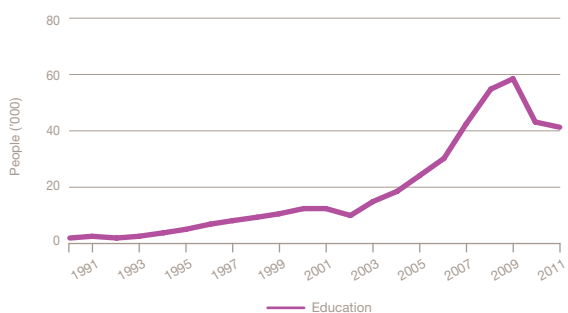
Research and business development

The India R&BD component rose strongly by 15 per cent in 2011, largely reflecting a 22 per cent increase in the patent application measure and a 9 per cent increase in the number of Indians visiting Australia for business purposes. This compares with a rise of just 1 per cent in the number of Australians visiting India for business purposes and no change in the research publication measure.



Education

Education engagement between Australia and India fell by 4 per cent in 2011, reflecting a 5 per cent fall in the number of incoming Indian students (following a 41 per cent fall in 2010) but a small rise of 3 per cent in the number of outgoing Australian students. The possible reasons for these trends have been addressed in the main discussion of engagement with India. Monthly enrolment data from the Australian Government's Australian Education International suggest that Indian education travel to Australia is down again in 2012.



⁵² DFAT India Fact Sheet.

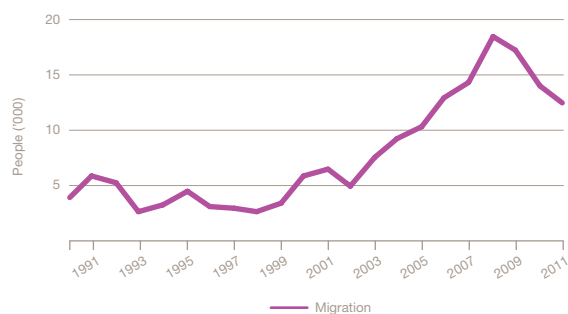
Tourism

Tourism engagement with India rose by 15 per cent in 2011 reflecting strong increases in both incoming (8 per cent) and outgoing (19 per cent) tourists. Tourism services represent Australia's second largest import from India – last year 156,000 Australians travelled to India, with more than 60 per cent of these trips made to visit family and friends. The past escalation in education and migration engagement may be fuelling tourism engagement. The strength of the Australian dollar may also be encouraging outgoing visits.



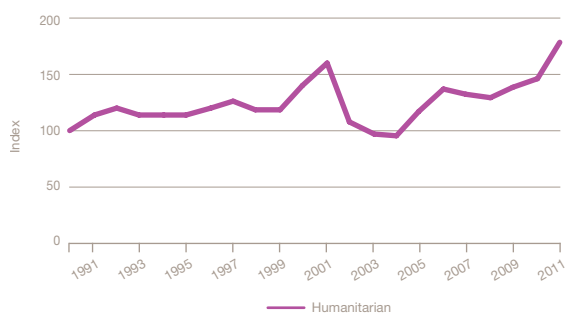
Migration

The component measuring migration flows to and from India fell by 11 per cent in 2011, due largely to a fall of 12 per cent in inward migration, in keeping with the fall in incoming students from India. There was a 3 per cent increase in Indian migrants leaving Australia permanently in 2011. At 340,604 in 2010, Indian-born residents are the fourth biggest group of overseas-born Australian residents (after the United Kingdom, New Zealand and China).⁵³



Humanitarian assistance

The Indian Humanitarian assistance component rose by 22 per cent in 2011, reflecting a large increase in the number of Australian delegates with groups such as the Red Cross active in India, as well as a jump in the number of student scholarships awarded to Indian students by AusAID and Defence. Official development assistance funding to India by AusAID rose modestly. Assistance in the wake of the Gujarat earthquake in January 2001 contributed to the spike at that time.



⁵³ ABS Cat. No. 3412 Migration, Table 4.7.

Indonesia

Australia's engagement with Indonesia fell by 13.5 per cent in 2011 following a sharp rise in 2010, continuing the apparent zigzag pattern, around an upward trend, in the Engagement index since 1990, as shown in Figure 18. A sharp fall in investment engagement of 63 per cent in 2011 was primarily responsible for the overall fall, and in fact rises were recorded for four of the seven component indices.

Indonesia accounted for a small 2.4 per cent share of Australia's total trade in goods and services in 2011 and 4.3 per cent of Australia's trade with Asia. Both exports to and imports from Indonesia grew strongly, by almost 7 per cent and 18.5 per cent respectively. Education service exports are an important aspect of the trade relationship, with more than 15,000 Indonesian students enrolled in Australian institutions in early 2012. In contrast to trade, in 2011 investment flows in both directions fell sharply; net investment inflows were down by 59.4 per cent and net outflows fell by 63.3 per cent. Investment flows with Indonesia accounted for less than 1 per cent of Australia's overall investment engagement in Asia in 2011.

As noted previously, these relatively small investment and trade shares do not adequately reflect the importance of the Indonesian relationship to Australia. As Australia's closest Asian neighbour in geographic terms, and as Asia's third most populous nation (of 241 million) after China and India, the imperatives for encouraging economic, political, security, cultural and social engagement are clear. Indonesia's GDP has grown at a considerable rate in recent years.

Australia and Indonesia cooperate in practical ways on a range of important international issues including counter-terrorism, illegal fishing, people smuggling, avian influenza, climate change and interfaith dialogue. Indonesia is Australia's largest bilateral aid program, and Australia is Indonesia's largest grant-based donor, providing a wide range of technical and economic support to the country.⁵⁴

The importance of the relationship can also be seen by the number and range of high-level exchanges between leaders, ministers and other significant people of both countries. There have been more than 100 two-way ministerial visits between Australia and Indonesia since September 2007. In July 2010 the Australian Foreign Minister and his Indonesian counterpart discussed the commencement of an Annual Leaders' Meeting and '2+2' meetings of foreign and defence ministers from both sides. The inaugural '2+2' ministerial meeting was held in Canberra in March 2012 and represented a significant strengthening of the strategic relationship. In September 2012 the second Indonesia–Australia Dialogue, exploring new ways to expand social and cultural links, was held in Sydney.

As a member of ASEAN, Indonesia is a party to the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA), the largest region-wide FTA Australia has ever signed. Meanwhile Austrade has identified significant export opportunities for Australia in Indonesia – in agribusiness, food and beverages, consumer products, ICT, and mining services, amongst others. An estimated 400 Australian firms operate in Indonesia in a range of sectors including mining, construction, finance, food and beverages, and transport.

⁵⁴ DFAT Indonesia Country Brief.

Figure 18: Indonesia Index

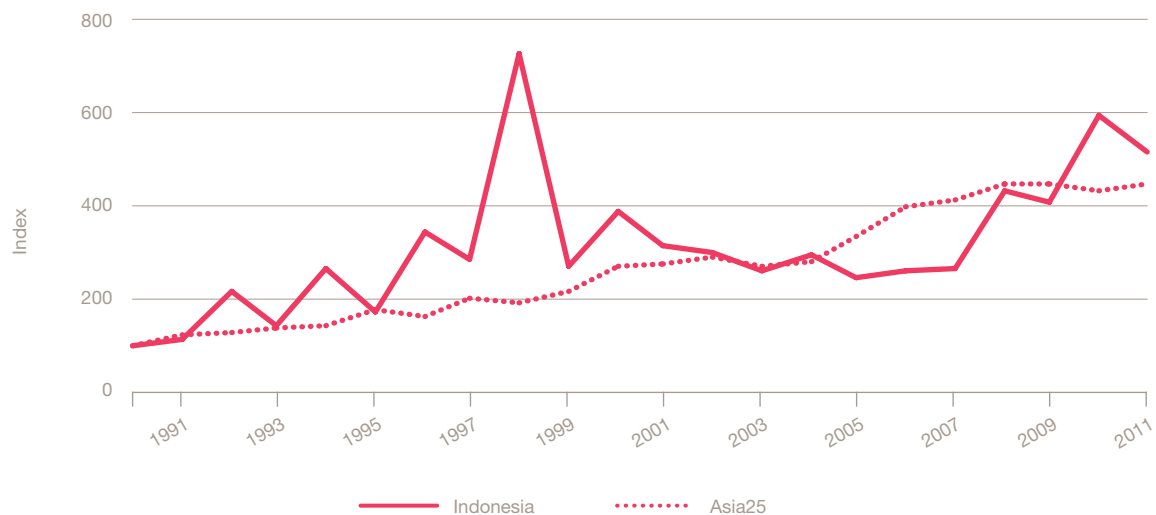


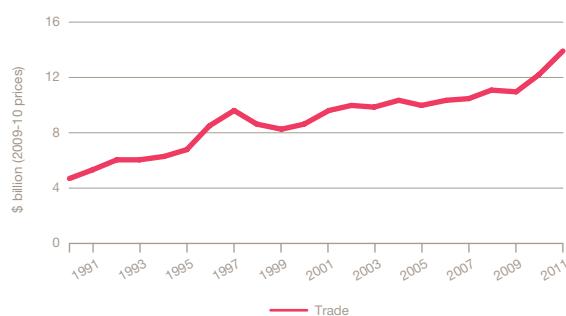
Table 16: Index trends for Indonesia

Index	1990	1995	2000	2005	2010	2011	% change 2010-11
Indonesia	100.0	173.1	388.4	244.3	595.9	515.3	-13.5
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

Components of the Indonesia Index

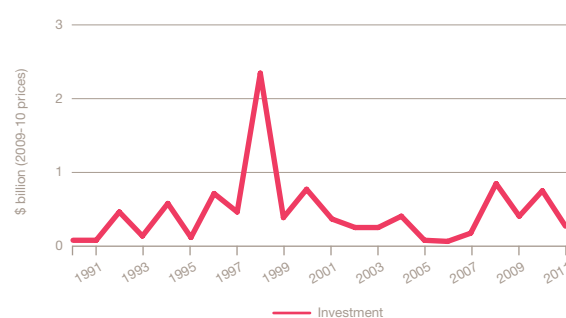
Trade

Indonesia accounts for a relatively minor share of Australia's trade with Asia. The Indonesia Trade component rose sharply by 14 per cent in 2011, reflecting increases in imports and exports of 19 and 7 per cent respectively. Just over 80 per cent of Australia's exports to Indonesia are merchandise goods, largely agricultural goods, petroleum and aluminium. The most important services traded with Indonesia are education-related travel and tourism. An increase in the number of Australians travelling to Indonesia for holidays in 2011 contributed significantly to the rise in service imports.



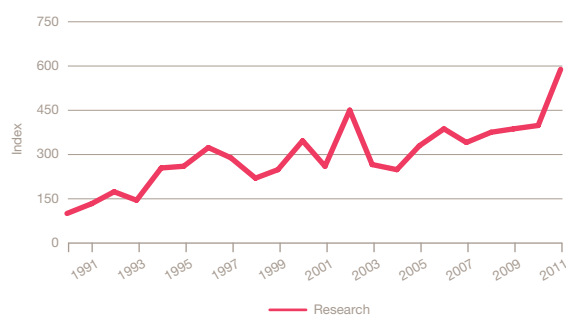
Investment

The investment component fell sharply by 63 per cent in 2011, with big falls in both inflows and outflows of investment. Investment with Indonesia is of remarkably minor significance compared with Australia's overall investment relationship with Asia. At \$245 million, the net flow of Australian investment into Indonesia during 2011 was around 8 times the size of the investment flow in the opposite direction. The ABS estimates that the stock of Indonesian investment in Australia in 2011 was just \$454 million.⁵⁵



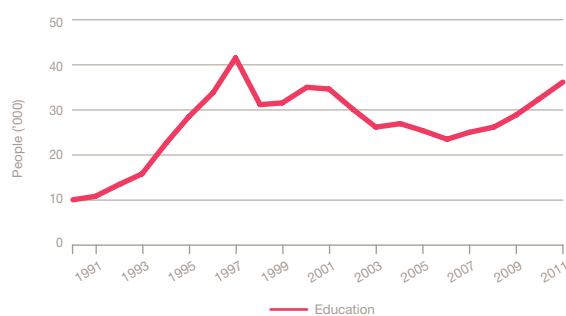
Research and business development

The R&BD component of engagement with Indonesia rose sharply by 47 per cent in 2011 due to a sharp rise in patent applications and smaller increases in the number of Australians and Indonesians travelling between the two countries for business and education reasons. There was a small fall in the number of research article publications in 2011.



Education

Indonesia and Australia have enjoyed a strong bilateral education relationship for some years. The education component increased by 11 per cent in 2011, reflecting a significant rise of 36 per cent in the number of Australians travelling to Indonesia to study and a more modest 4 per cent increase in Indonesians coming to Australia for education purposes. Australia's development assistance to Indonesia has a strong education component. Indonesians accounted for 6 per cent of foreign Asian students travelling to study in Australia in 2011.



⁵⁵ DFAT Indonesia Fact Sheet.

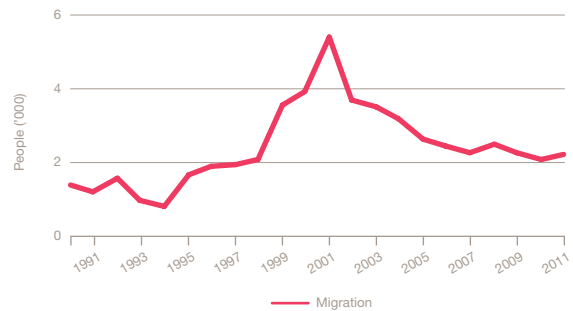
Tourism

Tourism engagement between Australia and Indonesia continued to escalate in 2011, with a rise of 19 per cent and a total of more than 891,000 people movements between the two countries. Both outbound tourism to Indonesia and the number of Indonesians coming to Australia rose by around 19 per cent in 2011. The strength of the Australian dollar is encouraging Australians to holiday abroad, including in Indonesia.



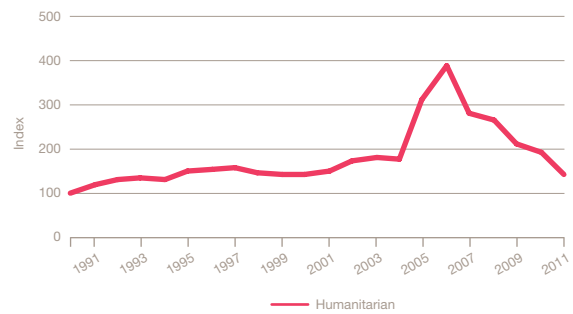
Migration

Migration between Australia and Indonesia is small, accounting for less than 3 per cent of total migration flows between Australia and Asia in 2011. The Migration component rose by 8 per cent in 2011, due primarily to a 13 per cent rise in the number of Indonesians immigrating to Australia, to just 1,500 people. There was a slight fall in the number of Indonesian-born residents of Australia returning to Indonesia in 2011.⁵⁶



Humanitarian assistance

Humanitarian assistance continued to fall sharply in 2011 despite the fact that Australia is the largest bilateral grant-based donor to Indonesia.⁵⁷ This primarily reflects a sharp fall in the number of Australian volunteers working with NGOs in Indonesia and in the number of Australian doctors, nurses and teachers stationed in Indonesia. There was also a small fall in scholarships awarded to Indonesian students to study in Australia.



⁵⁶ ABS Cat. No. 3412 Migration, Table 4.7

⁵⁷ DFAT Indonesia Country Brief.

Japan

Australia's engagement with Japan fell by 9.9 per cent in 2011 following a rise of 11.4 per cent in 2010. Despite the ongoing importance of Japan as a source of imports and destination for exports, as well as an investor in Australia, engagement has now fallen in four of the last five years, as shown in Figure 19. The latest fall was due largely to falls in investment, tourism and education engagement, and, to a lesser degree, migration. Developments in these component indices are discussed in the following pages.

Australia and Japan have a decades-long and multi-faceted relationship, underpinned by shared values and common strategic and economic interests. Japan remains Australia's second largest export destination in the world (after China), accounting for 16.7 per cent of total exports in 2011, with major exports being coal, iron ore and beef. Japan is also Australia's third largest source of imports (after China and the United States), providing 11.9 per cent of total imports in 2011, which are dominated by consumer and industrial products. Meanwhile, Japan is Australia's third biggest foreign investor, with much of this (around 43 per cent) being direct investment, which has been essential to the development of many important export industries, in particular, iron ore, coal and LNG development.

Both governments have worked actively to foster common interests through a range of formal and informal agreements, meetings and conferences over time. Australia and Japan are close partners in regional forums such as APEC and the East Asia Summit. Since the end of 2007, the Australian Prime Minister and Cabinet Ministers have made over 30 visits to Japan, including six visits in 2011 and three by mid-year 2012. The twelfth round of the Australia–Japan Free Trade Agreement negotiations were held in Tokyo in February 2011. This was the first FTA round following Japan's announcement, in November 2010, of a new policy on FTAs whose stated goal was opening Japan to world trade and investment liberalisation; this included concluding an FTA with Australia. At the February 2011 meeting, progress was made across most areas, although some outstanding issues remain to be resolved. A follow-up round of negotiations scheduled for April was subsequently cancelled until further notice in the wake of the tsunami disaster in March 2011. Both the Australian Prime Minister and Foreign Minister visited Japan following the disaster, offering condolences as well as the commitment of the Australian government to support in the wake of widespread damage and loss.

Given the longstanding and deep relationship between Australia and Japan, the Australia–Japan Engagement Index naturally starts from a high base (compared with some other countries) in 1990. The period since 1990 has been one of relative economic underperformance for Japan (with the 1990s often referred to as the 'lost decade'). While the economy recovered somewhat through the early 2000s on the back of economic reforms, unlike many of its more newly-developing Asian neighbours, Japan experienced a major downturn during the Global Financial Crisis, with economic growth falling by 6.3 per cent in 2009. Naturally, the rise of the Republic of Korea, China and other low-cost producers in the region over time has meant that Japan has lost or ceded some of its economic advantage to its neighbours. Despite all this, Australia–Japan engagement has continued to trend higher since 1990, albeit with a degree of volatility.

Figure 19: Japan Index

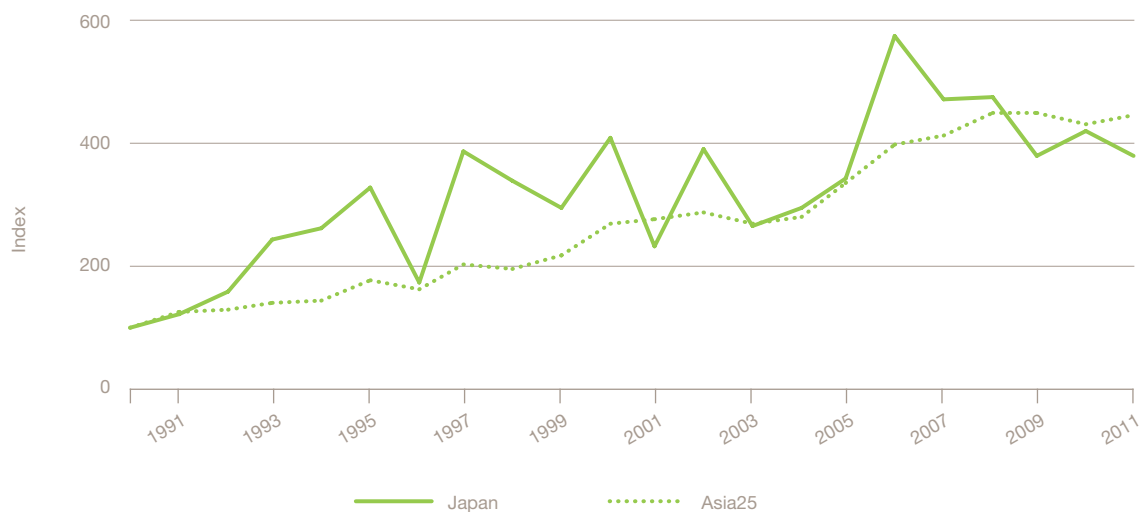


Table 17: Index trends for Japan

Index	1990	1995	2000	2005	2010	2011	% change 2010-11
Japan	100.0	328.2	410.5	343.3	420.9	379.4	-9.9
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

Components of the Japan Index

Trade

The Trade component of engagement with Japan recorded a rise of 6 per cent in 2011, reflecting a 6 per cent increase in exports to Japan and a 2 per cent rise in imports. Increases in engagement in 2010 and 2011 followed a sharp downturn in 2009 as the Japanese economy went into recession. While growth in this component has been relatively modest since 1990 compared with some Asian neighbours, it comes off a high base: Japan has been one of Australia's top-two trading partners for decades, and remains in second place now, after China.



Investment

The Investment component fell by 23 per cent in 2011, reflecting a 32 per cent fall in Japanese net investment in Australia and a 9 per cent fall in net outbound investment in Japan. Japan remains a critical investment partner to Australia, despite the rise in engagement with China in recent years. Japan is Australia's third biggest foreign investor, with an investment stock of \$123 billion at the end of 2011, while Australia's investment in Japan was less than a third of that level.⁵⁸



Research and business development

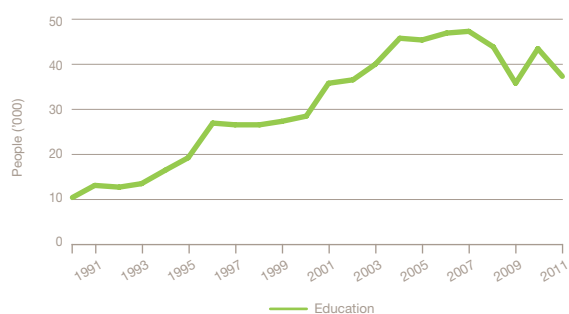
The R&BD component rose marginally by just under 1 per cent in 2011, following declines in the previous four years. While business visits from Australia to Japan and patent approvals fell, these falls were more than offset by a rise in the number of research article publications on Australia–Japan relations in 2011, and business visits from Japan to Australia also rose marginally.



⁵⁸ DFAT Japan Fact Sheet.

Education

Student travel between Australia and Japan in both directions fell in 2011, resulting in an overall fall in the education component of 14 per cent. There was a 40 per cent fall in the flow of Australian students going to Japan and a 6 per cent fall in Japanese students coming to study in Australia. Japan is the eleventh largest source country for international students in Australia.⁵⁹



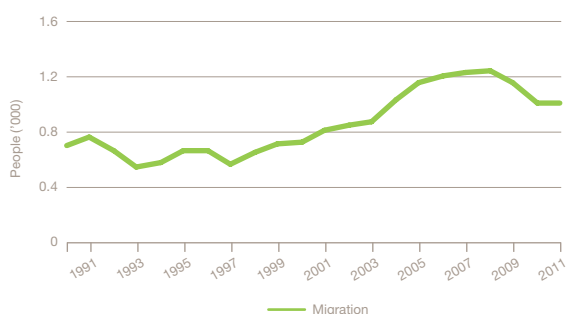
Tourism

The number of tourist movements between Australia and Japan fell by 21 per cent to a total of 358,000 in 2011, continuing the trend since the late 1990s. Inbound travel from Japan fell by 20 per cent in 2011 but was still almost three times that of outbound travel, which fell by 24 per cent in 2011. While the number of Australians visiting Japan has gradually increased over time (the latest result notwithstanding), the number of Japanese tourists coming to Australia has more than halved since a peak in 1996. The yen is one of the few currencies against which the Australian dollar has lost ground recently – a factor that may be deterring outbound tourism.



Migration

The Japan Migration component rose by 1 per cent in 2011, reflecting a rise of 4 per cent in Japanese immigrants coming to Australia and a fall of 2 per cent in Japanese-born residents returning to Japan. The number of people arriving exceeded the number departing by around 20 per cent in 2011. The annual flow of migrants between Australia and Japan is relatively small, at just over 1,000 people in total in 2011. There were just 52,111 Japanese-born residents of Australia in June 2010 – less than 1 per cent of total overseas-born residents.⁶⁰



⁵⁹ DFAT Japan Country Brief.

⁶⁰ ABS Cat. No.3412.0 Migration Table 4.7.

Republic of Korea

The Australia–Republic of Korea (or South Korea) Engagement Index fell by 3.2 per cent in 2011, reflecting falls in education and tourism engagement which more than offset increases in all of the other components, especially in trade and investment. Developments affecting these individual components are discussed in the following pages.

The Republic of Korea is Australia’s fourth largest global trading partner (after China, Japan and the United States), accounting for 5.4 per cent of total trade, and third largest export market, taking 8 per cent of Australia’s exports of goods and services in 2011. This often under-estimated trade relationship developed rapidly from the 1960s as the Republic of Korea was industrialising and in need of large quantities of raw materials. As with Japan the trading relationship has been a highly complementary one, with Australia supplying raw materials (especially iron, coal, crude petroleum and copper), some manufactured products, food and services and Korea exporting manufactured products such as cars, telecommunications equipment and computers, as well as refined petroleum. Education services are Australia’s most important service export, with the Republic of Korea the third largest source of foreign enrolments in Australia after China and India, despite the education component of engagement falling for the third year in a row in 2011. Tourism is also very important, with tourism export earnings of \$660 million in 2011.⁶¹

The investment relationship between the Republic of Korea and Australia is less significant than the trade relationship: net two-way investment accounted for only 4.3 per cent of Australia’s total net investment flows in Asia in 2011. Having said this, it has grown and diversified over the past decade or so. According to DFAT, the stock of South Korean investment in Australia grew 27-fold from a low base in 2001 to \$12.8 billion in 2011, which nevertheless represents a tiny proportion of total foreign investment in Australia, indicating considerable scope for expansion. Australian banks Macquarie and ANZ have a significant presence in the Republic of Korea. Meanwhile Korean companies are mostly interested in resource development (including in NSW coal, and iron ore in Western Australia) or in import and distribution (by companies such as Hyundai, LG and Samsung). As a result of a deal signed in January 2011, the Korea Gas Company (KOGAS) will take a 15 per cent stake in Santos Ltd’s Gladstone coal-seam gas project in Queensland. The Republic of Korea recently signed three major LNG contracts (with Shell, Santos and Total) to source gas from South Australia.⁶²

In addition to these strong economic ties, the Republic of Korea and Australia remain political and strategic partners, with common values and interests. Australia–Republic of Korea high-level contact is substantial and expanding, with regular meetings and contact between leaders and senior ministers. Prime Minister Gillard has visited the Republic of Korea three times since becoming Prime Minister. Following the launch in March 2009 of bilateral Free Trade Agreement negotiations, further rounds of negotiations have been held, with the most recent discussions in July 2012. Bilateral relations have strengthened considerably over the past few years, assisted by direct links between the two countries, and reinforced by cooperation in international affairs such as through the G20.

⁶¹ DFAT Country Brief.

⁶² DFAT Country Brief.

Figure 20: Republic of Korea Index

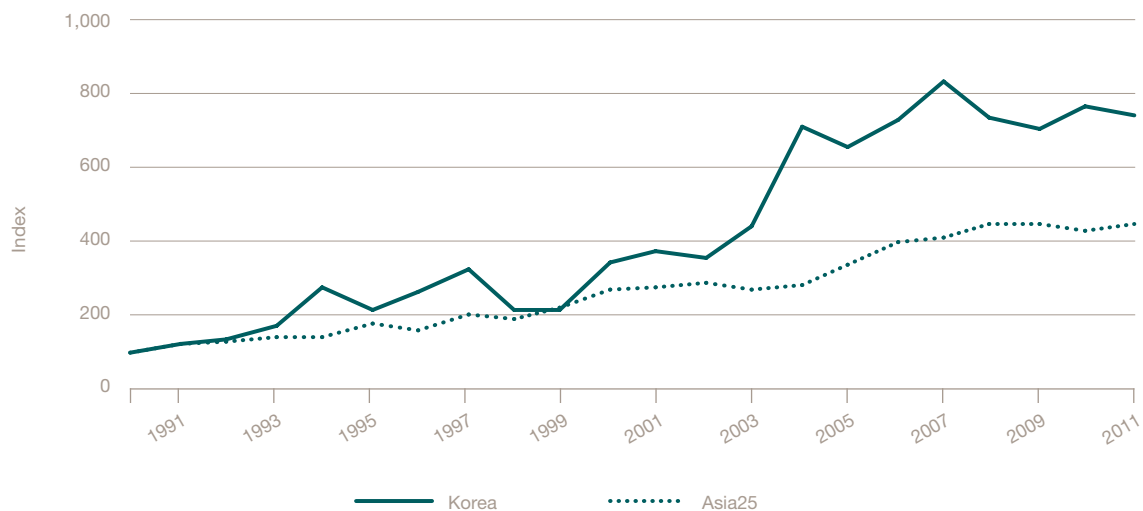


Table 18: Index trends for the Republic of Korea

Index	1990	1995	2000	2005	2010	2011	% change 2010-11
Korea	100.0	213.2	343.8	655.9	769.8	745.2	-3.2
Asia25	100.0	176.5	268.7	336.3	432.7	447.4	3.4

Components of the Republic of Korea Index

Trade

The Republic of Korea is Australia's fourth biggest trading partner, and trade engagement continued to rise albeit modestly by 3 per cent in 2011, following a sharp rise of 15 per cent in 2010. The 2011 result reflected a 3 per cent rise in both imports and exports of goods and services. As with Japan, Australia's trading relationship with Korea is long-standing and, consistent with its having attained 'developed country' status well ahead of some of its neighbours, changes in engagement are from a relatively high base in 1990.



Investment

The Republic of Korea Investment component rose sharply by 34 per cent in 2011, reflecting a 69 per cent increase in net outbound investment and a much smaller rise of 2.4 per cent in net inward investment. The level of investment flows between the two countries is relatively small, but has grown and diversified over the years. The stock of South Korean investment in Australia increased more than 27-fold in the decade to 2011 to \$12.8 billion.⁶³



Research and business development

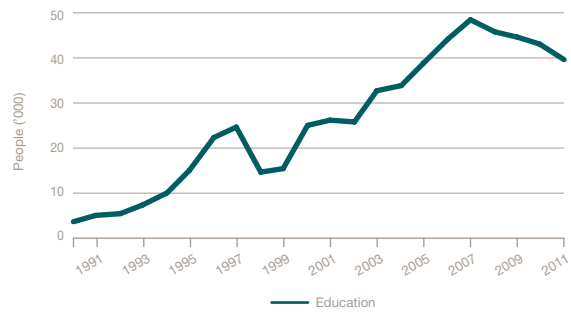
The Republic of Korea R&BD component rose by 9 per cent in 2011. This reflected across-the-board increases in all sub-components, with the biggest rise in the number of research articles on Australia-Korea relations, which was up by a huge 64 per cent. All of the other components, that is, the number of business visits in each direction and the number of Koreans applying for patents in Australia, rose by around 5 per cent in 2011.



⁶³ DFAT Republic of Korea Fact Sheet.

Education

The Republic of Korea is the third largest source of overseas student enrolments in Australia, after China and India. In 2011, the Education component of engagement fell for the third year in a row, reflecting an 8 per cent fall in the number of incoming students and a 6 per cent fall in outgoing students. The number of students coming to Australia from Korea in 2011 was more than 10 times the flow of Australians going to the Republic of Korea for education purposes.



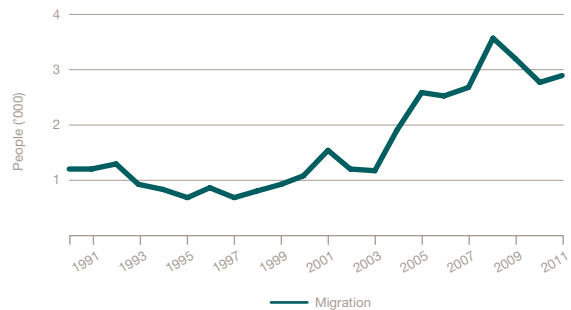
Tourism

The Tourism component fell by around 6 per cent in 2011, reflecting a 9 per cent fall in incoming tourists which was less than fully offset by an 11 per cent rise in the number of Australians travelling to the Republic of Korea for holidays. The biggest jumps were in the number of short term visits by Australians to Korea (for both holidays and visiting friends); the biggest falls were in the number of short-term and long-term visits by Koreans to Australia for holidays. Around 148,000 Korean tourists came to Australia in 2011, compared with 31,000 Australian tourists visiting Korea in the same year.



Migration

The Migration component rose by 4 per cent in 2011, due entirely to a rise in the number of Korean immigrants coming to Australia, and no change in the number of Korean-born residents returning to live permanently in Korea. In 2010, there were just over 100,000 Korean-born residents of Australia.



Appendix 1: Construction of the PwC Melbourne Institute Asialink Index

Asia is defined here as all countries in ASEAN (Indonesia, Singapore, Malaysia, Thailand, Vietnam, Laos, Cambodia, Brunei Darussalam, The Philippines and Myanmar), South Asia (India, Pakistan, Bhutan, Sri Lanka, Nepal, Maldives and Bangladesh), East Asia (People's Republic of China, Hong Kong, Chinese Taipei, Macau, Mongolia, East Timor) and North East Asia (Republic of Korea [South Korea], Japan). In total, there are 25 countries in our definition of Asia. The Asialink Index is an unweighted average of seven components: Trade; Investment; Research and Business Development; Education; Tourism; Migration; and Humanitarian Assistance. Each component comprises between two to five data series.

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

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

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

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

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

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

Research and Business Development: this component comprises data on:

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

Education: this component comprises data on:

- a. number of short-term visits to/from Australia from/to Asia (by country) to attend a conference/convention or for education;
- b. number of long-term visits to/from Australia from/to Asia (by country) for educational reasons (by country);
- c. number of school and secondary student exchanges between Asia and Australia (by country by program year 1 July–30 June); and
- d. number of students travelling to Australia for English Language Intensive Courses (by country by program year 1 July–30 June).

Tourism: this component comprises data on:

- a. short-term visits (less than 1 year) to/from Australia from/to Asia (by country) for holiday;
- b. short-term visits (less than 1 year) to/from Australia from/to Asia (by country) to visit friends/family;
- c. long-term visits (more than 1 year) to/from Australia from/to Asia (by country) for holiday;
- d. long-term visits (more than 1 year) to/from Australia from/to Asia (by country) to visit friends/family; and
- e. number of visas granted for working holiday makers in Australia from Asia (by country by program year 1 July–30 June).

Migration: this component comprises data on:

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

Humanitarian Assistance: this component comprises data on:

- a. total AusAID Australian official development assistance (ODA) to eligible partner countries in Asia (by country);
- b. number of long-term and permanent passenger movements by doctors, nurses and teachers to Asia (by country);
- c. number of Australian volunteers in Asia working for the Red Cross and Médecins Sans Frontières (by country by financial year);
- d. number of Australian members of UN Peacekeeping Forces in Asian countries (by country); and
- e. number of student scholarships offered by AusAID and Defence (by country by program year 1 July–30 June).

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

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

Appendix 2: Data sources

Much of the data used in the construction of the Asialink Index comes from public sources such as the ABS. However, in most cases, the ABS did not provide enough disaggregated detail in its publicly available (online) resources. In particular, we required data disaggregated by specific country in order to construct the Index. In these instances, requests were made to the ABS and other organisations to provide data.

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

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

Trade

ABS Cat. 5368 Table 14a, b; MERCHANDISE EXPORTS, Country and Country Groups, FOB Value and MERCHANDISE IMPORTS, Country and Country Groups, Customs Value; 5368055004 – International Trade in Goods and Services, Australia; Table 5.12, 7.12. Trade data are expressed in real terms (reference year 2008–09, deflated using ABS expenditure GDP implicit price deflators in ABS Cat. 5206.0, Table 5, series A2303728F, A2303729J).

Investment

2001–06: ABS Cat. 5352.0 2006 Table 1, 4; 1991–01: ABS Cat. 5352.0 2001 Table 1a, 1d. Foreign Investment in Australia: Financial Account Transactions by Country and Country Groups by type of investment and year (\$million); this excludes changes in the investment position arising from revaluations due to price, exchange

rate and other changes. Investment data are expressed in real terms (reference year 2008–09, deflated using implicit price deflator from ABS Cat. 5206.0, Table 5, series A2303730T).

Research and business development

ABS Cat. 3401.0, unpublished data; Business Registration databases (various); IP Australia; Google scholar.

Education

ABS Cat. 3401.0, unpublished data. Student visas, Department of Immigration and Citizenship.

Tourism

ABS Cat. 3401.0, unpublished data. Working holiday-maker visas, Department of Immigration and Citizenship.

Migration

ABS Cat. 3401.0, unpublished data.

Humanitarian assistance

AusAID *Statistical Summary* (Greenbook) Table 4 'Australia's International Development Cooperation' (published irregularly), and AusAID *Annual Report* Table 3 for updates; ABS Cat. 3401.0, unpublished data; Annual reports: Red Cross, Médecins Sans Frontières Australia; Peacekeeper data: Australian War Memorial, Canberra (historical data), and Australian Government Department of Defence Website: <http://www.defence.gov.au/op/index.htm>; Department of Immigration and Citizenship unpublished data, AusAID and Defence Scholarships.

Contributors and contacts

This report was compiled and written by Dr Russell Thomson and Ms Anne Leahy from the MIAESR, University of Melbourne. It represents an annual update of the original report launched in 2008. Over the years, the report has been informed by experts from a wide range of fields including academia, foreign policy and business.

Asialink

Jenny McGregor

Chief Executive Officer

Phone: 03 8344 4800

Email: j.mcgregor@asialink.unimelb.edu.au

PwC

Tim Cox

Partner

Phone: 03 8603 6181

Email: tim.cox@au.pwc.com

Mark J Laurie

Partner

Phone: 03 8603 3018

Email: mark.laurie@au.pwc.com

Melbourne Institute

Professor Beth Webster

Phone: 03 8344 2100

Email: e.webster@unimelb.edu.au

asialinkindex.com.au

