

OUR THINKING

A SNAPSHOT OF THE ASIAN CENTURY WHITE PAPER

Thriving in the Asian Century will require a clear plan to seize the opportunities it will bring.

THE FACTS

Asia's extraordinary ascent into the economic powerhouse of the world is not only unstoppable, it is gathering pace.

It has already changed the Australian economy, society and strategic environment. The scale and pace of the change still to come will have profound implications for people everywhere. In this century, our region will become home to most of the world's middle class, the world's largest producer of goods and services and the largest consumer of them.

We have already seen the benefits of Asia's appetite for raw materials and energy. The next challenge will be how Australia can benefit from what Asia will need next.

THE OPPORTUNITY

History teaches us that as economic weight shifts, so does strategic weight. The Asian century is an Australian opportunity. As the global centre of gravity shifts to

our region, Australia will be located in the right place at the right time—in the Asian region in the Asian century.

The growth in our region will impact on almost all of our economy and society. The demands of an increasingly wealthy and mobile middle class will create new opportunities across a diverse range of goods and services, from health and aged care to education to household goods, and tourism, banking and financial services, as well as high-quality food products.

Beyond economic gains, there will be many valuable opportunities for building stronger relationships across the region, including through closer educational, cultural and people-to-people links.

THE CHALLENGE

Australia's relationships in our region are strong and robust,

including with Asian nations like China, Japan, India, Indonesia and the Republic of Korea (South Korea). But in this Asian century we must enter a new phase of deeper and broader engagement.

This White Paper provides a roadmap for the whole of Australia—governments, business, unions, and the broader community—in this next phase. Our goal is to secure Australia as a more prosperous and resilient nation that is fully part of our region and open to the world.

OUR STARTING STRENGTHS

Australia starts from a position of strength. Just as our region has a lot to offer us, we have a lot to offer our region. We have strong, world-leading institutions, a multicultural and highly skilled workforce, and a productive, open and resilient economy, which is one of the strongest in the world. These assets have been reinforced by a series of economic reforms and good decisions made over past decades, including Australia's world-beating actions to avoid the worst impacts of the Global Financial Crisis.

Our strengths have long been reflected in Australia's interaction with countries in Asia. Over the past 50 years, Australia's trade with Asia as a share of our total trade has risen dramatically. Our financial, political and cultural links have deepened. We have strong relationships and close friendships with countries across the region.

But Australia's success will be based on choice, not chance. In order to succeed, we must sustain the policy settings and pathways that have served us well. We need to reinforce our strong social foundations, including our national institutions, our cultural diversity and our outward-looking society.

We will need to do more than this—we all need to respond to the rapid changes occurring in our region.

FIVE KEYS TO SUCCESS

Australians will need to act in five key areas in order to succeed in the Asian century. (A corresponding set of 25 national objectives that will guide Australia towards 2025 are

referenced in brackets and can be found at the end of this summary):

1. Consolidating our strength as a productive and resilient economy (see Objectives 1-8)

No matter how the Asian century evolves, Australia's prosperity will come from building on our strengths. We need to reinforce the foundations of our fair society and our prosperous, open and resilient economy at home. We need to build on areas where we already perform well to extend our comparative advantage. Critical to this will be ongoing reform and investment across the five pillars of productivity—skills and education, innovation, infrastructure, tax reform and regulatory reform.

2. Building on our skills and capabilities (see Objectives 9-16)

As a nation we must do even more to develop the capabilities that will help Australia succeed. Our greatest responsibility is to invest in our people through skills and education to drive Australia's productivity performance and ensure that all Australians can participate and contribute. Capabilities that are particularly important for the Asian century include job-specific skills, scientific and technical excellence, adaptability and resilience. Creativity and design-based thinking to solve complex problems is a distinctive Australian strength. As a nation we also need to broaden and deepen our understanding of Asian cultures and languages, to become more Asia literate. These capabilities are needed to build stronger connections and partnerships across the region.

3. Operating in, and connecting with, growing Asian markets (see Objectives 17-19)

Australia's commercial success in the region requires that highly innovative, competitive Australian firms and institutions develop collaborative relationships with others in the region. Australian firms need new business models and new mindsets to operate and connect with Asian markets. We will work to make the region more open and integrated, encouraging trade, investment and partnerships. Firms will adapt their business models to seize the opportunities created in our region.

4. Building sustainable security in the region (see Objectives 20-21)

Australia's future is irrevocably tied to the stability and sustainable security of our diverse region. Australia has much to offer through cooperation with other nations to support sustainable security in the region. We will work to build trust and cooperation, bilaterally and through existing regional mechanisms. We will continue to support a greater role for

Asian countries in a rules-based regional and global order. Australia's alliance with the United States and a strong US presence in Asia will support regional stability, as will China's full participation in regional developments.

5. Strengthening our relationships across the region (see Objectives 22-25)

We need to strengthen Australia's deep and broad relationships across the region at every level. These links are social and cultural as much as political and economic. Improving people-to-people links can unlock large economic and social gains. While the Australian Government plays a leading role in strengthening and building relationships with partners in the region—with more intensive diplomacy across Asia—others across a broad spectrum spanning business, unions, community groups and educational and cultural institutions also play an important role. Stronger relationships will lead to more Australians having a deeper understanding of what is happening in Asia and being able to access the benefits of growth in our region. In turn, more of our neighbours in the region will know us better than they do today.

Success in the Asian century requires a whole-of-Australia effort, with businesses, unions, communities and governments being partners in a transformation as profound as any that have defined Australia throughout our history.

MEETING THE CHALLENGES OF OPPORTUNITY

It is in the interests of all Australians—and therefore in the national interest—to develop the capabilities and connections that Australia will need, so that we can contribute to, and learn from, the region, and take full advantage of these opportunities.

The challenges ahead require sustained effort; Australians cannot build stronger relationships or learn new skills overnight, or even over five years, especially given the diversity of the countries in our region. Some actions can be taken immediately, but others require further conversation among communities across the nation, detailed planning and careful implementation over a generation.

WHAT'S IN THE WHITE PAPER

Chapters 1 to 4 of the White Paper explain the extraordinary rise of Asia over recent decades and its likely future to 2025. They examine Australia's place in Asia and our outlook to 2025. This sets the scene for a roadmap for Australia in the Asian century.

Chapters 5 to 9 set out an ambitious set of national objectives and pathways to guide Australia to 2025. Advancing and

implementing these national objectives sets the agenda for taking full advantage of the Asian century, but achieving these objectives will require a concerted and coordinated effort from the entire community.

THE RISE OF ASIA (CHAPTERS 1-2)

The pace and scale of change in the region have been staggering. In the past 20 years, China and India have almost tripled their share of the global economy and increased their absolute economic size almost six times over. By 2025, the region as a whole will account for almost half the world's output. Many millions of people will have been lifted out of poverty. They will live longer and be better connected to the world.

Asia's ability to capitalise on open global markets for goods and services has been crucial to its economic transformation. Central to this has been a widespread commitment to investing in people and physical capital.

Asia continues to develop against a backdrop of persistent global challenges. First among these is the present weakness in major advanced economies, where more moderate economic growth is expected. Second, there are global challenges such as climate change and other emerging challenges in the areas of food, water and energy security. Third, Asia has policy challenges of its own, including the continuation of market-based reforms to promote economically and environmentally sustainable growth, dealing with urbanisation, ageing populations in some countries and developing social safety nets.

HOW STRATEGIC ORDER IS CHANGING

Asia's economic rise is shifting other dynamics in the region and across the globe. The United States will remain the most powerful strategic actor in Asia for the foreseeable future. But the economic growth and broader international interests of Asia's large powers, especially China and India, are changing the established strategic order. Rising national wealth is allowing states to modernise their defence forces, to acquire more advanced capabilities and to project power. At the same time, economic growth will put more pressure on energy, water and food resources. Existing regional strategic tensions remain, such as North Korea's nuclear program and unresolved territorial disputes. Australia's strategic landscape is becoming more crowded and complex.

The stability and prosperity of our region will depend on how major-power relations evolve, particularly between China, India, Japan and the United States. A degree of competition is inevitable as Asia's strategic order changes. But all countries in the region have a deep investment in stability and economic growth: the complex interdependencies and

growing bilateral engagement are strong stabilising forces. Still, while the likelihood of miscalculation may be low, the potential consequences would be high. These risks are driving bilateral and regional efforts to build trust, dialogue and habits of cooperation in the region, and those efforts are explored in this White Paper.

AUSTRALIA IN ASIA (CHAPTERS 3-4)

Australia is in a good position to make the most of the opportunities that will flow from the Asian century. Despite uneven conditions across sectors, Australia has one of the strongest economies in the world and a bright outlook. Unemployment is low. Inflation is contained. The terms of trade are high. While commodity prices appear to have passed their record peak, considerable minerals and energy investment is still to come and large-scale production and exports are yet to flow.

Australia's public finances are among the strongest in the world. Government debt is low. Our financial institutions are sound and we have the highest possible sovereign credit rating. We have a multicultural, highly skilled and creative population that has demonstrated capabilities in innovation and complex problem solving. We have vast natural resources and the know-how and technologies to develop them.

MAKING THE MOST OF WHAT'S AHEAD

Australia's foreign policy and strategic frameworks have built strong relationships in the region, enabling us to influence regional and, at times, global outcomes. While Australia has many strengths, we will need to take action to ensure we continually adapt to the rapid changes in our region and transitions in our own economy.

Over the past decade, Asia's demand for Australia's natural resources has created a once-in-a-lifetime surge in our terms of trade and an extraordinary boom in minerals and energy investment. This has delivered a substantial increase in national income, even though productivity growth has been modest over the past decade.

While Australia's terms of trade are expected to remain high for some time yet, productivity growth remains critical to lifting living standards in Australia. This requires growth that is broadly based and sustainable.

Our goal is to ensure that Australians have higher incomes in a more diverse economy that is resilient in the face of ongoing change.

WHERE THE OPPORTUNITIES WILL BE

The Asian century offers a wealth of opportunities and career choices in a variety of businesses (including small and

medium-sized enterprises), especially for Australia's young people:

- in mining and resource related sectors—continued economic development in the region will drive demand for energy and mineral resources
- in tourism, sport, education, the arts and creative industries, professional, banking and financial services, and science and technology—thanks to growing affluence in Asia
- in agriculture—rising food demand, connected to rising populations and an expanding middle class in Asia, offers an opportunity for Australia to be an important supplier of high-value food, requiring greater investment by agribusinesses to boost output and research, adapt to regulatory change and build capacity
- in manufacturing and services—as Australian businesses join regional and global value chains and over time become increasingly integrated and specialised, they will offer high-value and innovative products and services
- in environmentally sustainable growth, natural resource management, infrastructure development, urban design and health and aged care—as Australians leverage their expertise to do business with their neighbours.

STRENGTHENING OUR CONNECTIONS

To seize these opportunities, Australia must create deeper connections with Asia to broaden the flow of ideas and acquire new knowledge and capabilities. Asia is an important source of new ideas, arts and culture, technologies and leading-edge science. Australia stands to benefit greatly from Asia's advance. Increasingly, we look to measure our performance against standards of excellence in the region.

The arts, culture and creativity can broaden and strengthen Australia's relationships in Asia, both formally and informally. Australia's cultural strengths—as home to the world's oldest living culture, and as a country that welcomes diversity—underpin values of respect, understanding and inclusion that help to connect people, business, institutions and governments.

Two-way people movements between Australia and the rest of the region will further strengthen the fabric of Australian society and our way of life. Australia is well positioned to continue attracting highly skilled and talented people from the region to live, study and work in Australia—just as Australians have much to offer the region in return.

GAINING ACCESS TO OPPORTUNITY

Not all parts of the Australian economy are facing the same opportunities at the present time; some industries and regions

are working through difficult transitions. The Government, in partnership with business, unions and the wider community, is committed to targeted support for sectors and regions in transition, including by improving skills and education and helping with access to domestic and international markets.

As some business models are challenged, new development opportunities are opening up in other areas. Australia's regions make an important contribution to the economic, social and environmental fabric of our nation. Regional Australia is home to around one-third of our population. Primary industries, which are concentrated in regional Australia, make up close to two-thirds of our exports. Strong demand from Asia will support development across northern Australia from Western Australia to Queensland, including in Darwin, and in other regions including Tasmania and the Upper Spencer Gulf.

WORKING SMARTER TO MAXIMISE OPPORTUNITY

Australia has a track record of managing immense structural adjustments more effectively than many other countries. But the scale of change and opportunity presented by the Asian century is large and enduring; it requires a whole-of-Australia effort across the whole federation. Businesses, communities and institutions all need to lead their own responses to the changing global economy.

All of us will need to work smarter to maximise prosperity and manage challenges well. For the Government, that means continuing what we have done in recent years, by making the right decisions and continuing the proud tradition of reform that has spanned decades.

TWENTY-FIVE NATIONAL OBJECTIVES FOR 2025: A ROADMAP FOR THE ASIAN CENTURY

The Government has identified 25 objectives for 2025 as a roadmap for the nation to:

- Consolidate our strength as a productive and resilient economy
- Build on our capabilities
- Operate in, and connect with, growing Asian markets
- Build sustainable security in the region
- Strengthen our relationships across the region

Details of the policy pathways to achieve these objectives can be found in the Executive Summary of the Australia in the Asian Century White Paper.

The objectives (and the corresponding chapters in the White Paper) are as follows:

CONSOLIDATING OUR STRENGTH AS A PRODUCTIVE AND RESILIENT ECONOMY (CHAPTER 5)

Skills and education

1. All Australians will have the opportunity to acquire the skills and education they need to participate fully in a strong economy and a fairer society.
 - *Australia's school systems will be in the top five schooling systems in the world and our universities and training systems will be among the world's best.*

Innovation

2. Australia will have an innovation system, in the top 10 globally, that supports excellence and dynamism in business with a creative problem-solving culture that enhances our evolving areas of strength and attracts top researchers, companies and global partnerships.

Infrastructure

3. Australia will implement a systematic national framework for developing, financing and maintaining nationally significant infrastructure that will assist governments and the private sector to plan and prioritise infrastructure needs at least 20 years ahead.
 - *Infrastructure investment will support Australia's growing trade and investment with the region, improve productivity and will reduce future congestion costs by billions of dollars a year.*
4. Australia's communications infrastructure and markets will be world leading and support the rapid exchange and spread of ideas and commerce in the Asian region.
 - *The National Broadband Network (NBN) will have bridged geographical barriers to Asian markets, allowing all Australian businesses and households to conduct more of their activities online.*
 - *All Australians will have access to high-speed broadband through a nationwide fibre network and wireless satellite services.*
 - *Australia will have high-speed broadband fibre to 93 per cent of premises, rolled out progressively to 2021 and capable of supporting speeds of one gigabit per second.*

Tax system

5. Australia's tax and transfer system will be efficient and fair, encouraging continued investment in the capital base and greater participation in the workforce, while delivering sustainable revenues to support economic growth by meeting public and social needs.

Regulatory reform

6. Australia will be among the most efficiently regulated places in the world, in the top five globally, reducing business costs by billions of dollars a year.

Environmental sustainability

7. The Australian economy and our environmental assets will be managed sustainably to ensure the wellbeing of future generations of Australians.
 - *Australia will have reduced emissions by at least 5 per cent below 2000 levels and we will be well on our way to securing a clean energy future in which emissions are 80 per cent below 2000 levels by 2050.*
 - *Australia will be a world leader in implementing sustainable food production methods, in sustainable energy and water use, and in biodiversity conservation.*

Macroeconomic and financial frameworks

8. Australia's macroeconomic and financial frameworks will remain among the world's best through this period of change.
 - *Australia will have a strong and sustainable fiscal position and will continue to have a triple-A sovereign credit rating.*
 - *Australia will have a deep and liquid corporate bond market to harness our national savings so that more investment is domestically funded and we have less reliance on offshore wholesale funding markets.*

BUILDING ON OUR SKILLS AND CAPABILITIES (CHAPTER 6)

Through schools

9. Australia's school system will be in the top five schooling systems in the world, delivering excellent outcomes for all students of all backgrounds, and systematically improving performance over time.
 - *By 2025, Australia will be ranked as a top five country in the world for the performance of our students in*

reading, science and mathematics literacy and for providing our children with a high-quality and high-equity education system.

- *By 2015, 90 per cent of young Australians aged 20 to 24 years will have a Year 12 or equivalent qualification, up from 86 per cent in 2010.*

10. Every Australian student will have significant exposure to studies of Asia across the curriculum to increase their cultural knowledge and skills and enable them to be active in the region.

- *All schools will engage with at least one school in Asia to support the teaching of a priority Asian language, including through increased use of the National Broadband Network.*

11. All Australian students will have the opportunity, and be encouraged, to undertake a continuous course of study in an Asian language throughout their years of schooling.

- *All students will have access to at least one priority Asian language; these will be Chinese (Mandarin), Hindi, Indonesian and Japanese.*

Through universities

12. Australia will remain among the world's best for research and teaching in universities, delivering excellent outcomes for a larger number of Australian students, attracting the best academics and students from around the world and strengthening links between Australia and the region.

- *By 2020, 20 per cent of undergraduate higher education enrolments will be people from low socioeconomic backgrounds, up from 17 per cent in 2011.*
- *By 2025, 40 per cent of all 25 to 34-year-olds will hold a qualification at bachelor level or above, up from 35 per cent in 2011.*
- *By 2025, 10 of Australia's universities will be in the world's top 100.*
- *A larger number of Australian university students will be studying overseas and a greater proportion will be undertaking part of their degree in Asia.*

Through the vocational education and training system

13. Australia will have vocational education and training systems that are among the world's best, building capability in the region and supporting a highly skilled Australian workforce able to continuously develop its capabilities.

- *By 2020, more than three-quarters of working-age Australians will have an entry-level qualification (at the Certificate III level or higher), up from just under half in 2009.*

- *Australia's vocational education and training institutions will have substantially expanded services in more nations in the region, building the productive capacity of the workforce of these nations and supporting Australian businesses and workers to have a greater presence in Asian markets.*

Asia-capable leaders, workplaces and institutions

14. Decision makers in Australian businesses, parliaments, national institutions (including the Australian Public Service and national cultural institutions) and advisory forums across the community will have deeper knowledge and expertise of countries in our region and have a greater capacity to integrate domestic and international issues.

- *One-third of board members of Australia's top 200 publicly listed companies and Commonwealth bodies (including companies, authorities, agencies and commissions) will have deep experience in and knowledge of Asia.*
- *One-third of the senior leadership of the Australian Public Service (APS 200) will have deep experience in and knowledge of Asia.*

Adaptability

15. Australian communities and regions will benefit from structural changes in the economy and seize the new opportunities emerging in the Asian century.

Social foundations

16. Australia will be a higher skill, higher wage economy with a fair, multicultural and cohesive society and a growing population, and all Australians will be able to benefit from, and participate in, Australia's growing prosperity and engagement in Asia.

OPERATING IN, AND CONNECTING WITH, GROWING ASIAN MARKETS (CHAPTER 7)

17. Australia's businesses will be recognised globally for their excellence and ability to operate successfully in Asian markets.

- *Australian businesses will offer high-value goods and services as they link into regional and global value chains.*

- *Small and medium-sized enterprises will be integrated into Asian markets.*
18. The Australian economy will be more open and integrated with Asia, the flow of goods, services, capital, ideas and people will be easier, and Australian businesses and investors will have greater access to opportunities in Asia.
- *Australia's trade links with Asia will be at least one-third of GDP by 2025, up from one-quarter in 2011.*
 - *Australia will be part of comprehensive region-wide agreements that substantially reduce the cost of doing business in Asian markets by lowering trade and investment barriers, better aligning economic regulations and corporate governance arrangements, and enhancing connectivity of infrastructure.*
 - *Businesses in Australia and the region will have well-developed working relationships based on a good understanding of each other's legal institutions, commercial practices and corporate governance standards.*

Australia's agriculture and food sector (Case study)

19. Australia's agriculture and food production system will be globally competitive, with productive and sustainable agriculture and food businesses.
- *Australian food producers and processors will be recognised globally as innovative and reliable producers of more and higher-quality food and agricultural products, services and technology to Asia.*

BUILDING SUSTAINABLE SECURITY IN THE REGION (CHAPTER 8)

20. Australian policies will contribute to Asia's development as a region of sustainable security in which habits of cooperation are the norm.
21. The region will be more sustainable and human security will be strengthened with the development of resilient markets for basic needs such as energy, food and water.

STRENGTHENING OUR RELATIONSHIPS ACROSS THE REGION (CHAPTER 9)

22. Australia will have the necessary capabilities to promote Australian interests and maintain Australia's influence.
- *Australia's diplomatic network will have a larger footprint across Asia.*
23. Australia will have stronger and more comprehensive relationships with countries across the region, especially with key regional nations—China, India, Indonesia, Japan and South Korea.
24. Australia will have deeper and broader people-to-people links with Asian nations, across the entire community.
25. Australia will have stronger, deeper and broader cultural links with Asian nations.