

Submission to the Australia in the Asian Century Task Force

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Executive summary

Australia's present and future prosperity is clearly linked to Asia. Yet policymakers and the broader community cannot assume that Australia's competitive advantages, being our proximity to the rest of Asia, our natural resources endowment, quality of life and openness and transparency, will be enough help us prosper in the so-called "Asian Century".

CPA Australia acknowledges Australia has prospered greatly from successive waves of development in Asia, beginning with Japan in the 1950s through to the spectacular growth of China and India today. However, a lack of attention to the impacts of rapid change in Asian economies has exposed Australians to exaggerated risks in what is a profound shift in the global economy. Public expectations, fostered by complacent policy views, of a new "lucky country" era are a hazard and must be dispelled.

Australians need to accept that the economic growth in Asia and the extra capacity that is being added to Australia's resources sector as a result of this growth is overwhelming the under-scale, low value manufacturers in Australia. As China, India and Indonesia expand and build their strengths on education and high value capital investments, this trend will grow, not abate. We can see this in the recent issues affecting the car, aluminium, steel and refining industries, and increasingly in the retail sector. This should alert policy leaders to the urgent need for changed agendas.

If Australia is to grasp the opportunities and negotiate the challenges presented by the Asian Century, the Australian Government in conjunction with state and territory governments, the Opposition, business, unions and community groups must take a thoughtful, nuanced, consistent and long-term approach to the development of a comprehensive national blueprint for the Asian Century. Such a blueprint must seek to grandfather industry policies dating back to the 1950s, review tax and tax expenditures, regulation, capital and savings policies, enhance labour flexibility and set out new policies with a firm emphasis on competitiveness, productivity and value creation. However, the blueprint must go beyond purely economic policies. Culture, education and politics must also come into the equation.

Policy responses to Australia in the Asian Century that are focused on enhancing Australia's competitiveness and improving productivity will raise the living standards of Australians. Many of these policy responses were flagged in CPA Australia's 2011 publication *Enhancing Australia's prosperity*.¹ These include further tax reform, improving

transparency in reporting, savings policy, regulatory reform and improved infrastructure. A copy of this paper accompanies this submission and should be considered as part of the organisation's submission to the Task Force.

Regarding further tax reform to enhance productivity, CPA Australia also recently released a paper on improving Australia's productivity via reforming myriad inefficient taxes using the GST.² Prepared for CPA Australia by KPMG Econtech, a copy of *Economic Analysis of the Impacts of Using GST to Reform Taxes* accompanies this submission, and should be treated as part of CPA Australia's submission to the Task Force.

The idea of Australia's need to clearly define its place in the Asian region is not new. Successive Australian Governments have used policies from the Colombo Plan to the Trans-Pacific Partnership to foster closer ties with the region over the past 60 years. To date, however, efforts have fallen short for a variety of reasons, among these a lack of strong, sustained and visionary political leadership to drive a comprehensive engagement with the region.

This is not to say no progress has been made. Australia is certainly further down the path to engaging and identifying with the region than 30 years ago. The progress has, however, by and large, been stuttering.

Australian business and the broader community will be significant net beneficiaries from deeper trade, investment and financial links with the Asian region. For Australian businesses, deeper links with the region will lead to more businesses tapping into Asia's competitive advantages; in particular its large markets and the region's ability to rapidly scale up production to achieve economies of scale and reduce unit costs. This particular advantage allows Australian businesses to reduce costs and develop specialisations. Deeper business relations also increases investment opportunities (both inbound and outbound) and facilitate mutually beneficial flow of ideas and knowledge.

With Australia's wellbeing so closely intertwined with the rest of Asia and the shift in global power back to Asia, it is of concern that, in spite of previous and current government programs to encourage greater understanding of Asia, most Australians' general knowledge and familiarity with the region is low. Addressing this "Asian literacy deficit" is fundamental to Australia's success in the Asian Century.

As an organisation with nearly 60 years experience in Asia and with more than one in five of our 139,000 members

¹ cpaaustralia.com.au/documents/enhancing-australias-prosperity.pdf

² cpaaustralia.com.au/cps/rde/xbcr/cpa-site/kpmg-econtech-final.pdf

from the region, CPA Australia is acutely aware that success can be more difficult to achieve if businesses do not understand the markets they wish to enter. Australia as a nation cannot expect to continue to prosper in the Asian Century if current and future generations are not equipped with a deeper understanding and familiarity with the rest of Asia.

While a key policy response to the Asian Century must focus on teaching Australians about Asia, we also need to maintain our supportive relationships, including the many effective foreign aid programs, with the region. These programs have fostered constructive relationships that have assisted the development of the region.

The successful implementation of an Asian Century blueprint will require strong, sustained leadership over the next few generations, steady implementation, coordination between federal and state governments and effective consultation with the public and key stakeholders in the design, implementation and oversight of the reform process to ensure ongoing public support.

It is clear that the Asian Century will not be entirely smooth. The government will therefore need to respond to a variety of unforeseen risks, shocks and vulnerabilities as they arise. In doing so, it must maintain the principle that policy responses to short-term problems should support, not undermine, the long-term reform priorities identified in the Asian Century blueprint.

CPA Australia acknowledges the opportunity for Australians in the era of growth and greater prosperity for those in our near neighbourhood. The organisation also acknowledges that proximity is not our advantage, but that higher value outcomes based on skill and innovation must be our discipline.

In drafting this paper, CPA Australia has been conscious to raise policy ideas that we believe enhance the wellbeing of the Australian people, for both current and future generations.

The organisation considers a government blueprint necessary. A blueprint for the Asian Century should focus on short-, medium- and long-term policies that encourage a deeper integration of the Australian economy, business and the community with the Asian region.

Key themes

The following are key themes of this paper:

1. Policymakers must identify Australia's important competitive advantages and disadvantages in the Asian Century and develop policies that maintain and enhance such advantages and address or mitigate such disadvantages.
2. Policies should be framed around significantly improving Australia's very poor rates of productivity growth.
3. The priority for this and future governments over the next few generations must be to significantly improve the understanding and familiarity of Australians with the languages, cultures, history, politics, religions and societies of the rest of Asia.
4. There must be an investment in improving policymakers' ability to understand and respond to the opportunities and threats that will come as part of the Asian Century.
5. Government has a role to assist and encourage business take advantage of the opportunities presented by the Asian Century.

These key themes should be the focus of analysis and policy discussion in the White Paper.

Summary of recommendations

Specific recommendations made by CPA Australia in this submission are as follows:

1. The Australian Government develop a blueprint that considers future tax reform, improving transparency in reporting, savings policy, regulatory reform, education and infrastructure needs.
2. The Australian Government and the state and territory governments extend funding for the National Asian Languages and Studies in Schools Program (NALSSP) to enhance Asian literacy and increase the uptake of Asian languages among primary and secondary students.
3. The Australian and state governments convene a national forum with key stakeholders focused on developing a national strategy to significantly improve Asian literacy in Australia.
4. The Council of Australian Governments (COAG) oversee the development and implementation of a national strategy to significantly improve Asian literacy in schools.
5. The study of the Chinese language be compulsory for all primary and secondary students. The objective is for future generations of school leavers to be fluent in Chinese.
6. The Australian Government, in conjunction with state and territory governments, conduct a review into making the study of the Chinese language compulsory in all Australian primary and secondary schools within five years.
7. The Australian and state government provide incentives to schools to teach a third language, especially Indonesian, Japanese or Korean.
8. A compulsory course in Asian studies be taught in all primary and secondary schools.
9. The Australian Government extensively promote the benefits of, and fund, the annual placement of 10,000 to 15,000 Australian tertiary students into universities in Asia as part of their Australian degree for at least one year. The cost of funding such placements should in part be recouped through FEE-HELP (Higher Education Loan Program).
10. The Australian Government offer incentives such as a FEE-HELP exemption or reduction, for non-native Chinese speakers to enrol in Chinese language courses at university.
11. The Australian Government fund a free-to-air television channel that is dedicated to programming from Asia, thus exposing more Australians to Asian news, entertainment, politics, cultures, societies etc.
12. The Australian Government coordinate a national program to identify and bring the best students and future leaders from Asia on scholarship to Australian universities.
13. The Australian Government provide adequate funding to the Australian Federal Police and The Australian Securities & Investments Commission (ASIC) to investigate any allegations of improper conduct by Australian entities.
14. Austrade develop a more active role in addressing governance issues and help Australian entities in the region behave appropriately.
15. The Australian Government provide funding and support to assist the development of corporate governance systems and processes in the region.
16. The Australian Government establish a dedicated Asian Century policy research centre within government.
17. The Australian Government provide funding to the Australia and New Zealand School of Government (ANZSOG) and other similar institutions for them to place their students and academics in partner institutions in Asia.
18. The Australian Government, when benchmarking Australia's economic, social and regulatory performance against other jurisdictions, put greater weight into benchmarking Australia's performance against non-OECD jurisdictions from the Asian region.
19. The national blueprint in response to the Asian Century be developed by the Australian Government in consultation with the Opposition, state governments and other key stakeholders and the oversight of the blueprint exercised by COAG.

20. Australia exercise its influence to bring about greater coordination in response to the Asian Century with other countries of the region and with regional groupings, such as Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN) and the East Asia Summit.

21. The Australian Government consider:

- funding the expansion of the Austrade presence in Asia
- funding an Asian exchange program for small business
- providing grants to businesses that wish to develop strategies to expand into Asia through AusIndustry
- incorporating how the National Broadband Network (NBN) can help businesses take advantage of the Asian Century in the information, education and support provided to business on the NBN.

22. Amendments to Australia's taxation laws be enacted to broaden access to capital and help attract Islamic investment and other forms of alternative finance to benefit the economy.

Introduction

CPA Australia represents the diverse interests of more than 139,000 finance, accounting and business professionals living in 114 countries around the world, including more than 30,000 members in Asia. We are committed to working with governments and their agencies to ensure economic and social policies foster an environment that facilitates improved productivity and economic growth. Against this background we provide the following paper on Australia in the Asian Century.

As an organisation with a successful presence in Asia for about 60 years, we believe we are well placed to reflect on Australia in the Asian Century, and provide our thoughts on the challenges and opportunities Australia faces. In short, we are of the view that Australia can only maximise the opportunities of the Asian Century if the national blueprint for the Asian Century focuses on policies that encourage a deeper integration of the Australian economy, business and the community within the Asia region.

We are also concerned that a lack of attention to the impacts of rapid change in Asian economies has exposed Australians to exaggerated risks in what is a profound shift in the global economy.

Recent evidence of sustained pressure on under-scale, low value-add manufacturers and the retail sector should alert policy leaders to the urgent need for changed agendas. It is evident that entire sectors are at risk and that the pressures are not abating, but growing.

CPA Australia therefore believes that the legacy of industry policies dating back to the 1950s must be grandfathered and new policies that meet the competitive standards of an Asian Century and improve productivity growth and value creation be adopted.

The fact is that while Australia's economy looks, in aggregate, to be at best a two-speed economy with a resources boom, the vast majority of Australians are experiencing a slowing, one-speed economy.

CPA Australia notes that the Australian Government's *Australia in the Asian Century* issues paper, released in December 2011 identifies a number of discussion points to assist people and organisations making submissions. Our submission focuses on a range of suggestions and ideas that we believe are needed to substantially strengthen Australia's ability to prosper in the Asian Century over the coming generations. Some of these issues are not necessarily identified in the issues paper.

In relation to the discussion points raised in the issues paper, this submission looks at the following questions in full or in part. Our responses to each discussion point are spread throughout the submission rather than each one having a separate response:

- How will economic growth and structural change in Asian economies evolve? What are the risks and opportunities ahead for Asian economies?
- How will China's regional and global role evolve? What will be the implications for China's relationships in the region and beyond?
- What are the opportunities of the transformation occurring in Asia for Australia's economic performance, trade, investment and financial markets?
- How well placed is Australia to take advantage of opportunities? Are Australia's policy settings appropriate? Will our market, regulatory and institutional arrangements enable our ongoing success and maintain social support for integration?
- What are the challenges and risks for Australia arising from Asia's transformation?
- How can Australia promote flexibility in responding to structural change, including in areas such as innovation, business adaptability, labour mobility, education and training and capital market efficiency. How do we manage the economic transition in a way that spreads the benefits across society more generally?
- Have Australia's social and cultural links with Asia kept pace with our economic integration? How could such links be developed? For example, could more be done through networks of Australians living and working in Asian countries?
- How important is Asian cultural literacy? What could Australian Governments, business and the wider community be doing to enhance their Asian cultural literacy?
- How have attitudes in Australia to Australia's place in Asia changed over time? What factors influence these attitudes (such as tourism, migration and media)? How do mindsets towards Asia differ from region to region in Australia? What are the implications?

CPA Australia's project examining Australia's competitiveness

CPA Australia has commissioned a significant project researching Australia's international competitiveness. This research seeks to identify Australia's important competitive advantages and disadvantages; which should enable policymakers to concentrate on issues that are important to enhancing Australia's competitiveness in the Asian Century. Some of the initial findings of the Australia's international competitiveness project have been included in this paper. However the final report will not be available until later this year.

The main reason CPA Australia is undertaking this project is because the organisation believes that policy development in Australia must have a stronger focus on leveraging Australia's competitive advantages and overcoming or mitigating the nation's competitive disadvantages. Such a focus will help to ensure Australia's living standards remain high and continue to rise into the future.

We consider that CPA Australia's research in this regard will be beneficial to the Task Force's review. We also recognise that the timeline regarding CPA Australia's project is not in accord with that of the Task Force's project timeline. Notwithstanding this timing difference we would welcome the opportunity to meet with the Task Force to discuss our research project more fully early in April 2012.

CPA Australia involvement in Asia

CPA Australia's involvement in Asia began in the early 1950s. While this involvement was encouraged by the Australian Government, under its Colombo Plan commitments, our involvement was not part of the Colombo Plan.

CPA Australia's involvement in Asia was initially aimed at developing and strengthening the accounting profession, and in time passing over the running of the profession to local bodies. However, since the 1970s, CPA Australia's involvement in Asia has become a permanent part of the organisation and an important component of the growth and success of CPA Australia.

Initially, the numbers of accounting students in Asia undertaking our accountancy examinations were small; however numbers grew rapidly from 1954. This was most likely driven by the establishment of presences in:

- Singapore in 1953
- Hong Kong in 1955
- Kuala Lumpur in 1956

Today, CPA Australia has more than 139,000 members, 30,000 of which are located in Asia. We have eight offices in Asia (three in China, including the Hong Kong office), two in Vietnam and one each in Indonesia, Malaysia and Singapore, with Indonesia being our most recent office, opening in October 2011. We will be opening an office in Guangzhou, China in 2012.

Background

Australia's competitiveness

Australia's competitiveness does much to affect the pace and shape of trade and investment flows into and out of Australia.

Australia gets many of the basic competitive factors right, for example transparency and integrity of public services and the openness of the economy to local and foreign business. Australia also has strong levels of educational achievement, quality of life, environment and social conditions and establishing a business is relatively easy. On the other hand, when it comes to assessments of:

- infrastructure
- the sophistication of business systems
- regulatory burden
- taxes, including tax rates
- the presence of collaborative mechanisms among businesses or between businesses and government or businesses and universities
- the brain drain
- the heavy reliance of its economy on relatively few industries
- costs
- market size

Australia does not do so well.

This raises the question of whether Australia and its businesses can leverage the advantages that it has into competitive advantage in specific industries and specific markets, or whether the areas where Australia does not do so well will hold the nation back.

We also note that Hong Kong, Korea, New Zealand and Singapore are ranked either close to or better than Australia in many of areas where Australia does well. Given that Hong Kong, Korea and Singapore are far more tightly woven into the rapidly growing economies of East Asia and Hong Kong and Singapore are better known as international business centres than Australia, it is not clear that Australia has any advantage over places that might be viewed as business alternatives.

Given Australia's present lack of business diversity and the fact that it is not tightly integrated into East Asia, Australia's advantages may need to be significantly ahead of others in the region in order to generate a real competitive advantage, or create a position in which Australian businesses have an equal chance to thrive.

There is a sense that Australia has not done enough to keep up with key exemplar and competing economies. Therefore

it would appear that Australia has some way to go to match leading economies in terms of developing a streamlined, effective and inexpensive system that causes businesses to start up at higher rates than elsewhere, succeed at higher rates than elsewhere and overcome other disadvantages that might be present in the Australian economy.

On the whole Australia is therefore generally not well placed to take full advantage of the opportunities of the Asian Century or address its challenges at present. Policy settings must have a greater focus on building competitive advantages and productivity and overcoming or mitigating important competitive disadvantages, including improving the Asian literacy of the population.

Many of the competitiveness and productivity policy areas that need to be addressed in this regard were flagged in CPA Australia's 2011 publication *Enhancing Australia's prosperity*.³ Such areas include further tax reform; improving: transparency in reporting; savings policy; regulatory reform; and improved infrastructure. A copy of this paper accompanies this submission and should be considered as part of our submission to the Task Force.

Regarding further tax reform to enhance productivity, CPA Australia also recently released a paper on improving Australia's productivity by reforming myriad inefficient taxes using the GST.⁴ Prepared for CPA Australia by KPMG Econtech, a copy of *Economic Analysis of the Impacts of Using GST to Reform Taxes* accompanies this submission and should be treated as part of our submission to the Task Force.

Recommendation 1

The Australian Government develop a blueprint that considers future tax reform, improving transparency in reporting, savings policy, regulatory reform, education and infrastructure needs.

3 cpaaustralia.com.au/documents/enhancing-australias-prosperity.pdf

4 cpaaustralia.com.au/cps/rde/xbcr/cpa-site/kpmg-econtech-final.pdf

Impact of Asia's performance on the Australian economy

Impact of the re-emergence of China and India on Australia

The significant growth in China since its economy began opening up in the late 1970s has seen a substantial increase in the demand for Australia's commodities exports, which in turn has seen the prices for commodities rise substantially. Asia's rise has also seen the prices for many manufactured goods come down. This has resulted in Australia's terms of trade reaching record highs (see Figure 1 below). Asia's economic growth has therefore contributed significantly to Australia's recent national prosperity.



Figure 1: Australia's terms of trade index 1959 to 2011 (seasonally adjusted)

Source: ABS 5206.0 December 2011. Graph by CPA Australia

Figure 2 depicts Australia's increasing reliance on minerals exports as a percentage of total exports.

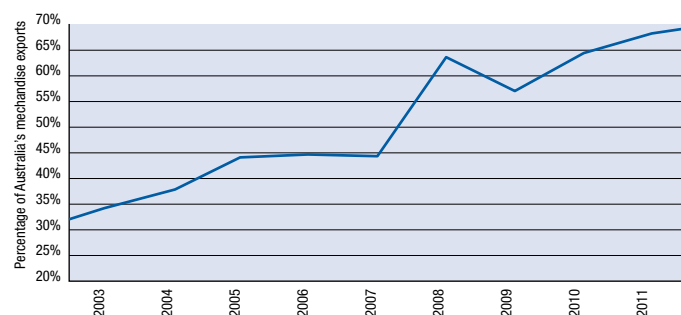


Figure 2: Minerals as a percentage of Australia's merchandise exports

Source: ABS Cat. No 5368.0 International Trade in Goods and Service December 2003 to December 2011 (percentage taken in December of each year). Graph by CPA Australia.

As Figure 3 below shows, Australia's significant growth in minerals exports from 2008 coincided with a substantial jump in exports from Australia to China from that year.

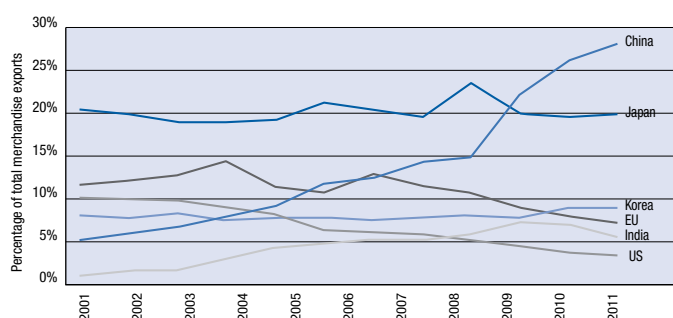


Figure 3: Australia's major export destinations 2000 to 2011 – percentage of total merchandise exports

Source: ABS Cat. No 5368.0 International Trade in Goods and Service December 2011. Graph by CPA Australia.

Australia's reliance on a growing percentage of exports being minerals (as of December 2011, minerals accounted for 68.1 per cent of Australia's total merchandise exports⁵), particularly to China, raises the following concerns:

- it implies Australia's export "success" reflects natural endowments, not from innovation and value-adding
- Australia's natural endowment will diminish, albeit not for quite some time
- the primary sector, such as mining, generally offers few linkages to the broader economy, hence the discussion on the two-speed economy
- the success of exporting minerals comes at the expense of other exports and local businesses competing against importers, through higher input costs (e.g. higher labour costs due to the competition for labour), greater competition for capital (as the exploitation of mineral deposits is capital intensive) and a higher Australian dollar

CPA Australia is not suggesting that minerals should not feature prominently in our exports. Minerals, being one of Australia's competitive advantages will and should form a large component of our exports to China and other parts of Asia for many years to come. However, it is contributing to a major structural change in the economy that needs to be better recognised and managed.

5 Page 25, Australia's international trade in goods and services 5368.0, Australian Bureau of Statistics, December 2011

As the Chinese economy develops further, the economic drivers of China's economy are expected to change. Productivity improvements (as China responds to higher input costs) and a shift to domestic consumption will increasingly drive China's economic growth. China's urbanisation is also likely to change the nature of the Chinese economy.

Given this, the demand for services, such as professional and financial services will increase. However, Australia, with its well-developed services sector, cannot take it for granted that it will be a beneficiary of such a shift. China in particular, is making significant investments into their education systems so that their future workforce have the skills necessary to meet future demand for services.

Australia's trade performance

Australia is not nearly as trade-dependent as most other economies in the region. Australia's trade profile is, in some respects, that of a much larger country. However, the problem is that larger countries have markets that allow for significant economies of scale to be realised while just serving the domestic market. For smaller economies, there are potential gains from specialisation that they can benefit from if they trade extensively with others. Australia could be losing out in terms of efficiency in both dimensions.

As depicted in Figures 4 and 5 following, Australia's trade performance as a percentage of gross domestic product (GDP) is low by the standards of most nations from the region. This indicates that Australia is not well "plugged into" the global economy, at least when it comes to trade beyond the primary sector.

While most Australian commentators that discuss trade focus on Australia's export performance (see Figure 4), the relatively low ratio of imports to GDP (Figure 5) could mean that Australia is not part of the production networks of Asia. It could also mean that Australian businesses and households are not obtaining the gains that are available to customers of businesses producing at a global scale.

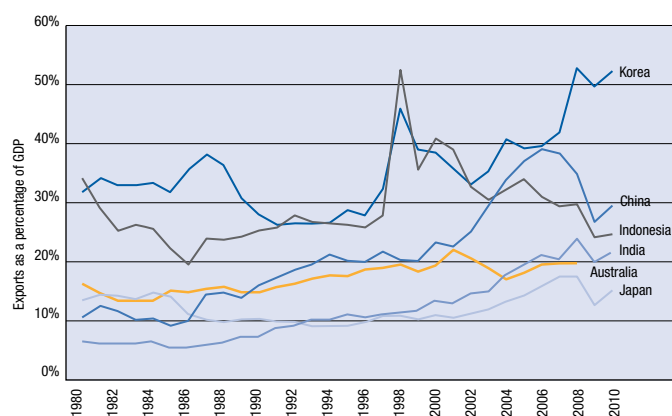


Figure 4: Exports as a percentage of GDP – Australia versus selected Asian economies

Source: World Development Indicators, The World Bank. Graph by CPA Australia.

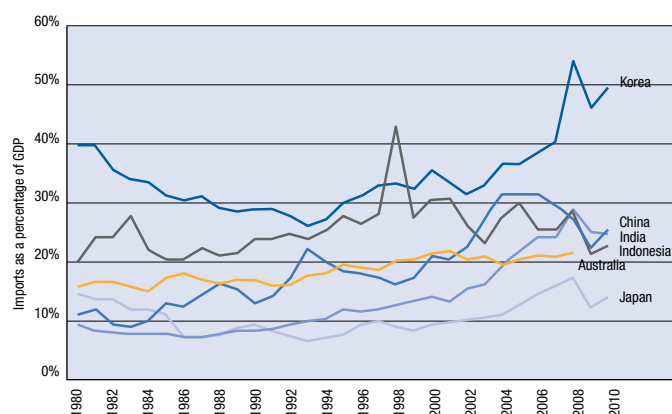


Figure 5: Imports as a percentage of GDP – Australia versus selected Asian economies

Source: World Development Indicators, The World Bank. Graph by CPA Australia.

Australia's relatively low ratio of imports to GDP indicate that Australian households and businesses do not have access to specialised suppliers operating on a global scale as is the case in other economies. This could affect standards of living directly (through higher prices and less variety of goods available) and indirectly (through the ripple effect of businesses that might be more efficient or cost effective if they had easier access to imported inputs).

Australia's trade surplus with China (Australia's largest trading partner) for 2010-11 is A\$23.7b,⁶ making Australia one of the only advanced economies to have such a surplus with China. Australia also experiences significant trade surpluses with other Asian economies, including Japan

⁶ Page 31, International trade in goods and services 5368.0, Australian Bureau of Statistics, October 2011

(A\$30.3b), Korea (A\$15.6b) and India (A\$13.7b).⁷ Figure 6 shows how Australia's trade balance has varied between surplus and deficit in the past decade.

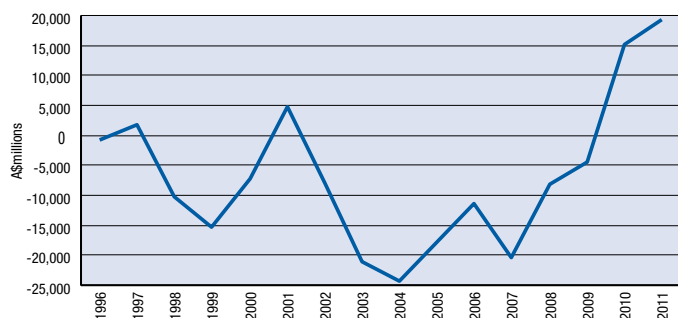


Figure 6: Australia's annual trade balance 1996 to 2011 (seasonally adjusted)

Source: ABS Cat. No 5368.0 International Trade in Goods and Services December 2011. Graph by CPA Australia

In 2010-11, China was the destination for 26.4 per cent of all Australian exports by value. Japan accounted for 19.1 per cent, Korea 9.2 per cent and India 6.4 per cent of exports.⁸ When adding Hong Kong SAR, Indonesia, Malaysia, Singapore, Taiwan, Thailand and Vietnam, those economies were the destination for 75.5 per cent of Australia's total exports by value.

On the import side, China is the source of 19.2 per cent of Australia's imports, Japan is the source of 7.8 per cent and Singapore is 5.3 per cent. The US is the source of 10.8 per cent of imports.⁹ If we add the same Asian economies as above together, they are the source of 51.1 per cent of imports by value in 2010-11.

While our trading relationship with the rest of Asia is growing quickly, the investment relationship between Australia and Asia has not shifted as sharply. At the end of 2010, the leading inward investors to Australia were the US (28 per cent), the UK (24 per cent) and Japan (6 per cent). The leading destinations for overseas investment by Australians were the US (35 per cent), the UK (16 per cent) and New Zealand (6 per cent).¹⁰

Australia has a low share of high technology exports as a percentage of manufactured exports (see Figures 7 and

8 for more detail). Of the major economies in the region, Australia only exceeds India, New Zealand and Vietnam. This would lead one to conclude that Australia is not only not generating new exportable high technology products, but that it is also not part of the production chain that manufactures these products as well.

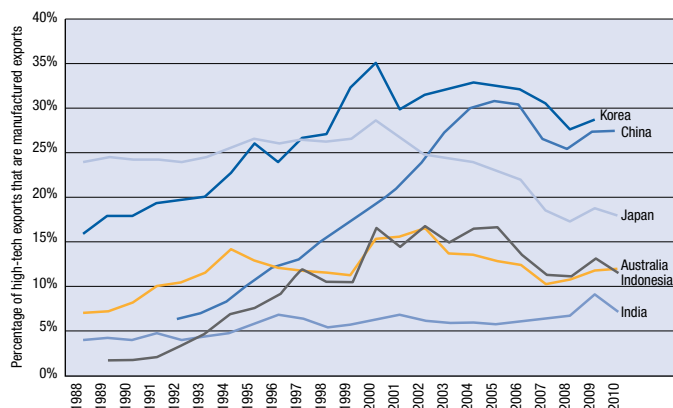


Figure 7: High-tech exports as a percentage of manufactured exports – Australia versus leading Asian economies

Source: World Development Indicators, The World Bank. Graph by CPA Australia

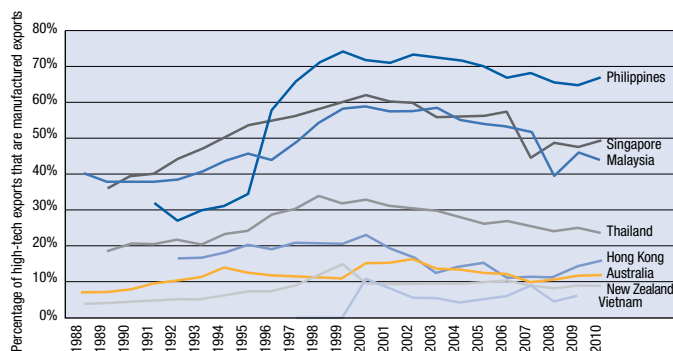


Figure 8: High-tech exports as a percentage of manufactured exports – Australia versus other selected Asian economies

Source: World Development Indicators, The World Bank. Graph by CPA Australia

Countries appear to enter the high-technology trade through two different ways. The advanced countries enter by coming up with ideas, the intellectual property, and advanced components and products. The less advanced countries enter through providing low to moderate wage workforces that make and assemble the parts and components derived from the intellectual property developed in advanced economies. At present, Australia appears to do little of either. This means ramping up high-value exports will be a major challenge for Australia.

7 ibid

8 ibid

9 ibid

10 Page 11, *Australia in the Asian Century*, Issues paper, Australian Government, December 2011

Asia's economic performance

The re-emergence of China and India

The rise of Asian economies – most notably the economies of China and India, but also Indonesia and other economies – has been the most important story in the global economy in the last few decades. The rise (or in fact the re-emergence) of these economies is rebalancing the global economy back towards Asia. These markets represent substantial new opportunities for business from the rest of the world, but particularly from the rest of the Asia-Pacific region where proximity and familiarity should allow for easier market development.

China and India to become the world's largest economies

Quite simply, the trio that drove economic growth through much of the 20th Century, the US, Japan and Western Europe, will give way to a new trio in the 21st Century – China, India and the US.

Depending on how GDP is calculated, China is likely to take over from the US as the world's largest economy in the next five to 10 years.

If measuring GDP based on purchasing power parity, the International Monetary Fund (IMF) estimates that Chinese GDP will surpass US GDP in 2016.¹¹ However, in 2008 Australian Treasury forecast that China will surpass the US as the world's largest economy in 2021.¹²

In relation to India, according to the IMF, it surpassed Japan in 2011 to become the third largest economy (measured in purchasing power terms).¹³ The Australian Treasury predict that India will overtake China as the world's largest economy by 2083, due to its higher population.¹⁴

Reflecting the shift in economic power from West to East, Figures 9 and 10 following show that China and India are projected to grow from a 13 per cent share of gross world product in 2005 to 34 per cent in 2050. The US on the other hand will shrink from 23 per cent to 12 per cent and

the EU will shrink from 24 per cent to 9 per cent of gross world product. The chart also shows that by 2050, the Chinese economy will be getting close to double the size of the US economy.¹⁵

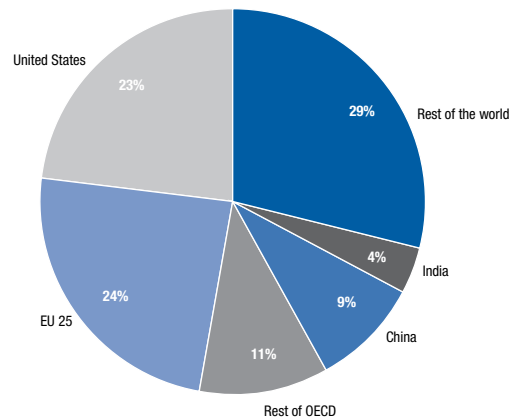


Figure 9: Distribution of gross world product – 2005

Source: *Australia's Low Pollution Future – The Economics of Climate Change Mitigation*, Australian Treasury 2008. Graph by CPA Australia.

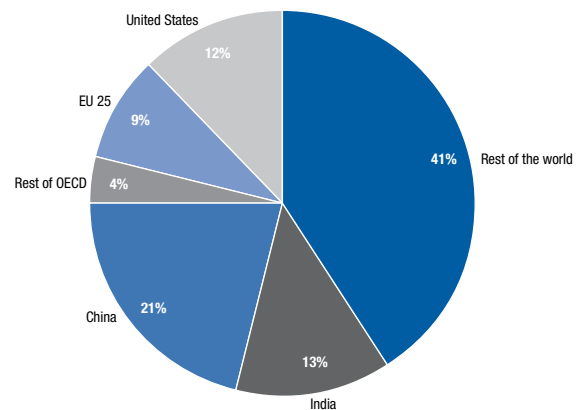


Figure 10: Predicted distribution of gross world product – 2050

Source: *Australia's Low Pollution Future – The Economics of Climate Change Mitigation*, Australian Treasury 2008. Graph by CPA Australia.

Impact of the re-emergence of Asia on Asia

What is noticeable is that the trend within most Asian economies has been a dramatic increase in their exports to GDP ratios. This is consistent with the development of a pan-East Asian production system in which capital goods and advanced components come from relatively advanced economies in the region (Japan and Korea), subassemblies and mid-tech goods from other economies (most notably

11 World Economic Outlook Database, International Monetary Fund, September 2011 – Gross domestic product based on purchasing-power-parity valuation of country's GDP in current international dollars. IMF staff estimate that Chinese GDP in 2016 will be 18.67 trillion while US GDP will be 18.25 trillion

12 Page 38, *Australia's Low Pollution Future – The Economics of Climate Change Mitigation*, Australian Treasury 2008

13 World Economic Outlook Database, International Monetary Fund, September 2011 – Gross domestic product based on purchasing-power-parity valuation of country GDP in current international dollars. IMF staff estimate that Indian GDP in 2011 will be 4.47 trillion, while Japanese GDP will be 4.39 trillion

14 op. cit., Australian Treasury 2008

15 ibid

Country	2005	2050	2100
Australia	A\$36,000	A\$68,000	A\$137,000
US	A\$44,000	A\$79,000	A\$171,000
EU	A\$29,000	A\$53,000	A\$118,000
China	A\$4,000	A\$39,000	A\$97,000
India	A\$2,000	A\$20,000	A\$84,000

Taiwan and some ASEAN countries), assembly into final goods taking place in other nations (mostly China, but some ASEAN nations as well) and the trade mediated by leading trading and logistics centres (Hong Kong and Singapore). While Australia is relatively remote to participate in this production system (and much of it is driven low wages), understanding this system is essential if Australian businesses are to be able to take advantage of it as businesses from other economies do.

Asia's development has not, however, been free of stresses and strains: pressures on infrastructure and natural environments have grown; large numbers of people have not benefited from economic growth and many nations are facing challenges associated with ageing populations.

While experiencing extraordinary growth over the last two to three decades, China and India remain relatively poor countries on a per capita basis and Australia is clearly in the advanced group of Asia-Pacific economies. Treasury's projections on GDP per capita are as follows:¹⁶

Given Australia is an advanced economy, there should be opportunities for Australian businesses to use superior knowledge, capabilities and expertise to serve China and India. This presumes that Australian businesses have sufficient knowledge of these markets, can provide products and services suitable for these markets and are not out-competed by businesses from other markets. On the other hand, the income gap might mean that products and services developed for Australia's markets may not be suitable for the tastes and incomes of potential customers in China and India. This indicates that greater efforts may be required to understand China and India and other low GDP per capita nations, than for markets with similar income levels to Australia.

¹⁶ Page 37, *Australia's Low Pollution Future – The Economics of Climate Change Mitigation*, Australian Treasury, 2008

With China's economic power comes greater cultural influence

It would be foolhardy to believe that China's re-emergence will not have impacts on Australia beyond the economy. While much discussion has been on the political and strategic impacts, the cultural impacts of China's re-emergence will also have a transformative impact on the everyday lives of Australians.

With economic power comes greater cultural influence. In the 20th Century, America's cultural influence, including the importance of the English language was commensurate with America's global economic power. In the 21st Century, the influence and importance of Chinese culture and language will eventually grow to be commensurate with its position as the world's largest economy. Any national blueprint for the Asian Century must therefore consider the greater influence of Chinese culture and, in particular, the significant importance the Chinese language will have as a language of business and social interaction for all people of the region, including Australia

Australia's engagement with the rest of Asia

The Australian Government has done much to improve Australia's engagement with Asia since the end of World War II. Government interest in such engagement has sometimes waned, however, in spite of these setbacks, an extensive web of personal, business, academic and government links now brings Australia and its Asian neighbours together. However, only some Australians are making the most of these opportunities.

However, it appears that Australia's relationship with the rest of Asia is dominated by short-term commercial opportunities. As an organisation, one of the main lessons CPA Australia has learned from our nearly 60 years' of experience in Asia is the importance of going beyond a one-dimensional approach in how we relate to people in the various markets in which we operate. Seeing the relationship as solely a business transaction is a sure-fire way to long-term failure. Relationships must be broad and based on mutual cultural understanding and respect. This is the platform upon which the strongest and most successful long-term economic relationships are built. Even in today's wireless and virtual world, ongoing business success ultimately rests on personal interaction.

China is clearly the focal point for Australia's engagement with Asia and will remain so for a considerable period of time. However, other nations (India especially, but also Indonesia, Vietnam and others) will grow in economic and political influence in the coming years. With this in mind it is important not to focus solely on China, or as has happened in the past, view the region as a singular homogenous entity.

Perceptions of Australia

As an organisation that has been deeply engaged in Asia since the early 1950s, we know that Australia's reputation in the region does not always match how we think others view Australians. Australians are often seen as insular and disengaged from Asian affairs. The very small number of Australian students studying Asian languages seems to support that opinion – but things can and must change. However, it will take time and a significant investment over a number of generations to greatly improve the understanding and familiarity of the rest of Asia among Australians, and therefore alter perceptions of Australia.

Scenarios for Australia's future in the Asian Century

The positive scenario (The World Turns to Australia scenario) starts with the positive features associated with the basic business and political environment in Australia. Then it layers in the fact that Australians are well-educated and the country has a reasonably strong academic base in the sciences and the professions. Modern communication and information technology then makes it much easier for Australian businesses with good ideas to access productive resources and markets all over the world. Australian businesses, just like businesses from other nations, find they can produce in China, do backroom operations in India, have call centres in the Philippines, and so on. The fact that Australia is in some ways better linked to these economies makes it easier for Australian firms to access the relevant resources than businesses from other parts of the world. At the same time, the growth of markets in Asia means that Australia is not nearly as far away geographically, and as important in terms of time zone, as the large traditional markets. These all get combined with an attractive living environment, sustainable business practices, and amenities that help attract and retain mobile individuals (many of which would prefer to live in Australia than in the rest of the Asia-Pacific) that help power the economy.

The negative scenario (The World Turns from Australia scenario) starts with the negative features of large geographic size combined with a relatively small and widely dispersed population, distance from markets and sources of supply, and unfamiliarity with many international markets. Then it layers in the assessments that question the resilience of Australia's economy, that indicate that the sorts of clusters that would embed businesses into the local environment are not as well developed as they might be, and question its ability to hold leading edge businesses, business activities, and individuals. Greater connectivity results in the world being able to access Australia even easier than Australia accesses the world. The rise of "winner takes all" markets and scale efficiencies means that Australia is left behind. A rising Asia is served not out of Australia, but out of other countries that focus increasing attention to the region, and use the business centres of Hong Kong and Singapore (centres that rate even higher than Australia in terms of openness and basic business environment and are tightly embedded into the Asian economies) to access the region.

In this scenario, the rise of Asia provides an inexorable attraction that pulls many of Australia's remaining highly qualified professionals and entrepreneurs away from Australia, the attractions of the country notwithstanding.

While it is unlikely that either scenario will play out to its full extreme, we are likely to see pressures in both directions in the coming years. Where Australia comes out will depend on its ability to understand the challenges in detail and to mobilise the requisite forces to turn challenge into opportunity.

An education system for the Asian Century – improving Australia’s understanding of Asia

Overview

Australia can not assume that it will succeed in the Asian Century purely on the back of its mineral exports. The chances of success is greatly enhanced if Australia develops a workforce that has a good understanding and familiarity with the rest of Asia including, importantly, Asian language proficiency, particularly in Chinese. Australia’s education system is therefore critical to developing an Asian literate workforce of the future.

While Australia’s current and future prosperity is intertwined with Asia, Australians generally know little of Asia’s languages, history, politics and diverse cultures and philosophies. Given an Asian literate workforce will be essential if Australia is going to take full advantage of the Asian Century, a considerable national effort involving schools, tertiary institutions and in the broader community is required to significantly cut Australia’s Asian literacy deficit.

Achieving higher levels of Asian literacy requires federal and state governments to invest substantially more resources in teaching Australians about Asia. Such a strategy will be difficult and require long-term, intergenerational commitment and bipartisan support at both federal and state government levels.

While dramatically increasing the percentage of young Australians who speak Chinese and, to a lesser extent, other Asian languages, is very important to reducing Australia’s Asia literacy deficit, it is not the only solution. Students must also be familiar with Asian history, cultures, societies, politics and geography to be truly Asian literate.

Past and current programs to improve Asian literacy

To develop an Asian literate workforce requires a significant investment in our education system. While there have been a number of programs to encourage greater Asian literacy in schools since the 1970s, the facts are that such policies, including the current National Asian Languages and Studies in Schools Program, have done little to improve students’ generally poor understanding of Asia and very low proficiency in Asian languages. For instance, according to the Asian Education Foundation of the University of Melbourne, only 18.6 per cent of primary and secondary school students study Asian languages and only 6 per cent of Year 12 students study an Asian language,¹⁷ with many of that number being native speakers of the language – so much so that according to Kathie Kirby, executive director, Asialink and the Asia Education Foundation at the University of Melbourne,

only 300 students of non-Chinese background across Australia study Chinese in Year 12.¹⁸

A bolder, long-term vision, with funding commensurate for that vision is needed if Australia is to truly tackle its Asian literacy deficit and build an education system for the Asian Century.

Students in Australian primary and secondary schools studying Chinese, Indonesian, Japanese or Korean¹⁹

	2000	2008
Percentage of total student population	24	18.6
Percentage of total Year 12 student population	4.8	5.8

According to a research report written for the Asia Education Foundation,²⁰ it found that very few Year 12 subjects have content or focus on Asia. Of those subjects that do include Asian content, very few schools offer such content and very few students select such content. Across Australia, there is a strong disposition by teachers and students for the inclusion of European content.

Having stated this, the importance of Asian literacy is acknowledged in the *Melbourne Declaration of Educational Goals for Young Australians*,²¹ which states, among other things, that young Australians need to be Asian literate. The new Australian Curriculum,²² which reflects the *Melbourne Declaration*, has a cross-curricula priority of “Asia and Australia’s engagement with Asia” and a priority on Asian languages. Supporting these initiatives, the Australian Government allocated A\$62.4 million over four years to June 2012 to a National Asian Languages and Studies in Schools Program (NALSSP).²³

With funding for this program expiring in June 2012, any impetus this program has created may be lost if funding is not extended. Further, it would become more difficult to implement a bolder strategy to significantly reduce Australia’s Asian literacy deficit without the impetus of existing programs.

Recommendation 2

The Australian Government and the state and territory governments extend funding for the National Asian Languages and Studies in Schools Program (NALSSP) to enhance Asian literacy and increase the uptake of Asian languages among primary and secondary students.

17 Page 4, *The Current State of Chinese, Indonesian, Japanese and Korean Language Education in Australian Schools: Four Languages, Four Stories*, Asia Education Foundation, 2010

18 <http://theconversation.edu.au/learning-to-live-in-the-asian-century-3586>

19 ibid

20 www.asiaeducation.edu.au/verve/_resources/studiesofasia_year12_file.pdf

21 www.mceecdya.edu.au/verve/_resources/National_Declaration_on_the_Educational_Goals_for_Young_Australians.pdf

22 www.australiancurriculum.edu.au/

23 www.deewr.gov.au/schooling/NALSSP/Pages/default.aspx

Why should Asian literacy be such a priority?

A high level of Asian literacy will provide Australians with a competitive edge and contribute to Australia's competitive advantages.

A child born today will be entering the workforce from 2030 onwards. The world then will be a far different place, where global economic power will be firmly centred in Asia, hence Asian literacy will be a core skill. Our education system must therefore start preparing students for that world, today.

The objective of developing an Asian literate community requires our education system to produce a steady stream of large numbers of students over many years that are fluent in an Asian language and have a deep knowledge of Asia, its history, geography, cultures, societies, philosophies and religions. Such an objective can only be met if federal and state governments implement a comprehensive national strategy that includes significant and sustained investment by governments and Asian literacy is embedded as a critical skill in the minds of students, teachers and parents.

To develop a comprehensive national strategy to significantly improve the Asian literacy of Australians, the federal and state governments should, as a first step, convene a forum on Asian literacy.

Recommendation 3

The Australian and state governments convene a national forum with key stakeholders focused on developing a national strategy to significantly improve Asian literacy in Australia.

Given the importance to the Australian economy and society of reducing Australia's Asian literacy deficit, and that such a strategy requires cooperation between state and federal governments, the development and implementation of such a national strategy should be overseen by the Council of Australian Governments (COAG).

Recommendation 4

The Council of Australian Governments (COAG) oversee the development and implementation of a national strategy to significantly improve Asian literacy in schools.

Given current programs do not appear to be stimulating much interest in learning more about Asia and Asian languages, such a national strategy should consider:

- making the study of Chinese language compulsory for all students in primary and secondary school; the long-term

- objective being that all school leavers be fluent in Chinese
- developing a compulsory unit in Asian studies for primary and secondary school students
- placing large numbers of Australian university students in Asian institutions as part of their Australian degree
- offering FEE-HELP discounts to students studying Asian languages as part of their degree
- funding the establishment of a free-to-air television station, dedicated to broadcasting programming from Asia

An education system for the Asian Century – improving Asian literacy in schools

Chinese language as a compulsory area of study for all primary and secondary school students

Background

The Asian Century will involve more than a shift in strategic and economic power from West to East. As history has repeatedly shown, with economic power comes cultural influence and, within that, the spread of the language of the dominant economic power. Therefore, for the Asia region and beyond, Chinese will become an increasingly important language for business and social interaction. It is far from being bold to state that over the next couple of generations, Chinese will challenge English as the dominant language of business and the global second language. In short, Chinese will be the language of this Asian Century and beyond.

In this context, fluency in Chinese will be a critical skill for future generations of Australians. We therefore have an obligation to those future generations to equip them with a strong proficiency in Chinese (and of course English) above all other languages. The extent of this challenge cannot be overestimated with only 300 students of non-Chinese background across Australia studying Chinese in Year 12.²⁴

Having a large section of the Australian population fluent in Chinese will also be important for our future national competitiveness. Nations that have large sections of their populations fluent in English and Chinese will enjoy a competitive advantage over those that do not.

It is obvious from the statistics on students undertaking Asian languages that previous and existing initiatives to encourage greater uptake of Asian languages has not

24 <http://theconversation.edu.au/learning-to-live-in-the-asian-century-3586>

worked that well. Therefore a bolder approach is required. That approach should be to eventually make the study of Chinese language compulsory for all students in primary and secondary schools.

The study of Chinese is also crucial to gaining a broad familiarity and understanding of China and the broader region, and hence the compulsory study of Chinese is fundamental to substantially reducing Australia's Asian literacy deficit.

We believe such an initiative will be successful if there is strong, bipartisan political leadership on the issue, thorough planning, it is well resourced over a significant period of time, and it is promoted to students, teachers, parents and the broader school community.

Recommendation 5

The study of the Chinese language be compulsory for all primary and secondary students. The objective is for future generations of school leavers to be fluent in Chinese.

Strategies to achieve the objective

Australia has to start adapting our education system now so that at some point, all students should be leaving secondary school with not only exceptional English language skills but also fluency in Chinese. We therefore recommend that, as an initial step, the Australian and state and territory governments undertake a study into the implementation of compulsory Chinese language studies in all primary and secondary schools. Such a study should determine how best such an ambitious objective can be achieved, over what time frame such a project should be implemented and identify the challenges and how best to address such challenges.

We suggest that the target to commence the teaching of compulsory Chinese in all schools should be five years. However, the proposed review needs to look past the initial implementation and consider how best and over what time frame to meet the overall objective of all school leavers leaving secondary school with fluency in Chinese. We would hazard a guess that achieving such an objective may take 15 to 20 years, given the difficulty in native English speakers in gaining a proficiency in Chinese and the obvious resourcing problems such a rollout will have, at least in the initial stages.

Recommendation 6

The Australian Government, in conjunction with state and territory governments, conduct a review into making the study of the Chinese language compulsory in all Australian primary and secondary schools within five years.

Challenges

There are significant challenges with making Chinese language a compulsory second language for all primary and secondary school students, but with appropriate planning, bipartisan support, the support of the business community, coordination between state and federal governments and resourcing, we see no reason why such an ambitious nation-building objective cannot be achieved. If other nations can have comprehensive second language programs that produce school leavers fluent in a second language, we cannot see why Australia cannot do the same. The benefits to students and the broader community far outweigh the costs and the difficulties.

While CPA Australia is not an expert in language education, we have identified a number of challenges to introducing compulsory Chinese language studies into schools. The below challenges we have recommended should be considered in more depth in the review:

- recognition by schools and the wider community of the value of compulsory studies in Chinese
- provision of appropriate numbers of qualified Chinese language teachers
- appropriate time allocation in the school day to Chinese language studies²⁵
- a national curriculum and assessment
- the impact on teachers of other languages
- migrant groups wishing to maintain their languages
- the very high number of students not taking Chinese at senior secondary school, particularly non-native speakers
- developing proficiency in other languages, particularly other Asian languages

Concerns around focusing on Chinese at the expense of

²⁵ See www.effectivelearning.com/language-guide/language-difficulty. We also note that the percentage of time Australian schools give to instruction in foreign languages is very low by OECD standards. According to the OECD's *Education at a Glance 2011* (see page 390), the OECD average is for 9 per cent of total compulsory instruction time being devoted to modern foreign language instruction for students aged nine to 11, rising to 13 per cent for students aged 12 to 14. According to an article titled "A nation lost in translation" in the *Sydney Morning Herald* (appeared on 7 February 2011, written by Ainslie MacGibbon), in New South Wales, the percentage of the compulsory curriculum devoted to modern foreign languages instruction is zero for nine to 11 year olds and about 2 per cent for 12 to 14 year olds.

other languages, including other Asian languages would best be addressed through providing incentives to schools to also teach a third language, especially other key Asian languages (Indonesian, Japanese and Korean). We note that encouraging schools to teach a third language will take additional time away from other subjects. However, this should be a choice of the local school community. Teaching of a third language is common in many countries; therefore we cannot see why it cannot be done in Australia as well.

Recommendation 7

The Australian and state government provide incentives to schools to teach a third language, especially Indonesian, Japanese or Korean.

Compulsory Asian studies for primary and secondary school students

The focus on building Asian literacy is not just about teaching all students Chinese. Students need to be familiar with the history, politics, religions, philosophies and cultures of Asia. The federal and state governments should therefore fund the development of a national curriculum on Asian studies as part of the Australian curriculum for all primary and secondary school students. Such a course should be compulsory to have a major impact on Australia's Asian literacy deficit. The cross-curriculum approach to Asian studies in the Australian curriculum should also continue.

Recommendation 8

A compulsory course in Asian Studies be taught in all primary and secondary schools.

An education system for the Asian Century – improving Asian literacy in universities

Increasing Asian literacy of Australian university students

Governments should commit long-term funding to a program that places thousands of Australian university students in Asian higher education providers every year as part of their qualification.

To be successful in putting a large dent in Australia's Asian literacy deficit, such a program should aim to place 10,000 to 15,000 Australian students in Asian universities for a year as part of their qualification. Individual Australian universities

will need to establish arrangements with partner institutions in Asia to facilitate such a project.

While many details would need to be worked out, and the program would have to be extensively promoted to students, it would add Asian language skills to participating Australian students fairly quickly, give students a greater understanding of Asia and help them establish networks with people from the region. The cost of funding such placements should in part be recouped through FEE-HELP.

Recommendation 9

The Australian Government extensively promote the benefits of, and fund, the annual placement of 10,000 to 15,000 Australian tertiary students into universities in Asia as part of their Australian degree for at least one year. The cost of funding such placements should in part be recouped through FEE-HELP.

The Australian Government should also consider offering bonuses to encourage students to study Asian languages in universities (such as a FEE-HELP exemption). Universities should also be given extra resources to be able to meet the expected increase in demand for Asian language education such a program could bring.

Recommendation 10

The Australian Government offer incentives such as a FEE-HELP exemption or reduction, for non-native Chinese speakers to enrol in Chinese language courses at university.

Asian literacy in the broader community

While students should be the dominant beneficiary of this greater policy focus on Asian literacy, the government should also consider how best to improve Asian literacy in the broader community. One idea is fund a dedicated free-to-air Asian television channel that brings news, culture and entertainment from the rest of Asia into Australian living rooms. This is similar to the Australia Network in Asia, but in reverse.

Recommendation 11

The Australian Government fund a free-to-air television channel that is dedicated to programming from Asia, thus exposing more Australians to Asian news, entertainment, politics, cultures, societies etc.

Maintaining and building upon our engagement with the region

We need to be conscious in our engagement with the region, while the policy focus must shift to teaching Australians about Asia, we should maintain our supportive relationships, including the many effective foreign aid programs that have fostered constructive relationships in the region. We should also be seeking to extend and promote governance relationships and educational linkages.

National scholarship program

To extend Australia's educational and governance linkages with the region, CPA Australia recommends that a nationally coordinated program of scholarships be implemented to bring the best students and future leaders from the region to Australia so that they can further their studies in Australia. In making this recommendation, we recognise that there are similar existing programs. However, we believe greater value can be achieved from these programs if they are nationally coordinated and consolidated into the national blueprint for the Asian Century.

Recommendation 12

The Australian Government coordinate a national program to identify and bring the best students and future leaders from Asia on scholarship to Australian universities.

Governance

While there is no agreement on the exact relationship between governance and economic growth, there is agreement that good governance is associated with transparency and accountability, creating a virtuous cycle that leads to increased prosperity, social capital and welfare. Lack of good governance on the other hand is usually partnered with corruption to create a vicious cycle of economic decline, political and social instability, and human suffering.

The improvement of governance in the region is an issue that Australia has to actively address and continue to promote. We support the efforts made by AusAID to improve governance at the government level but governance improvements are required in the business sectors as well.

Australia can play a leading role not only in the provision of aid to improve public sector governance as it has been doing through AusAID, but also in helping countries in the region further develop their corporate governance frameworks. In order to do this Australia has to ensure that it has its own house in order. The proposed changes to the facilitation payments defence is a positive step supported by CPA Australia. However, it is of interest that the Australian foreign bribery legislation has remained untested for 11 years.

Given the importance of governance in regional growth and productivity, the government should provide adequate funding to the Australian Federal Police and ASIC to investigate any allegations of improper conduct by Australian entities. Austrade should also undertake a more active role in addressing governance issues and help entities ensure appropriate behaviour in the region. Funding and support to assist the development of corporate governance systems and processes in the region is also something the government should consider.

Recommendations 13, 14 and 15

- The Australian Government provide adequate funding to the Australian Federal Police and The Australian Securities & Investments Commission (ASIC) to investigate any allegations of improper conduct by Australian entities.
- Austrade develop a more active role in addressing governance issues and help Australian entities in the region behave appropriately.
- The Australian Government provide funding and support to assist the development of corporate governance systems and processes in the region.

Improving policymaking in the Asian Century

It is important that Australian policymakers and the broader community receive high quality information and data on Asia to better inform policymaking in the Asian Century. One way to achieve this is through a dedicated Asian Century policy research centre located within government.

Recommendation 16

The Australian Government establish a dedicated Asian Century policy research centre within government.

It is important that the Australian Government develop programs to enhance the Asian literacy of current and future leaders of the Australian Public Service. As a result understanding and familiarity will be obtained, which will help with the development and implementation of policy in the Asian Century. Such a program could be developed and run through ANZSOG or another similar institution, and involve placing senior public servants or future leaders of the service in partner institutions in Asia as part of their course and/or specialist course.

Recommendation 17

The Australian Government provide funding to ANZSOG and other similar institutions for them to place their students and academics in partner institutions in Asia

Benchmarking Australia's performance against the region

While we note that the traditional benchmark countries in the Organisation for Economic Co-operation and Development (OECD) that have been used to gauge Australia's performance in the past are still relevant, there are completely new benchmark economies in East Asia that are equally or even more relevant and need to be better understood. The complementarities and competition within the region are likely to have a great impact on Australia's economy in the future.

While we understand the bias among policymakers to benchmark against OECD nations, as they are at similar stages of development and have similar political and economic structures, business does not have such a bias. Business benchmarks Australia's regulatory and economic performance against other suitable investment destinations, which include non-OECD nations. In the Asian Century, businesses are going to more frequently compare Australia's performance to Asia; hence it is important for the Australian and state governments to broaden who they benchmark against.

We therefore recommend that the Australian Government should, when benchmarking Australia's economic, social and regulatory performance against other jurisdictions, put greater weight into benchmarking Australia's performance against non-OECD jurisdictions from the Asian region.

Recommendation 18

The Australian Government, when benchmarking Australia's economic, social and regulatory performance against other jurisdictions, put greater weight into benchmarking Australia's performance against non-OECD jurisdictions from the Asian region.

Long-term decision-making

Australia's response to the Asian Century will require consistent long-term thinking. For this to be achieved there needs to be a broad, bipartisan approach to the Asian Century at both the federal and state levels of government. The government, in consultation with the Opposition, the states and other key stakeholders should therefore develop the national blueprint. COAG should have oversight of the national blueprint.

Recommendation 19

The national blueprint in response to the Asian Century be developed by the Australian Government in consultation with the Opposition, state governments and other key stakeholders and the oversight of the blueprint exercised by COAG.

Regional consultation

Australia's national blueprint in response to the Asian Century cannot be framed in isolation from other nations of the region. The Australian Government should therefore work directly with other countries of the region and with regional groupings such as ASEAN, APEC and the East Asia Summit, to shape Australia's, and the region's, response to the Asian Century.

Recommendation 20

Australia exercise its influence to bring about greater coordination in response to the Asian Century with other countries of the region and with regional groupings, such as APEC, the ASEAN and the East Asia Summit.

Assisting business take advantage of the Asian Century

It is not just for governments to respond to the Asian Century. Businesses also have to broaden their horizons and position themselves to take advantage of the Asian Century and to address its challenges.

There is, however, an important role for government in helping Australian businesses take advantage of the Asian Century and address its challenges.

One recommendation is for the Australian Government to fund a small business exchange program between Australia and the rest of Asia. The exchange program would involve Australian small business owners and managers being placed in businesses of comparable size and industry in Asia for a certain period of time, and vice-versa.

Such a scheme would be useful in helping Australian small businesses build important networks and identify and develop markets in Asia. Conversely, the scheme would help Asian small businesses build networks and identify and develop markets and investment opportunities in Australia.

Such a program would also help Australian small businesses become familiar with how other businesses are run and they in turn can use such knowledge to improve how they run their business. CPA Australia's most recent Asia-Pacific Small Business Survey²⁶ showed that Australian small businesses generally lagged behind their Asian counterparts when it came to business management practices.

Many small business owners get so caught up in the day-to-day running of their business that they spend little time seeking out new ideas that may expand their business. This program would expose small business owners to new ideas and products that they would not necessarily have had access to otherwise.

The program should be open to all small businesses. However, priority should be given to Australian small businesses that are exporting or are considering exporting or investing in Asia and businesses in Asia that are exporting or are considering exporting or investing in Australia.

To coordinate the exchange program, we suggest that the Australian Government fund the establishment of an Asia Enterprise Centre. To be successful, the Centre should be run with joint input from government and the private sector. If successful, other governments in Asia could participate and help fund the exchange program.

The internet and global logistics businesses have allowed small businesses from remote locations to penetrate international markets like never before. For a country with a relatively small population distant from major markets, the developments could be transformational. However, this will only be the case if governments and businesses seize the opportunity to use the technologies, such as the NBN, to overcome old disadvantages and build new advantages.

Recommendation 21

The Australian Government consider:

- funding the expansion of the Austrade presence in Asia
- funding an Asian exchange program for small business
- providing grants to businesses that wish to develop strategies to expand into Asia through AusIndustry
- incorporating how the NBN can help businesses take advantage of the Asian Century in the information, education and support provided to business on the NBN.

²⁶ cpaaustralia.com.au/documents/Small-business-survey-2011.pdf

Capital markets

CPA Australia has raised concerns about important evident weaknesses in savings and capital markets policies. We are deeply concerned by the extent of uncertainty in capital availability for growth enterprises. We have also expressed our concerns that compulsory superannuation in its present form may be ineffective or worse in achieving its goals. Household savings stability and enterprise innovation are essential elements in the challenges ahead for Australia, and both are currently weaknesses. Again, these are areas where more than sufficient review has been undertaken. CPA Australia proposes that both areas are prioritised for effective policy execution with Australia's competitiveness as its goal.

Australia should develop its capacities to serve local and regional capital purposes by sustaining a local market that is recognised as a standard-setter for its efficiency, transparency, governance and depth of liquidity.

The World Economic Forum's Global Competitiveness Report shows that Australia performs well overall in financial market development, soundness of banks and regulation of securities exchanges. However, Australia's banks are predominately domestic banks, the Australian Securities Exchange comprises mainly domestic companies and Australia is not a significant player in terms of size in banking or in debt or equity markets globally or even in the region. Other economies in the region that are more highly ranked than Australia in terms of financial market development (Singapore, Hong Kong and Malaysia) all have significantly more globalised financial markets and therefore greater access to capital than Australia.

To broaden access of capital and capital inflows and outflows to Australia, CPA Australia supports amendments to Australia's taxation laws to help attract Islamic investment and other forms of alternative finance to benefit the economy. Increased Islamic investment may ultimately boost the Australian economy and help Australia achieve its objective of becoming a global financial services centre in the Asia-Pacific region.

As a net importer of capital, it is essential that Australia establishes the right framework to attract and maintain a wide range of financial products. Achieving this will be key to addressing many of our key economic issues including the funding of major infrastructure projects.

More generally, attracting Islamic capital and investment from some of our northern neighbours (such as Indonesia and Malaysia) is a huge opportunity for Australia and will ultimately be good for economic growth and jobs.

It should also be borne in mind that Australia emerged from the global financial crisis in a strong economic position with a robust regulatory regime. Further, with its geographic position, Australia is in a unique position to encourage investment in the Asia-Pacific region and has the platform to attract this increasingly significant component of global finance.

In our earlier submission to the Board of Taxation on the taxation treatment of Islamic finance,²⁷ we put forward the following recommendations:

1. An economic substance approach is more appropriate for financial products for income tax purposes.
2. An "integrative" approach as adopted in the United Kingdom would be more appropriate for Australia as it facilitates minor legal and regulatory reforms for alternative financing arrangements generally including Islamic finance.
3. Regarding the possible options under the integrative approach – the listing and exceptions methods – an amalgam of both approaches may be required.
4. While Islamic and other alternative financing arrangements highlight the asymmetrical tax treatment of debt and equity in Australia (albeit not confined to Australia), it is noted that the dividend imputation system does ameliorate this problem to some extent and that this general issue is one which needs to be addressed in a broader context having regard to developments in other major jurisdictions.
5. While the treatment of Islamic finance transactions in Australia under existing accounting standards is not entirely clear at present, it would be desirable for there to continue to be an alignment with the tax and accounting treatment of Islamic finance transactions going forward.
6. CPA Australia considers it preferable for legislative drafting to refer where necessary to alternative financing arrangements rather than something more specific such as "Islamic financing arrangements or products".

Recommendation 22

Amendments to Australia's taxation laws be enacted to broaden access to capital and help attract Islamic investment and other forms of alternative finance to benefit the economy.

²⁷ cpaaustralia.com.au/cps/rde/xbcr/cpa-site/Islamic-finance-submission-Dec-2010.pdf

