

**REMARKS TO CAL-ASIA BUSINESS COUNCIL'S 2012 ASIA NIGHT
"STRENGTH THROUGH FLEXIBILITY AND DIVERSITY"**

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Thank you for the opportunity to join you tonight. It's a pleasure to be here and to be able to say a few words on an issue of common interest – the rise of Asia as an economic powerhouse.

The strength and promise of the United States and Australia have always been our ability to adapt and to embrace diversity. The path of global economic reweighting over the past few decades from West to East has taken Australia and the United States on a journey on which both our countries stand to benefit enormously – as long as we remain nimble-footed. In Australia, we are calling it the 'Asian Century' or, more accurately, the Indo-Pacific Century; a time that will herald the economic re-emergence of Asia to a position more in keeping with its situation before the Industrial Revolution.

The extent of Asia's opportunities for Australia will be reflected in the Government's White Paper on Australia in the Asian Century, to be finalised in the coming weeks. Tonight, I will briefly cover some of the context.

The main message I want to leave with you is how Australia is capitalising on its flexibility, its diversity, as well as its natural endowments, to take advantage of this 21st century phenomenon.

With over a half of the world's population in Asia, it is only right that Asia's global share of economic activity be reflective of its share of global population. The rapid development of the Asian continent is not a force that can be slowed, nor should it be.

And we should never lose sight of that most tangible outcome of economic growth and improved governance: successive waves pulling hundreds of millions of people out of poverty – first, in Japan during the post-war period; followed by the newly industrialised

economies¹ and some Southeast Asian countries; and, more recently, in China and India. The dramatic rise of Asia is not only reducing poverty in the region, it is also improving living standards in many countries within and beyond the region. As usual, the gains from global trade and investment are a positive sum game. And Australia, just like the US, has benefited considerably and can continue doing so.

The extent of those benefits, however, will very much depend on how we position ourselves to take advantage of the opportunities ahead.

Impact on Australia

As you know, the process of industrialising and urbanising Asia's economies has continued over the last 60 years in successive waves, with China only the latest, albeit biggest, manifestation. With urbanisation rates in the Asia Pacific region still only around 50 per cent, this process should continue for decades to come.

But the path of strong economic growth is volatile, reflecting the vulnerabilities of economies in transition. Policy-makers will face a multitude of challenges. These will include responding to microeconomic structural bottlenecks and causes of market failure, as well as effectively managing the macroeconomy to maintain the balance between continued job creation and keeping inflation in check. No one should be under any illusion that this will be a smooth process.

Nonetheless, the world's emerging market economies are expected to contribute around three quarters of global growth over the next five years. And our Asian neighbours are expected to provide the largest share of this growth.

This growth will create substantially larger and more dynamic markets. With the number of middle-class consumers in the Asia Pacific region expected to grow from half a billion in 2009 to an estimated 1.7 billion in 2020 and 3.2 billion by 2030, we will see the share of the world's middle-class spending power in the Asia Pacific region rise from only one quarter today to around 60 per cent by 2030.²

¹ In particular, Hong Kong, South Korea, Singapore and Taiwan.

² Kharas H. and Gertz G., (2010) 'The New Global Middle Class: A Cross-Over from West to East' *Wolfensohn Center for Development at Brookings*.

For Australia, the impact of this growth is occurring in three waves. First, due to Asia's rapid urbanisation, Australia has and will continue to benefit from dramatically increased demand for minerals and energy. Second, as consumers in these economies demand more nutritious, varied and protein-rich diets, Australia will benefit from the demand for agricultural produce.

The third wave will result from increasing demand by the growing Asian middle and entrepreneurial classes for high-quality products and services, particularly education, tourism and business services. In contrast to the first two waves, however, Australia's natural resources and geography will not give it an obvious advantage here.

To reap the full benefits from this growing market, Australia, like the US, must build its comparative advantage, recognising that it will be competing with the rest of the world for Asia's growing middle class. It must also be recognised that Australia's success to date is attributable not only to natural endowments, but also to an endowment of sound macroeconomic policy frameworks built up painfully over the last three decades.

Australia's economic success

Let me illustrate: in the late 19th century, Argentina and Australia enjoyed some of the highest per capita incomes and best economic prospects in the world, largely due to their natural resources. While both have experienced relative decline during the last century, in 2010 Australia ranked around 13th in per capita income terms, while Argentina was around 70th.³

For Australia, transforming our good luck into good fortune commenced in the 1980s and has taken a lot of hard work and some painful adjustments. Nonetheless, we have capitalised on the re-emergence of Asia not just because of our natural resources, but also by having the right domestic economic policy settings in place over the last three decades.

And those settings form an exceptionally important endowment, namely, sound macroeconomic policy frameworks. They comprise a bipartisan medium-term approach to fiscal and monetary policy; a market-determined exchange rate; and reliance on market price signals to move people and resources to where they are most productive and valued.

³ World Development Indicators and Global Development Finance database.

In the early 1980s – responding to a long period of recessions, stubbornly high unemployment and declining relative economic performance – the Australian Government began to dismantle barriers to trade and lower tariffs, liberalised financial markets and foreign investment, floated the Australian dollar and, eventually, decentralised wage-fixing in the labour market.

Removing domestic protection and opening up to the global economy was certainly difficult at the time. But there's consensus now that these reforms placed the Australian economy in a robust position to ride out the three great shocks of the last 15 years and see an unprecedented 21 years of uninterrupted growth.⁴

Openness to foreign trade and investment has been critical to our success, and our main trade links are now increasingly with emerging Asian economies. In the last two decades, the Asian share of Australia's exports increased from around 15 per cent to just under 45 per cent.

As with the US economy, the flexibility of the Australian economy is supported by the quality of our labour force and its ability to adapt to changing circumstances, including the willingness to welcome workers from elsewhere, particularly Asia. Over the last two decades, around 40 per cent of migration to Australia has been from the Asian region.

It is, however, incumbent upon policy-makers to remember that structural adjustment will impose costs on some in our communities. As with all hard times, this means economic pressure on some communities and sectors, and political pressure on governments to intervene. How we handle that pressure will be a guide to our future success.

To conclude, let me emphasise that claims of the demise of the Asian resurgence are patently untrue. The road may well be rocky at times, but Asia has emerged as a new global powerhouse. And while this presents considerable challenges for our two countries, Australia and the US are almost uniquely placed among developed countries to grasp Asia's opportunities.

But we must not be complacent nor should we undermine the hard work that's gone into developing the right domestic economic policy settings over the past few decades. In order to

⁴ These shocks include the Asian Financial Crisis of 1997-98, the 'tech wreck' of the early 2000s and the global financial crisis which commenced in 2008.

realise the opportunities ahead, we must strive to nurture value-adding industries. And we must also recognise the importance of our macroeconomic policy frameworks and the role they have played in the relative stability of our growth over the past few decades.

The historic re-emergence of Asia has been welcomed by our great nations, countries that share common values and a commitment to democracy and the rule of law. Those values, as well as our openness to trade, our economic flexibility and our willingness to embrace diversity, will all underwrite our shared prosperity during the century ahead.

Thank you.