

Australia and the Asian Ascendancy: Why Upskilling is Not Necessary to Reap the Rewards

Benjamin Herscovitch

EXECUTIVE SUMMARY

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- **Australia's Asian embrace:** Australia's exports to Asia are almost triple its exports to the rest of the world, and 7 out of Australia's top 10 trading partners are in Asia.
- **Exporting to Asia's burgeoning middle-classes:** With the number of middle-class consumers in Asia set to rise to 3.2 billion by 2030, analysts predict Australia could boost its exports to Asia by as much as \$275 billion over the next decade if it invests in Asia-relevant capabilities.
- **Upskilling Australia for the Asian Century:** In a bid to increase Australia's Asia-relevant capabilities, politicians and interest groups are proposing policies worth billions of dollars, including increasing the number of Australian students studying in Asia and improving the quality of Asian studies in Australian schools.
- **The bullishness of Australian businesses on Asia:** Despite concerns Australia has inadequate Asia-relevant capabilities, 90% of Australian businesses say their dealings in Asia are 'living up to expectations' or performing 'better than expected.'
- **Australia's Asia-relevant capabilities non-problem:** At most, a mere 7% of Australian businesses say a lack of a specific Asia-relevant capability is adversely affecting their level of expenditure or expansion in Asia.
- **Will-o'-the-wisp Asian opportunities:** Claims from interest groups that Australian businesses would perform better in Asian markets if they had increased Asia-relevant capabilities are highly speculative and do not justify a new national project aimed at upskilling Australians-at-large.
- **Australia's abundant Asia-relevant capabilities:** There are 1.7 million Asian-born Australians and 2.2 million Australians speaking Asian languages at home, while 7 of the top 10 source countries in Australia's permanent migration program are in Asia.
- **The Depth of Australia's Asia-relevant capabilities:** Given that Asian nations account for 8 of the top 10 General Skilled Migration and Business Skills visa grants by country, the number of Australians with highly sophisticated Asia-relevant capabilities is steadily growing.
- **An Asian Australia set for success:** With a multicultural society equipped with a large and expanding pool of Asia-relevant capabilities, Australia already has the human capital necessary to prosper in the Asian Century.

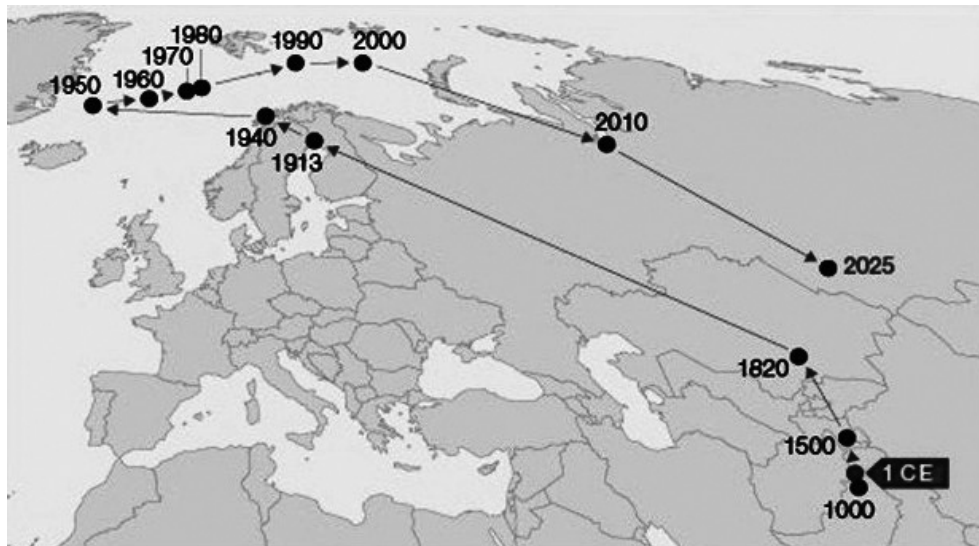
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Australia's Asian embrace

While the North Atlantic powers grapple with unsustainable levels of government debt and chronic unemployment, Asia's resurgent economies are rapidly expanding. The International Monetary Fund (IMF) predicts the GDP of Asia's developing economies will grow 8% year-on-year for the next five years.¹ The region's enviable growth rates are producing a seismic economic shift: By 2025, the world's centre of economic gravity will have steadily moved southeast from the North Atlantic to somewhere northwest of China.²

Figure 1: Movement of the world's centre of economic gravity, 1CE–2025³



Source: The McKinsey Global Institute (June 2012).

Symptomatic of this shift in economic gravity, the Chinese economy measured in absolute terms is on track to eclipse the US economy by 2020, while Asia's GDP will exceed the combined GDP of Europe and the United States by 2030.⁴ Not surprisingly, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) has identified the Silk Highway—the shift of the world economy from west to east and north to south—as one of six megatrends for the next two decades.⁵

Not only is Asia rising at a dizzying rate but it is also propelling Australia towards increased prosperity. The frenetic pace of construction in China's ballooning megacities supercharged the once-in-a-generation mining boom that kept Australia out of recession during the worst years of the global financial crisis. With the majority of Australia's top trading partners located in Asia, our economic embrace of the region cannot, however, be reduced to the story of a resurgent Middle Kingdom. From our rapidly expanding trade relationship with India to our longstanding economic ties with Japan, Australia is following the money to Asia.

Not only is Asia rising at a dizzying rate but it is also propelling Australia towards increased prosperity.

* Megatrends are major shifts in environmental, social and economic conditions that will substantially change the way people live.

Figure 2: Australia's top 10 export markets (\$ billion), 2011



Source: DFAT (Department of Foreign Affairs and Trade), 'Trade at a Glance 2012.'

Australia's exports to Asia rose by more than 80% in the decade to 2011, while exports to the rest of the world fell by approximately 20%.⁶ Our exports to the region now exceed \$220 billion, which is almost triple our exports to the rest of the world.⁷ Indicative of this trend, the top four destinations for Australian goods and services are China, Japan, South Korea and India, while Asian countries accounted for 7 out of Australia's top 10 trading partners in 2011–12.⁸

Despite our deep economic ties to the region, there is growing concern Australia is not doing enough to reap the full rewards of Asia's rise. This worry is the product of two interrelated phenomena: first, the transition of developing Asian economies to consumption-orientated, predominantly middle-class economies, and second, Australia's supposedly inadequate Asia-relevant capabilities for selling goods and services to middle-class Asian consumers.[†]

Exporting to Asia's burgeoning middle-classes

According to Credit Suisse's *Global Wealth Report 2012*, Asia is now the world's wealthiest continent by a wide margin in terms of household wealth. Asia's US\$74 trillion eclipsed Europe's US\$69 trillion and North America's US\$68 trillion in 2011–12.⁹ Although Asia's number one spot reflects recent massive losses of wealth in Europe related to the ongoing effects of the global financial crisis, it also points to a major global demographic trend: Asia is set to become the premier global hotspot of middle-class consumption.

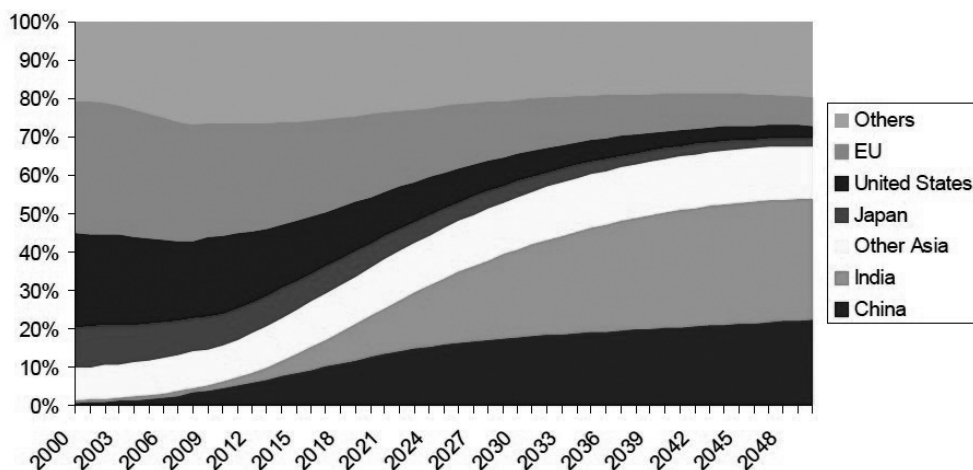
A majority of the population in numerous Asian countries, including population heavyweights such as India and China, is on track to be middle-class within two

† The term 'Asia-relevant capabilities' is shorthand for an understanding of Asian languages, cultures, history, etc, as well as professional skills and experience related to Asian markets. The idea of Asia-relevant capabilities is broader than the concept of 'Asia literacy,' which only refers to an understanding of Asian languages, cultures, history, etc. The use of terms such as 'Asia-relevant capabilities' or 'Asia literacy' does not imply that Asia is an undifferentiated mass of countries. These terms are simply convenient ways of referring to a broad range of countries and their languages, cultures, history, professional environments, etc. These terms therefore obviously belie much complexity.

Asia is set to become the premier global hotspot of middle-class consumption.

decades.[‡] According to the Organisation for Economic Co-operation and Development (OECD), Asia will be home to 3.2 billion middle-class consumers—or more than 65% of the globe’s total—by 2030.¹⁰ This is a massive increase on Asia’s 2009 share of approximately 28%—or 525 million middle-class consumers.¹¹ By contrast, Europe and North America’s share will have dropped from 54% in 2009 to 21% by 2030.¹² This means the number of middle-class consumers in North Atlantic economies will stagnate at approximately 1 billion.¹³

Figure 3: Share of global middle-class consumption, 2000–50



Source: Homi Kharas, *The Emerging Middleclass in Developing Countries* (Paris: OECD Development Centre, January 2010), 29.

The emergence of the largest consumer markets in human history in our geographic backyard represents a massive opportunity for Australian businesses.¹⁴ Despite this, politicians, commentators and academics are raising doubts about Australia’s readiness to reap these Asian Century rewards: As a member of the Anglosphere with deep historical ties to Europe, do we have the necessary skills and knowledge to effectively engage with Asia economically, politically, and culturally?¹⁵ Accompanying these doubts are calls from some educators, industry groups and business leaders for policies to increase Australia’s Asia-relevant capabilities.¹⁶

Doubts about Australia’s readiness for the Asian Century and concomitant calls for increased Asia-relevant capabilities have their origin in a longstanding debate about our place in Asia. The Auchmuty (1970), FitzGerald (1980), Ingleson (1989), Rudd (1994), and Jeffrey (2002) reports into Asian studies in Australia—together with the establishment of the Department of Far Eastern History at the Australian National University in 1952—were partly motivated by concerns about our ability to fruitfully engage with our Asian neighbours.¹⁷

The latest incarnation of uncertainty about our place in the region is focused on Australia’s prospects for increased prosperity in a global economy centred on Asia. In much-publicised reports, the Asialink Taskforce for an Asia Capable Workforce and Boston Consulting Group (BCG) recently argued that Australia’s apparently lacklustre Asia-relevant capabilities are holding Australian businesses back.¹⁸

The Asialink taskforce and BCG reports highlight the contrast between the boom in

‡ Although the precise definition of middle-class varies, individuals with annual incomes between US\$10,000 and US\$35,000 measured in Purchasing Power Parity (PPP) terms are typically considered part of the global middle-class.

The emergence of the largest consumer markets in human history in our geographic backyard represents a massive opportunity for Australian businesses.

Politicians and interest groups have proposed policies to upskill Australia for the Asian Century.

Australia's resource exports to Asia and the stagnation of non-resource exports: While Australia's overall exports to Asia increased by over 80% in real domestic currency terms in the decade to 2011, Australia's non-resource exports to Asia did not grow.¹⁹ This stagnation saw Australia's share of Asia's non-resource imports decline from 3.1% in 2001 to 2.8% in 2011.²⁰

BCG estimates that if Australia was able to regain its 2001 share of Asia's non-resource imports, as much as \$125 billion of cumulative value could be added to the Australian economy over the next decade.²¹ The taskforce report further speculated that because of the underrepresentation of services in Australian Bureau of Statistics (ABS) export data, the benefits to the Australian economy over the same period could actually be as great as \$150 billion to \$275 billion.²² The taskforce argued that on top of a massive economic dividend for Australia, a push to improve Australia's non-resource exports to Asia would 'lead to more broadly based trade with our major economic partners in Asia.'²³

Both BCG and the Asialink taskforce claimed this massive dividend from increasing Australia's share of Asia's non-resource imports depends on Australia increasing its Asia-relevant capabilities. According to BCG, Australia can only achieve these gains if it can 'develop an Asia-capable workforce.'²⁴ The taskforce similarly suggested Australia would be able to lift its non-resource exports to Asia through 'improved Asia capabilities.'²⁵ The upshot of the BCG and Asialink taskforce analyses is that although the rise of Asia's middle-classes is a massive opportunity for Australian businesses, Australia has 'much to lose' if it does not increase its Asia-relevant capabilities.²⁶

Upskilling Australia for the Asian Century

Given the apparently spectacular benefits to be derived from increasing Australia's Asia-relevant capabilities, politicians and interest groups have proposed policies to upskill Australia for the Asian Century. These policies aim to improve Australia's Asia literacy in its cultural and linguistic forms, as well as develop our professional Asia-relevant capabilities.

Regarding Asia literacy, both sides of politics have pledged to increase the number of school students studying Asian languages and cultures. In May 2012, Prime Minister Julia Gillard said Australia must broaden and deepen "Asia relevant capabilities" across the whole of Australian society.²⁷ The Gillard government's subsequent *Australia in the Asian Century* white paper requires all school students to have 'access' to at least one priority Asian language—Mandarin, Indonesian, Japanese and Hindi—throughout their schooling. Added to this program, which would reportedly cost billions of dollars, the government will require all schools to 'engage with at least one school in Asia.'²⁸

The Asian Century white paper's Asia literacy push is consistent with the broad emphasis on Languages Other Than English (LOTE) in the 'shape paper' of the new Australian Curriculum currently undergoing national consultation. The shape paper, which will lay out 'what all young Australians should learn as they progress through schooling,' was 'written on the assumption that all Australian students will learn a language [other than English] in primary and secondary school.'²⁹

The Coalition is broadly in agreement with Labor on Asia literacy. Opposition Leader Tony Abbott has said: 'If Australians are to make their way in the world, we cannot rely on other people speaking our language.'³⁰ In November 2011, Julie Bishop, the shadow minister for foreign affairs, went as far as to suggest that learning an Asian language 'should be mandatory.'³¹ The Coalition's commitment to improving Asia literacy, estimated to cost \$1 billion, is reflected in its pledge that pre-schoolers will be exposed to a second language while at least 40% of Year 12 students will study LOTE.³²

There is also bipartisan support for improving Australia's people-to-people links with Asia. Seeking to resurrect the 1950s scholarship program that sponsored thousands of Asian students to study in Australia, the Coalition has proposed what has been described by Abbott as 'a modern version of the Colombo Plan.'³³ He has said it would operate 'as a two-way rather than as a one-way street, and ... should reinforce our own and

overseas future leaders' understanding of all the things we have in common.³⁴ Although the government has proposed a Colombo Plan redux as well, neither side of politics is committing additional funding: While the Coalition has said its policy will draw on existing funding for the Australia Awards, it has been revealed that the government's Asian Century white paper announcement of 12,000 Australia Awards over five years for Asian countries just rebrands funding already allotted to that scholarship program.³⁵

Concrete policy proposals to increase Australia's Asia-relevant capabilities have not just come from politicians. The Asialink taskforce report on how to build an Asia-capable workforce recommended 'broad change on a national scale.'³⁶ Echoing proposals from Labor and the Coalition, it called for an expansion of student mobility programs in Asia, with a target of 10% of Australian university students studying in Asia as part of their degrees.³⁷ The taskforce also advocated greater investment in 'Asia capability development' and the creation of a business-led Centre for Asia Capability, which would focus on creating an Australian workforce capable of capitalising on Asia's rise.³⁸

The bullishness of Australian businesses on Asia

Arguments for upskilling Australia for the Asian Century look at the global macroeconomic trend of the North Atlantic's relative decline and Asia's rise and claim it constitutes a case for increasing Australia's Asia-relevant capabilities. Despite being pushed by the major political parties, this line of reasoning overlooks the extensive and successful involvement of Australian businesses in Asian markets.

In 2010, the Australian Industry Group (Ai Group) and Asialink surveyed the level of engagement from Australian businesses in Asia.³⁹ Focused on a range of small, medium and large Ai Group members employing around 750,000 staff in a range of manufacturing, construction and services sectors, the survey found Australian businesses are deeply connected with Asian markets and see the region as a crucially important export destination.⁴⁰ Far from being hampered by Asia-relevant capabilities shortfalls, Australian businesses are actively tapping into new opportunities in Asia.

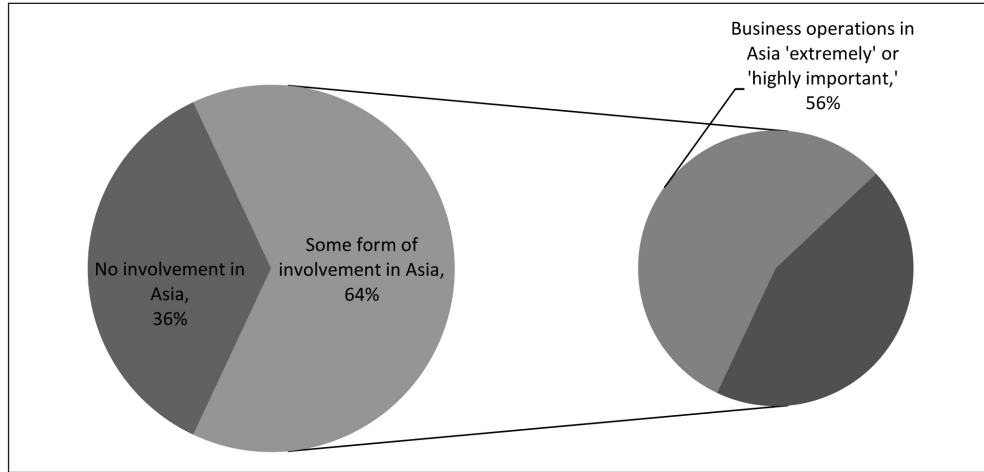
The survey showed that 64% of businesses—and 94% of those with overseas interests—are involved in Asia in some way.⁴¹ Australian business engagement in Asian markets is broad and deep, with many businesses saying their overall success in large part hinges on their success in the region. Of the businesses surveyed that have dealings in Asia, 56% said business operations in at least one of the Asian economies they are involved in are 'extremely' or 'highly important' to their overall business success.⁴²

Far from being hampered by Asia-relevant capabilities shortfalls, Australian businesses are actively tapping into new opportunities in Asia.

§ The survey's sample consisted of 380 respondents from the Ai Group member database. The respondents represented a broad spectrum of industries and included a number of major Australian global businesses. Roy Morgan Research was commissioned to assist with the development of the questionnaire and analysis of the data.

The promise of success in Asia has become a reality for many Australian businesses.

Figure 4: Involvement of Australian businesses in Asia

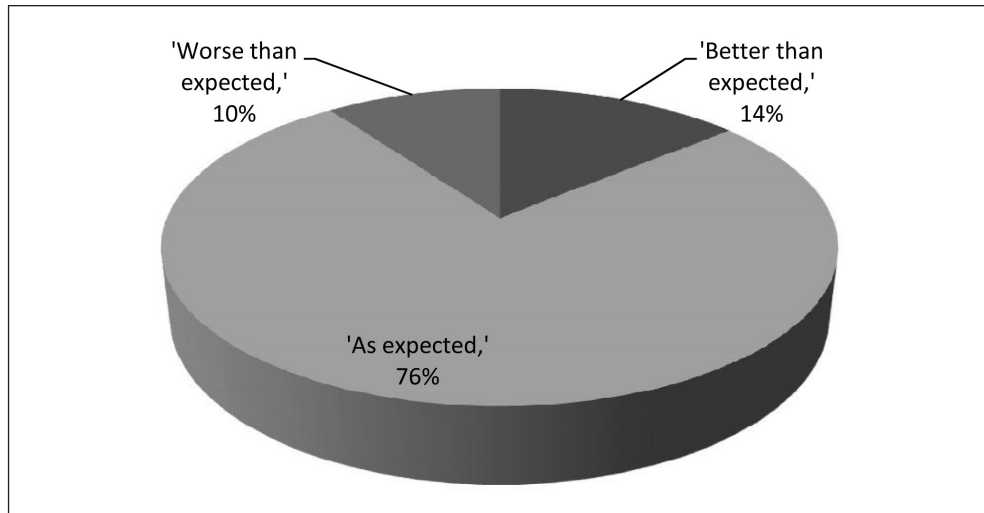


Source: Australian Industry Group and Asialink, *Engaging Asia: Getting it Right for Australian Business* (Parkville and North Sydney, 2011), 8 and 11.

Consistent with broad macroeconomic trends suggesting Asia offers increasingly lucrative opportunities, Australian businesses say they are likely to expand their activities in the region. Among the businesses surveyed, 74% said they were interested in expanding into Asia, with 42% indicating their interest was 'high' or 'very high'.⁴³ Although fewer businesses had concrete plans to move into Asian markets or expand current operations in the region, 49% do nevertheless have these plans.⁴⁴

The bullishness of Australian businesses on Asia is hardly surprising: Of the businesses currently involved in Asia, 76% said their dealings were 'living up to expectations,' with a further 14% saying their operations were performing 'better than expected.'⁴⁵ By contrast, only 10% said their dealings were performing 'worse than expected.'⁴⁶

Figure 5: Performance of Australian businesses in Asia



Source: Australian Industry Group and Asialink, *Engaging Asia: Getting It Right For Australian Business*, as above, 17–18.

In short, the promise of success in Asia has become a reality for many Australian businesses. Not only is Asia rising at breakneck speed but Australian businesses are already riding this macroeconomic wave.

Australia's Asia-relevant capabilities non-problem

Added to the often ignored success of Australian businesses in Asia, there is a missing link in the argument that Australia needs to increase its Asia-relevant capabilities to reap the full rewards of Asia's rise. This argument assumes that Australia's non-resource exports to Asia are being stymied by inadequate Asia-relevant capabilities. Although intuitively plausible, this causal connection is by no means a given. In fact, a series of complex questions needs to be convincingly addressed before we can conclude that Australia's non-resource exports to Asia would be expanded by increasing Australia's Asia-relevant capabilities.

Is the relatively poor performance of non-resource exports partly explained by the high Australian dollar, the tightening of student visa requirements and attacks on Indian students adversely affecting education, tourism, manufacturing and other exports?⁴⁷ Has the mining boom squeezed Australia's non-resource exports by drawing workers away from other sectors of the economy and pushing up the cost of Australian exports?⁴⁸ Where is the evidence that the Australian workforce has low levels of Asia-relevant capabilities?

These and other unanswered questions show that the economic rationale for increasing Australia's Asia-relevant capabilities is highly speculative.⁴⁹ It is possible to conjure up hundreds of billions of dollars worth of extra exports to Asia by assuming a massive increase in Australia's share of Asia's non-resource imports. However, such speculation is not reason to think upskilling Australia's workforce with increased Asia-relevant capabilities will produce an economic boon for Australia.

In fact, notwithstanding concerns raised by some industry groups and business leaders, there is little if any evidence that Australian businesses are being held back from success in Asia because of inadequate Asia-relevant capabilities. The 2011 Ai Group-Asialink survey referred to earlier asked an open-ended question about the factors adversely affecting levels of planned expenditure or expansion in Asia. With only 33% able to nominate an adverse effect, 67% of businesses said nothing in particular was adversely affecting their expenditure or expansion decisions in Asia.⁴⁹ This is an encouraging result and speaks to the success of Australian business in some of the largest and most dynamic markets in the world.

Of the 33% of surveyed businesses that said there is something adversely affecting their level of expenditure or expansion in Asia, 40% nominated an economic or government policy-related reason, most notably exchange rates (18%), while 24% identified internal financial constraints.⁵⁰ Tellingly, Asia-relevant capabilities were at the very bottom of the list of factors adversely affecting the level of planned expenditure or expansion in Asia.⁵¹ Indeed, various issues related to Asia-relevant capabilities, such as relationships/contacts and local knowledge, were only nominated by around 20% of the one-third of businesses that were able to nominate something adversely affecting their level of expenditure or expansion in Asia.⁵² This in effect means at most a mere 7% of Australian businesses say a lack of a specific Asia-relevant capability is adversely affecting their level of expenditure or expansion in Asia.

The bulk of factors adversely affecting the expenditure or expansion decisions of Australian businesses in Asia are clearly in no way connected to Australia's supposedly inadequate Asia-relevant capabilities. To be sure, overcoming economic or government policy-related barriers to success in Asian markets is immensely important. However, it is a quite different problem from a lack of Asia-relevant capabilities.

¶ Although there are other possible rationales for increasing Australia's Asia-relevant capabilities—diplomatic, geostrategic, educational, etc—the most commonly offered justifications are economic. Given the marginal role of non-economic rationales in the contemporary debate about Australia's place in the Asian Century, this report is restricted to assessing the economic justification for increasing Australia's Asia-relevant capabilities.

At most, a mere 7% of Australian businesses say a lack of a specific Asia-relevant capability is adversely affecting their level of expenditure or expansion in Asia.

The evidence suggests an Asia-relevant capabilities shortfall is not producing poor performance among the vast majority of Australian businesses operating in Asia.

The above results—as encouraging as they are—may seem to contradict suggestions from many in the Australian business community that Asia-relevant capabilities are in fact crucial for business success in Asia. For example, business leaders such as Sid Myer, chairman of Asialink and member of its taskforce, and Mike Smith, chief executive of ANZ, have emphasised the importance of experience operating in Asia and related skills.⁵³ As Smith observed at the launch of the taskforce’s report, sophisticated knowledge of Asian markets, experience operating in Asia, the ability to adapt behaviour to Asian cultural contexts, long-term trusted Asian relationships, and basic levels of language proficiency are all essential.⁵⁴

This emphasis on Asia-relevant capabilities was echoed by the businesses surveyed by Ai Group and Asialink. Among the important factors for doing business in Asia, quality partnerships, an understanding of local management culture, and general cultural understanding were rated highly—all above 3.5 on a scale from 1 (‘not at all important’) to 5 (‘extremely important’).⁵⁵ Although local language abilities were not a factor, it is clear that Asia-relevant capabilities in a broad sense are important.⁵⁶ As regards the skills for doing business in Asia, appreciation of political and legal processes and local cultural knowledge were each rated above 3.5, with local language skills rated around 3.⁵⁷

The emphasis placed on Asia-relevant capabilities by the Australian business community may seem at odds with the success of Australian businesses in Asia noted earlier: Despite the bulk of Australian businesses not experiencing difficulties in Asia related to an Asia-relevant capabilities shortfall, these capabilities are nevertheless considered among the most important factors for doing business in the region.

However, to assume an inconsistency overlooks two simple and plausible explanations: Firstly, Australian businesses might emphasise the importance of Asia-relevant capabilities because they have relied on these capabilities for their success in the region and not because they lack these capabilities. In other words, saying Asia-relevant capabilities are essential for doing business in Asia does not necessarily imply the need to increase Australia’s Asia-relevant capabilities. Secondly, these different pieces of evidence—the extent of the success of Australian businesses in Asia and the important skills for doing business in the region—obviously measure slightly different aspects of Australia’s economic relations with Asia. It is therefore hardly surprising that they yield different—although not necessarily contradictory—conclusions.

Will-o’-the-wisp Asian opportunities

The evidence suggests an Asia-relevant capabilities shortfall is not producing poor performance among the vast majority of Australian businesses operating in Asia. Nevertheless, it remains to be seen whether Australian businesses would perform even better in the region if Australia had increased Asia-relevant capabilities. As such, the relevant question might not be how well Australian businesses are performing in Asia, but how much they stand to gain by recruiting personnel with more extensive and sophisticated Asia-relevant capabilities.

There is some evidence that Australian businesses have much to gain from having more staff with Asia-relevant capabilities. The Asialink taskforce pointed to a connection between Asia-relevant capabilities and increased success in the region: The higher the proportion of senior leaders who have had Asian cultural training, speak an Asian language, or have lived and worked in Asia for more than three months, the more likely it is a business’ performance in Asia will exceed expectations.⁵⁸ Conversely, business performance is less likely to exceed expectations in the region without these Asia-relevant capabilities.⁵⁹

This rationale for increasing Australia’s Asia-relevant capabilities looks particularly strong if the correlation between senior leaders with Asia-relevant capabilities and business success in Asia is considered in tandem with the relatively low proportion of senior business leaders with Asia-relevant capabilities. In the Ai Group–Asialink survey, 73% of businesses said they did not have any senior executives who spoke an Asian

language, while 84% said no board members spoke an Asian language.⁶⁰ Looking at Asia-relevant capabilities more broadly, only 54% of businesses with Asian dealings said Australia-based senior executives and/or members of the board had experience working or living in Asia, received training to prepare them, or spoke an Asian language. On top of this, 32% of businesses with Asian dealings said none of their Australia-based senior executives or board members had any of these Asia-related skills or experience.⁶¹

Despite being an apparently powerful case for increasing Australia's Asia-relevant capabilities, the Asialink taskforce's argument is inconclusive. Firstly, the relationship that is presented as causal may only be a correlation: Although Asia-relevant capabilities may be associated with businesses exceeding their expectations in Asia, we cannot infer that these capabilities caused businesses to exceed their expectations.

Businesses with senior leaders with Asia-relevant capabilities may actually be more likely to exceed their expectations in Asia because having senior leaders with such capabilities may produce a more realistic view of likely returns in Asia. This may simply be a function of a more hard-headed view of Asian markets being shared by those who have an understanding of Asia and have done business in the region before. If businesses with senior leaders with Asia-relevant capabilities have a more realistic view of likely returns in Asia, then they may be more likely to exceed their expectations. Equally, businesses without such senior leaders may be less likely to exceed their expectations because a lack of these capabilities may lead to a naïve 'rivers of gold' view of Asian markets.

Even if the causal connection between businesses having senior leaders with Asia-relevant capabilities and businesses exceeding their expectations in Asia exists—and this remains to be seen—it would certainly not warrant a national project to equip Australians-at-large with Asia-relevant capabilities. At most it would show that it is prudent for Australian businesses to recruit employees with Asia-relevant capabilities and promote them to senior leadership roles, while also providing their existing senior leadership with training to give them Asia-relevant capabilities. Even Kevin Rudd's more modest suggestion that the Australian business community set a quota for Asian languages-speaking recruits seems arbitrary and unnecessary: If businesses did indeed benefit significantly from having more staff with Asia-relevant capabilities, then they would presumably hire more Asia-savvy employees of their own accord.⁶²

Australia's abundant Asia-relevant capabilities

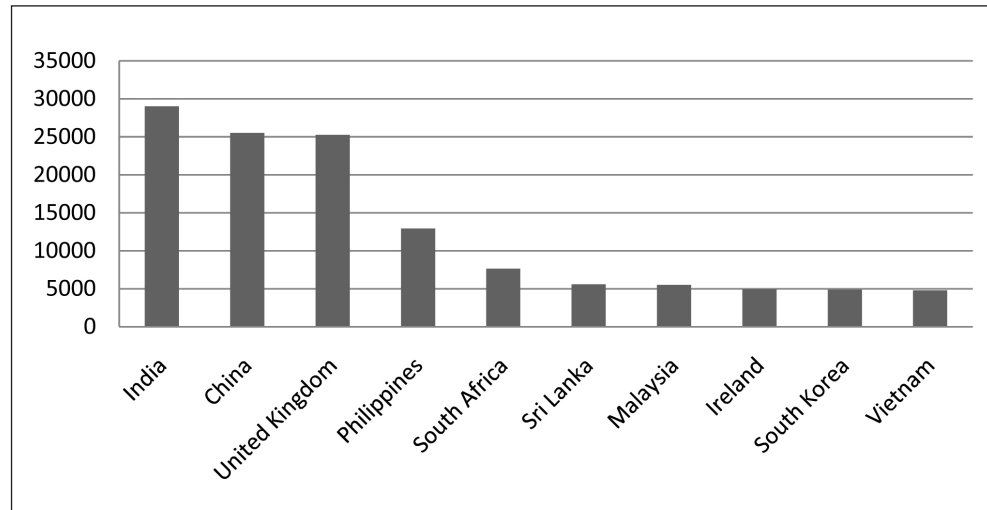
The case for an Asia-relevant capabilities gap in the Australian business community is inconclusive and highly speculative. However, even if the bulk of Australian businesses did not have adequate Asia-relevant capabilities, it would not follow that the Australian workforce requires upskilling. Indeed, this policy response is only necessary if we overlook the cheapest and most effective means of adding to multicultural Australia's readymade Asia-relevant capabilities. Instead of large-scale programs to teach Asian languages, improve cultural awareness, and increase our professional Asia-relevant capabilities, Australia can continue to import Asia-relevant capabilities through the migration program.

In 2011–12, 7 of the top 10 source countries in Australia's permanent migration program were from Asia—India, China, the Philippines, Sri Lanka, Malaysia, South Korea and Vietnam.^{**63} Without a deliberate policy response aimed at upskilling the Australian workforce, Australia's migration program is bringing in a steady stream of new Australians with extensive Asia-relevant capabilities.

^{**}As per common usage, Asia here refers to the parts of the Eurasian landmass east of the Suez Canal and Ural Mountains. However, the vast majority of the Australians identified by census data in this report speak languages from East Asia, Southeast Asia, and the Indian Subcontinent, and were born in these regions.

Australia can continue to import Asia-relevant capabilities through the migration program.

Figure 6: The top 10 source countries in Australia's migration program, 2011–12



Source: DIAC (Department of Immigration and Citizenship), 'Migration Program Statistics.'

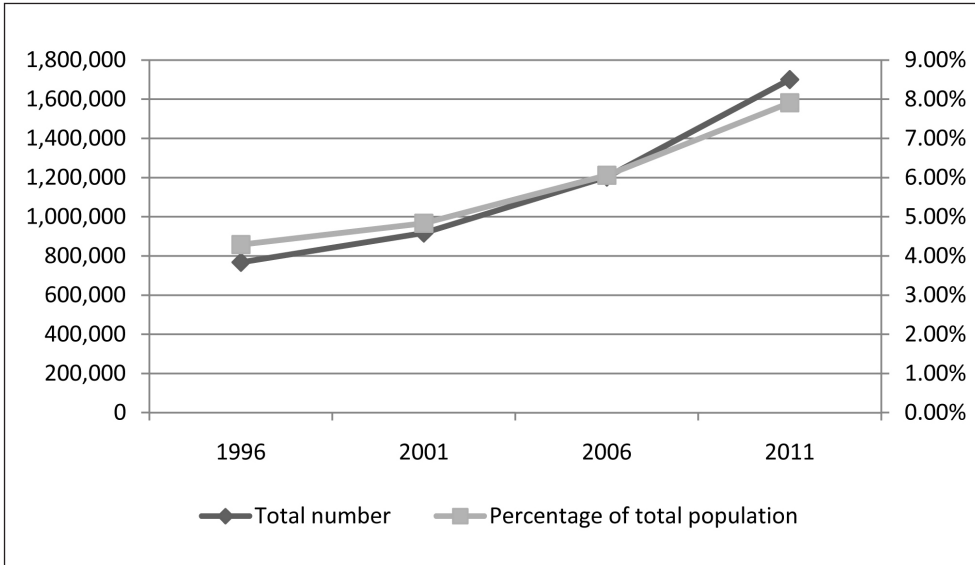
Although not by design, the migration program even reflects the importance of Asia's two economic and demographic powerhouses. India and China are expected to have by far the world's largest economies and populations by 2050.⁶⁴ With Indian migrants taking 29,000 or so places—or 15.7% of the total migration program of 185,000 places—India is Australia's largest source of permanent migrants. Chinese migrants took approximately 26,000 places—or 13.8% of the total migration program—making China Australia's second-largest source of permanent migrants.⁶⁵

Given the composition of Australia's migration program, it is hardly surprising that the number of Asian-born Australians is steadily rising.^{††} Although only 768,000 Australians were Asian-born in 1996, the number had risen to 1,701,000 by 2011.⁶⁶ Not only has the absolute number of Asian-born Australians increased rapidly, but the percentage of Australia's overall population that is Asian-born has continued to rise. Just 4.29% of Australians were Asian-born in 1996, compared to 7.91% in 2011.⁶⁷ This means the rate of increase of the Asian-born Australian population is outstripping the rate of increase of the overall Australian population.

††For the sake of simplicity, this report uses the terms 'Asian-born Australians' and 'Australians who speak Asian languages at home.' Although the bulk of the individuals in these categories are Australian citizens, the large numbers of Asian international students and tourists mean some of those identified as being Asian-born or speaking Asian languages at home are not strictly speaking Australian citizens.

Although only 768,000 Australians were Asian-born in 1996, the number had risen to 1,701,000 by 2011.

Figure 7: Australia's Asian-born population, 1996–2011

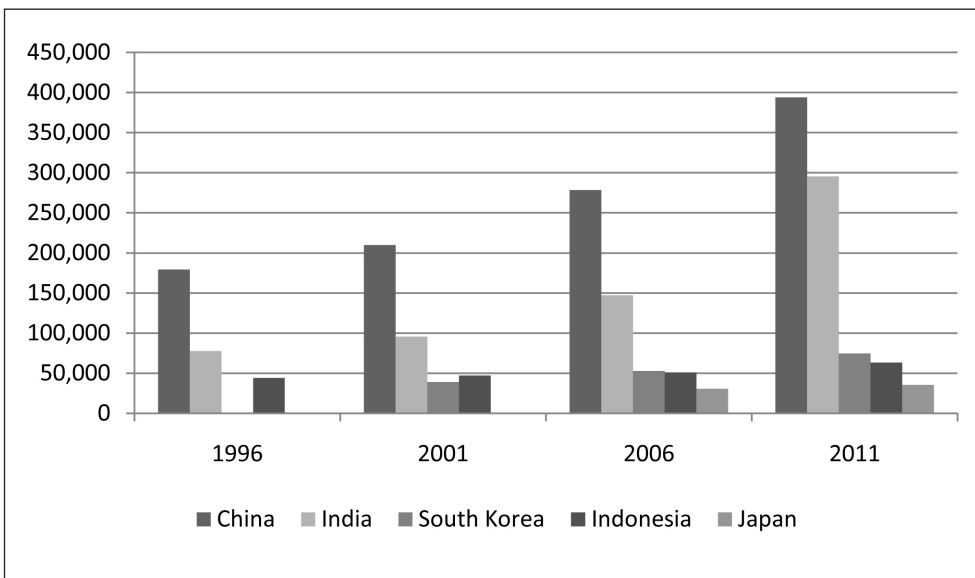


Source: Various.⁶⁸

Large and rapidly rising numbers of Australians were also born in priority Asian countries. In 2011, the Chinese-born population was approximately 394,000, while the Indian-born population was 295,000 or so.⁶⁹ This represents a massive increase in the Chinese-born population of 179,000 and Indian-born population of 78,000 in 1996.⁷⁰ Substantial numbers of Australians were also born in the other priority Asian countries identified by the Asian Century white paper: There were 75,000 South Korean-born, 63,000 Indonesian-born, and 35,000 Japanese-born Australians in 2011, representing steady growth in the numbers in previous censuses.⁷¹

In 2011, the Chinese-born population was approximately 394,000, while the Indian-born population was 295,000 or so.

Figure 8: Australians born in priority Asian countries, 1996–2011

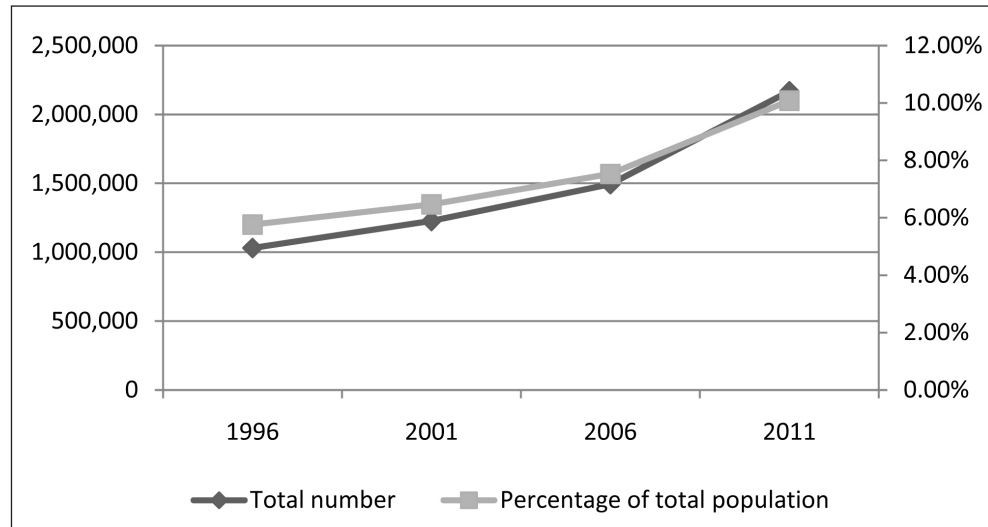


Source: Various.⁷²

The number of Australians who speak Asian languages at home is a useful measure of how Australia's migration program is rapidly increasing Australia's pool of Asia-relevant capabilities. The 15 years from 1996 to 2011 saw a massive increase in the number of

Australians speaking Asian languages at home: Slightly more than 1 million people—or 5.8% of the population—spoke Asian languages at home in 1996, while the number had ballooned to just less than 2.2 million—or 10.1% of the population—by 2011.⁷³ Not only are the numbers of Australians with Asian languages skills increasing in absolute terms, but they are also becoming a larger portion of the overall population.

Figure 9: Australians speaking Asian languages at home, 1996–2011

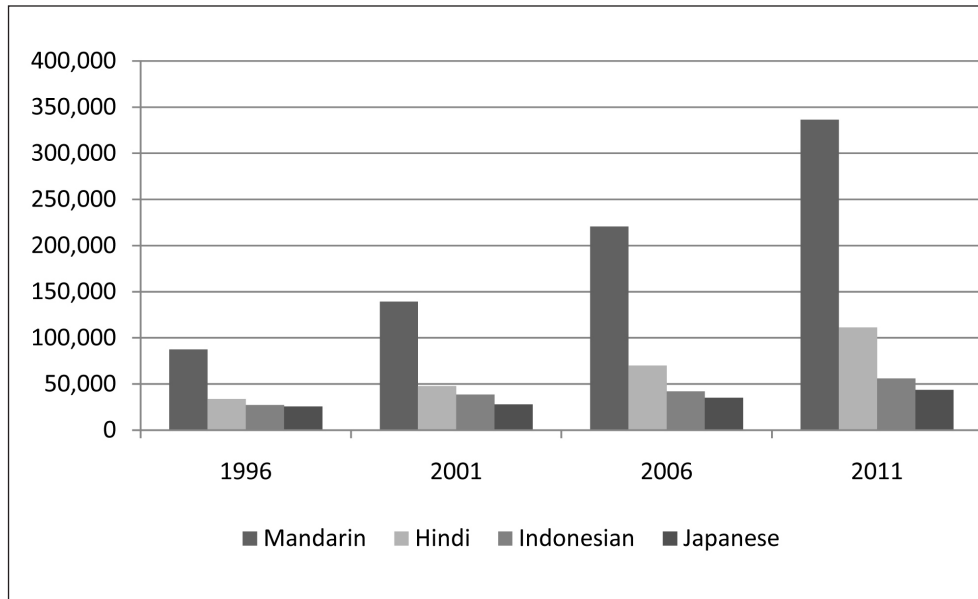


Source: Various.⁷⁴

The Asian Century white paper identified four key priority Asian languages: Mandarin, Hindi, Japanese and Indonesian.⁷⁵ Of these languages, the two spoken by future superpowers—Mandarin and Hindi—are also spoken in large numbers of Australian homes. In 2011, approximately 336,000 people spoke Mandarin at home, while 111,000 people spoke Hindi at home.⁷⁶ Given India and China are the two most important source countries in Australia’s migration program, we can expect the number of Mandarin and Hindi speakers to continue to rise.⁷⁷ The two other priority languages identified by the white paper were also well-represented: Approximately 56,000 Australians spoke Indonesian at home and 44,000 spoke Japanese at home in 2011.⁷⁸

Slightly more than 1 million people—or 5.8% of the population—spoke Asian languages at home in 1996, while the number had ballooned to just less than 2.2 million—or 10.1% of the population—by 2011.

Figure 10: Australians speaking priority Asian languages at home, 1996–2011



Source: Various.⁷⁹

Although speaking an Asian language is just one Asia-relevant capability, the number of people who speak Asian languages at home is also a useful indicator of the level of Asian cultural literacy. This is because speaking a language at home is a good proxy for having a familial connection with the country from which the language comes. This suggests that as many as 2.2 million Australians have some level of Asian cultural literacy as a result of familial connections with Asian countries.

What is more, multicultural Australia's Asian cultural literacy is becoming progressively mainstream: In our healthy multicultural society with its high levels of interaction between cultures in neighbourhoods, classrooms and families, Asian cultural literacy is spreading organically.⁸⁰ From an understanding of social mores to participation in religious and cultural celebrations, the Australian population-at-large is steadily acquiring Asian cultural literacy.

The depth of Australia's Asia-relevant capabilities

Although multicultural Australia clearly has extensive Asian languages skills and cultural literacy, it does not immediately follow that this Asia literacy is sophisticated or accompanied by professional Asia-relevant capabilities. In other words, the census data leaves important questions about Australia's Asia-relevant capabilities unanswered: Do Australians who speak Asian languages at home speak them well enough to conduct business meetings in those languages? What percentage of Asian-born or Asian languages-speaking Australians have a deep understanding of Asian cultures? Of the millions of Australians with some level of Asia literacy, how many have a detailed understanding of the business practices of Asian countries?

There are no precise measures of the level of sophistication of multicultural Australia's readymade Asia literacy. Nevertheless, even the worst-case scenario paints an encouraging picture. At the very least, millions of Australians have a significant head start when it comes to Asia literacy: At least 2.2 million Australians have some Asian languages skills and are likely to have some level of Asian cultural literacy. Although it is unclear exactly what portion of this group has a deep understanding of Asian cultures or speaks Asian languages well enough to conduct business meetings in these languages, the composition of Australia's migration program will ensure that the number of Asia literate Australians continues to rise.

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The skilled stream of the migration program serves to bring tens of thousands of individuals with extensive professional Asia-relevant capabilities to Australia each year.

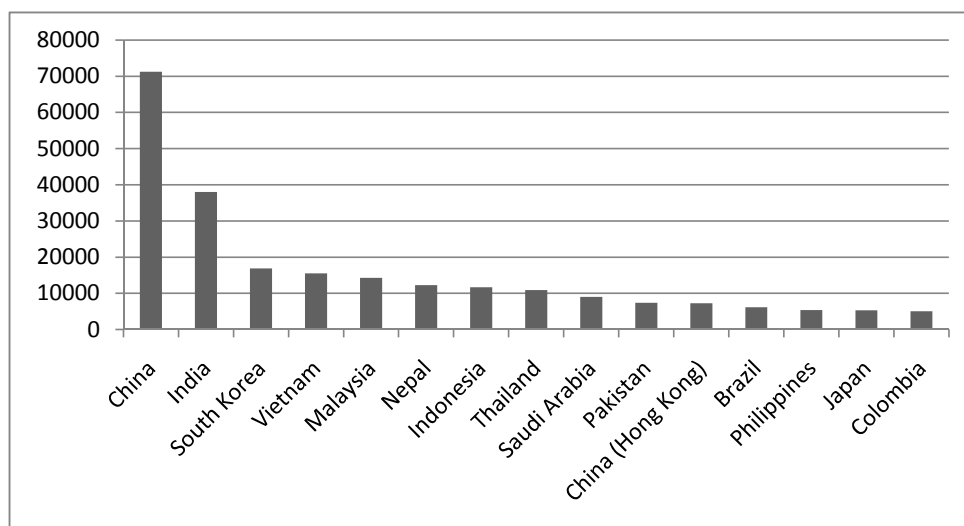
As with Asia literacy, even the most conservative estimates suggest Australia has a healthy supply of professional Asia-relevant capabilities. The Australian migration program is dominated by the skilled stream, which accounted for 126,000 places, or 68% of the migration program in 2011–12.⁸¹ By awarding points for visa eligibility on the basis of criteria such as qualifications and vocational skills, this stream seeks to attract migrants with business acumen, technical expertise and workplace experience. The skilled stream also awards Business Innovation and Investment Program visas, which are ‘designed to increase entrepreneurial talent and diversify business expertise in Australia.’⁸²

Given that the Australian migration program has long focused on filling skills shortages and has drawn heavily on Asian source countries since the 1970s, there are already likely to be large numbers of Australians with professional Asia-relevant capabilities.⁸³ Added to this, the skilled stream of the migration program will continue to provide a steady flow of professionals with extensive experience working and doing business in Asia.

The contribution made by the skilled stream to Australia’s professional Asia-relevant capabilities is confirmed by the prominence of Asian source countries in this element of the overall migration intake. In 2010–11, Asian countries accounted for 8 of the top 10 General Skilled Migration visa grants, 4 of the top 10 Employer Sponsored visa grants, and 8 of the top 10 Business Skills visa grants.⁸⁴ This means the skilled stream of the migration program serves to bring tens of thousands of individuals with extensive professional Asia-relevant capabilities to Australia each year.⁸⁵

Our readymade and expanding Asia-relevant capabilities are bolstered by Australia’s large Asian international student population. Of the top 15 countries of origin of student visa holders in Australia in 2012, 12 were from East Asia, Southeast Asia, and the Indian Subcontinent.⁸⁶ These 12 countries alone accounted for approximately 70% of the total student visa holders in Australia.⁸⁷ Among these 12 countries, key priority Asian countries were well-represented: approximately 71,000 Chinese students, 38,000 Indian students, 17,000 South Korean students, 12,000 Indonesian students, and 5,000 Japanese students.⁸⁸

Figure 11: Top 15 countries of origin of student visa holders in Australia, 30 June 2012



Source: DIAC, ‘Student Visa Statistics.’

With extensive experience living, studying and in many cases working in Asia, Australia's large numbers of Asian international students are a prime source of recruits for Australian businesses in need of Asia-relevant capabilities.⁸⁹ As James Hogan, head of commercial banking at HSBC Australia, recently pointed out, the large contingent of international students from Asia at Australian educational institutions are a useful pool from which to recruit staff with Asia-savvy backgrounds.⁹⁰ Added to our multicultural society's widespread readymade Asia-relevant capabilities, Australia is home to more than 200,000 Asian international students with sophisticated Asia-relevant capabilities and Australian qualifications almost in hand.⁹¹

An Asian Australia set for success

Deep-seated doubts are welling up as Australia considers its place in the Asian Century. With the release of the Asian Century white paper, the spectre of European Australia's irrelevance in the Asian Century continues to haunt public debate.⁹² The narrative is as simple as it is unimaginative: As a lonely outpost of the Anglosphere in Asia, we need to consciously embrace Asia or be left on the wrong side of history.

A recent editorial in the *Sydney Morning Herald* gave voice to these Asian Century insecurities: Without a concerted effort to invest in Asia-relevant capabilities, Australia will not be able to capitalise on the rise of Asia's newly cashed-up middle-classes.⁹³ The editorial opined that to sell more than iron ore and coal to Asia, Australians need to understand the continent's cultures and languages.⁹⁴

As the world's centre of economic gravity moves southeast and Asia's middle-classes emerge as the largest in human history, there will be fortunes to be made to Australia's northwest. It is, however, important not to mistake broad macroeconomic trends as a rationale for a concrete policy response. The mere fact that there will be much money to be made by Australian businesses that can sell a broad range of goods and services to newly wealthy Asian consumers does not entail that Australia needs to upskill its workforce with Asia-relevant capabilities.

Business share in the Asian Century will be won at the micro level of individual businesses and industries. Australian businesses will be successful if they can get quality products to Asian markets at affordable prices. Even if getting the right goods, services and raw commodities to Asian companies and consumers depends on particular Australian businesses recruiting Asia-savvy employees, it does not follow that a nation-building project to equip the Australian population-at-large with Asia-relevant capabilities is necessary.

Australian businesses are already reaping handsome rewards from Asia's economic dynamism, suggesting that they do not face dire Asia-relevant capabilities shortfalls. Indeed, a mere 7% of Australian businesses say a lack of a specific Asia-relevant capability is adversely affecting their level of expenditure or expansion in Asia. Some might claim that this upbeat assessment just reflects the current resources boom: The key question is not whether Australian businesses that sell rocks and crops are doing well in Asia, but how we can boost the performance of our goods and services sectors given our falling share of Asia's non-resource imports.

Although commonplace, this concern misdiagnoses the cause of the fall in Australia's share of Asia's non-resource imports. The resource exports-fuelled terms of trade boom was always going to hurt our trade exposed non-resource industries regardless of the sophistication and extent of our Asia-relevant capabilities.⁹⁵ Indeed, even the push to improve Australia's non-resource exports through increased productivity, lower production costs, and expanded free trade should be tempered by an acknowledgement that gains will be hard won during a resource exports-fuelled terms of trade boom that drives up the dollar and stretches the labour market.⁹⁶

With a business sector that is already bullish on Asia, the key demographic indicators are also on Australia's side. Millions of Australians were born in Asia and speak Asian languages at home, while our skilled migration program brings tens of thousands of

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professionals with extensive Asia-relevant capabilities to Australia each year. With Asia being an important source of new Australians, our pool of Asia-relevant capabilities will continue to grow.

The significance of the economic power-shift from the North Atlantic to Asia can barely be overstated. Although Asia's rise is reshaping our economic reality, it would be misleadingly pessimistic to decide whether we are adequately prepared for the Asian Century without taking stock of Australia's multicultural assets. Indeed, glossing over our diversity would leave us blind to one of Australia's natural strengths: As a country that is in a very real sense already Asian, this coming century is ours.

Endnotes

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- 2 'The world's shifting centre of gravity,' *The Economist* (28 June 2012).
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- 13 As above.
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consumers in Asia is good for French luxury brands and US financial services firms just as it is good for Australian mining companies. Indeed, for all the talk of Australia's privileged geographic position, many key economic centres are not at a disadvantage vis-à-vis Australia: Sydney is approximately 12 hours flight from Beijing, which is not significantly shorter than the 14-hour flight from New York City and actually compares poorly to the 10-hour flight from Paris.

- 15 For example, see Julia Gillard, 'Speech at the launch of the White Paper on Australia in the Asian Century: "History asks great nations great questions"' (28 October 2012); John Menadue, 'Deja vu as Australia returns from smoko for Asian century,' *The Age* (5 April 2012); Tim Lindsey, 'No quick fix to Asia literacy crisis,' *The Australian* (3 May 2012).
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- 36 Asialink Taskforce for an Asia Capable Workforce, *Developing an Asia Capable Workforce*, as above, 3.
- 37 As above, 20.
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- 39 Australian Industry Group and Asialink, *Engaging Asia: Getting it Right for Australian Business* (Parkville and North Sydney, 2011).

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- 43 As above, 12.
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- 46 As above, 17.
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