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## P R O C E E D I N G S

MR. KHARAS: Good morning, everybody, and thank you all for joining us this morning for this discussion on "Australia's Future in the Asian Century." My name is Homi Kharas. I'm the deputy director of the Global Economy and Development Program here at Brookings.

And we are very privileged today to have the Honorable Senator Penny Wong, Australian minister for finance and deregulation, as the keynote speaker this morning. It's my distinct honor to welcome her to Brookings. She's in charge of Australian government finances. And according to the IMF, Australia's debt-to-GDP was something like 23 percent in 2011, so I think we can safely say she's doing a pretty good job at what she's doing. And there are a few lessons perhaps from them that we could apply here in the United States.

But in addition to her budget responsibilities now, Minister Wong was formerly the minister responsible for climate change and water and for energy efficiency. And many of you will know that Australia has just launched an ambitious carbon trading market, and that's going to integrate with the EU market by 2015. It'll be the first example of an international integration of carbon markets. So I think Australia is really leading the world in new forms of market-based solutions to global problems.

And that brings us to the topic of today's discussion. There is considerable commentary that we're living in the Asian century, although, you know, here in the United States I think we hope that it'll prove to be the Pacific century rather than the Asian century. And it's undeniable that Asia has many of

the fastest growing economies in the world and, in particular, you know, the two large giants of India and China. But certainly there are some concerns that the notion that an Asian century is somehow preordained, there are some concerns that that may be a little bit too optimistic. And we see the difficulties now in sustaining growth. China certainly slowing and a lot of gloss, I think, on India's performance already starting to wear off.

Now, in Asia, as I've been there, there are certainly some people who think that all of this is just, you know, part of a plot by Western economies to restrain Asia's rise. So as we think about these things, I think that there's always a very distinct political overlay that goes on top of the economic numbers and we need to consider that.

So Australia, I think, is probably uniquely positioned to bridge between the existing the Western order and the emerging Asian economies. And I think it's in a very good position to showcase how the West can accommodate and indeed benefit from Asian growth. And that's a lesson that I do want to underscore because there's been a great deal of discussion here about the problems of the U.S. middle class. And a lot of people see the problems of the U.S. middle class as being very closely linked to the gains of the middle class in Asia. And with that, the threat of protectionism, whether through tariffs or exchange rates or through intellectual property rights, seems to be on the rise and that would be a problem that would be probably bad for everyone.

So our program today is the minister will first provide her keynote address for 15 to 20 minutes. We'll have a commentator, Senior Fellow Barry

Bosworth. I'll introduce him just before he speaks. We'll follow with some comments. We'll have a short Q&A amongst ourselves, throw it open to the floor for Q&A, and we will end by 12:30.

Minister, please.

MS. WONG: Thank you very much, Homi, for that introduction and thank you all for being here. I understand it's not a good time to give speeches in Washington because people are still on holiday, so I appreciate that you're here today. Unfortunately, this is the only time I could visit at this popular point, at this time of the year.

To my co-panelist, Barry Bosworth, I look forward to having this discussion. And Homi, thank you for that introduction and those comments.

Well, it certainly is a privilege to be here in a town that is full of minds focused on the big policy issues that confront us over the coming decades and also on actualizing the hopes and aspirations of the people across the global. And it's certainly a privilege to be speaking in such an august institution and to a group of people here today, so thank you to Brookings for the invitation. With the world undergoing such significant changes it is important that dialogues like this and many others exist between governments of all persuasions and groups like those in this room.

Well, it is certainly, as Homi said, it is undeniable that we are facing and seeing a slow rebalancing of global economic weight from West to East. And this is a process that will take decades to play out and will have ramifications across the globe. And I just want to pick up something that was

said in the introduction about whether or not this was preordained. I don't know about that, but I know where the weight of numbers is. And whilst it might not be linear and whilst we may see a bit of ebbing and flowing, I think it's very clear looking ahead which way the trend is growing. These are certainly the early years of what we've termed "the Asian century," others might call "the Pacific century," which will reshape both the international economy and certainly the Australian economy with lasting and profound results.

So I want to start this discussion by just emphasizing how important this shift is because it is, I think, the key public policy transformation of our generation. It's a challenge that has to be front of mind for policymakers, policy thinkers around the globe, the challenge of how to best position our economies and our people for enduring prosperity in a time of change. And I suppose I bring to this perspective not only being the minister of finance in a nation which is located in Asia, but also having been born in Malaysia and migrating to Australia at a young age.

But let's start -- well, one of the comments I often make is I can recall as I was growing up my father, who's a Malaysian Chinese, always used to tell me that the world would really notice when China started growing very fast. And I often regret that I didn't listen to him earlier. Anyway, let's start on first where Australia is and the position from which we face this period of change.

And obviously we do that in the context of a global economy, which is facing a period of heightened volatility, largely emanating from the deep-seated crisis in Europe. And no economy is immune from this, including

Australia's, although I just would like to make another point. I think that the debt-to-GDP ratio that Homi identified was the gross debt figure. In fact, our net debt peaks at 9.6 percent of GDP, which in the context of the fiscal discussions here in Washington is probably a figure that Congress would like to be dealing with, I suspect.

The challenges that are faced by European economies in particular at the moment are obviously profound, and managing sovereign debt and fiscal challenges will take decisive policy leadership across the globe and this will not be easy. And we have seen steps taken in the right direction, but there is much work and much detail which remains to come. And as this plays out, numerous events could trigger continuing waves of volatility as markets react to real and perceive shortcomings in the steps along the way.

So I've had the privilege over the last couple of days of being here in Washington speaking to a range of U.S. policymakers, and many of them have spoken to me about the challenges this nation faces in dealing with your building fiscal pressures, particularly as the end of this year approaches. And certainly the world is watching with interest as no doubt are the American people how this pans out.

Well, against the backdrop of this volatility and this level of risk, as a small and open economy we in Australia have been mindful of the need to ensure that Australia's well placed to deal with the uncertainties ahead. The right fiscal and economic decisions, our sound financial institution, and our location in the world has meant that we have come through the global financial crisis well

ahead of most of our peers. We avoided recession. Our economy is now 9 percent larger than it was before the crisis. Nine percent larger. This compares to a U.S. economy that's just under 2 percent larger than pre-crisis and, of course, nations such as the United Kingdom, which is contracted by around 3-1/2 percent over the same period.

Our unemployment is low at 5.2 percent and our economy is once more growing around trend. And we are enjoying a once-in-a-generation investment boom centered on the mining center. Planned mining investment in 2012/'13 is 2-1/2 times the actual mining investment of 2-1/2 years ago. So the trajectory obviously in recent years of investment has been significant. Of course, as investments mature over time this investment boom will be replaced with a boost to the economy from higher ongoing levels of resources production.

And our public finances, as we've discussed, are in strong shape and we intend to balance the budget this financial year. And this is a fiscal adjustment which is enabling a return to a more usual balance between the roles played by monetary and fiscal policy. Indeed, our Reserve Bank has had the room to cut interest rates recently because inflation has been contained and the government's budget discipline has contributed to this. And the Reserve Bank still has significant room to move if conditions warrant.

But, obviously, there are also challenges. In the short to medium term, for example, some sectors continue to face a very difficult structural transition, which has been exacerbated by a high Australian dollar. This is making it harder for some of our trade-exposed sectors to compete albeit while

providing cheaper access to imports for firms and consumers.

Looking ahead, with strong public finances, low unemployment, low inflation, we do believe Australia is well placed to withstand external shocks, and that's good for our near-term prospects. But, of course, the role of government is also to look further ahead because it is the responsibility of governments to ensure not just prosperity for people now, but prosperity for the future. The responsibility of governments is to look ahead and to establish the foundation for the next generation's success.

And what does this mean for us? Well, for Australia, what this requires is looking through the remarkable resources boom we are experiencing. It requires establishing the drivers and foundations of economic growth that follow the boom. It means dealing with what are transformational public policy challenges affecting nations across the globe today for tomorrow.

And I want to mention three particular public policy challenges at this point because I think they're worthy of mention. And the first is the challenge of demography. Aging populations, as you would well know, are putting pressure on governments' budgets by boosting demands for health and aging-related spending while simultaneously seeing a decline in labor force participation. It is against this backdrop which we also see community expectations of government, which, inevitably, grow over time. Balancing budgets in these circumstances is no easy feat, but remains crucial. And we've been making progress in Australia by taking savings over time that improve the position of the budget, and this will remain a discipline of ongoing importance.



The second challenge I wanted to mention comes from our previous portfolio, which is the challenge of climate change and environmental sustainability. And these continue to pose challenges to governments across the globe. I do believe there's an imperative for leaders and governments to respond to the science, and also an imperative economically to act to take advantage of the opportunities from the move to a low-pollution economy. And countries obviously go about managing these in different ways, but there are few who can afford to ignore them completely.

And the third transformation and the one that is the focus of the discussion today is the one we started with, which is the ramifications of the shift in economic power from West to East, a challenge which also provides unique opportunities, particularly for Australia, given our geographical proximity to Asia and the growing engagement between Australia and our northern neighbors.

And there is a tendency, and I suspect this is not unusual for Australia, but many developed economies, there is a tendency to focus on the challenges. There's a tendency to focus on the difficulties that change presents on the differences between, for example, a particular developed economy and some of the developing economies and a tendency to focus on the reordering that the growth in the Asia-Pacific region represents.

I think it is essential that thought leaders, business leaders, thought leaders such as those represented here today, as well as political leaders, also focus on the opportunities. Because the rebalancing of global economic weight is a transformation that has been underway for most of my

lifetime and one that will continue for many decades to come. Precise projections of Asia's growth trajectory are uncertain. However, by 2025, many predict that Asia will account for almost half of the world's economic output. In fact, by 2025, Asian economies could have more than doubled in size compared with only 40 percent growth for the U.S. in the same period. And as Homi Kharas, who kindly introduced me today, has said, by the end of the current decade you could see about 1.2 billion Asian consumers joining the ranks of the middle class, aspiring for the standards of living that we take for granted in Western advanced economies. Furthermore, within a single generation the majority of Chinese could go from being poor to being middle class.

And what do all of these facts mean? They mean that Asia will become the dominant global consumer in the decades to come. And this in itself means that that offers expanded opportunities to those businesses, those firms, who are able to satisfy those demands. Our prime minister put it in this way: When a person first gets a car, a computer, and a mobile phone, it changes their life. When hundreds of millions of people first get these things, it changes the world.

So this is a time in Australia's history when we find ourselves in the right part of the world at the right time; when the changes underway bring greater opportunity to our region. In the 1950s, for example, about 15 percent of the world's economic output was located within 10,000 kilometers of Australia. Today that share has more than doubled to over one-third and, by 2015, almost two-thirds of global GDP would be within the same range. Those figures really

demonstrate what we're talking about.

I think it's also important in this debate when people talk about the change, about the challenges as well as the opportunities, to remember this: that for Australia, Asia has always been part of our history. It's part of our history as well as part of our future. If you look back in the pre-war period, Japan was our second largest export market after the United Kingdom. And 40 years later, twice as many of our exports were going to Japan as to the United Kingdom. And through the '80s and '90s, Australia focused on economic reforms, such as lowering tariffs in our region. And today, China, Japan, the Republic of Korea, India, and our other Southeast Asian neighbors, including Hong Kong, Taiwan, and the ASEAN 5, buy around 75 percent of our merchandised goods exports.

So right now, Australia's obviously making the most of the mining boom as Asia's demand for the raw materials of modernization continues. But looking ahead, our relationship with the Asian region will go through infinite permutations over the decades ahead. And as a medium-sized open economy, Australia is constantly in transition, something that is important to remember and I try to express in my public discussions in Australia. It's often interesting we always focus on the change of the time, and I think it's important for us to recall in Australia that we are an economy that has always changed. Our prosperity has always been secured because we have been prepared to change.

We will need to be adaptable to take advantages of the opportunities this time presents. And the government's determination to best maximize these opportunities is why we've commissioned a whitepaper process

to guide how Australia prepares for the Asian century because we understand that the magnitude of the opportunity requires the whole of government and the whole of an economy response. So we've had a lengthy consultation process for this public policy development with different levels of government, the business community, the community more generally, which will inform the final statement to be released in the coming months.

And I want to stress the broader security and diplomatic implications of the economic shift that I've described are not the primary focus of the whitepaper and they'll be dealt with separately. The primary focus of this policy document is what are the domestic economic policy settings which best maximize our chance of maximizing the opportunities of the Asian century?

So I want to briefly discuss today, ahead of the release of the whitepaper, some of the themes and the consultation. The first is this: that there has been an emphasis that maximizing the opportunities from Asia's growth requires a culture of investing in our people as well as robust international linkages. And these, of course, depend on the combined efforts of communities, institutions, businesses, and governments because prospering in Asia is not as simple as learning a single new language or one new model of doing business. The challenges and opportunities are far larger and wider than that.

Economic power will be spread across the region and not land in one single country. There won't be enough to tap into a single market. The economic opportunities of the decades ahead will be spread from Beijing to Bangkok and Jakarta to Jodhpur. Economies that will thrive in the future are

those with people that are highly skilled and adaptable to different markets and cultures; those that can establish and utilize people-to-people links with people that can bridge the differences of time zones, location, and culture; those that understand that business relationships are not just the sum of transactions, but that a deeper engagement is required; and most fundamentally those who understand that opportunity comes from an open mind, the opportunity to learn, to gain something new, and that engagement is enhancing, not detracting.

I've always believed that an open economy and open-mindedness is essential for success. Having an open economy but lacking open-mindedness can handicap businesses and the nation and result in a narrower set of opportunities.

So in this context I'm proud that Australia is a multicultural nation and, since 1945, around 7 million people have migrated to Australia. One in 4 of our 23 million people were born overseas -- around 46 percent either were born overseas or have a parent who was -- and 5 million speak a language other than English at home. We speak over 260 languages and identify with just over the same number of ancestries. So this makes Australia a society where living and working with people who have diverse backgrounds and different culture heritages is increasingly the norm. We have an open, tolerant, and multicultural society, a vibrant society. And our consultations in developing the Asian century whitepaper have reaffirmed the importance of drawing on this foundation.

Our consultations have shown, also, the important role of education in fostering both greater understanding, but also greater adaptability.

And this government has made record investments in skills and education which are focused on boosting our capabilities in a global market. Because future prosperity will require our businesses and our business leaders to be able to innovate and to adapt, that means the skill level of our population have to be similarly capable of both innovation and adaptation.

It will also require our businesses to have the tools to trade goods and ideas with the outside world, whether it be through efficient ports, an efficient infrastructure system, or with high-speed broadband connections as the sort we're building through the National Broadband Network. Australia's place as a developed country in a developing region does give us advantages. And for us, success will require an open economy where the default is pro trade policies that encourage foreign investment and where doing business is easy. Strong institutions and a stable growing economy, so important in their own right, will continue to be important to success.

And of course, governance will continue to have an important role in ensuring deeper and broader government-to-government links with Asia. And we do look to our past successes and to build on those. Australia had a pivotal role in developing APEC from an informal meeting to a regular meeting of heads of government. And later today I fly to Moscow for the Finance Ministers Meeting of APEC.

Going forward, regional and international governance should continue to reflect wider movements in power and in economic size. It's appropriate that we see changes reflected in the leadership of the international

financial institutions, like headed here in Washington and further afield. And looking ahead, the East Asia Summit will also be of increasing importance.

And as we all work our way through the challenges and opportunities ahead, one thing that is important to remember is that the rise of Asia does not need to be seen as a story of winners and losers. Rather, by maximizing links through cooperation and innovation we can ensure that the prosperity of all nations can be enhanced.

Policymakers often let policy discussions be framed by the next few years. And that's the case for most politicians, isn't it? That's the world in which we live. But our challenge here when it comes to these opportunities is not to formulate a policy now and to sit and forget because the Asian century has a long way to run.

Australia's relationship with Asia and Asia's relationship with the rest of the world will go through infinite permutations over the century ahead, so the task of policymakers, of thinkers, of political and business leaders will be constant and ever changing. Businesses, communities, and governments who want to benefit would be wise to start engaging with these challenges, which would work to strengthen some of the building blocks for future success by entrenching open, innovative, adaptive, and skilled societies. And in the forthcoming whitepaper that explores these themes, we will see an important step in the domestic context in Australia of making the Asian century one where Australia prospers.

Thank you very much. (Applause)

MR. KHARAS: Minister, thank you so much and thank you for a very uplifting talk. In a season where there's a great deal of gloom and doom about our economics, it's refreshing to hear that perspective.

So our next speaker or commentator is Barry Bosworth. Barry is a senior fellow in the Economics Studies Program at Brookings. He's a former U.S. presidential advisor. He is probably one of the world's experts.

Are you really a world expert, Barry? I think of you as such on productivity growth with a lot of emphasis on Asian productivity growth and what has been driving Asian economies.

And formerly, as I have just learned, he was director of the President's Council on Wage and Price Stability in the late 1970s. Barry, I think you did a bit too good a job on that. Wage stability is perhaps not what we should have been after, you know, at this stage.

Anyway, Barry.

MR. BOSWORTH: Thank you. It is a pleasure to have an opportunity to listen to someone talk about economic developments in Australia because it is one of the few bright spots, particularly among advanced economies of the world. And things have gone extremely well for Australia in recent times. I would argue that part of it is good luck. It has tied itself to an economy that has showed some extraordinary performance over the last two decades. It is the raw material supplier to China. And while many Americans might bemoan the increase in the price of commodities, this is nothing but good news for Australia that's had a remarkable increase in the terms of trade as a



result of the high prices.

So Australia's had an economic boom. But I think as well it's a country that managed that boom awfully well and it responded to a lot of the global problems that dragged down a lot of the rest of us very well. So Australia does emerge, maybe with a good element of luck, but also an economy and extremely good policy position at the present time.

It helps to have a strong fiscal position. Australia has that. It helps to have a monetary policy capable of doing something in the future. Australia has that. That stands in strong contrast to America, so it's kind of painful at times to listen to this description because you can't help but draw comparisons between Australia's performance and American performance in recent times.

And I think there is a feeling here as well that while maybe the term "Asian century" is a little bit ambitious, it's certainly going to be several decades where it looks like the global economy is now shifting away from a focus on Europe in particular and North America towards a focus on Asia. We hope that it's a rotation of American policy more to the West and that we don't get left behind in this whole game. But I think for everybody Asia is a focal point as they look forward to economic growth.

And again, I think here Australia's done very well because it's a raw material supplier and that's basically what Asia needs. Asia does not need more workers. They just need raw materials. They don't even really need more capital because they can save and create it themselves. So the big shortage that

Asia faces going forward in terms of economic development is raw materials.

And that's one of the major things that Australia can supply.

But also, I think Australia, the challenges it faces a little bit in this regard, I would worry if I was Australian a little bit. The Australian dollar's now gone up in value quite a bit the last couple of decades. This was good news in terms of trade, but it does put some stress on the manufacturing sector in Australia and its dependency on raw materials is increasing over time. And I think there might be a worry that Australia could in the future suffer from something called the "Dutch disease" in earlier times and get priced out of world markets. That's one danger I think that Australia faces that might be worth hearing a bit about your thoughts on it.

Second, as a country that just went through this collapse of housing prices, if you look at the data from Australia you're a little concerned about the increase in housing prices in Australia and have you set yourself up for a real estate crisis similar to that of the United States? I do remember in 2005 people say it could never happen here, and it did. But the increase in housing prices in Australia has now been greater than the rise in housing prices in the United States. As someone with a linkage to financial markets I guess I would compliment the Australian -- I don't think they've got the same risky financial structure that underlies that housing boom that was true here in the United States. So the threat is not as great and the comparisons are maybe limited.

The other one I think troublesome for Americans is that I think American firms have done very well producing in Asia. American companies that

operate in Asia are extremely profitable. But American success in exporting to Asia has been very poor, and that's basically the problem. I think the source of the conflict here in the United States is American companies. I think Asia's vital because that's where a major portion of their profits is coming from at present and they project it will come from in the future, but not because they sell anything to Asia, but because they go to Asia, they produce in Asia, they sell in Asia, and they make a very high profit. That doesn't have the same attraction to American workers. And the inability of American firms to have equal success in exporting goods produced here in the United States to Asia I think is a big threat about Americans' attitudes towards Asia, and differentiates us in that respect from Australia. Because Australia is exporting a large number of things to Asia because it's a raw materials producer. But the United States is much more based on services and on goods and it's not possible so far for the United States to share equal success in the Asian market.

But why don't I stop with that to see if it stirs some other comments.

MR. KHARAS: Yeah. Actually on particularly Barry's, first, do you share his observation that Australia is, you know, just a raw materials producer for Asia? But even in your speech you did talk about the challenges of, you know, structural transformation, of an appreciated exchange rate, and it'd be useful to hear some commentary on that.

MS. WONG: Yes, that's right. Well, first, Barry's right that we have experienced or the world has experienced a very -- for a period of time very

high commodity prices. And now our assumption as a government is that they don't last forever, so in terms of our terms of trade assumptions over the budget period we've assumed they ate their tail off, and they are. And that's part of doing two things: one is, as I said, you have to look through the boom and you have to translate it also to your fiscal policy and make sure your fiscal strategy isn't predicated on an overly -- you know, an unreasonable assessment about where those prices will go. So we have assumed that.

You made some good points about -- you raise the issue of the Dutch disease and the issue of the high dollar particularly, but also that the structural transformation of our economy, which, in part, is as a result of the demand for raw materials, as you described, is something we are very conscious of. And certainly the high dollar's made life pretty tough for some exporters in Australia. It's been a very -- if you're a manufacturer and the dollar's above parity and your business model assumes a much lower dollar, that's a pretty difficult situation to be in.

So we're not unaware of those issues. We've done a few things. We've made some tax changes to try and give some assistance particularly to small business. We've also really very substantially invested in our skill space. So if you look at the priorities in terms of this government spending, we've doubled funding to schools, we've increased funding to unprecedented levels in the university sector, and we've increased funding to the vocational training sector. And the reason is, it seems to me, that's an almost no-regrets policy in the sense you may not be able to predict which industry, services, or goods will

be the post boom drivers of growth, but you know for sure you're going to have to ensure your people have higher levels of schools and are more adaptable.

There is also -- when we've done (inaudible) with the manufacturing sector about how is it we ensure we do retain the capability we want, the defense industries are important for that in terms of making sure we are at that advanced manufacturing skill level.

You also mentioned the housing market and I get that question quite a lot, particularly in international media and international context. And I'll just make a couple points that, first, I think if you at the data, Australian housing prices broadly attract and reflected the fundamentals, particularly a period of population growth where housing supply didn't keep up with demand. And it's true we saw some over significant increases over a period of time of housing prices, but, you know, they did reflect those fundamentals and they have also moderated significantly in recent times, which is not necessarily good for the asset item, but from a sort of risk perspective better than what we saw in many other advanced economies.

We went through, as everybody else did, probably a bigger stress test of that sector as well as others during the global financial crisis and we came through pretty well. I think our lending standards probably were a little more stringent than in other advanced economies. And if I anecdotally, as minister talking to the business community, talk to people in that sector and mortgage insurers, the level of the rate of foreclosure remains low and hasn't trended up. And that's a pretty good indicator, I think, that we're not -- that's not as significant

a risk as some commentators have suggested.

Was there anything else? I just want to make this point. We're very conscious that you have to think about what else you export over and above the resources that we are selling into Asia. And I would just make this point. One of our largest export industries, for example, is education and we have a lot of international students coming to Australia. That's a very significant export earner for us. So, you know, we've very clear that as the numbers we've talked about, that Homi's talked about in his publications in terms of the Asian consumer, as Australia our job is to ensure that we have the capacity to sell a whole range of goods and services to those consumers, not just the raw materials which obviously will continue for some time, that demand, but won't be the only sort of export industry you want to focus on.

MR. KHARAS: Minister, on this point on exports, there's now a new effort to have a trans-Pacific partnership which will bring the United States closer to some countries in the region. I mean, we've had efforts through APEC before, through global rounds. Pretty much every country in the region has a free trade agreement with the United States, including Australia. So why is it proving to be so difficult, do you think, for the United States and what lessons are there from your successes in exporting that you might want to highlight?

MS. WONG: So I'm told you're having difficulty hearing us at the back, is that right? Sorry. Someone should have yelled at me speak up. Americans are much politer.

I'm very reluctant to give the United States advice on how to

handle your internal domestic support for trade policy. I can tell you, you know, how we approach it and people can take that, you know, whichever way they wish. You know, had a very I suppose difficult period in the '80s and '90s where the government, the then Walker and Keating governments, opened up our economy. And there was an argument that had to be won out there in the public as to why removing tariffs and floating the dollar and opening up our financial system was a good thing. And that's not an easy argument because you are saying to people you've got to compete without that level of assistance.

But the view that was taken and that was the argument that was taken on in one was that as a -- you know, this isn't the Australian perspective. We're a small, open economy. We cannot behave as Fortress Australia. We have to be able to adapt and we have to be able to be as competitive as we can be. And that doesn't mean competing on labor costs because we've never chosen to do that. We have a system of wage and condition regulation I suppose which we -- as an advanced economy would mean you can't compete on labor costs. But we took the view we have to compete on other bases and part of that was engaging in more open trade. So we had an argument about that 30 years ago, I suppose. It's not without controversy at times. We still have at times, you know, particular individuals who, for example, argue about foreign investment. But I think more and more we have to -- we seek to explain to people, and I think there's broad support, particularly in the business community, but more broadly, that you gain prosperity through being able to be competitive and to trade with the world not through making yourself uncompetitive.

MR. KHARAS: Barry, very quickly, this whole notion of the Asian century or the Asian several decades, as you preferred to call it, seems to be predicated on rapid productivity growth. And I know that you've done a lot of work on productivity growth. Is it really productivity growth that's been driving Asian economic success? And, you know, if so, does that make you quite comfortable with the idea that they will be able to continue this for decades?

MR. BOSWORTH: I would argue a lot of it is just -- since about 1980, the world's discovered a way to introduce unskilled cheap labor into the global economy. There are people that have been here for a long time and they just never found a way to be able to plug in to the global economy, and particularly starting with China around 1980. The world is growing rapidly, primarily because low-skill, low-wage workers in the developing world are finding ways to connect with the world. We're opening it up. For 200 years it was limited to about a dozen countries, and that's no longer true. There's just been a huge expansion globally, but most of it takes the form in Asia of low-cost labor.

And the big thing is it was unutilized, and I think it's still true in China, but China's starting to reach the limits of that. They just moved workers who were unemployed in agriculture into low-wage jobs in industry, and that's the source of most of the growth. The same process has been underway in India with a little bit more conflicts and difficulties of developing the industrial sector.

I think it can go on in Asia for a long time just because there's still a lot of underemployed labor at ridiculously low wage rates in these Asian economies. And it may in time spread to other regions of the world, like Africa,



that also have this same problem.

But also, the leading countries in Asia have consistently made good, pragmatic policy decisions. And I think they stand out in the world economy for the pragmatism with which they approach their economic policies. And it's not so driven by ideology and other issues that have consumed the advanced economies over the last 20 years or so.

So I agree with the optimism, but not so much based on some extraordinary performance of productivity, but it's just that it started from such a low level. Just catch up -- all that Asia has to do is copy -- for decades more to come, if they just copy the technologies used in the rest of the world, productivity will rise rapidly, and that's all they really need to do.

MR. KHARAS: Great, thank you. So let me open up the floor and I'll take maybe a round of three and then allow -- the gentleman in the blue shirt. We've got a microphone if you could just wait for a second.

SPEAKER: Thank you. This was a very interesting presentation. I just wanted to ask any of the presenters, please, one of the major questions in the American trade policy with Asia is intellectual property protection, particularly the theft thereof by the People's Republic. What is the position of Australia in this area?

MR. WINTERS: Oh, Steve Winters, local researcher. I understand what you said about maintaining the level of wages, but if you look at some other successful countries, now switch to Germany, there's no doubt that the German government followed a policy of wage suppression within Germany.

They're quite clear about that and that contributed to their success and is criticized by some other European countries. But the point is, as you look at these various different countries -- Singapore or Korea and so forth, Japan -- success stories and a lack of success stories, have you analyzed these other countries and, for instance, drawn on what might have been the good aspects? For instance, Singapore's emphasis on research seems to be similar to what you're saying. Which ones have you looked at for models and what have you drawn from them? And which negative lessons have you tried to avoid?

MR. KHARAS: And there's a gentleman in the back.

MR. TALLEY: Hi. Ian Talley, Dow Jones, *Wall Street Journal*. I'm wondering, given your exposure to China, what your assessment is of their efforts to avoid a hard landing. Do they need to do more? Can you elaborate on Australia's developments of yuan settlement using the renminbi to settle trade? And finally, what do you think about China entering the TPP?

MS. WONG: Just a few small questions.

MR. KHARAS: And one last one right up here, please.

MR. WARREN: Minister Wong, thank you for joining us. I'm Rob Warren from Dacore. You mentioned the expansion of investment in raw materials sector particularly. A lot of that I think is coming from Asia, particularly China. Are there concerns in Australia about China's presence in these key sectors?

MR. KHARAS: Minister, a few easy questions for you.

MS. WONG: Yeah, that's right. They were pretty easy, weren't

they?

Well, first in terms of the TPP, obviously our trade minister is the lead minister on that, but as a broad proposition, you know, we have a pretty long record of seeking more open trade arrangements and facilitating regional architecture for that. We think the TPP is important in that context. I do understand the IP issues which the gentleman raised. It's obviously a significant concern for the U.S. and U.S. business. It has been raised with me before and certainly, you know, we respect in terms of the way Australia approaches these things, IP, but, yeah, those are issues which will have to be resolved in the context of those negotiations.

The issue in terms of where we've drawn on, well, there are things you learn and things that are not relevant. I mean, things that are relevant in -- that aren't relevant obviously are those things which reflect -- this is in terms of economies in our region, are those things that Barry has alluded to. Obviously we're at different stages of development, so this sort of low-cost worker model is not a model Australia can follow.

But I think one of the areas where you can see a real trend is in the investment and standards in education. If you look at schooling systems in our region and what you will see is, whether it's Korea, China, Singapore, or others, certain governments making a substantial investment and a decision to lift educational standards, particularly in their schooling sector, but also in their higher education sector, and to resource that. And we do regard that as pretty important information regardless of -- you know, obviously our government is a

progressive government. We've always thought education was important, but I think it's taken on an added economic imperative given, you know, that this is one of the areas we will need to compete. We do need to be able to be competitive in terms of skills and innovation and that means more investment in our education system and in our research. And if you track the last few budgets, you'll see to the extent to which those areas have been a priority for federal government expenditure. They really have been a very significant priority.

To the journalist in terms of China, I just would make this point. There's a lot of different analyses about what is going to happen in China. I'd make the point they have a pretty substantial amount of policy space to deal with, you know, any issues in their economy, and they've demonstrated a willingness to do that. So I think the Chinese authorities certainly have room to move and we've seen their willingness to do that, so I would anticipate, you know, that that will continue.

In terms of the direct convertibility issue, I think that's what you're alluding to with the renminbi. Look, we welcome moves on that front and we certainly are exploring with the Chinese government moves to direct convertibility to the Australia dollar. There was discussion most recently when our treasurer went to China and Hong Kong, and our Treasury is currently in discussions with the Chinese about the possibilities of doing so. Obviously there's a long way to go in terms of how that would work and China will need to make a decision about that, but we certainly welcome the dialogue and the possibility of moving down that path in consultation with the Chinese government.

MR. KHARAS: Minister Wong, on the issue of wage policy and --

MS. WONG: Oh, sorry. Well, I'm asked about wage policy and I'm not sure particularly what you want me to focus on, but I think I've said a few times in this discussion we understand that we are not going to be competing in terms of producing wages. And even if you did make a decision as a developed economy to do that, I doubt that you could ever make a decision to reduce wages to the sorts of levels where it would make that significant as a competitive factor, and you wouldn't want to. So that's not the approach we take.

We take the view you have to look at a range of other measures to improve your attraction as a destination for investment. Obviously we're a pretty capital-hungry economy and we continue to seek foreign investment.

One of the ways in which, for example, we're seeking to reduce costs that are within our control is in my other portfolio, the second part of my portfolio, which is deregulation. And that is to try and where there is a multiplicity of regulatory frameworks for major projects, trying to streamline those to reduce business costs and reduce delay. So there's a very large body of work in that context which is about taking out one of the cost impediments to actualizing some of the projects which are in the pipeline.

SPEAKER: (inaudible) concerned about Chinese investment in the (inaudible) sector.

MS. WONG: So this is a foreign investment question, is it? Yeah, yeah, sorry, I missed that.

Look, it's a really good question. And we as a government have a

very clear view as have had successive governments, which is we are an economy whose need for capital has outstripped -- our need for investment has outstripped our national savings. And although our national savings is above the G7 average, we're always going to need more investment than we can generate, and so we've been an investment destination for many years and that remains important for Australia.

There's always a question of how you handle foreign investment decisions. We have a set of transparent criteria. We assess against those. And whilst there occasionally is some discussion in Australia, I think broadly most people understand, certainly the government understands and certainly I think most people in our parliament understand, that foreign investment is really critical to Australia's continued growth.

So, you know, on that front it remains very important to maintain that open approach to investment. Now, there are always national interest considerations. We've made clear that there are, but I think our history shows that we remain an attractive and important destination for investment.

MR. KHARAS: Great. We've got time for maybe one or two questions. Any more?

SPEAKER: I'm curious how water fits into your portfolio, especially as a minister who previously dealt with water or a government official who dealt with water. How did the overlaps between mining and sort of the water resources you need chart your prospects for growth in the coming decades?

MS. WONG: Well, water was my last portfolio. (Laughter) Ah,

you want to do a few more, okay.

MR. KHARAS: Yeah, just one more.

SPEAKER: Thanks much indeed. You spoke about the challenges about the demographics at the beginning of your piece and then you spoke about the ability of a youthful economy with lots of agility. How do you square that equation? Are you going to have to loosen immigration like the UK did with the Eastern European influx to keep the young coming in to fill out that obligation?

MS. WONG: First, in terms of water, that was my previous portfolio prior to be given finance. I had water and climate change, so sometimes I think finance is easier, mainly because the stakeholders are at least a little bit less strident.

And I had water at a time we had a very lengthy drought in Australia. We're a pretty dry continent, the driest inhabited continent on Earth, so water is a pretty critical resource and managing it is important. We've had a range of reforms in water, which include pricing reforms, which have been important in terms of managing the resource better.

I'm not sure when you refer to mining you're referring to some of the controversy around the extent to which coal seam gas extraction requires -- or affects the water table. There's a lot of research which has been done on that. That's primarily regulated by state governments, although we have resourced some of the scientific study on that. You know, I do take a bit of a market view on this. I think that we need to price it properly and pricing it properly is the way

in which you ensure it's properly valued and it goes to where it's needed most. And, you know, we certainly in our largest basin, which is the Murray-Darling, which is a river system that covers a great proportion of southeastern Australia. We've implemented some really far-ranging reforms to that river system over the last four years.

The second question was a good proper question on population. It is a good question and, you know, we still have net overseas migration. We still have immigration. You know, we have population growth and immigration growth. What I would make the point is this, though. One of the other things you have to do is increase your participation. And we've seen a high level of participation where it has increased over the recent years, particularly in terms of women's participation.

A couple of policies we put in place which are helpful to that, we just introduced some tax changes which include lifting of the tax-free threshold, so that should have a participation benefit for people earning under \$80,000 a year, particularly second income earners. So we would anticipate that will have a participation benefit. We've substantially invested in child care and we've introduced the first national paid parental leave scheme and also a partner pay. So those are policies which are all aimed at participation.

In terms of the gentleman previously, I probably should have mentioned in terms of foreign investment in agriculture I think is natural resources. As I said, we have a national entrance test which is applied on a case-by-case basis. We have different standards for state-owned enterprises,



which you're probably aware of. We screen every dollar there. And we've recently released a policy statement outlining to the market our assessment of foreign investment applications in agriculture, so those have been released publicly.

And, you know, whilst I would also say to you we recognize that there has been some concern raised domestically about this, and we do have to manage it, but I think it's also important on the other side that we are reminded that investment does -- in main, we see more employment and more economic growth, which is also good for Australians.

MR. KHARAS: Minister, thank you so much. Ladies and gentlemen, thank you for attendance, for your questions. I think this has been a fascinating discussion. Thanks to you, also, Barry. And please join me in showing our appreciation to the minister for coming. (Applause)

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