



# The more of us the merrier

*It's good news that our population is growing*



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**L**AST week's announcement of revised population projections for Australia is good news on economic, social and strategic grounds. Rather than focus on potential downsides, we should speculate on the exciting possibilities that can flow from such a development.

First and foremost, a larger population will enhance our capacity to exercise more influence in what is likely to be a volatile international environment over coming decades.

These thoughts have been prompted by George Friedman's recent book, *The Next 100 Years: A Forecast for the 21st Century*. Friedman believes history moves in cycles but, paradoxically, America is still on an upward trajectory so this is likely to be the American century.

The US will continue to outspend others militarily by a significant margin and, by dominating the world's sea lanes, will guarantee the freedom of the international trading system. The militarisation of space by the US will bolster the nation's military dominance.

Friedman argues that China's present growth may be unsustainable and the nation risks repeating the familiar cycle of fragmentation followed by a reassertion of centralised control. Under the pressure of demography and resource constraints, Japan becomes more bellicose. Resource-rich Russia is unable to resolve its governance issues and fails to capitalise on its potential. It is seriously weakened after an early attempt to flex its muscles at the US.

Friedman predicts that countries as diverse as Mexico, Turkey and Poland will become major powers through a combination of demography and geography. Eastern Europe eclipses Atlantic Europe as an ally of the US, assisting the containment of Russia. Turkey dominates the Middle

East and central Asia.

History may not turn out exactly like this but Friedman paints some interesting scenarios.

Australia does not figure as a major player in Friedman's analysis. Most Australians will not lie awake at night worrying about this. Our prosperity is tied to the Asia-Pacific, the fastest growing region of the world economy. Our island continent provides natural protection against invasion, the US defence umbrella is intact and we are on good terms with our neighbours.

But we will not be exempt from threats to our economic and national security simply because we do not have territorial designs or a wish to foist our culture on others. The possibility of conflict in other parts of the world and the likely distraction of the US makes it imperative for us to become more self-reliant.

We cannot rely on multilateral institutions because they work within some fairly well prescribed parameters set by nation states, which will remain the principal actors in international affairs. Powerful countries have loud voices and an ability to mould their environments to maximise their security and options.

One source of national power is population. On recent projection, we may hit 35 million by the middle of the century. Why stop there? There should be an appetite for a very large increase in our immigration program. Apart from sheer numbers, there is the dynamism and energy that new immigrants impart to a host society. It can also slow, although not prevent, the ageing of our population.

We will face intense competition for working-age immigrants over the next few decades as the demographic impact of ageing takes hold in Western societies. The main source of net increase in global labour supply is expected to be South Asia. North

America is likely to prove particularly attractive to prospective immigrants because of its strong innovation and entrepreneurial culture.

The race for migrants will also be further complicated for Australia if we do not put to the bed the recent brouhaha over the treatment of Indian students. South Asian diplomacy needs to be given as high a priority as China and Japan, including over issues such as uranium sales to India and co-operation in the war on terrorism.

Some object to a larger population on the grounds of environmental and resource pressures. In principle, it is possible to have both a significantly larger population and a better environment. That is, if we are prepared to tackle directly the sources of environmental degradation. These include appropriate environmental pricing (more of the polluter-pays principle) and more realistic water pricing, both urban and rural, so that water flows to its most valued uses.

The development of northern Australia should be a priority in its own right and as a way of better distributing an increased population. Migrants respond to economic signals; at present migrants are encouraged to settle in the large urban agglomerations in our southeast corner.

A good start would be to bring to a head the work of the federal task force on northern development that parliamentarian Gary Gray is running. The north should be the test bed for a better approach to combining development and the environment.

We have a large range of resources and opportunities up there. The world is going through food and energy revolutions. Water management in the north is a sensitive and complex matter but it will be crucial to maximising these opportunities.



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But we should also not be afraid of developing bigger, more global cities. These are the economic and financial decision-making centres of the new global economy. They are headquarters to global companies and related expatriate communities. They are underpinned by large populations and world-class transport and communications infrastructure, cultural institutions and media outlets. They are home to academic, artistic, innovative and creative industries that are recognised as anchors for economic development in the global economy.

These activities attract talented people who set global cultural, intellectual and artistic agendas. Notwithstanding its transport and infrastructure difficulties, Sydney already meets most of the criteria to qualify as a

global city. Why not Melbourne, Brisbane and Perth?

Australian investment overseas is an important means to increase our international engagement and leverage. Through the accumulation of appropriate surpluses we can invest in growth markets abroad. This is not a zero-sum game; it does not have to be at the expense of domestic investment. Australia is well able to tap into foreign capital to fund domestic development, particularly in resources and agriculture.

Australian investment abroad in high-return markets in effect recycles the profits from exporting non-renewable energy into more permanent income streams. This is the mirror image of China's strategy, which is to invest in companies and

commodities to secure its future sources of supply. The Future Fund as presently constituted is a pension fund. It does not have an explicit mandate for strategic investments that give us leverage in emerging major economies. Appropriate role models in this regard are the Government of Singapore Investment Corporation and Temasek Holdings, which in part service the objective of promoting the standing of Singapore as an international financial centre.

There is a risk that as emerging economies grow and mature they may seek to reduce foreign ownership and control but early and active penetration of their markets is likely to protect us in that regard.