

ASIAN ENGAGEMENT:

A Case for a Whole-of-Government Approach

WA Labor Consultation Paper

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WA
Labor

Executive Summary

Western Australia is ideally situated to capitalise on the rapid population and economic growth of Asia as we diversify our economy and identify new areas for jobs growth.

Not only are we geographically close and within the same time zone as many key Asian nations, we already have strong trade relationships with countries like China, Japan, Singapore and South Korea.

But to readjust our economy in the post-resources boom era, we must diversify our economic relationships beyond resources. We are lucky that the huge growth in the Asian middle class is happening right on our doorstep.

We need to focus on boosting our services exports in areas like education, health and tourism, and also tap into new markets in emerging economies like Indonesia and India. We must capitalise on the world-leading expertise we have developed during the resources boom in energy storage, renewable energy, advanced robotics and automation.

The rest of the world is increasingly aware of the evolving economies of Asia and many governments are working to increase trade opportunities in the region.

We must go out and capture these opportunities. If we stand idle, the greatest opportunities will be lost.

The challenge of growing and diversifying the Western Australian economy to create jobs requires a whole-of-government strategy to deepening our engagement with Asia.

The strategy should focus on three crucial areas:

- Asia Readiness: Trade, Investment & Jobs
- Asia Relationships: Government-to-Government
- Asia Literacy: Cultural Networks

It also needs the advocacy of a dedicated minister, focused on strengthening our relationships in Asia and coordinating the strategic development of opportunities for Western Australia in Asia.





Recommendations

- Appoint a Minister for Asian Engagement, charged with overseeing the implementation of an Asian Engagement Strategy and creating job and business opportunities for Western Australians in Asia.
- Develop a whole-of-government Asian Engagement Strategy to guide economic diversification and create jobs. The strategy could include these initiatives:
 - Create a regional business portal to help support small and medium-sized enterprises (SMEs).
 - Develop formal networks that link businesses with the people and resources to enable and support success in regional markets, such as Asia specialists for boards.
 - Establish a design sector panel, with the State Architect as the chair, to foster opportunities for designers in Asia.
 - Promote subsidised Asian language training to public servants and also consider a small allowance to those who achieve a recognised standard.
 - Help to establish a dedicated centre for Asian Engagement by competitive tender at a Western Australian university.
 - Commit to the Premier and relevant ministers visiting at least one Asian country every year in accordance with target priorities of the Asian Engagement Strategy.
 - Require every government department to develop a “Supporting Asian Engagement Plan”.
 - Host an annual ASEAN Dialogue, concurrently with a trade and investment show, and Asian Arts Festival.
 - Fund journalist exchanges between Australia and Asian nations.
 - Fund leading arts companies – such as the West Australian Symphony Orchestra, West Australian Ballet and West Australian Opera - to tour Asian cities; and support Asian arts companies in touring Western Australia.
 - Expand the Singapore WA Music (SWAM) exchange program – where three Singapore bands play at a WA music festival and three WA bands are chosen to play at a big Singapore music event – to include other countries.

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WA Labor welcomes comment and feedback on this consultation paper.

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Seizing Job & Business Opportunities

The rapid growth of economies across Asia provides a pivotal opportunity for Western Australia. Asian nations have been undergoing significant population and economic growth, resulting in an emergent consumer market that the whole world is seeking to enter. Our geographic proximity to these nations gives us a natural advantage in the impending and vigorous contest for a share of these markets. To make the most of this geographic advantage we must make a sustained commitment to our relationships with Asian nations for the benefit of Western Australians.

The aim of this discussion paper is to establish the need for a whole-of-government Asian Engagement Strategy to guide the diversification of our economy and generate long-term business and job opportunities. Governments can play an important role in promoting and facilitating collaboration between businesses, educational institutions and government agencies in creating economic opportunities.

The geopolitical relevance of Asia – a region

encompassing the Association of Southeast Asian Nations (ASEAN) countries of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, as well as China, India, Japan and South Korea – is well established in Australia. This was emphasised federally by the 2012 *Australia in the Asian Century White Paper* and locally through the First Murdoch Commission report of 2013, sponsored by Murdoch University, which assessed the opportunities and challenges of the rise of Asia in the 21st century.

We cannot afford to imagine that the consuming classes of Asia are simply going to knock on our door and ask what goods and services we might provide. Although WA has some comparative advantages that aid our competitiveness – particularly geography and product quality – the market will not just come to us. The rest of the world is increasingly aware of the evolving economies of Asia and many governments are working to increase trade opportunities in the region. We must go out and capture these opportunities. If we stand idle, the greatest opportunities will be lost.

Growth Snapshot

- The OECD forecasts an average GDP growth of 5.6 per cent for the collective ASEAN community from 2015 to 2019¹.
- Nielsen estimates that in 2012 there were more than 190 million people in the South-East Asia middle class. These people have between \$20 and \$130 of spending power per day. Nielsen predicts that strong economic growth will see the South-East Asian middle class more than double to 400 million by 2020².
- McKinsey projects that by 2050, the combined economy of the ASEAN countries will be the fourth largest in the world³.
- In 10 years, Indonesia's economy will be bigger than all the other members of ASEAN combined⁴.





For Western Australia to achieve Asia-focussed objectives there needs to be a very clear statement by Government of our determination to seize these opportunities.

These important trade and investment opportunities in Asia include:

- Agricultural exports, which will grow because of rapid urbanisation of Asian nations and the rise of living standards.
- Merchandise exports, which will grow as Asian nations move rapidly to meet the infrastructure deficits of fast economic growth.
- Education services exports. Australia is a popular destination for students from across Asia and the Western Australian market has great potential for growth as education levels increase in the Asian region.
- On-the-ground opportunities for small to medium-sized enterprises (SMEs) in areas such as infrastructure, construction and logistics skills.

Building Stronger Economic Relationships

Western Australia plays an important role in Asia: it is both the principal platform of Australia's geographic presence in the Indian Ocean and has made a critical contribution to South-East Asian economic growth.

This economic relationship with Asia has delivered more than 20 years of sustained growth and improved the standard of living of most Western Australians. The Asian economic growth story has led to the resources sector receiving unprecedented investment for the expansion of iron ore production and liquefied natural gas (LNG) development. This, however, has contributed towards an overreliance on investment in the natural resources sector by our local manufacturing and construction industries and camouflaged decline in other industry sectors.

Over the next two decades, there will be a marked decline in the level of this investment. The preservation and, even, advancement of our standard of living will rely on the agility of our economy to deliver jobs growth in such an environment. This requires a focus on the growing skilled services sector and a greater emphasis on a knowledge economy. The export of services and the commitment to innovation within Western Australia will be a key principle of the economic priorities for a McGowan Labor government. This agenda requires a strategic understanding of principal Asian markets.

Key Asian Engagement Portfolios

- Agriculture
- Culture & the Arts
- Education
- Mining & Resources
- Regional Development
- Science
- Small Business
- State Development
- Tourism
- Training & Workforce Development





The 2012 white paper identified potential opportunities to be realised in “the Asian Century”, opportunities that have now been accepted by institutions such as universities and peak industry bodies.

While understandable public focus is given to China as a significant trading partner, there needs to be a much greater comprehension of the diverse cultures within the Asia region. It is imperative that we cultivate our regional presence, so that we might have the possibility of shaping the future markets that will drive Western Australian economic growth and the diversification of our local economy.

Changing trading patterns into Asian nations serve as a warning that we are not alone in seeking to grow our participation in the Asian market. For instance, agricultural products have accounted for an increasing share of more than 30 per cent of Australian exports to Association of South-East Asian Nations countries (ASEAN; Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam). Wheat makes up one-third of these agricultural exports, with WA wheat exported to ASEAN⁵. Indonesia is WA’s largest export market for wheat and live cattle. Despite this, Australia’s share of agricultural imports to ASEAN has fallen, as other countries have increased theirs. For instance, New Zealand’s export share into ASEAN nations has remained constant. This demonstrates there is no room for complacency.

Future Potential: Indonesia



With Indonesia the world’s fourth most populous nation, there are predictions that its economy will continue to grow at an average of 6 per cent per annum⁶. These same predictions suggest an Indonesian GDP growth that will be three times bigger than Australia’s by 2050⁷.

Such strong growth will pull hundreds of millions of people out of poverty and create a burgeoning middle class demanding a wide variety of goods and services. Western Australia has the potential to respond to this demand through agribusiness, infrastructure, financial, health and education services. Indonesia’s social transformation is at the heart of McKinsey’s prediction that the ASEAN middle class will grow from 81 million households to 160 million households by 2030⁸.

If Indonesia is important to Australia’s long-term future, then it is essential to Western Australia’s future prosperity. After Darwin, Perth is the closest Australian State capital to Jakarta. The Barnett Government’s ignorance of and disdain for the need to cultivate and shape this future market was recently demonstrated by its announcement to close its trade and investment office in Jakarta. This decision was reversed only after significant lobbying by stakeholders.



“Our future prosperity relies heavily on our ability to identify, reorient toward and exploit market opportunities as they appear”



Strategic Goals

No government policy initiative should be undertaken without criteria for success. The Asian Engagement Strategy should deliver the following benefits:

- A sustainable and diversified economy that will enable long-term growth of the WA economy and jobs
- Increased real wages and job security in diverse sectors
- Growth in small business and job creation opportunities
- Increased regional development, including industrial and agricultural development
- Greater investment in WA
- A more diversified industry base
- Sound decision-making in government because of greater engagement with and knowledge of Asia and its various markets

Other indicators of success are less tangible, yet still important:

- A high level of institutional and business acceptance in the countries targeted by the Asian Engagement Strategy would be a primary qualitative indicator of success. For example, when Western Australia is acknowledged as the best Australian jurisdiction on Asian literacy by credible academic bodies within Asia, it will be proof of the strategy's effectiveness.
- A broad acceptance within the electorate that the economic future of Western Australia lies with Asia; that is, it will not be limited to the isolated export of commodities, but the deeper embrace of a clear and well-considered vision of an Asian future.
- A shift in the identity of Western Australia which acknowledges that we are the Indian Ocean “shop front” for Australia.

Why Do We Need an Asian Engagement Strategy?

This paper does not suggest that Western Australia is not focused on Asia. After all, our major trading partners are China and Japan. Australia's trading relationships in Asia have evolved through a combination of their proximity to enabling commodities, such as iron ore and LNG, and foreign investment capital that has helped develop resource-rich jurisdictions such as Western Australia. This economic relationship is transactional in nature and co-dependent on the mutual need to develop our natural endowment. As capital investment cycles reach an apogee relative to the remaining resources and green-field opportunities emerge in jurisdictions such as West and East Africa, Western Australia must consider what a sustainable economic future might look like.



It is at this point that many argue for the need for alternative industries to the resource sector which, in many cases, do not actually exist now. Such alternative industries are proposed as a corrective to the cyclical nature of the \$115 billion resources sector. This paper does not propose this; rather, it suggests leveraging our sustainable resource base to identify changing market conditions and create the economic agility to take advantage of the very region born from Australian resources and energy exports. In a brutally tough and globally competitive market, in which State involvement is the rule and not the exception, our future cannot be left to chance or to rely on fragmented piecemeal policy settings across State agencies that allow a drift into lazy and complacent business practices.

In global terms, and in spite of some metrics such as Australia being the world's second largest LNG producer, Western Australia could be characterised as a "small business" compared to emerging economies such as China, India and Indonesia. And like any SME, our future prosperity relies heavily on our ability to identify, reorient toward and exploit market opportunities as they appear, and to brand ourselves consistently across all of our activities in these markets. To achieve this sort of flexibility, a strong cogent plan that brings to bear all our private and public capabilities will be essential.

A unified regional engagement strategy will, over time, give us the necessary time and ability to adjust to unexpected policy shifts within the region as well as participate in planned policy developments. Such an approach develops situational awareness and contributes to the agility of our economy. For example, the greenhouse gas emission targets announced by the US and China in 2014 caught the international community by surprise. While a State-based engagement strategy would be most unlikely to predict such a move, it could help the Government to coordinate and work with industry and Federal agencies to position itself to respond more quickly and take advantage of the opportunities, such as the growing renewable energy sector here in Western Australia. This is not to suggest imminent sales of large quantities of photovoltaic (PV) cells into Asia, for example, but rather the export of knowledge retained by some local enterprises as developed intellectual property, for example, wind turbine management software or the development of the CETO wave energy project by Carnegie Wave Energy. In addition to putting Western Australia on a footing to respond to unexpected changes in policy, a unified strategy will also allow engagement in planned policy development nationally and contribute as a trade stakeholder in discussions across the region.

The increasing importance of the knowledge economy and the growth of the skilled services sector have emerged as traditional industries diminish. The decline of the national manufacturing base has been widely reported and Western Australia is not immune to the trend. In spite of the single largest capital investment by the resources sector in the nation's history, our small manufacturing sector has not been a major beneficiary as fabrication work has been awarded to lower-cost jurisdictions. The obvious remedy is to seek employment offsets through the growth of the knowledge economy and skilled services sectors. The principal purpose of this reorientation is to seek importing and exporting opportunities in the knowledge-based economy that deliver local jobs. A complementary Asian engagement strategy will nest naturally within the economic objectives of such a strategy and would support to existing sectors to improve their Asian orientation. Governments don't pick winners, but should back them when they emerge.

“The increasing importance of the knowledge economy and the growth of the skilled services sector have emerged as traditional industries diminish.”





Perhaps the greatest opportunity will be a move by progressive jurisdictions to commence the economic reform process and globalise their economies. ASEAN is seeking greater integration among member nations and in 2015, the ASEAN Economic Community (AEC) will be established. The AEC aims to form a borderless trading community and, although this is likely years away from emerging, the ASEAN nations are in an economic reform mode that we must be aware of.

Western Australia must be attentive to the opportunities of deregulation, particularly any reduction in trading barriers. In Indonesia, for example, wines tariffs are currently as much as 250 per cent. This means that a bottle of Yellow Tail wine retailing at approximately \$10 in Perth costs as much as \$70 in Jakarta.

A State-based strategy should complement, and not duplicate, the objectives of federal agencies such as the Department of Foreign Affairs and Trade (DFAT). Cooperation between the States and federal agencies is encouraged through the Charter of Economic Diplomacy, which recognises the linkages State governments have from the enterprise level and seeks to integrate the State objectives with the significant resources deployed globally through standing international diplomatic representation.

Asian markets exist within a diverse range of countries, sub-national regions and cultures. Western Australia is a small jurisdiction and has limited resources, so effective engagement will require a targeted and methodical approach. We cannot simply focus on the positioning strategy of Western Australia's trade offices, as our physical presence in Asia is only one small part of a wider strategy.

An Asian Engagement Strategy would be a central plank of a WA Labor Government's medium- and long-term economic strategy, and be implemented across all relevant agencies. Experience has shown that the establishment of any whole-of-government policy without suitable leadership and oversight creates results that are less than satisfactory. The success of the strategy requires the attention, devotion and advocacy of a dedicated cabinet minister to manage the portfolio.





Recommendations

Minister for Asian Engagement

A WA Labor Government should appoint a Minister for Asian Engagement, charged with overseeing the implementation of an Asian Engagement Strategy and creating job and business opportunities for Western Australians in Asia.

A commitment to a whole-of-government approach to deepening our engagement with Asia needs a dedicated minister.

The Minister for Asian Engagement would:

- Focus on promoting Western Australian trade and investment opportunities
- Identify opportunities for creating jobs for Western Australians in a prioritised list of countries
- Facilitate the coordination and collaboration between various government portfolios in implementing an Asian Engagement Strategy
- Enable information sharing and cooperative knowledge management across areas of Asia expertise and existing engagement activities within government and in the community

This kind of role is not new. Victoria has a Minister for International Education, while the Northern Territory has a Minister of Asian Engagement and Trade.

A Whole-of-Government Asian Engagement Strategy

A WA Labor Government should develop an Asian Engagement Strategy which would adopt a whole-of-government approach to ensure collaboration and coordination across portfolios. The challenge of growing and diversifying the Western Australian economy to create jobs is not one that can be addressed within a single ministerial portfolio.

The strategy would focus on three key areas:

- **Asia Readiness: Trade, Investment & Jobs**
- **Asia Relationships: Government-to-Government**
- **Asia Literacy: Cultural Networks**

Although some of the initiatives suggested below might sit within existing portfolios, they would be developed by both the Minister for Asian Engagement and relevant departmental minister.

Asia Readiness: Trade, Investment & Jobs

The following policy initiatives are aimed at directly building capacity across government and industry to ensure they are “Asia ready”.

- **Charge the Minister for Asian Engagement** with important trade, investment and job-creating duties:
 - Promoting trade with and investment in Western Australia in Asia



- Promoting Western Australia's competitive advantage and unique knowledge base around established industries such as the mining and resources sectors
- Developing and promoting policies to build and enhance the capacity of Western Australia's industry and workforce to take advantage of Asian opportunities
- Establishing and enhancing economic ties with targeted Asian countries and provincial jurisdictions
- **Export Readiness.** Develop and maintain a regional business portal to help support small and medium-sized enterprises (SMEs) and bring together regional business opportunities.
- **Asian Cultural and Business Literacy.** Create and promote formal networks that link businesses with the people and resources to enable and support success in regional markets. This could include highly skilled Asia specialists on boards, as well as local workers with Asian language skills and experience working in target countries.
- **Design Sector.** Western Australia has a sophisticated design sector, ranging from architecture to furniture design. To help develop this sector, the State Architect could be appointed the chair of a design sector panel charged with fostering opportunities for designers in Asia.
- **Public Sector.** Promote subsidised Asian language training to public servants and also consider a small allowance to those who achieve a recognised standard.
- **Tertiary Sector.** Provide some funding to establish a dedicated centre for Asian engagement by competitive tender at a Western Australian university.

Asia Relationships: Government-to-Government

The importance of Asian engagement to a WA Labor Government should be signalled by a deepening of government-to-government relations, between Western Australia and Asian nations.

They include:

- **Premier's Visits.** Commit to the Premier visiting at least one Asian country every year in accordance with target priorities of the Asian Engagement Strategy.
- **Ministerial Visits.** Commit to relevant ministers making an annual visit to an Asian country of significance to their portfolio, also in accordance with the strategy's priorities.
- **Parliamentary Visits.** Presiding officers of the Parliament to establish their traditional visit programs to align and support the objectives of the strategy.
- **Whole-of-Government Participation.** The Asian Engagement Strategy will be applied across government. There are few areas of government activity that are not in some way applicable to Asia or attractive to our target countries. Health, transport, industry, education, agriculture and science, for example, all have innovative functional approaches to public policy objectives that could contribute to deepening our economic and cultural engagement with Asia.

This policy approach requires every government department, with the support of the Minister for Asian Engagement, to identify the objectives of the strategy that are applicable to them and develop a "Supporting Asian Engagement Plan" around these. These plans will shape departmental strategy and activity, with the aim of meeting objectives of the Asian Engagement Strategy.



- **Ministerial Advisory Council.** This council would advise and guide the Minister on implementing and monitoring the strategy.
- **Regional Dialogue.** Perth would host an annual ASEAN Dialogue, initially at the Asia Research Centre at Murdoch University. This dialogue should work within the accepted framework and programs sponsored by the Department of Foreign Affairs and Trade (DFAT) and supplement the economic agenda agreed at APEC (Asia Pacific Economic Cooperation), with specific emphasis on sector-level industry opportunities. The ASEAN Dialogue should be run in complement to the University of Western Australia's In the Zone conference and also concurrently with a trade and investment show to emphasise the direct local economic intent of the dialogue.

Asia Literacy: Cultural Networks

There can be no economic diplomacy without cross-cultural understanding. Economic decisions are influenced by a range of political and cultural factors, ranging from media reporting of political events and the experiences of tourists, migrants and business travellers.

Language is also fundamental to both understanding target markets and developing confidence in seeking Asian opportunities. Unfortunately, the penetration of Asian languages within Western Australian society is shallow at best.

We need to foster a deep understanding of our Asian neighbours, so that our political and business leaders can draw upon a broad range of Asian experience and skills.

Cultural activities will support the objectives of the Asian Engagement Strategy by providing opportunities for cross-cultural awareness and understanding. Cultural initiatives could include:

- **Asian Language.** Investigate ways of boosting the low rates of students studying an Asian language, for example, providing incentives for students graduating from Year 12 with a selected Asian language at ATAR level or to undertake the Asian language programs at a WA university.
- **Media Exchange.** Provide funding to local journalists to travel to report from Asia, and for Asian journalists to visit and report from WA. This would help to promote a deeper understanding of the different cultures of Asia and also of the diverse economic opportunities in Western Australia beyond the mining industry.
- **Asian Arts Festival.** This festival could include film and also run concurrently with the ASEAN Dialogue.
- **Classical Cultural Tours.** Provide funding for leading arts companies – such as the West Australian Symphony Orchestra, West Australian Ballet and West Australian Opera – to tour Asian cities; and support Asian arts companies in touring Western Australia.
- **Music Exchange Programs.** Expand the Singapore WA Music (SWAM) exchange program – where three Singapore bands play at a WA music festival and three WA bands are chosen to play at a big Singapore music event – to include other countries.

End Notes

1. OECD, *Economic Outlook for Southeast Asia, China and India 2015: Strengthening Institutional Capacity*, 2014.
2. The Nielsen Company, *ASEAN 2015: Are You Ready? Key Implications for Australian Businesses*, 2014.
3. McKinsey & Company, *Understanding ASEAN: Seven Things You Need to Know*, May 2014, http://www.mckinsey.com/insights/public_sector/understanding_asean_seven_things_you_need_to_know
4. ANZ Research In-Depth, *ASEAN: The next horizon*, April 2015,
5. *Ibid.*
6. OECD, *op. cit.*
7. McKinsey & Company, *The Archipelago Economy: Unleashing Indonesia's Potential*, September 2012.
8. *Ibid.*