



The First **Murdoch**
Commission

FINAL REPORT

Western Australia and the
evolving regional order:
Challenges and opportunities

NOVEMBER 2013



Murdoch
UNIVERSITY

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Murdoch University

An Overview

Located in Perth, Western Australia, and strategically placed in the Indo-Pacific region, Murdoch University is a leading Australian research university that ranks in the world's top four per cent of Higher Education institutions and was ranked 57 in the top 100 universities under the age of 50 (*Times Higher Education World University Rankings 2012-2013*).

Opened in 1975, Murdoch now attracts more than 22,000 students and 2,000 staff from over 90 countries. Reflecting its strong focus on local community engagement, the University has three Western Australian campuses, located in Perth, Rockingham and Mandurah. Internationally, Murdoch also has 6,000 students in Singapore and strong links with Indonesia and Malaysia.

A recent Australian Government audit of research excellence found that Murdoch University is performing at world class standard (or above) in over 85 per cent of the assessed areas. Many of our areas of expertise have global implications, including climate change, food security and production, infectious diseases, veterinary and medical science, mental health, politics, public policy and governance. Our researchers regularly engage with significant social and scientific challenges, adding to the existing body of knowledge across a range of disciplines. With a strong emphasis on translational research, many projects have been applied practically for the benefit of both the local and global community.

The University has a strong focus on equipping graduates with both scholarly and 'real world' experience. As part of our strategic vision for the future, we are looking to embed research into the culture of all parts of the University. Research skills are an important part of the curriculum and we continue to build a workforce focused on creating new knowledge, as well as delivering research-led teaching and evidence-based practice.

Internationally, Murdoch University is strengthening its ties with the Indo-Pacific region, bringing together business, academia and government in innovative ways to assist Western Australia's future in the region and establish the University as a premier knowledge hub focused on key areas of policy and research, reflecting national and international priorities. These areas include:

The Asia Research Centre

Established in 1991, the Asia Research Centre is an international leader in the study of East and Southeast Asia, undertaking fundamental disciplinary and interdisciplinary research examining a range of social, political and economic forces and developments within this dynamic region. Highlights of the Centre's recent research projects include studies of the political economy of aid effectiveness, populist Islam in Indonesia and the Middle East, and several investigations of the politics of the poor, state-building, representation and political regimes in Southeast Asia.

The WA State Agricultural Biotechnology Centre (SABC)

The SABC is the major research Centre for R&D in agricultural and veterinary biotechnology in Western Australia. It is a resource centre that provides laboratory space, platform technologies and world class equipment and facilities for R&D in agricultural biotechnology to researchers from universities, the State Government (Department of Agriculture and Food WA) and industry. The SABC underpins R&D in biosecurity and food security, crop pre-breeding, transgenic crops, and molecular biology for about 150 researchers, and plays a major role in training Honours and PhD students in a multi-disciplinary environment. Research undertaken focuses on molecular activities (eg genomics, gene discovery and functional genomics, marker-assisted breeding, proteomics, molecular diagnostics, genetic manipulation; incubation of start-up companies and commercialisation) that involve or promote primary production of crop plants, commercial livestock, or microbes, or their subsequent processing for added value.

The Institute for Immunology and Infectious Diseases (IIID)

The IIID makes a valuable contribution to global communities and the medical industry through research that brings together experts in clinical medicine, basic science, mathematics and computing to focus on clinical problems in infectious diseases and immunology. Our researchers have already made an enormous difference to the way HIV AIDS and other disease are treated, and have built and maintained the world's largest repository of population data on HIV and human genetic diversity. The IIID now plans to expand their efforts into areas such as clinical pharmacology, haemophilia and thrombosis and tropical diseases.

Sir Walter Murdoch School of Public Policy and International Affairs

Taking advantage of Murdoch University's long engagement with practical policy questions and deep expertise on Australia, Asia and the Indian Ocean region, the Sir Walter Murdoch School is an ambitious new venture in graduate education in public policy and international affairs. Masters coursework degrees are offered in Public Policy and Management, International Affairs and Development Studies, with each course specifically designed to enable high-achieving, globally-aware professionals to enhance their career trajectory by developing disciplinary expertise, professional skills and policy knowledge. Each degree concludes with a 'capstone' experience, enabling students to apply their learning to a practical issue through a policy case study project, a professional internship, or a supervised research thesis.

Sustainable Water, Fisheries and Aquatic Ecosystems

The National Centre for Excellence in Desalination optimises and adapts desalination technology for use in Australia's unique climatic and geographical circumstances, helping to create reliable climate resilient fresh water supplies for isolated rural and regional areas. Our researchers in the Centre for Fish, Fisheries and Aquatic Ecosystem Research are recognised internationally for excellence in research and training in approaches to fisheries, aquaculture, biodiversity and conservation, and biological processes that impact aquatic ecosystems.

Biosecurity

Through its strong commitment to biosecurity and sustainable food security, Murdoch University is taking steps to address this major global issue. The University was a core partner in a successful bid to extend funding for the Plant Biosecurity Cooperative Research Centre, which is working to safeguard Australia from invasive plant pests and diseases, with Murdoch University scientists providing leadership to the Safeguarding Trade program. The University is also working with international collaborators to develop strategies, tools and technologies to produce food in a sustainable manner, protect it from loss and provide it for regions and communities in a biosecure manner. In 2012, the University partnered with researchers from the Chinese Academy of Agricultural Sciences to establish the Australia-China Centre for Wheat Quality. Together, researchers will map the entire wheat genome. This project has the potential to assist grain growers by identifying disease resistant proteins that are able to tolerate a wider range of climates, as well as identify quality traits such as colour, texture and taste. The University has engaged world class scientists in biosecurity and food security related research and in more than 10 disciplines this University's research is assessed as above or well above world standards. In addition to sustainable food production, the research focus is on 'not losing what we grow and produce' in the entire food supply chain, food safety, and plant and animal biosecurity across terrestrial and aquatic systems.

Vice Chancellor Professor Richard Higgott

Foreword

Rhetorical assertions notwithstanding, the world of scholarship and the world of policy intersect and inform each other much less than they should do. In order to secure sound policy making in an era of globalisation this is a deficit that must be constantly addressed. It must be addressed not only within states but across state borders. Understanding and best practice to inform policy must be internationally driven. The aim of this, the First Murdoch Commission, was to create a venue at which the worlds of international policy and scholarship could come together to address one initial pressing policy question; namely how Western Australia (WA) might enhance its understanding of, and relationships with, its regional neighbours across a range of key policy areas in the first quarter of the 21st century. In keeping with the University's intention to become a leader in research and teaching in public policy at both the national and international level, and marked contiguously by the development of the *Sir Walter Murdoch School of Public Policy and International Affairs*, the Commission and its Report are intended as an enterprise in applied policy analysis informed by rigorous scholarly and analytical thinking.

It is a truism that the WA economy is closely entwined with the dynamic economies of the Asia-Pacific. But that is precisely why it is critical to consider that regional context in which WA will operate over the coming quarter-century. Context cannot simply be assumed. There is a pressing need to leverage the prospects that the region will present to WA, and to offer informed analysis to business and government regarding policies to maximise the positive regional role that WA can play. At the same time, however, it is necessary to provide a reality check on a range of inter- and intra-regional challenges that will inevitably form a constraining context for policy development. East Asia, albeit the most dramatically evolving part of the world, is not without its own trials and challenges.

Drawing from different scholarly traditions, economic analysis of the region is often too optimistic while politico-strategic analysis too pessimistic. Good policy rarely sits exclusively at one end of this scholarly spectrum. Rather it must be informed from along that spectrum. As a consequence a report such as this has to push thinking to the limits (the veritable role of the scholar) while at the same time ensuring that it captures the imagination of both the public and private sector policy community (the role of the practitioner). Making this particular marriage work is never an easy task. Too bland, or too obvious, and the report quickly passes into history—seemingly the fate of the Gillard Government's *Asia Century White Paper*. Too ambitious or speculative and it will fail 'the laugh test', dismissed by its intended audience as 'merely academic'.

It is my judgment that this Report falls into neither of these opposing traps. It is incisively hard headed and realistic about the very real challenges that face the wider region of which WA—more than other parts of Australia save perhaps the Northern Territory—is increasingly a part. This, I am convinced, is explained by the fact that the Commission in the preparation of its report engaged the region in a way the *Asian Century White Paper*, again in my judgement at least, did not. Not only were the majority of our Commissioners from the region, the Commission actually went on the road to actively seek insight and views from the policy communities of our major regional partners. At the same time however, exhibiting an optimistic streak, the Report, through its recommendations, identifies the very real prospects to be gained from 'getting the regional relationship right'. Great opportunities are on offer; but only smart well-informed leveraging, underwritten by a genuine mutual reciprocity, will consolidate the potential benefits into long-term sustainable gains for WA.



The idea for the Murdoch Commission may have been mine. But that is where my input stopped. The credits for this Report must go to others. Accordingly, I offer heartfelt, personal and individual thanks to the Co-Chairs, Ms Kerry Sanderson and Professor Chung Min Lee. Kerry accepted my invitation to lunch one day determined to say 'no thank you' to anything I proposed to her. But she then went on to Chair the Commission with a diligence, thoroughness and commitment reflective of that very best tradition of a truly outstanding career public servant and Western Australian. Our other Co-Chair, my dear friend, Chung Min Lee brought the grand historical and contemporary socio economic and political overviews reflective of the very best of modern applied scholarship. Our Commissioners all, in their respective ways, made major contributions. It would be invidious to single any of them out. I thank them all. Finally, my special thanks go to the two people who made the Commission their own and shepherded it through the last 12 months with elan; the Director of Studies, Associate Professor Michael Crozier and the Research Coordinator, Ms Cat Bevan-Jones. It would not have happened without them.

The Commission's recommendations for regional opportunities show the way for Australia in general, but Western Australia in particular, to significantly participate in the advancement of regional prosperity. I commend the Report to you with some considerable institutional pride and much enthusiasm. It is that kind of good public policy analysis that universities, in the service of their communities, (should) produce.

Professor Richard Higgott
VICE CHANCELLOR, MURDOCH UNIVERSITY
NOVEMBER 2013

Co-Chairs Mrs Kerry Sanderson AO
and Professor Chung Min Lee

Foreword

When Professor Richard Higgott, Vice Chancellor of Murdoch University, invited us to co-chair the First Murdoch Commission (FMC), we accepted the mission without really knowing the contours of the journey ahead. And what a fascinating journey it has been. For nearly a year, the FMC served as a “think tank in motion” that brought together leading experts as members of the Commission and high-level policymakers, academics, business leaders and also, importantly, emerging young leaders from across the region. We are grateful to those with whom we interacted for their generous input and the interesting discussions we had.

As Co-Chairs of the FMC we appreciated the freedom we were given to work with Commissioners to decide our own *modus operandi*. We made no pretence of reinventing the wheel since so many outstanding reports and studies have already been made in and out of Australia. Instead, we wanted to provide a concise, readable and nuanced stock take of the cumulative consequences of Asia’s rise and a reflection on what that may mean for Western Australia and Australia. We were particularly seeking recommendations which provide mutual benefit and are confident that the findings and recommendations contained in the Final Report should achieve this, providing as they do fresh and more Asian perspectives on the divergent repercussions of Asia’s rise and implications for Australia and Western Australia. In this regard we would like to share three insights with readers of the report.

First, the sheer complexity, magnitude, and diversity of Asia means that no single paradigm or model can possibly explain the causes and consequences of the multiple political, economic, social, cultural, and technological forces that are in play today. Understanding and appreciating the region’s multiple dimensions—even in the midst of common threads and themes—is central to forging more sensitive and sensible strategies towards the region.

Second, all of the Commissioners shared in the belief that the future of the Australian-Asian partnership depended critically on forging stronger ties among our leaders and particularly our young leaders across various disciplines so that they can help co-shape the Asia of the 21st century. We remain absolutely convinced that unparalleled collaboration and cooperation within the Region is the only way forward for Asia to tackle its challenges and are conscious that Asian economies have profound repercussions on the global economy.

Third, in order for Australia and Western Australia to retain key advantages in the emerging Asian century, it is imperative to allocate key resources into enhancing the community's understanding of the forces that are shaping Asia and the importance of culture and relationships in undertaking business in Asia. Increased mutual understanding is the platform for appreciating much more clearly how Australia and Western Australia can contribute to the rise of a more responsible, inclusive, and prosperous Asia.

An endeavour of this magnitude would not have been possible without the truly exceptional dedication of key individuals who served as the Commission Secretariat throughout the duration of the FMC. We would like to express our sincere appreciation to Associate Professor Michael Crozier for his patient and thorough hand that guided the Final Report throughout its various phases and to Cat Bevan-Jones, Research Coordinator for the FMC in the Vice Chancellor's Office for her truly remarkable organisational skills and unstinting hard work and devotion. Last but not least, we would like to extend our deepest thanks to Professor Richard Higgott for inviting us to serve as co-chairs and to our fellow Commissioners whose insights and deliberations are evident in the pages that follow.



Kerry Sanderson



Chung Min Lee

November 2013

Acknowledgements

Throughout the proceedings of the Commission, the Secretariat has been fortunate to have the assistance of a number of individuals, each of whom has made a valuable and much appreciated contribution to our work program. In particular, we would like to acknowledge the help and support of Murdoch University staff including Professors Ann Capling, Mark Beeson, David Hill and Vedi Hadiz, Dr Christopher Vas and Dr Takeshi Moriyama, together with Chris Smyth, Andrew Porter, Jeffery Asselin, Richard Sochacki and Ms Pearl Chua Kyselicova. We have also been grateful for the ongoing support of our Design, Media, Communications, Events and Alumni teams.

The team at QBT Perth has managed the travel arrangements for the Commission and we are grateful for the exceptional service that we have received from them throughout the year.

Finally, and most importantly, we give our sincere thanks to our Research Assistant Mr Bryan Bong and our colleagues in the Vice Chancellery at Murdoch University, for their help and support during the year.

Glossary

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement. AANZFTA is the first time Australia and New Zealand have been involved jointly in negotiating an FTA with third countries. It is the first time ASEAN has embarked on FTA negotiations covering all sectors including goods, services, investment and intellectual property simultaneously.
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Agreement
APEC	Asia Pacific Economic Cooperation. APEC is an intergovernmental grouping that acts as a forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC operates on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants.
ARF	ASEAN Regional Forum
ASEAN	The Association of Southeast Asian Nations aims to accelerate economic growth, social progress and cultural development in the region, whilst promoting regional peace and stability through the rule of law and adherence to the principles of the United Nations Charter. ASEAN comprises 10 countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
ASEAN+6	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, plus China, India, Japan, South Korea, Australia and New Zealand
CLMV	Cambodia, Lao PDR, Myanmar and Viet Nam
FDI	Foreign Direct Investment
FIRB	Foreign Investment Review Board
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GDP	Gross Domestic Product
Gini Index	A measure of the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents absolute equality, while an index of 100 implies perfect inequality.

HDI	Human Development Index. A composite measure of human development across three indicators—life expectancy, education and income. The HDI sets a maximum and minimum goalpost for each indicator. A value between 0 to 1 expresses where each country stands in relation to these goalposts. A country with a higher level of development will have a value closer to 1.
PPP	Purchasing Power Parity. PPP is the rate at which the currency of one country needs to be converted into that of another country (generally the US dollar) to buy the same amount of goods and services in each country. GDP expressed in PPP rates is thought to be a better reflection of the living standards between countries.
RCEP	Regional Comprehensive Economic Partnership
SCCI	Supply Chain Connectivity Initiative
TPP	Trans Pacific Partnership
WTO	World Trade Organisation

Executive Summary

21st century Asia is a powerhouse in the contemporary global economy. In a short period of time it has closed the development gap between the Region and the rest of the world.¹ All indications suggest that this growth performance will continue into the foreseeable future.

Australia's high levels of economic growth over the last decade are directly related to Asia's 'economic miracle,' with Western Australia playing a lead role in Australia's regional economic engagement. Indeed, the State has accounted for nearly 50 per cent of Australia's commodity export trade in recent years, concentrated overwhelmingly in Asia. In this sense Australia, and Western Australia in particular, are becoming increasingly 'hard wired' into the Region. This presents many opportunities but also challenges.

The First Murdoch Commission was established to identify how these opportunities may be pursued and how the challenges may be addressed. The initial impetus was that future prosperity required well-informed strategies and policy settings to optimise potential benefits and sustainable gains.

The broad context of the inquiry was the contemporary rise of Asia. This rise is a story of success, yet it is success accompanied by significant challenges. Deepening regional integration is an essential part of the story, with the effect of distributing risks as well as benefits. The ongoing performance of the Region is thus also a question about addressing major problems including rapid urbanisation, resources security, demographic burdens and environmental pressures.

This insight underpinned the deliberations of the Commission and its investigation of how economic engagement and the growing interdependency of Western Australia, Australia and the Region can be pursued to enhance mutual benefit and long-term resilience.

A distinct feature of the Commission's investigations was its regional approach. This included the composition of the Commission's membership, and a series of meetings and consultations with various stakeholder groups and individuals in major regional centres. This approach was taken precisely because Australia's core interests are now closely intertwined with Asia's continuing prosperity and stability.

The Commission found that there is a strategic choice to be taken by Australia: whether to remain a mere exporter to the Region or to become a more active participant engaging in the Region. The former choice leaves Australia susceptible to the volatilities of a game that it has little capacity to influence. By contrast, the latter offers Australia far greater potential influence, opportunity and long-term benefit for its economic prosperity and wider future. Efforts in

1

The capitalised term 'the Region' is used through out the Report to refer to the ASEAN+6 group of countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, plus China, India, Japan, South Korea, Australia and New Zealand.

this space should not underestimate the major challenges confronting both the Region and the Australian economy, and how regional cooperation can provide ways to address these challenges.

Western Australia provided a fertile case for the Commission to examine regional opportunities and challenges from the standpoint of a sub-national unit. There is potential for Western Australia to develop a more prominent role in the Region, and the Commission identified various possibilities at hand.

The Commission concluded that greater regional engagement offered many benefits. This includes opportunities for Australia to contribute to addressing some of the major challenges in the Region, especially in areas such as food security and capacity building. Western Australia in particular has a lot to offer and a lot to gain in this respect.

Themes and Recommendations

A brief account follows of the main themes of each chapter together with the Commission's recommendations. These summaries are underwritten by the reasoning and findings presented in the Report including the background information and regional perspectives captured in the individual country briefs. There is no claim to completeness in these deliberations and neither could there be given the complexities involved. The intent was to make a modest contribution with a practical intent to the ongoing discussion on Western Australia and Australia as partners in the Region's future trajectories.

1: Reviewing Asia's Rise

Given the high stakes involved, it is essential to understand the key dimensions of Asia's rise, both positive and negative. Asia's development path is likely to be maintained over the next two to three decades so that by 2030, if not before, the Region will become the world's largest economic bloc. Asia has become a major driver in the global economy offering great opportunities. But there are also enormous challenges facing the Region ranging from strategic tensions through to resources and environmental pressures. Addressing these challenges has become a regional concern. Any examination of the Region's future needs to acknowledge the two sides to Asia's rise. The Commission's investigations were underpinned by this general insight and guided by the following working principles and recommendation:

Principle 1

It is critical to underline the importance of diversity and differences within the Region as much as the forces that are more cohesive, collaborative, and cooperative. Asia encompasses the world's most populous and most densely populated countries, multiple cultures and ethnicities, divergent development paths, and varied political traditions. The notion of 'One Asia' is misleading and unhelpful. Understanding Asia's diversity is as important as understanding its commonalities and shared perspectives.

Principle 2

There is a need to build greater enabling capacity in the Region. This rests on the view that *Asia's rise should be approached in terms of the development of a wider global citizenship as well as sustained economic growth*. Asia's rise will indeed be more rounded when Asia assumes a greater share of global responsibilities including the expansion of developmental assistance, improving governance, transparency, and accountability, and fostering sustainable development.

Recommendation 1

While Australia is now an actor in the Region, it has not traditionally been seen as part of the Region. To fully realise opportunities, *Australia needs to see itself more as part of the Region and for its regional partners to view it in the same way*. Cultural differences need not pose immutable barriers in this regard. The principles of mutual respect and reciprocity, of taking time to listen and to understand each other, can provide the basis on which Australian actors and regional partners can develop common practical frameworks to collaborate on specific enterprises and concrete problems.

2: Economic Dynamics in the Asian Region

21st century Asia is a major developmental success story, having quickly closed the development gap between the Region and the rest of the world. The structural drivers of this economic growth are ongoing trends, feeding expectations that the Region's growth performance will continue for the foreseeable future. There are also challenges facing the Region that pose risks to this performance including transitions in national development models, demographic pressures and socio-economic inequality. While these challenges are formidable they are by no means insurmountable. New policies and strategies will need to be devised to ensure these challenges do not derail Asia's ongoing performance.

Economic interdependency

Australia and Western Australia are already hard wired into the Asian region. This brings with it the benefits of regional economic prosperity but also the associated risks and problems. Being an economic player in the Region means that Australia's future prospects are inextricably linked to the Region's. This reality is not fully appreciated in some policy circles and sections of the wider Australian community.

Recommendation 2

Government, business and policy leaders need to increase efforts to better inform industry and the wider community of Australia's interests and future prospects within the Region. These undertakings should emphasise regional societal challenges, shared environments and a common public interest, as well as the economic opportunities.

Recommendation 3

Further efforts also need to be made to raise awareness about Australia in the Region, how its economy is connected into other regional economies, how it shares common challenges, and how greater regional engagement can assist in addressing these challenges. This would include consideration of how Australia wishes to be known in the Region and the appropriate ways that this could be projected.

Australia's trade profile

Australia's economic relations with Asia have deepened over the last five decades but remain narrow. Australia's trade profile is concentrated heavily in four areas: mining, agriculture, education and tourism. Reliance on a narrow band of export sectors poses risks, and overly exposes the economy to external shocks.

Recommendation 4

Government needs to further pursue strategies to diversify the Australian economy with a strong focus on regional opportunities. This should entail the necessary policy settings to encourage investment in underdeveloped export industries and areas of international competitiveness. Diversification of exports is necessary to reduce exposure to external shocks. Development of the services export sector is an important aspect to achieving this aim.

Foreign investment

Australia's foreign investment profile is skewed. Its regional investment relationships are underdeveloped, both inwards and outwards. There is also a marked sectoral bias towards mining and financial services in Australia's foreign direct investment stocks. These are critical matters that need to be more prominent on the public agenda.

Recommendation 5

The Australian economy would benefit considerably from both a geographical and sectoral diversification in its foreign investment profile. Foreign investment brings skills, technology, and capital into the Australian economy, but a narrow reliance upon a handful of countries and industries limits the scope of these benefits. Deepening investment ties with Asian partners, and building these in new sectors (particularly services and technology) will help Australia integrate with global value chains in the Region, opening new commercial opportunities beyond the primary industries sector.

Recommendation 6

Government and business should consider the use of forums and other information platforms to share success stories and cultural learning on interregional investment, illustrating how it can develop mutual benefit for Western Australia, Australia and regional partners. A key aspect in these efforts would be to emphasise the importance in business dealings of taking the time to build relationships as a prelude to commercial transactions.

3: Australia and Regional Trade Integration

There has been a recent explosion of bilateral free trade agreements (FTAs) in the Region. Consistent with this trend, Australia has launched negotiations for bilateral FTAs with 10 partners in the Region, of which only three have been concluded. Concluding FTAs with important trade partners such as Japan, Korea and China could offer significant benefits for Australia and Western Australia. But agreements have proved elusive to date, as Australia does not have the 'clout' to prise open the markets of the large economies when bargaining bilaterally. Moreover, interest in the Region seems to be moving away from bilateral FTAs to 'mega-regional' FTAs that involve a much larger number of partners. These mega-regional FTAs include the Trans-Pacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP).

Recommendation 7

Australia is one of the few countries that is a member of both the TPP and the RCEP. Both agreements present Australia with an important opportunity to influence the evolving trade arrangements in the Region, in a way that advances the interests of all participants. The TPP, which involves major developed countries including Japan and the US, has a high level of ambition for the liberalisation of trade in services and agriculture. *Australia needs to push hard for a high quality outcome in the TPP on market access issues* in order to improve export prospects for Australian agriculture and services industries.

Recommendation 8

The RCEP has a lower level of ambition than the TPP, but it includes all of the Region's major economies. Advancing the RCEP as part of a broader strategy for economic integration will serve the interests of all economies in the Region, including its least developed nations. Australia has a record of leadership in trade negotiations to advance the shared interests of developed and developing countries alike. *It should draw on these capacities and traditions to advance the RCEP in a way that serves the interests of all involved.* Creative proposals could include different time frames for implementation, reflecting the different levels of development of its members.

4: Resources: Interdependence and Security

High-speed industrialisation and urbanisation in a range of developing economies has meant that the demand for minerals, food and energy has grown rapidly. The global resources boom has generated policy challenges for many governments in the Region given that—with a few exceptions (i.e. Australia, Malaysia, New Zealand)—most countries are net resources importers. The boom has threatened the resource security of many governments trying to ensure the continuous availability of natural resources at reasonable prices. The big resources question confronting the Region is how to ensure secure and sustainable access to natural resources for the Region's transforming economies. Deep patterns of resource interdependence mean that the issue is intrinsically a regional problem that demands regional responses if it is to be effectively addressed.

Recommendation 9

Governments in the Region have pursued bilateral trade agreements to address resources security, which have helped build trust between parties. However, there are limits to how far this approach can promote resource security, as it has yet to move beyond dialogue processes to deeper forms of policy cooperation. Bilateral FTAs and multilateral dialogues offer a foundation but *governments need to harmonise and coordinate their resources policies through intergovernmental cooperation across the Region.*

Recommendation 10

As a global resources industry hub, *Western Australia has a key role to play in addressing the issue of resources security.* This is about Western Australia not only doing what it already does well, but also doing more in this vein. First, it is well placed to substantially expand and sustain its supply of minerals, energy and food production well into the future. The ongoing delivery of food quality is worthy of special mention given the growing market in this area. Second, more can be made of Western Australia's role as a reliable resources supplier in the Region, especially by promoting its favourable investment settings of resources policy stability and openness. Third, the State's resources expertise has great potential to help build and expand resources production in other countries in the Region.

Recommendation 11

Given the scale of the problem, it should be emphasised that Western Australia can make a very strong contribution to meeting the challenges surrounding food security in the Region. In particular, its research and technical expertise in such areas as agriculture and veterinary science, grains development, water management, environmental sustainability and transportation logistics are all key capacities required to improve the food security situation. Western Australia is in a prime position to help advance capacity building in these areas across the Region and there are already research partnerships underway. Government, business and the scientific community are urged to pursue this agenda with vigour through greater regional collaboration and cooperation.

5: Engagement and Diplomacy

Deepening regional engagement

While Australia has strong ties in the Region, its engagement with regional partners is too often simply transactional. Narrow and shallow connections do not sustain mutually beneficial engagement over time. Appearing to pursue short-term self-interest does not nurture long-term reciprocal relations. Greater efforts need to be made to cultivate a stronger sense of a shared regional future and the accompanying commitments to addressing common problems. Current circumstances are ripe for this to occur, but it requires both the elevation of existing efforts and the development of new strategies to make it a reality. National and subnational governments, as well as non-state actors and agencies, have crucial roles to play in enhancing and deepening regional engagement.

Recommendation 12

Governments, as well as leadership in business, education, and civil society, need to be careful to avoid complacency in the conduct of Australia's regional relations, especially given that nothing is static in the Region. While some nations may loom large at one moment, it is important not to forget or take for granted longstanding regional relationships.

Recommendation 13

In regional partnerships, government, industry and NGOs should undertake the development of professional exchanges and sabbatical programs to share and develop good governance practices and capacity building in the public and private sectors. The experience of pooling knowledge and witnessing how things can be done differently is seen to be particularly relevant to addressing the issue of corruption, with its negative impacts on conducting business and the efficient running of government.

Recommendation 14

Schools, universities and research institutions, with the positive aid and support of government, should up-scale student exchanges and research collaborations and partnerships in the Region. These types of regional programs and partnerships have many direct educational and research benefits but also deepen a wider sense of common purpose and reciprocity. These efforts should also be linked to the greater development of alumni and other networks for ongoing understanding and mutual benefit.

Intergovernmental coordination

Governments at the subnational level are becoming more involved in the facilitation and development of regional engagement, increasingly in economic affairs as well as in wider socio-cultural relations. A number of Australian state governments have established their own representatives and offices in countries in the Region. These offices are able to concentrate on the pursuit of state-specific interests, often complemented

by the functions of the Australian Commonwealth government's overseas missions. Coordination and cooperation is important between the two levels of government to limit duplication and to avoid confusion and the potential to send mixed messages, especially in countries unfamiliar with Australia's federal system. There is scope to consider the efficacy of current state-federal interaction in this area, and whether things can be done better, domestically and in the field.

Recommendation 15

Given the growing involvement of Australian states in the facilitation of regional economic engagement *there is a need to further develop robust state-federal intergovernmental mechanisms* to deal with these matters in relation to policy and international negotiations as well as field operations. These mechanisms would be helpful in the advancement of greater cooperation and coordination between federal and state governments, especially on trans-border issues such as trade, investment, education and the environment.

6: Western Australia in the Evolving Regional Order

Western Australia has been a lead player in Australia's economic engagement in the Asian economic miracle. Nonetheless, continuing economic prosperity is not a given and needs to be cultivated and propagated. Western Australia's edge in resources is an extraordinarily vibrant base for the development of the State, especially with Perth as a global resources industry hub. Western Australia also has strengths in other sectors that have enormous potential for growth. The state government has a part to play in realising this, as does the private sector, both domestic and international.

Recommendation 16

There is an ongoing need to emphasise and promote the fact that Western Australia is already an active player in the regional economy. This should be integral to all policy and strategic economic thinking in government and business about how to make the most of existing and new opportunities.

Recommendation 17

There is a need to pursue greater diversification of the Western Australia economy. This involves a realisation of the great opportunities on offer in the further development of the high value-add sectors of economic activity and where Western Australia can potentially be internationally competitive. It also entails an appreciation of the potential benefits to be made through joint ventures and foreign investment flows in the Region to develop existing and new areas of economic opportunities. A prime candidate here is the strength of Western Australia's knowledge economy including its scientific research and technical expertise, and how this fits with regional demand and problems. This presses the need for far greater investment in research and development through partnerships and collaborations with other universities, research institutions and businesses in the Region.

Recommendation 18

There is great scope and mutual benefit for Western Australia to intensify its connections in the Region. There are many existing business links, government-to-government relations, university and people-to-people connections into the Region that can be further developed. The learning of Asian languages, student exchanges, and various forms of cultural engagement, all help to increase understanding and connectivity. Moreover, increasing knowledge in the wider community about the Region and Australia's place therein is essential to advancing this agenda.

Recommendation 19

The development of the international agenda of higher education and its ability to increase regional connectivity is paramount. The gains are multiple ranging from the people-to-people dimensions through to core aspects of knowledge economy development. This can be realised through student exchanges and internships, joint badging of degrees with universities in the Region (to produce 'regional-global' graduates), the mutual benefits of research collaborations and partnerships, and the merits of alumni and other network mechanisms.

Introduction

In early 2012 the Vice Chancellor of Murdoch University, Professor Richard Higgott initiated plans for an independent commission of inquiry into Western Australia's prospects in the Asian region. Formalised as the First Murdoch Commission, the inquiry was charged with investigating how Western Australia was connected into the development patterns of the Region, and what opportunities and challenges were involved.

The starting point of the Commission was that Western Australia is already a significant economic player in the Region as a major exporter of minerals and energy. However, a key aspect of the Commission's intent was to think about Western Australia's regional role as 'more than a quarry' supplying resource-hungry developing economies. The first intuition was that Western Australia's wider capacities and expertise were also important and not just the resources story.

The framing of the Commission and the recruitment of commissioners were undertaken during 2012. At this time the Australian government's *Australia in the Asian Century White Paper* was released (October 2012). The White Paper prompted wide public discussion on Australia's place in the Region, and this provided background context for the specific investigations of the Commission.

The formal deliberations of the Commission began in Perth with a meeting of commissioners in February 2013. Further meetings and consultation were held in several regional locations as well as in Australia across an eight-month period. The Commission Secretariat at Murdoch University provided research and logistical support, and coordinated the drafting and production of the Commission's Final Report.

The various dimensions of the Commission's mode of operation can be detailed as follows.

Brief

- The core brief of the Commission was to investigate how economic engagement and interdependency of Western Australia, Australia and the Region could be pursued to enhance mutual benefit and long-term resilience.
- This task included highlighting some of the most relevant issues and challenges that are likely to emerge in Asia over the next decade or so. The intent was that our findings and assessments would contribute to the broader aim of sustaining regional prosperity and stability.

Constitution

- The Commission was established first and foremost as a regional endeavour. This is reflected in the membership of the Commission, which includes leading experts and opinion leaders from major Asian economies along with commissioners from Western Australia and Australia. The Commission also advanced this regional focus through its meetings and consultations undertaken in the Region.
- The Commission was to act as an international and independent inquiry. The business of the Commission was conducted on the basis of intellectual freedom and evidence-based analysis. While the Commission was initiated by Murdoch University, its proceedings and investigations were undertaken without constraint from the University or any other interested parties such as government or business.

Aims

- To identify and examine common challenges facing Western Australia, Australia and the Region in the coming decade.
- To develop recommendations to advance economic growth and wider social development in Western Australia, Australia and the Region.
- To consider how resilience and mutuality can be cultivated in the Region in the context of growing economic interdependency.

Methodology

The Commission's investigations were undertaken across 2013. From the start, there was a strong sense that if the recommendations of the inquiry were to have policy credibility and traction both in Australia and in the Region, then the Commission would need to conduct its deliberations as an enterprise grounded in the Region. This was aided by the fact that the members of Commission were recruited from government, business and academia from around the Asian region as well as within Australia.²

The Commission schedule included sittings in Perth, Jakarta, Beijing, Shanghai, Seoul, Delhi, Tokyo and Canberra. In its meetings around the Region, the Commission consulted with a wide range of agencies and policy leaders from government, business, academia, media, NGOs and community groups. In many of the destinations, the Commission conducted roundtable sessions with groups of emerging leaders seeking their views about their own nation's development prospects and societal challenges, as well as how they viewed regional engagement and integration.

The Commission received support and cooperation from Commonwealth and Western Australian government officials both offshore and onshore, which was greatly appreciated. It was given detailed briefings from the Australian embassies (and High Commission) in each of the regional locations. The Western Australian overseas state offices also provided local briefings as well as generous assistance with contacts and logistics.

² All members of the Commission served as individuals and not in any representational capacity. The Commission's Final Report and recommendations reflect an overall consensus on the part of the Commissioners without assuming all of them agree with each and every statement contained in it.

The regional meetings, consultations and follow-up communications were an essential part of the Commission's investigation, providing invaluable insight and evidence for the Commission's findings. These were conducted generally on the basis of non-attribution, especially on certain sensitive issues.

In terms of substantive focus, the scope of the inquiry encompassed the ASEAN +6 group of nations (referred to in the Report as 'the Region').³ The timeframe considered was a five-year period coupled with some longer-term scenario projections ranging from the optimistic to worst case. The key themes of the Commission's deliberations included: Asia's rise, economic dynamics; trade integration; resources; diplomacy; and Western Australia in the Region.

Note on individual country briefs

The country briefs present material on each of the five major countries that the Commission visited. The order of presentation in the text is indicative of the Commission's meeting schedule across the Region. Each brief contains some basic statistical information on the specific country including certain indicators of connectivity with Australia. They also provide snapshots of the issues raised in the regional consultations and meetings including people's concerns about local prospects and challenges, and wider regional trends. This input is deliberately not attributed to individuals. The emerging leaders groups in the various locations particularly impressed the Commissioners with their candid views on current problems combined with a relative optimism about the future.

3

The capitalized term 'the Region' is used through out the Report to refer to the ASEAN+6 group of countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, plus China, India, Japan, South Korea, Australia and New Zealand.

Chapter 1

Reviewing Asia's Rise

The stakes have seldom been higher in understanding the drivers behind Asia's rise, both positive and negative. There is every reason to believe that Asia's development path is likely to be maintained over the next two to three decades so that by 2030, if not before, greater Asia will become the world's largest economic bloc. Yet for all of the positive dimensions of the unprecedented transformation of the Region, it is equally true that it faces a range of significant challenges, political, economic, environmental, and social in character.

Asia's future trajectories have critical implications not only for the countries in the Region but the broader international system. It is thus imperative to understand the diverse forces and trends that are shaping Asia's emerging contours. The so-called 'Asian miracle' is complex and by no means an homogenous story. Undoubtedly, Asia's global position in the 21st century marks a significant transformation in world politics and economics. However, the very success of Asia's rise has ushered in changes that are multifaceted, generating new challenges as well as successes.

Asia's Rise

The last decades have seen the connections within and between the community of Asian nations, including Australia and Western Australia, expand and deepen. This engagement has opened up great opportunities in the economy and beyond. But it is also prudent to consider the challenges and uncertainties that this increasing connection brings. The Commission was established to investigate these issues from a regional perspective precisely because Australia's core interests are closely intertwined with Asia's continuing prosperity, security, and stability. A first step in the investigation was to examine more closely the preconceptions underlying what appears to be an overall assumption that Asia's rise is not only sustainable, but is sustainable at its current rate.

In this regard, it is critical to *underline the importance of diversity and differences within the Region as much as the forces that are more cohesive, collaborative, and cooperative*. Asia encompasses the world's most populous and most densely populated countries, multiple cultures and ethnicities, divergent development paths, and varied political traditions. The notion of a "One Asia" or a "Singular Asia" is misleading and unhelpful. Understanding Asia's diversity is as important as understanding its commonalities and shared perspectives.

Equally important is the recognition that there is a need to build greater enabling capacity in the Region. This rests on the view that *Asia's rise should be approached in terms of the development of a wider global citizenship as well as sustained economic growth*. Asia's rise will indeed be more rounded when Asia assumes a greater share of global responsibilities including the expansion of developmental assistance, improving governance, transparency, and accountability, and fostering sustainable development.

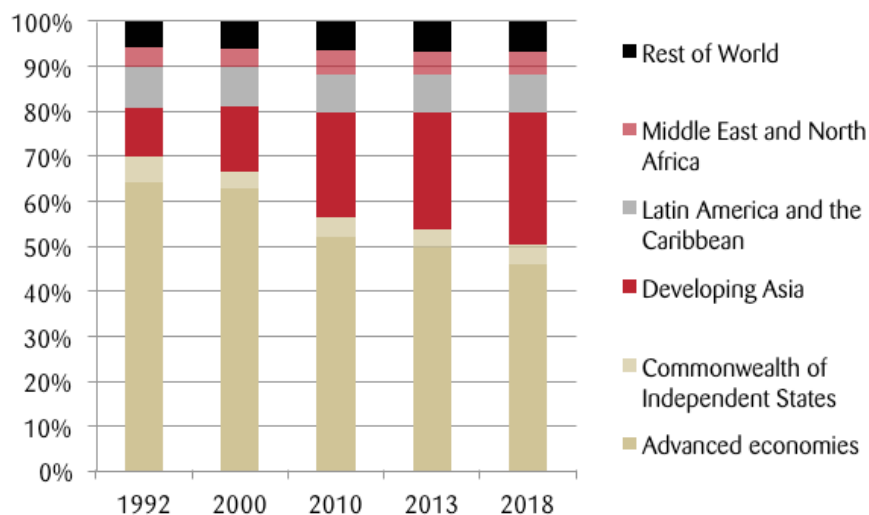
It is reasonably uncontroversial to state that Asia is not just rising but in fact, has arisen. Yet there is nothing immutable about this. Success has also triggered trends that will likely present major challenges in the years and decades ahead. Western Australia and Australia are now 'hard-wired' into the Region, and many regional challenges are now common problems. Asia's rise has become a major driver in the global economy. But it is important to remember that some of world's great challenges—e.g. food security, energy and resources supply, poverty alleviation, and environmental degradation—are writ large in the Asian region. Addressing these challenges has become a regional and global concern.

Australia and Western Australia in 21st Century Asia

Asia's rise encompasses shifts across the international system including the shaping of new global and regional balances, and the development of new national strategies by many nation-states around the world. So far, the overwhelming narrative associated with Asia's rise has been a positive one. Many of the Region's key economies such as China and India have experienced unprecedented economic growth. Asian economies today trade more with ASEAN members than the European Union.

Asia's recent economic performance has placed it among the central drivers of the global economy. Most economists believe that Asia is going to become the world's largest economic region by GDP in 2030 surpassing North America and Western Europe. By 2018, Asia is expected to account for 30 per cent of world GDP (see Figure 1) increasing to more than 50 per cent by mid-century. From a historical perspective, this marks a return to the situation prior to the European Industrial Revolution when China and India were the world's largest economies.

Figure 1: Distribution of world GDP (PPP) by region, 1992-2018



Source: International Monetary Fund, World Economic Outlook Database

However, this is more than a story about economics. It also hails increasing levels of connectivity in the Region more generally. As a consequence, the long-term prosperity and future shape of Australia and Western Australia is increasingly intertwined with the trajectory of Asia. In this regard, a 21st century Australia needs to see itself as an integral part of the Region, economically, politically and socially.

Australia and Western Australia are well placed in Asia's rise given its geographical proximity to the Region along with its rich endowment of resources, mature education and services sectors, and world-class science and technology capabilities. Australia has well-developed relations with the major economies in the Region but there is a great deal of scope for these to be significantly enhanced and diversified. This extends beyond critical trade relations and emphasises how Australia's national security is becoming more directly interconnected with security in Asia. The need to maintain stability in the Indo-Pacific and in South East Asia is paramount not only to Australia's security interests but to its more general prosperity. Moreover, sustainable prosperity and mutual benefit requires deep and ongoing broad engagement between peoples and communities across the Region.

Reality Check

One of the net effects of Asia's rise is that the world order by 2030 is projected to be a multipolar one. According to the US National Intelligence Council's *Global Trends 2030: Alternative Worlds* report (NIC 2012), no hegemonic power is likely to dominate the international system by the year 2030.ⁱ On the plus side, the report cautiously forecasts that great power conflict is going to become much less likely given that 'too much would be at stake' although the 'risks of interstate conflict are increasing owing to changes in the international system.' For key regional powers like Australia that have long-standing ties with the United States, the stakes of a reconfigured world order could be significant, especially with the US's diminished willingness and ability to serve as a global security provider.

For nearly four decades, Asia has been devoid of a major conflict and instead pursued a path of unparalleled socio-economic development. This is a major departure when compared to the overall state of Asian affairs from the late 19th century to the mid-20th century, which was marked by decaying and ultimately collapsing dynasties, the worst vestiges of imperialism and colonialism, brutal occupations, wars and conflicts, and endemic poverty. While the Region has experienced two significant wars since the end of World War II—in Korea and Vietnam—the number of conflicts that have been fought globally and in Asia have fallen sharply since the end of the Cold War.

Asia's remarkable transformation over the past four decades is all the more surprising since regional stability has been maintained through a combination of bilateral alliances, multilateral cooperative networks such as ASEAN, nascent multilateral security mechanisms such as the ARF (ASEAN Regional Forum), the ASEAN Defence Ministers' Meeting Plus, and other "mini-laterals." Given the virtually unimaginable consequences and opportunity costs arising from the outbreak of major hostilities and the potential reversal of decades of economic growth and progress, there is every reason to sustain stability in Asia.

Yet despite the absence of wars since the mid-1970s and significant economic progress, it is also evident that Asia faces a range of political, security, and governance challenges. How Asia copes with these challenges will have global repercussions given Asia's ascendancy in the 21st century. As Australia and Western Australia seek to maximise mutually beneficial engagement with Asia, prioritising collaborative and cooperative strategies that can jointly mitigate, prevent, and even resolve these types of challenges will become increasingly important in the years ahead.

In this light, the Commission considers that any examination of the Region's future must acknowledge a number of key realities, many of which require a collaborative approach to realise potential benefits and to mitigate the downsides:

Strategic tensions

Asia is home to some of the world's most pronounced historical, territorial and security disputes and continuing strategic rivalry, including on-going competition between the two Koreas, territorial disputes between Japan and Russia, China and Japan, and Korea and Japan. The possibilities of a more stable and cooperative Asia depend crucially on its ability to redress such long-lasting historical legacies. There is also the issue of growing strategic competition between China and the US.

Political and governance gaps

There are also challenges surrounding political and institutional development in the Region including uneven political development, struggling political systems, the spectre of fragile states, human rights deficiencies, corruption, and governance gaps. In several cases, significant economic growth is occurring but with ongoing problems in these areas. If political and governance deficits are not addressed, they are bound to recoil on economic performance in negative ways, quite aside from the inherent merits of responsive and accountable political institutions and good governance practices.

Socio-economic inequality

Recent economic progress has given rise to significant expansion in the number of people classified as middle class in the Region. However, there are also sharpening inequalities in income and opportunity emerging within and between specific countries in the Region. The Asian Development Bank (ADB) has recently highlighted this problem, noting that while poverty levels have declined across the developing economies the yields of economic growth have not been evenly distributed between rich and poor.ⁱⁱ Income inequality is also implicated with inequality of opportunity creating a vicious cycle where one reinforces the other.

Demographic pressures

There are significant and contrasting demographic trends in the Region. On the one hand, developed countries such as Japan, South Korea and China are rapidly becoming ageing societies, as falling birth rates and increasing life expectancy increases the share of the elderly in their demographic structures. On the other hand, developing sub-regions such as South Asia will see huge

population surges well into 2030 and beyond. Both demographic trends beckon unprecedented social welfare, health care, education, and environmental challenges, placing economic prosperity and political institutions under stress.

Resources security and environmental challenges

Asia's rapid growth has generated escalating demands on natural resources and on the human and natural environment. A key concern for the Region is how to secure life's fundamentals such as food, water, clean air, and energy, as well as securing an ongoing supply of resources for industry. The massive urbanisation underway in the Region alone poses enormous pressures. In this regard, the pursuit of economic growth is now increasingly also a task of how to ensure the ongoing viability of its various supporting environments including the human and ecological habitat. Thus, reconciling non-traditional security issues with sustainable development is a major challenge facing the Region in the 21st century.

Future Scenarios

Predicting potential pathways for the Region over the next decade or so, even up to 2030, is fraught with difficulty. Clearly, some basic variables are likely to remain fairly constant or within credible ranges such as demographic trends, the continuing urbanisation of major Asian countries, the continuing growth in China's hard power capabilities, and the Region's growing importance in the global economy. Indeed, any attempt to forecast the direction of the Region needs to also consider the wider global trends and their impact on Asia's potential futures. The growing dependence of the major Asian economies on world markets, major shifts in global economic output, and the health of the global financial system are all likely to have significant impacts on the performance of regional economies. Equally, key global issues such as environmental pressures, demographic trends, and food and energy security cannot but influence the shaping of Asian futures. On the geo-political front, global shifts in power relations are very much evident in the Region and how these are played out will have significant impact on its future shape. The alternative future scenarios outlined below are cognisant of these global trends.

The Commission considered it important to generate a set of scenarios to project a sense that the near future in the Region is relatively open with varying degrees of risk. The three scenarios are cast in the form of alternative possibilities in a range extending from optimistic, through middling, to pessimistic. There is no attempt to present these as hard and fast probability distributions but rather to suggest credible potential alternatives to envisage a sense of the future.

1. An economically robust and politically stable Asia with manageable security challenges.

Despite competition for resources, this is the most optimal scenario and the most promising. This works on the assumptions that the Region is able to tackle and manage key political and security challenges, that the Region's major economies are able to grow at respectable levels, and that they can mitigate, perhaps even resolve key social and environmental challenges. At the macro level, a key precondition is the ability of the

US and China to forge and to sustain a relationship that while fully competitive, is also mindful of the need for their critical collaboration on major issues in the Region. Such a scenario also assumes that political and economic reforms will continue to be made by regional players so that chances of domestic volatility will be mitigated through improvements in political and socio-economic arrangements.

2. Decelerating growth rates in the Region's major economies with mounting socio-political challenges.

This scenario is more brittle and potentially disruptive than the first given that the primary driver is the faltering of economic growth in the Region's key powerhouses of China, Japan, India, and South Korea. Japan and South Korea already face much slower growth rates than the emerging economies and also confront key social changes such as rapidly ageing societies compounded by falling birth rates. China is also approaching a demographic conundrum marked by an aging population and shrinking work force, a consequence of both a lower birth rate and its one-child policy. In the longer term, this presents China with the huge problem of how to meet its own labour market demand. However in the shorter term, a flattening in the economic growth rate would result in rising political and social tensions, a growing income gap between urban and rural sectors, and the side effects of the unprecedented urbanisation underway. Conversely, decelerating economic growth for a developing economy like Indonesia will face similar issues but in the reverse in the long term given the demographic problem of a youthful population.

3. Growing great power competition, heightened geopolitical instability, and intensified security complications.

This more pessimistic scenario for Asia suggests a return in coming years to intensified great power competition (including military competition) and a failure to adequately manage outstanding historical and territorial issues. It assumes that enhancing military capabilities will continue to be a major dimension of regional security arrangements: the wider region hosts the top five of the world's largest conventional armed forces, and six states with nuclear weapons (the US, China, Russia, India, Pakistan, and North Korea). This scenario would be compounded by intensified maritime competition spanning the Indian and Pacific Oceans, in which military ambition and trade considerations could be difficult to disentangle. This intensified power play could also have destabilising effects on already fragile regimes in the Region with a significant impact on economic activity, especially in curtailing the development of economic trade and integration.

The Commission has conducted its inquiries on the basis that the most probable Asian future is somewhere between scenario one and two. It firmly believes that whilst likely, better outcomes will only eventuate if the appropriate strategic choices are made. The recommendations of the Commission hope to make a contribution to informing such choices.

Summary

The issues raised in this chapter generated the following propositions as working principles and a general recommendation, which underlay the Commission's more specific recommendations.

Principle 1

It is critical to *underline the importance of diversity and differences within the Region as much as the forces that are more cohesive, collaborative, and cooperative*. Asia encompasses the world's most populous and most densely populated countries, multiple cultures and ethnicities, divergent development paths, and varied political traditions. The notion of 'One Asia' is misleading and unhelpful. Understanding Asia's diversity is as important as understanding its commonalities and shared perspectives.

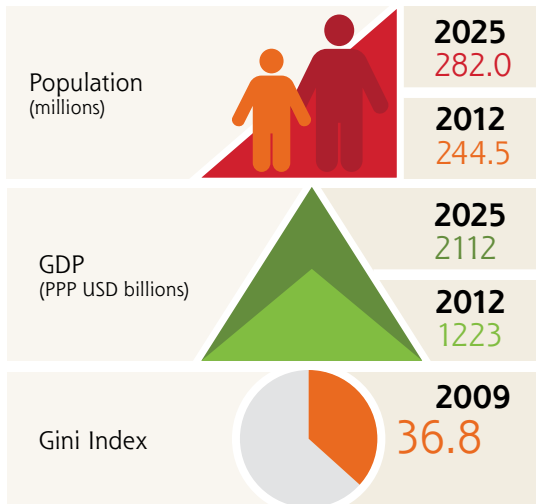
Principle 2

There is a need to build greater enabling capacity in the Region. This rests on the view that *Asia's rise should be approached in terms of the development of a wider global citizenship as well as sustained economic growth*. Asia's rise will indeed be more rounded when Asia assumes a greater share of global responsibilities including the expansion of developmental assistance, improving governance, transparency, and accountability, and fostering sustainable development.

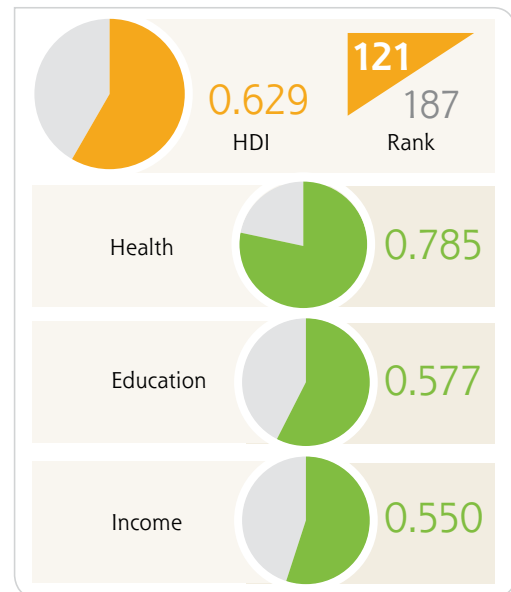
Recommendation 1

While Australia is now an actor in the Region, it has not traditionally been seen as part of the Region. To fully realise opportunities, *Australia needs to see itself more as part of the Region and for its regional partners to view it in the same way*. Cultural differences need not pose immutable barriers in this regard. The principles of mutual respect and reciprocity, of taking time to listen and to understand each other, can provide the basis on which Australian actors and regional partners can develop common practical frameworks to collaborate on specific enterprises and concrete problems.

Country brief: INDONESIA



Human Development Index (2012)



Indonesia is the fourth most populous country in the world with a large proportion of its population under 25 years of age. It is the world's 16th largest economy (in nominal GDP terms) and its economic growth rate over the last decade has been above the world average. Indonesia is a democracy that traverses an extensive archipelago with a multi-ethnic and multi-faith constituency. It has an active civil society and a vibrant media. Since the abdication of President Suharto, there has been a program to devolve power to the provinces and districts though this has not been without problems including issues with policy harmonisation. As near neighbours, there have been tensions between Australia and Indonesia at times. Nonetheless, much has been achieved in relation to intergovernmental, defence, educational and economic links. Deep and consistent commitment by both nations will foster the ongoing health of the relationship.

In its meetings and consultations in Jakarta, the Commission heard from a range of voices on Indonesia's current situation and future prospects, and how Australia and Western Australia may figure in these considerations. The following provides some snapshots of these views.



Challenges

- Indonesia takes its position in the Asian region seriously and provides a strong regional leadership role in ASEAN. It also has internal challenges to negotiate given its archipelagic geography, uneven economic patterns, and cultural diversity. These domestic challenges are highly demanding and tend to dominate the political and policy space.
- Corruption and issues around upholding the rule of law continue to trouble the operations of Indonesian society. These are longstanding matters and efforts to address the problem have to try to break through deeply entrenched habits and institutional failings. Nonetheless, there is a general sense that things have improved in the new democratic era.
- These issues relate to the bigger challenge of capacity building in Indonesia generally. The devolution agenda in particular is attempting to empower communities yet there are often significant knowledge and capability deficits at the local level that can hinder these efforts.
- Economic development has generated major infrastructure and environmental pressures that are having adverse effects on the people's everyday lives especially in big cities like Jakarta. The magnitude and complexity of these problems makes it difficult to rally sufficient will to begin to redress the situation.

On Australia and Western Australia

- While there is some awareness of Australia in Indonesia, little is known about Western Australia unless there is some personal connection via family, business or education. In general there is a lack of coverage and low levels of general information about Australia and Western Australia, in the Indonesian news and on social media.
- A number of interlocutors noted that many Australians' perceptions of Indonesia are often outdated, with little knowledge of Indonesia's democratic reform since the late 1990s and the country's recent economic growth performance. This indicates the need for Australians to become better informed about contemporary Indonesia and its aspirations as a democratic nation.
- There is a sense that in commercial matters Australians can tend to be overly focused on simply expediting a deal. Australian businesses need to appreciate the importance of building relationships in their interactions with Indonesian partners, and not act in a purely transactional manner.
- The experiences of Indonesian students studying in Australia have been positive, and the friendships and professional links these establish make for longstanding relationships into the future. A good deal more could be done to further develop alumni and other networks to enhance and support these kinds of links.

Emerging leaders perspectives

- The emerging leaders reiterated concerns about corruption, rule of law, environmental stresses, inequalities and the challenges of an archipelagic democracy. While increased democratisation and the devolution of certain governing responsibilities to more local levels can help to overcome the legacies of dictatorial rule, Jakarta and Java tend to remain the power centre.
- Shortfalls in the education system were identified as a common denominator to many of these issues. Among other things it tends to inhibit critical thinking about how to improve modes of governance and policymaking. Positive change is possible but requires the development of new educational models designed to support and deliver optimal growth and development across Indonesian society, especially at the provincial and local levels. In addition, addressing education shortfalls and disparity was linked to bridging the gap between the haves and have-nots.
- A number of emerging leaders expressed confidence in the positive effects of ASEAN economic integration. This was linked to the pressing need for Indonesia to integrate economically itself. As an archipelagic country, Indonesia needs to integrate its outlying locations with the economic powerhouse of Java.

- Australia is gradually being drawn into the Region and is thus becoming regarded increasingly as part of Asia. Many of Indonesia's current leaders were educated in Australia and this bodes well for deepening ties between Australia and Indonesia. However, more can be done to develop engagement between the wider populations of Indonesia and Australia. Interaction at subnational levels, governmental and societal was seen to be helpful in this regard as would increasing educational and cultural exchanges of younger generations between Western Australia and Indonesia.

Chapter 2

Economic Dynamics in the Asian Region

Asia is perhaps the greatest economic success story of the late 20th century. Though a poor and relatively under-developed region in the 1950s, Asian economies quickly emerged as some of the fastest growing in the world economy. Industrialisation, urbanisation and human development has continued largely unabated for five decades in many countries. These trends have seen Asian countries quickly close the development gap between themselves and the rest of the world, placing the Region at the centre of the contemporary global economy.

This 'economic rise of Asia' has also created significant opportunities for Australia, which has utilised its geographical proximity and natural resource endowments to become a leading supplier of food, resources, education and tourism services to rapidly growing Asian markets. But why have regional economies been able to grow and modernise at such high rates? How have Asian economic dynamics affected the ways in which Australia has become enmeshed in the region? And what factors will determine whether Asia's past economic achievements will continue into the future? In this chapter, we examine the contours and structural drivers behind the economic rise of Asia, consider how the Australian economy has become deeply – but narrowly – connected to partners in the region, and explore the developmental challenges facing Asian economies in coming years.

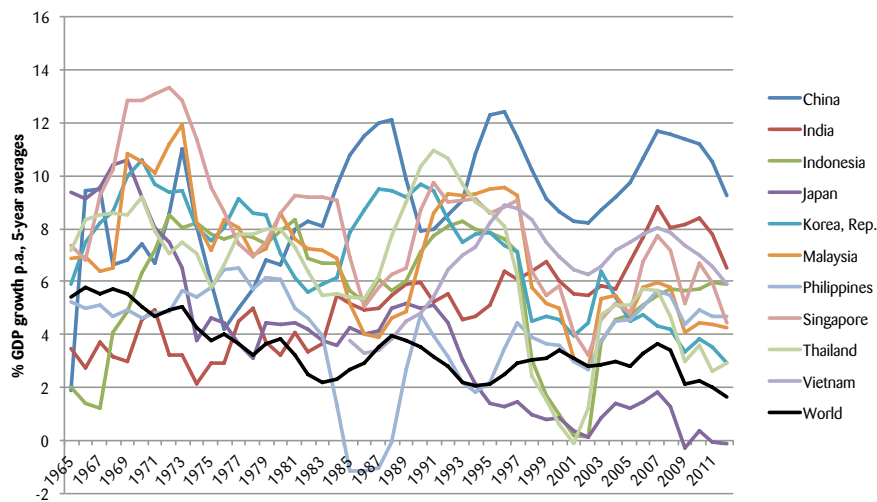
The Asian Economic Miracle

The rise of Asia is a historical phenomenon that rests upon economic foundations. The growing political influence and importance of Asian countries within the international system is intimately connected with their collective success in navigating the process of economic development. At the end of the Second World War (WW2), the region was in poor shape economically: Northeast Asian countries were badly damaged and in need of reconstruction, while Southeast Asia was occupied with the political transition from colonial rule and the establishment of independent governments and new political systems. But from the late 1950s the Region gradually began a process of high-speed economic growth, modernisation and industrialisation, which has become known as the 'Asian economic miracle'. Within two generations, this miracle had completely transformed many Asian countries, and catapulted them to a leading position in international affairs.

The Asian economic miracle proceeded through a series of stages, as country after country sequentially experienced an economic take-off. The first was Japan which, after a period of reconstruction following WW2, began a period of high-speed growth in the late 1950s. The Japanese miracle soon spread outwards across the Region, with the 'Asian Tigers' (Singapore, Taiwan, Hong

Kong and Korea) experiencing their own economic take-offs in the mid-1960s. These countries were then joined by the so-called 'Tiger Cubs' (Indonesia, Malaysia, Philippines and Thailand) in the 1980s, by which time the miracle had expanded to also encompass Southeast Asia. Its regional diffusion was completed in the 1990s, when countries undertaking post-socialist economic reforms (China, Vietnam and India) began their own periods of high-speed growth. The dynamics of the Asian economic miracle varies across nations, with high-speed growth taking off – and subsequently slowing – at different times in different economies. The overall story is one of high and sustainable economic growth, which since the 1960s has consistently outperformed the global average (Figure 2).

Figure 2: Asian economic growth rates, 1965-2012



Source: World Bank, World Development Indicators Database

Two consequences have followed from Asia's four decades of world-beating economic performance. First, there has been a dramatic developmental 'catch-up' between the Region and the rest of the world, with per capita gross national income in Asia rising from 44 per cent of the global average in 1980 to 91 per cent by 2012. Second, Asia's weight in the world economy has markedly increased, with its share of global GDP increasing from 15 per cent to 29 per cent over the same period.ⁱⁱⁱ Contemporary forecasts expect Asia's share of the global economy will rise to around 50 per cent by 2050 – the key figure upon which claims that the 21st century will be the 'Asian Century' are typically based. However, these analyses often overlook the fact that the Asian economic miracle has not simply produced quantitatively high economic growth rates. It has also catalysed three qualitative transformations in the economic and social structures of countries in the region: industrialisation, urbanisation and rapid human development.

Industrialisation as primary driver

The primary driver behind high-speed economic growth in Asia has been industrialisation. Few Asian countries have sizeable or high quality endowments of natural resources, and development has therefore been based upon a transition from economic structures dominated by primary sectors to those focussed upon manufacturing. Across the Region, this transition was typically started by export-oriented industrialisation (EOI) – the building of labour-intensive manufacturing industries (such as textiles and consumer goods) oriented to Western markets by attracting foreign direct investment.

This was followed by a process of ‘moving up the value chain,’ where successively more advanced sectors such as technology products (electronics), heavy industries (steel, petrochemicals) and complex manufactures (automobiles, machinery and aerospace) were progressively established. There was a regional dynamic to this process, as industries gradually migrated across countries as developmental levels and patterns of comparative advantage changed. Industrial migration was particularly seen in the textiles industry, which moved from Japan to the Asian Tigers in the 1960s, before shifting again to the Tiger Cubs and China in the 1980s. This process allowed Asian economies to gradually transition from lower to higher value-added manufacturing sectors, exploiting new export and investment attraction opportunities at each stage in the chain.

Urbanisation

Industrialisation in turn drove a process of urbanisation in Asian societies. The growth of manufacturing industries demanded the expansion of large cities, with hundreds of millions of people moving from rural areas to seek employment in new urban conurbations. In Southeast Asia, urbanisation rates increased from 25 per cent in 1980 to 44 per cent by 2010, while in China they rose from 19 to 49 per cent over the same period. The overall urban population of East Asia rose by 700 million in the three decades to 2010, of which two-thirds was accounted for by China alone.^{iv} This process facilitated major improvements to economic infrastructure such as transport and utilities which were built as cities grew. It also increased the quality of and access to social services (e.g. education, housing and healthcare) that are more easily delivered in concentrated urban areas. The establishment of industrial centres in turn supported the growth process by facilitating ‘economics of agglomeration’, where related industries that develop in close proximity to each other – for example, the steel, machinery and automobiles sectors – mutually reinforce each other’s development.

High-speed growth, industrialisation and urbanisation have all combined to see levels of human development in Asia leap forward. Major improvements have occurred across the region in terms of health, nutrition, housing standards, educational attainment, poverty reduction and access to information and social connectivity. The United Nations Development Program’s Human Development Index (HDI), a composite measure of health, education and income data, succinctly illuminates the contours of the process. The HDI scores of all Asian countries have increased since the 1980s, and the Region as a whole has improved at twice the rate of the global average. These improvements in human development has also led to the phenomena of the ‘rising middle class’ –

increasingly wealthy groups within Asian societies whose economic resources allow them to demand better nutrition, housing, healthcare, education and social services.

Table 1: Human Development Index in Asian countries, 1980-2010

	1980	1990	2000	2010	Increase 1990-2010
Cambodia			0.444	0.532	
China	0.407	0.495	0.590	0.689	39%
India	0.345	0.410	0.463	0.547	33%
Indonesia	0.422	0.479	0.540	0.620	30%
Japan	0.788	0.837	0.878	0.909	9%
Korea	0.640	0.749	0.839	0.905	21%
Malaysia	0.563	0.635	0.712	0.763	20%
Philippines	0.561	0.581	0.610	0.649	12%
Singapore		0.756	0.826	0.892	18%
Thailand	0.490	0.569	0.625	0.686	21%
Vietnam		0.439	0.534	0.611	39%
East Asia & Pacific	0.432	0.502	0.584	0.673	34%
World	0.561	0.600	0.639	0.690	15%

Source: United Nations Development Program, Human Development Reports Database

Economic interdependence

Asian economies have not achieved these developmental successes on their own. Rather, there has been a decidedly regional flavour to Asian economic miracle. It is no coincidence that countries in the Region have grown together, as the miracle has relied upon mutually supportive patterns of interdependence between economies, reinforced by political structures that have deepened regional economic integration.

The rapid pace of Asian industrialisation was made possible by patterns of complementarity between economies. Broadly, the Region is home to three distinct types of economy, which support each other by performing differentiated economic roles. First are the advanced industrial economies – Japan, Korea and Singapore – which provide the region access to capital, technical expertise and important commercial and technological services. Second are the industrialising economies of China and Southeast Asia, which have ample supplies of labour and are home to the bulk of the Region’s manufacturing capacity. Third are resource countries – such as Australia, Indonesia and Thailand – which fulfil an important role in supplying resource-poor countries with the necessary minerals, energy and food to sustain industrialisation and urbanisation. Complementarity between these three groups has led to deep patterns of trade and investment in the region, and has allowed the economies to specialise in areas where their comparative advantages are the greatest. Interdependence in the region is thus highly pronounced – currently, some 56 per cent of Asia countries’ trade, and 43 per cent of their foreign investment, is with partners in the Region.^v

A major benefit of economic interdependence is that it has fostered the rise of global value chains within the Asian region. Global value chains are the networks of functionally-connected economic activities necessary to create a finished product, where these activities occur not in a single country but are shared across multiple countries. An indicative example is the global value chain for the Apple Corporation's iPhone: while assembled (and hence nominally 'made') in China, the iPhone incorporates parts from Japan, Korea and Taiwan, manufactured according to US industrial designs, and marketed through retail partnerships with telecommunications companies throughout the world.

Global value chains are common in the Asian region, and have become well developed in textiles, electronics, consumer goods, food and automobile industries. Participation in global value chains has been instrumental in supporting Asian industrialisation – by opening new opportunities for manufacturing exports, enabling economies to build competitive strengths in industrial niches, and allowing an intra-regional 'sharing' of production opportunities between countries of differing developmental levels.

Intergovernmental arrangements

Regional economic interdependence has not, however, simply occurred naturally. Economic links between Asian countries have been fostered by political arrangements between governments that have established open, rules-based and integrated markets within the Region. Four nested multilateral bodies have been integral to this process. At the centre of the arrangements is the Association of Southeast Asian Nations (ASEAN), which in 1992 began the process of establishing a free trade area within Southeast Asia. In 1997, its economic cooperation efforts were broadened through the formation of the ASEAN Plus Three grouping (bringing in China, Japan and Korea), which established a range of cross-regional policy dialogues, particularly in the financial sphere. These bodies were augmented in 2005 with the formation of the broader East Asia Summit grouping (adding Russia, India, the US and Australia), which has focussed on promoting integration and collective responses to regional economic challenges. The work of these bodies is in turn supported by the Asia-Pacific Economic Cooperation (APEC) group, a forum of 21 economies formed in 1989 committed to promoting free trade in the Asia-Pacific.

Each of these bodies has played a key role in developing the inter-governmental arrangements necessary for economic interdependence in Asia. APEC has consistently promoted trade and investment liberalisation, and hosts a range of sectoral policy dialogues between government ministries in the region. The ASEAN has served as a hub for free trade agreements in the Region, establishing the 'common effective preferential tariff' scheme amongst its members in addition to signing trade agreements with China, India, Japan, Korea, Australia and New Zealand. The ASEAN Plus Three and East Asia Summit have played an important role in dealing with economic crises facing the region, particularly in the spheres of finance, energy security and climate change.

Economic integration in Asia has depended upon these multilateral bodies, which have established principles for regional economic cooperation, built trust between governments and set rules for national policy regimes. Without their contribution, economic interdependence within the region – and by extension the Asian economic miracle – would not have been possible.

Asia has clearly been one of the major developmental success stories of the late 20th century. Over a five-decade period, successive Asian countries have experienced industrialisation, urbanisation and rapid human development, quickly closing the development gap between the Region and the rest of the world. Three features have defined the Asian miracle. First, Asian economies have all relied upon industrialisation to drive high-speed growth. Second, all have used outward-looking economic strategies to promote development, which has driven ever-deepening levels of mutually beneficial economic interdependence within the region. Third, political arrangements have supported this process, with a range of regional organisations working to achieve policy cooperation between governments. This combination – of industrialisation, outward-orientation and supportive regional institutions – has been the driving force behind Asia’s rise to become the centre of focus of the international system.

Contemporary Asian Development Challenges

The Asian economic miracle of the last several decades is far from over. The structural drivers of economic growth – progressively advancing industrialisation, urbanisation, and deepening regional integration – are ongoing trends, leading most analysts to expect the Region’s performance to continue for the foreseeable future. In the short-term, the International Monetary Fund’s forecasts that between 2013 and 2018 the ASEAN-6’s nominal GDP will grow by 8.9 per cent per annum, China’s by 13.1 per cent and Korea’s by 7.5 per cent – extremely strong performances given forecast world growth of only 6.3 per cent.^{vi} Taking a longer-term view to 2030, the Asian Development Bank expects growth to slow somewhat, but still forecasts annual GDP growth of between 3.8 per cent (Thailand) and 5.7 per cent (Philippines) over the next two decades.^{vii} While economic forecasting over such an extended period is notoriously difficult due to the impact of unexpected shocks (both positive and negative), the consensus view amongst economists is that high-speed growth in Asia will continue at least into the medium-term future.

However, while the structural drivers of growth in the Asian region look positive, extraneous factors may nonetheless complicate the developmental process in Asia in coming years. There are a range of development challenges currently facing the Region, which pose threats to the ability of Asian countries to sustain historical levels of economic growth, industrialisation and urbanisation. Many of these challenges are in fact a consequence of Asia’s achievements, and so could reasonably be considered a product of past successes. While countries in Asia each face their own unique set of economic imperatives, we identify three developmental challenges that constitute a common problem set facing the Region as a whole: transition in national development models; emerging demographic challenges; and widening socio-economic inequalities.

National development models

Many Asian countries are entering, or have already begun, a period of transition in national development models. Most economies in the region initially achieved high growth through export-oriented industrialisation focussed on labour-intensive manufactures – such as textiles, consumer goods and electronics assembly. While this strategy proved markedly successful, particularly during the 1980s and 1990s, two constraints will limit its future sustainability. First,

export-oriented industrialisation critically depends on the availability of buoyant external markets, which have typically been found in the US and Western Europe. But with Asian countries catching-up technologically, and growth in the Western world stalling, the scope for export-led growth is becoming increasingly tougher. Second, Asia is facing increasing competition in labour-intensive manufacturing, as other developing countries in South Asia and Africa with lower wage costs have begun to develop their own export industries. It is unlikely that export-oriented industrialisation will continue to be a viable development strategy for Asia.

Indeed, many Asian governments have realised this challenge, and have started efforts to shift towards new developmental models. These strategies focus on capital and knowledge-intensive industries (such as automobiles, IT, engineering and technology services), and are oriented toward growing domestic rather than overseas markets. China provides an archetypical case, with the Chinese government officially signalling a transition to a domestic-oriented and higher-value industrial strategy in the *10th Five Year Plan* of 2001. However, transitioning between development models is not an easy task. It requires governments to experiment with new economic policies – particularly in the fields of technology, education and infrastructure – which will require a trial-and-error policy learning process. It will also demand new political structures for regional economic cooperation – as policy focus will shift from Western countries to partners in the Asian region, and towards more complex trade issues such as services, intellectual property, investment and technical standards. These shifts in national and regional policy frameworks will prove challenging, but are essential if Asia's economic dynamism is to continue.

Demographic challenges

The Asian region is increasingly facing demographic challenges (as noted in Chapter 1). On the one hand, in parts of the Region population structures are ageing rapidly, as longer life expectancy and lower birth rates increase the share of elderly people in the population. Ageing is most commonly found in high-income countries such as Japan, Singapore, Korea and Australia; but is increasingly also occurring in China, where the median age increased from 24.8 to 34.6 years between 1990 and 2010.^{viii} On the other hand, some parts of the Region are experiencing extremely rapid population growth, driven by improvements in nutrition, housing, perinatal health and a reduced infectious diseases burden. This is occurring largely in the lower-income countries of Southeast Asia, which have more recently entered a period of high-speed growth and modernisation. Current UN forecasts indicate that the population of Southeast Asia will grow by 19 per cent by 2030, though some very high growth countries (such as Malaysia and the Philippines) will see population growth exceed 30 per cent.^{ix}

These regional demographic trends pose opposing but equally challenging threats to Asian economies. In high-income countries, ageing is driving increases in dependency rates – the proportion of the population not in the labour force. Old age dependency rates are currently 11 per cent in China, 15 per cent in Korea and as high as 36 per cent in Japan. However, if fertility and mortality rates remain constant, these rates will rise to 65 per cent in Japan, 57 per cent in Korea and 35 per cent in China by 2050.^x Shrinking labour forces will undermine economic growth, and necessitate major and costly

revisions to national welfare and health systems. In low income countries, high population growth is instead putting additional pressure on economic issues such as urbanisation, job creation, infrastructure, environmental quality and food security. While Southeast Asian countries' population are forecast to grow by 27 per cent by 2050, their urban populations are expected to double to 500 million, seriously challenging the absorptive capacity of already strained Asian mega-cities. Large investments in infrastructure, social services and food production will be essential if urban population growth is to be managed sustainably.

Socio-economic inequalities

There has been a marked increase in levels of socio-economic asymmetry within the Asian region. These asymmetries take two forms. One is the inter-country dimension, where the region is divided between groups of high income (Japan, Korea and Singapore), middle income (China, India and the ASEAN-6) and low income CMLV economies. The second is the intra-country dimension, where economic inequality within nations has widened as some social groups have benefited from high-speed growth more than others. Both forms of socio-economic asymmetry are presently on the rise. Strong economic performance in some countries (particularly China, India and Vietnam) alongside weaker performance in others (Philippines and Indonesia) has increased inter-country disparities while the Gini index (a measure of economic inequality) has grown in the majority of regional countries. This demonstrates that while economic growth in Asia as a whole is high, it has also been very uneven, leading to a widening of 'development gaps' in the region.

Table 2: Economic asymmetries within and between Asian countries

	Gini index			GDP pc PPP (2005 USD)		
	Circa 1990	2009/2010	Change	Circa 1990	2010	Annual growth rate
Cambodia	38.3	36.0	-2.3	774	1937	4.69%
China	32.4	42.1	9.7	1101	6819	9.55%
India	31.9	33.9	2.0	1217	3122	4.82%
Indonesia	29.2	39.6	10.4	2073	3873	3.17%
Japan	24.9	37.6	12.7	26523	31030	0.79%
Korea	32.0	41.9	9.9	11383	26774	4.37%
Malaysia	46.2	46.2	0.0	6874	13767	3.53%
Philippines	40.6	43.0	2.4	2538	3554	1.70%
Singapore	42.0	47.8	5.8	25234	52314	3.71%
Thailand	45.3	40.0	-5.3	3967	7987	3.56%
Vietnam	35.7	35.6	-0.1	905	2875	5.95%

Source: World Bank, World Development Indicators Database.

These growing socio-economic asymmetries are problematic, because they contribute towards social and political divides within the Region. One dimension is the rich-poor divide, which has become more pronounced in many countries as the gap between poor social groups and the rising middle class widens. A second is urban-rural divide, as urban residents enjoy better access to food, housing, education, employment and social services than those remaining in rural areas. A third and increasingly recognised asymmetry is the so-called 'connection gap' between those who have access to modern telecommunications services and those who do not. With telecommunications becoming increasingly essential for all aspects of social life, a lack of connectivity threatens to exacerbate the economic and social disadvantages of already marginalised groups.

Narrowing the Development Divide in ASEAN: The CLMV countries

ASEAN aims to integrate all its member economies and create an ASEAN Economic Community (AEC) by 2015.^{xi} In 2007, AEC launched a blueprint aimed at achieving this ambitious goal. If realised, an integrated market and production base would keep the ASEAN region economically competitive and attractive to foreign investors, especially Multinational Corporations.

However, the greatest challenge to economic integration and the AEC project is the wide development gap that exists among its member countries, especially between the more developed ASEAN countries and the CLMV countries—Cambodia, Lao PDR, Myanmar and Viet Nam.

This development divide is reflected not only in economic terms (e.g. GDP per capita) but also in human development and socio-economic indicators.

The CLMV countries have experienced rapid growth rates over the past decade, which has helped them to economically catch-up with its more advanced ASEAN members. However there continues to be significant development gaps. There is a need to increase the speed and breath of policy reforms to address this issue, especially in the area of trade policy (on trade and transport facilitation), improving the investment climate, addressing labour mobility needs, and consultation mechanisms to help address individual development needs.^{xii}

ASEAN and ASEAN+6 have made great strides in economic development. However, for economic growth to be sustainable over the longer term and with greater equity among its diverse member countries, economic and technical cooperation will be crucial.

Widening socio-economic inequalities are a direct threat to the economic prospects of Asian countries. First, they reduce the ability of disadvantaged groups to participate fully in the economy through health, education and employment opportunities, directly impacting upon national economic performance. More broadly, however, they also threaten social cohesion and integration within Asian countries. As recent events in several regional countries have demonstrated, widening gaps between have and have-not social groups can also threaten the political stability of countries themselves. Addressing these asymmetries will be essential if the stability and social integration that has underpinned the Asian economic miracle is to continue in future years.

CLMV	Rank 2012	HDI Value	GDP per capita 2012
Vietnam	127	0.617	931.030764
Cambodia	138	0.543	671.636314
Lao PDR	139	0.543	707.190383
Myanmar	160	0.498	...
Plus 6 nation			
Australia	2	0.938	37228.1957
Japan	10	0.912	36938.0091
South Korea	12	0.909	21562.4463
China	101	0.699	3348.00988
India	136	0.554	1106.79746

While challenges associated with developmental transition, demographics and socio-economic inequalities threaten Asia's future economic prospects, they are by no means insurmountable. All three challenges are to some extent the consequence of past economic achievements, and reflect the fact that Asian countries have been remarkably successful in starting the developmental process. But as the Asian economic miracle progresses, the nature of the challenges facing governments is similarly evolving. New policies and strategies will need to be devised, at both the national and regional levels, to ensure these challenges do not derail Asia's performance in the years ahead.

Australia's economic enmeshment in Asia

The Asian economic miracle has proven transformative for the Australian (and Western Australian) economy and its connections with the Region. For a country that has historically been considered distant from the rest of Asia, Australia's economic ties with the Region are surprisingly deep. Asian countries presently account for 58 per cent of Australia foreign trade,^{xiii} 63 per cent of its international student population,^{xiv} 40 per cent of tourist arrivals and 29 per cent of its migrant intake.^{xvi} These trade and personal links have emerged over a 50 year period and been instrumental in supporting the Australian economy during the recent global downturn, when surging commodity exports to Asia have underpinned a strong investment boom in the mining and energy sectors. However, certain historical peculiarities mean that Australia's economic enmeshment in Asia is best described as 'deep but narrow'.

Australia's economic engagement with Asia is comparatively recent in historical terms. Prior to WW2 the Australian economy largely looked towards the British Commonwealth, to which it supplied pastoral products such as wheat and wool. However, as the Asian economic miracle took off, Australia's trade patterns gradually realigned to be a resource supplier to industrialising (but resource poor) economies in Northeast Asia. Australia's first resource relationships were forged with Japan, which was seeking raw materials to feed its rapidly growing steel industry, and saw new export-oriented iron ore and metallurgical coal industries established in Western Australia and Queensland in the 1960s. As the Asian economic miracle spread across the Region, so too did Australia's resource relationships – becoming the principal minerals supplier to Korea and Taiwan during the 1980s, and more recently with China over the last decade. These resource relationships have brought considerable benefits to both sides – providing Australia with highly competitive export sectors, while facilitating industrialisation in the economies of Northeast Asia.

The central role of Western Australia

The extent to which Australia's economic interdependency with Asia has grown in recent years is in large part a story about the Western Australian economy. The State's economy has undergone impressive growth in the resources sector as a key supplier to the expanding economies in Asia, especially China. While it has only 11 per cent share of the Australian national population, Western Australia contributed 47 per cent (A\$116 billion) of Australia's merchandise exports in 2012-2013, higher than New South Wales, Victoria and Queensland combined (45 per cent). The core of the Western Australian economy is export oriented, and is a major link of the Australian economy with major economies in the Region. It has large shares in national exports to China (69 per cent), the Republic of Korea (47 per cent), Japan (46 per cent) and India (30 per cent).^{xvii} WA provides more than 40 per cent of China's iron ore imports, is the dominant supplier of gas to Japan, and by 2020 Australia is forecast to export more liquefied natural gas (LNG) than any country except Qatar, with the majority of this sourced from Western Australia. The challenge for Western Australia is how it can deepen and diversify its connections in the Region to draw more fully on the benefits of economic integration. We return to this theme in Chapter 6.

Source: Government of Western Australia, Department of State Development, 'Western Australian Economic Profile-October 2013.'

During the 1990s, Australia's trade ties with Asia began to broaden from the initial focus on the mining sector. This broadening was driven by three trends, all of which were linked to the rising middle class in Asia. The first was an expansion of Australia's agricultural trade with the Region, as food demand from increasingly wealthy Asian consumers became greater and more diversified. Asian economies increasingly imported fine wool, beef, dairy and horticultural products from Australia, whose agricultural exports surged to \$39 billion by 2012.^{xviii} The second was the development of educational exports, as international students from China, India and Southeast Asia were drawn to Australia's high quality tertiary and higher education institutions. Australia now hosts approximately 330,000 international students,^{xix} enabling the education sector to generate \$16 billion of service exports annually.^{xx} The third was the expansion of the Australian tourism sector, which capitalised on Australia's endowment of natural assets and proximity to Asia to attract increasing numbers of tourists from the region. Successive waves of Japanese, Southeast Asian and Chinese tourists have seen the industry grow, and now generate \$33 billion of export revenues.

Of course, Australia's resource relationships have steadily continued to deepen. Rapid growth in the Chinese steel and heavy industrial sectors during the 2000s saw regional demand for raw materials soar. Australia's minerals and energy exports increased five-fold – from \$29 billion in 2002 to \$147 billion in 2012.^{xxi} This supported an investment boom that has seen \$200 billion committed to building new mining and energy projects, the bulk of which

are oriented towards Asian markets. These deepening economic ties with Asia have been a critical factor in Australia's economic performance: driving unprecedented levels of mining investment (in the 1970s and 2000s), providing a platform for the expansion of agricultural production, and fostering the development of new service industries such as education and tourism.

Australia's narrow trade profile

While Australia's economic relations with Asia have steadily deepened over the last five decades, they remain markedly narrow in their scope. One issue concerns Australia's heavily concentrated trade profile. Four industries – agriculture, mining, education and tourism – generate the lion's share of Australian exports (Table 3). This reliance on a narrow range of export sectors poses risks, as it over-exposes the economy to external shocks in these sectors – such as that experienced by the education sector in the late 2000s, where the rapidly appreciating Australian dollar had a notable impact in the downturn in international student numbers. It also demonstrates that the trade performance of many Australian sectors is comparatively weak, particularly the finance, commercial services and healthcare industries.

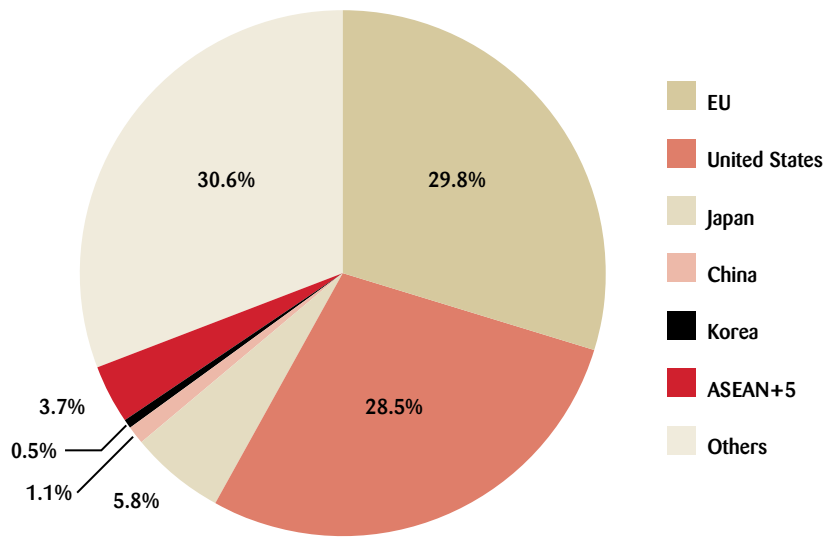
Table 3: Sectoral contribution to Australian value added and exports, 2012

Sector	Share of gross value added	Share of exports
Agriculture	2.1%	11.6%
Mining	10.6%	48.6%
Tourism	NA	11.0%
Education	4.5%	5.2%
Others	82.8%	23.6%

Source: Australian Bureau of Statistics, International Trade in Goods and Services Australia, May 2013 (cat no. 5368.0) and Australian National Accounts: National Income Expenditure and Product, March 2013 (cat no. 5206.0).

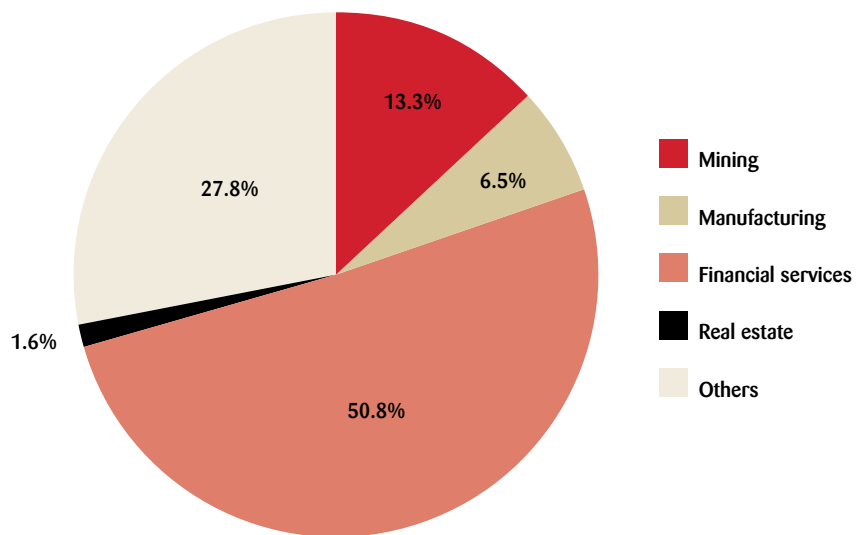
Australia's attractiveness as a site for foreign investment has steadily grown in recent years, doubling from an average of \$71 billion per annum during the period 2001-05 to \$150 billion during 2006-10.^{xxii} But despite the deepening of its Asian trade links, Australia's regional investment relationships are less developed – with Asian economies accounting for only 11 per cent of accumulated FDI stocks in 2012 (Figure 3) although this share is expected to grow. The bulk of investment ties remain with the UK, Europe and the US, who jointly account for two-thirds of foreign-owned investment stocks in Australia. There is also a marked sectoral bias, with the mining and financial services accounting for the majority of Australia's foreign investment stocks (Figure 4).

Figure 3: Australian foreign investment stocks by country of origin, December 2012



Source: Australian Bureau of Statistics, *International Investment Position Australia: Supplementary Statistics 2012* (Cat No. 5352.0).

Figure 4: Australian foreign investment stocks by sector, June 2012



Source: Australian Bureau of Statistics, *Balance of Payments and International Investment Position Australia, March 2013* (Cat No. 5302.0).

The Australian economy has undoubtedly benefited from the Asian economic miracle, and over the last several decades has developed economic ties with partners in the region. But as already discussed, ties are relatively narrow. These 'deep but narrow' ties to Asia pose a number of challenges for the Australian economy. The narrow export base exposes the economy to the risk of external shocks that could adversely affect its trade performance, particularly if a moderation in world resource prices occurs over the next decade. Australia is also poorly connected with the global value chains developing in the Asian region, insofar as its contribution to these manufacturing systems is primarily limited to the role of a supplier of raw materials.

It is clear that a significant broadening of Australia's economic ties with Asia is desirable. A diversification of exports to include service exports is necessary to reduce exposure to external shocks. Development of service exports will rely on deepening investment ties with Asian economies, in order to access the necessary information, skills and technology to succeed in these markets. Broadening trade and investment relationships will also help Australia integrate with global value chains in the region, opening new commercial opportunities outside of primary industry sectors. To fully capture the benefit of economic ties with Asia, Australia must transition from simply being an *exporter to the Region*, to become an economic player that is *fully integrated with the Region*.

Recommendations

Recommendation 2

Government, business and policy leaders need to increase efforts to better inform industry and the wider community of Australia's interests and future prospects within the Region. These undertakings should emphasise regional societal challenges, shared environments and a common public interest, as well as the economic opportunities.

Recommendation 3

Further efforts also need to be made to raise awareness about Australia in the Region, how its economy is connected into other regional economies, how it shares common challenges, and how greater regional engagement can assist in addressing these challenges.

Recommendation 4

Government needs to further pursue strategies to diversify the Australian economy with a strong focus on regional opportunities. This should entail the necessary policy settings to encourage investment in underdeveloped export industries and areas of international competitiveness. Diversification of exports is necessary to reduce exposure to external shocks. Development of the services export sector is an important aspect to achieving this aim.

Recommendation 5

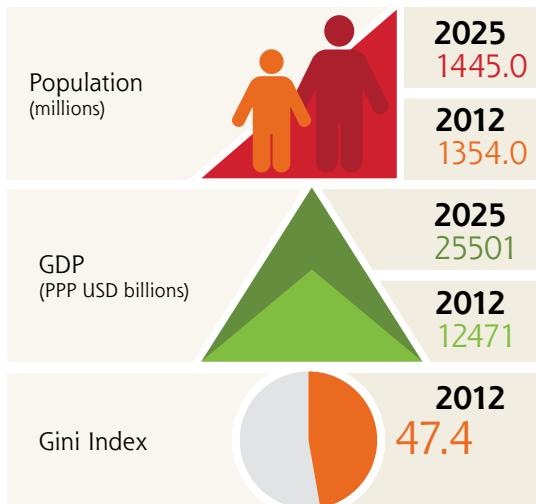
The Australian economy would benefit considerably from both a geographical and sectoral diversification in its foreign investment profile. Foreign investment brings skills, technology, and capital into the Australian economy, but a narrow reliance upon a handful of countries and industries limits the scope of these benefits. Deepening investment ties with Asian partners, and building these in new sectors (particularly services and technology) will help Australia integrate with global value chains in the Region, opening new commercial opportunities beyond the primary industries sector.

Recommendation 6

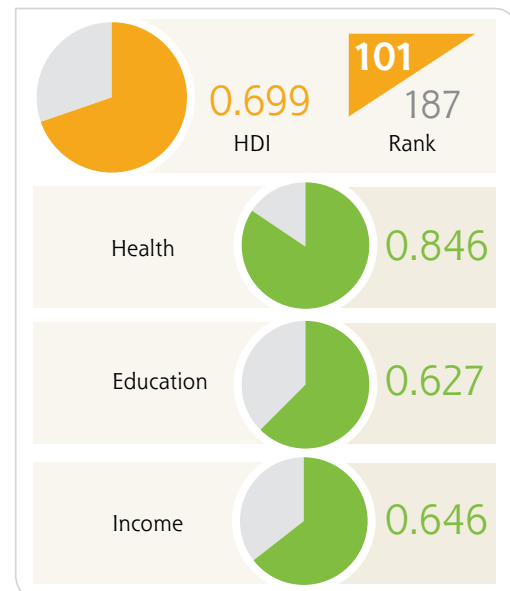
Government and business should consider the use of forums and other information platforms to share success stories and cultural learning on interregional investment, illustrating how it can develop mutual benefit for Western Australia, Australia and regional partners. A key aspect in these efforts would be to emphasise the importance in business dealings of taking the time to build relationships as a prelude to commercial transactions.

Country brief:

CHINA



Human Development Index (2012)



China is the most populous country in the world with a rapidly ageing population. The ethnic composition of China is overwhelmingly Han (91.5 per cent) with a range of other ethnic groups making up the balance. China is the world's second largest economy (in nominal GDP terms) and it is the fastest growing major economy. China's annual average GDP growth between 2001 and 2010 has been calculated at 10.5 per cent. The turn to market-oriented economic development after 1978 has produced dramatically improved living standards and an expanding middle class. The Australia-China trade relationship is substantial with the value of two-way flow of goods and services standing at \$125 billion in 2012. After India, China is Australia's largest source of skilled migrants and its largest source of international students. Australia and Western Australia in particular have been a major supplier of resources to China, and Australia is becoming a popular destination for Chinese tourists. There are a number of Australian companies operating in China and it is increasingly looking to Australia as a destination for investment opportunities. Australian governments, state and federal, have ongoing agendas to develop engagement with China on a range of levels.

In its meetings and consultations in Beijing and Shanghai, the Commission heard from a variety of voices on China's current situation and future prospects, and how Australia and Western Australia may figure in these views. The following provides some snapshots of these views



Challenges

- China faces a huge task of reforming its current model of development. The massive growth of the Chinese economy over recent decades has been driven by export and investment-led development. The contemporary challenge is to re-orientate the economy to a model driven much more by domestic demand. Critical to this task is the question of how China's political leaders can circumvent vested interests in existing arrangements and develop domestic constituencies backing reform.
- Economic growth and urbanisation has placed the environment, infrastructure, healthcare services, energy supply, food security and the education system under enormous stress. Development plans to push further west and inland to create new economic hubs are responses to these pressures but they nonetheless remain major problems.
- The face of Chinese society is changing with an aging population, the ongoing migration from rural to urban settings, and greater labour mobility. These are altering family and community structures with implications for traditional social patterns. The rising middle classes and growing income divides are also having impacts on these patterns. In this regard, new social media is giving expression to a diversity of new social attitudes. Maintaining social stability as Chinese society develops is thus an ongoing challenge.

- China's growing importance as a major regional and global power is having a significant impact on security relationships in the Region, and East Asia in particular. A number of countries in the Region have longstanding strategic ties with the US but are also developing substantial economic relationships with China. This means that regional security is now being seen increasingly in terms of the challenge of 'balancing' the relations between China and the US.

On Australia and Western Australia

- There are great opportunities for new partnerships and collaborations between Australia and China. For instance, the Chinese push west and inland involves settling semi-arid regions. This requires knowledge and expertise of such settings in agricultural production, water management and environmental sustainability that Western Australia can provide.
- There is poor recognition of Western Australia in China outside the resources sector. Western Australia should consider the longer-term goals of its relationship with China, and continue to diversify its relationship-building focus and activities to include other sectors and other forms of engagement.
- Australians need to better understand how business is done in China. There is a sense Australians do not fully appreciate the importance of building 'thick' connections in commercial matters. In China, as elsewhere in the Region, Australian businesses need to take the time to establish broader relationships with regional partners, and not act in a purely transactional manner.
- The value of Australian education is generally well perceived, but there are issues. Australia remains an important destination for Chinese students but it must be ever alert to the evolving needs of Chinese industry and skill demands.

Emerging leaders perspectives

- Chinese people tend to think of Australia in terms of mining and resources. Australia is not seen as Asian. While Australia is multicultural, it also has a Western heritage. Australia is considered to be a safe country and this is attractive to Chinese people. More could be done to promote Australia and provide a broader picture of what it is about.
- The battle between stability and growth is a major concern. There is the suggestion that it would be in China's longer-term interests to slow growth in order to address a range of issues including the growing gap between rich and poor. It would allow the western provinces to catch up developmentally with their eastern counterparts, and it would provide some latitude to begin to address the significant environmental consequences of rapid growth and urbanisation.

- Contemporary China faces many challenges. Food safety, food security, and the environment are critical issues. Housing costs are rising and there is a lack of superannuation and other benefits. Medical care is also a concern, particularly for older people and the aging population in China. Australia and Western Australia have expertise and extensive experience in these areas and they could have a contribution to make in how China approaches these issues.
- Quality is a challenge for China's image. It needs to remedy the perception that Chinese products are of low quality. Where quality is an issue, Chinese companies need to be given incentives to improve their quality so that they can better engage with the Region and more globally. This applies to health and safety standards as well.

Chapter 3

Australia and Regional Trade Integration

International trade has been a key driver in the Asian economic miracle. As governments moved from import-substitution to export-oriented industrialisation strategies, 'Factory Asia' was born. The spectacular growth of Asia's emerging economies is overwhelmingly a good news story for the Region, Australia, and Western Australia. While the US and EU have experienced challenging economic conditions since the global financial crisis of 2008-09, the Australian economy has largely flourished, primarily due to growing East Asian demand for Australian exports of raw materials and food. In addition to natural resources, Australia also has high levels of education and tourism exports to the Region.

While these success stories should not be underplayed, Australia's economic ties with East Asia are relatively narrow, with other trade in services exports and investment relationships remaining under-developed at present. Although Australia will continue to be valued in the Region as a secure and reliable source of energy, food and other raw materials, it should not miss out on opportunities to expand its services exports. Trade in services is one of the fastest growing areas in global trade, especially where trade in goods becomes enmeshed with investment flows in complex value chains. Indeed, service industry activity in national economies, alongside international trade in services, is directly linked to the dynamism of robust 21st century economies.

As argued in Chapter 2, Australia needs to diversify and broaden its economic ties with the Region, especially with regard to services exports and investment in industries where Australia has globally-recognised strengths. These include financial and business services; infrastructure and engineering services; and health and medical services. However, it has been difficult for Australia to advance its interests in securing greater opportunities for its services exports to economies in the Region. Indeed, in its various free trade agreements (FTAs) with partners in the Region, Australia has made few gains in securing improved opportunities for its services exporters. This has been for three principle reasons:

- Unlike liberalisation of trade in goods, which can be implemented through reductions to tariff and other border barriers to trade, the liberalisation of services trade involves significant changes to domestic regulatory structures, including to investment regimes.
- Services liberalisation is often difficult to undertake on a bilateral basis; thus services trade liberalisation often means opening an entire services sector to all international competition (not just Australian providers).
- As a relatively small and highly open economy, Australia lacks both the 'economic clout' and the 'negotiating coin' to secure better access for its service exports to major Asian economies.

However, trade arrangements in the East Asia region – and the global economy more generally – have entered into a period of considerable flux. After more than a decade of paralysis in the World Trade Organisation (WTO) Doha Round of multilateral trade negotiations, governments in the East Asia region have turned towards bilateral and regional trade negotiations in order to advance their national and shared interests in securing greater openness in trade and investment.

This chapter surveys these developments and concludes with some recommendations in relation to Australia's role in advancing these agreements in the interests of regional economic cooperation and development. Although this chapter focuses on national government – as trade agreements are made between sovereign states – open regionalism, greater regional economic integration, and the liberalisation of trade and investment flows are of direct salience and benefit to the Western Australian economy.

Evolving arrangements for Trade and Economic cooperation

APEC and Open Regionalism

Economic interdependence in East Asia has been largely driven by governments undertaking unilateral or concerted actions to facilitate the development of regional production networks and global supply chains. 'Factory Asia' did not emerge from formal and comprehensive trade agreements of the sort that have characterised North American or European integration (i.e. the North American Free Trade Agreement and the European Union). Rather, regional integration in Asia has been driven by a combination of unilateral measures, such as the creation of free trade export processing zones and unilateral tariff reductions.

This regional preference for unilateral and coordinated liberalisation, rather than negotiated liberalisation involving the exchange of concessions, has reflected particular political, economic and societal characteristics of the Region. These include: i) the wide diversity of social, economic and political systems from relatively liberal and market-oriented economies through to authoritarian regimes; ii) the differing levels of development in the Region; iii) the Asian preference for consensus-based decision-making and non-formal consultation processes; and iv) the Region's traditional preference for non-discriminatory trade arrangements. As a result, the arrangements for trade governance in Asia have been more open and less discriminatory than is the case in North America and Europe. This has been characterised by APEC members as 'open regionalism', whereby trade liberalisation undertaken by APEC governments is extended to all other countries – members and non-members alike.^{xxiii}

Asian regional initiatives have also focused on strengthening the gains from interdependence, both regionally and globally, especially through the promotion of the free flow of goods, services, investment and technology transfer. A recent example is the Supply Chain Connectivity Initiative (SCCI), launched under the auspices of APEC in 2012. The SCCI has identified 'choke points' that prevent businesses in the Region from operating quickly, efficiently and reliably.^{xxiv} These include:

1. Lack of transparency on the full scope of regulatory issues affecting logistics; lack of awareness and coordination among government agencies on policies affecting logistics sector; and the absence of single contact point or champion agency on logistics matters within national bureaucracies.
2. Inefficient or inadequate transport infrastructure; lack of cross border physical linkages (e.g. roads, bridges).
3. Lack of capacity of local and regional logistics sub-providers.
4. Inefficient clearance of goods at the border; lack of coordination among border agencies, especially relating to the clearance of regulated goods.
5. Burdensome procedures for customs documentation and other procedures (including under preferential trade agreements).
6. Under-developed multi-modal transport capabilities (i.e. goods shipped under a single contract but with at least two different forms of transport); inefficient air, land and multi-modal connectivity.
7. Variations in cross-border standards and regulations for movement of goods, services and business travelers.
8. Lack of regional cross-border customs-transit arrangements.

An interim assessment of the SCCI has identified progress in terms of implementing projects to improve supply chain performance, though serious challenges remain.^{xxv} More generally, the initiative fits with APEC's wider strategic aims of trade and investment liberalisation, business facilitation and economic and technical cooperation. Its promotion of regional connectivity also dovetails with APEC's long-term goal of achieving free and open trade and investment by 2020.

As one of APEC's co-founders, alongside Japan, Australia has been a strong supporter of APEC and its commitment to 'open regionalism'. Although it is not a forum for trade negotiations, APEC has played a useful role in reinforcing the importance of outward-looking economic policies, in supporting trade and investment facilitation, and in bringing the Heads of Government of the APEC countries together on an annual basis. APEC has also been a useful counterpoint in the past when more exclusive forms of East Asian regionalism threatened to exclude Australia. Finally, APEC has been seen as an important vehicle for keeping the US constructively involved in the Region, and helping to prevent a 'split' down the middle of the Pacific Ocean.

Bilateral Free Trade Agreements (FTAs) in the Region

Notwithstanding East Asia's traditional antipathy to FTAs there has been a recent explosion of FTAs in the Region.⁴ Prior to the East Asian financial crises of 1997-98, there was only one FTA of any note in the Region – the ASEAN Free Trade Agreement (AFTA). Since then, every country in the Region has jumped

⁴ These are typically called FTAs because they liberalise trade between the parties to the agreement; however, they are often described as preferential trade agreements (PTAs) to draw attention to their discriminatory nature against those who are not party to the agreement.

on the bandwagon and there are now more than 100 FTAs either completed, in negotiation, or under study involving at least one country in the Region.^{xxvi}

Through this activity, three broad types of FTAs have emerged in the Region. The first type are those involving the US, Australia and New Zealand – which are deeply liberalising, comprehensive in their scope and coverage, address behind-the-border measures that affect trade, and include provisions that are not contained in WTO agreements, such as environmental and labour standards ('WTO-Plus'). The second includes those negotiated by Japan and South Korea, which are also WTO-Plus and include development assistance for developing countries. A third type includes the initiatives involving ASEAN and China, which tend to be more weakly liberalising and more selective in their scope and coverage.

There has been a great deal of debate about the economic impact of these FTAs, ranging from optimistic estimations about their positive welfare effects through to pessimistic claims about the costs that will be imposed on the efficient management of regional and global supply chains due to their discriminatory provisions – the so-called 'noodle bowl' effect. On the available evidence to date, the aggregate effect of these FTAs appears to have been less than either their supporters or detractors would expect. Most of them are relatively shallow in their coverage and, on the whole, they have neither delivered great benefits nor caused significant levels of trade diversion.^{xxvii}

That is not to say that these FTAs are without value. In some cases, governments have pursued FTAs for defensive reasons, to offset the damage done to their exporters by FTAs signed by their important trade partners. A good example of this is Australia's pursuit of an FTA with South Korea, due to the adverse impact of the Korea-US FTA on Australia's beef exports to South Korea (which is estimated to cost the Australian beef industry \$1.4 billion over the next 15 years). There are similar drivers for Australia's FTA with China, which aims in part to ensure that Australian agricultural exports secure the same preferential access achieved by New Zealand in its FTA with China. In addition, many of the FTAs in the Region have been strongly influenced by political, diplomatic or security considerations, in which case their value is not denominated in economic gains per se, but rather in their ability to promote other foreign policy considerations.^{xxviii}

Australia's Bilateral FTAs

Concomitant with global and regional trends towards FTAs, since 2000 Australia has launched negotiations for bilateral FTAs with a dozen countries, all but one of which are with regional partners. Only five of these 12 agreements have been concluded, and with the exception of the Australia-US FTA, these have been with relatively small trading partners (e.g. Singapore, Thailand, Malaysia). By contrast, as Table 4 below illustrates, Australia's bilateral FTA negotiations with its most important trade partners in the Region – China, Japan and Korea – have been running for several years without significant progress.

Together, China, Japan and Korea accounted for 57 per cent of Australia's merchandise exports in 2012 and completing FTAs with these countries could yield major benefits for Australia, especially in relation to agriculture, services and investment. However, success has eluded negotiators to date.^{xxix}

Negotiations with China – Australia’s most important two-way trade partner – have been running for more than eight years, with no end in sight. The sticking points are numerous, and they include Chinese sensitivities about agriculture and services imports and Australia’s reluctance to raise threshold levels for Chinese investments assessed by the Foreign Investment Review Board.

Table 4: Australia’s Free Trade Agreements, September 2013

Country	Proposed	Negotiation starts	Agreement reached	Negotiating rounds	Current status
Singapore	Nov 2000	Apr 2001	Feb 2003	10	Complete
Thailand	Jul 2001	Aug 2002	Jul 2004	8	Complete
US	Nov 2002	Mar 2003	May 2004	7	Complete
China	Oct 2003	May 2005		19	Negotiation
Malaysia	Jul 2004	May 2005	May 2012	12	Complete
Japan	Apr 2005	Apr 2007		16	Negotiation
GCC	Jun 2006	Jul 2007		4	Suspended 2009
Chile	Dec 2006	Aug 2007	July 2008	4	Complete
Indonesia	Aug 2007	Mar 2013		2	Negotiation
India	Apr 2008	Jul 2011		5	Negotiation
Korea	Apr 2008	May 2009		5	Negotiation

Source: Compiled by Jeffrey Wilson from <http://www.dfat.gov.au/fta/>

FTA negotiations with Japan, which commenced in 2007, have also dragged on beyond expectations. Japan is heavily reliant on imports of key Australian mineral and energy resources and it has been interested in using the FTA as a means to ensure a stable and secure supply. For its part, Australia has been keen to negotiate reductions in the rates of Japanese agricultural protection, which are among the highest in the world. However, political pressure from its domestic farm lobbies has greatly constrained the Japanese government’s ability to manoeuvre.

Negotiations with South Korea have also been difficult. Australian agricultural exporters are keen to restore ground that was lost to the EU and the US as a result of their FTAs with Korea. In addition, Australian services exporters could stand to gain significantly in an agreement with South Korea. However, the Australian government does not wish to concede to Korea’s request for investor-state dispute settlement provisions, and this has proved to be a major stumbling block to finalising this FTA.

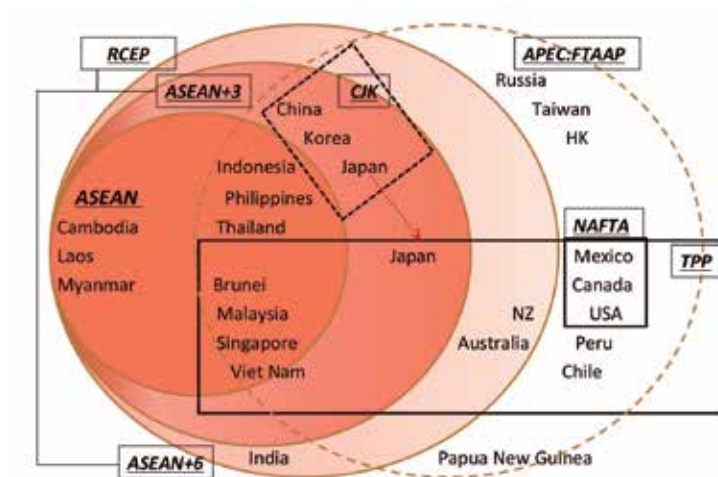
The new Australian federal government has committed itself to completing all three agreements during its first term, but this would likely entail prioritising a few key sectors (e.g. beef, lamb, dairy) at the expense of comprehensive FTAs that include the liberalisation of services and investment. Such deals may help to ‘level the playing field’ again in terms of the damage caused to some Australian agricultural exporters in the context of other Regional FTAs. But they are not likely to yield great gains for Australia’s commercial and investment interests and partnerships in the Region, nor help to diversify Australia’s export mix. Indeed, interest in the Region seems to be moving away from bilateral FTAs to broader regional agreements involving many members.

Regional Trade Agreements

Three major integration frameworks have emerged in the Region since 2010:

1. The ASEAN Free Trade Area (AFTA), which has become a hub for the promotion of free trade agreements in the Region, through its 'ASEAN Plus One' agreements with China, India, Japan, Korea, and Australia and New Zealand;
2. The Regional Comprehensive Economic Partnership (RCEP), which involves the members of ASEAN Plus Six (but not the US); and,
3. The Trans-Pacific Partnership (TPP), which involves twelve APEC members (but not China).

Figure 5: Economic Institutions in Asia and the Pacific (Apr.13)



Source: Compiled by Takashi Terada

In terms of their potential to re-shape trading arrangements in the Region, the two most interesting of these proposals are the ASEAN/China-centred RCEP and the US-centred TPP. Both are 'mega-FTAs' that include a broad group of developed and developing countries, including the many fast growing economies in the Asian region. While both the RCEP and the TPP are open to future members and therefore serve as potential stepping stones to APEC's long term aspiration to achieve a Free Trade Area of the Asia-Pacific (FTAAP), each agreement differs in its scope, coverage, aspirations and membership.

The TPP is a regional free trade agreement that is currently being negotiated among 12 APEC members (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam). It is distinctive and potentially path breaking in several key respects:

- First, it is a 'trans-regional' agreement that aims to link countries at different stages of development in four different regions in the Asia Pacific (East Asia, Oceania, North America, and South America).
- Second, it aims to be a high quality 'WTO-Plus' agreement that will go beyond conventional tariff-cutting negotiations to address domestic regulatory policies that have an impact on trade and investment. The negotiating agenda includes rules for investment, the harmonisation of regulatory standards, and trade-related rules in areas such as labour standards, environmental protection and state-owned enterprises.
- Third, it is meant to begin to untangle the 'noodle bowl' of criss-crossing and conflicting FTAs among APEC members and serve as a stepping-stone to a much larger free trade zone in the Asia-Pacific.
- Finally, it has the unusual feature of being open to other APEC members to join; indeed, Japan, Mexico and Canada joined several years after the TPP negotiations commenced.^{xxx}

With its membership of ASEAN Plus Six – including China, India, and Japan – the RCEP is potentially the basis for the largest regional trade agreement in the world. Like the TPP, it is open to others to join in the future but the similarities with the TPP end there. Reflecting the preferences of its major proponent, China, the RCEP is in the ASEAN/China 'family' of FTAs that are weakly liberalising, selective in scope and coverage, and which do not seek to extend rule-making beyond what is currently contained in WTO agreements. The RCEP is far more oriented towards the trade policy preferences of developing countries and least developed countries in the Region, and will likely contain exemptions in the form of tariff elimination duties. The speed and level of liberalisation will be based on the standard that ASEAN countries generally prefer. Moreover, it will likely have few deregulation requirements that would demand the reform of domestic economic systems.

The dissimilarities in these integration models make any future merger of TPP and RCEP unlikely. This also means the US and China will continue to compete against each other over trade and investment rule-making in the Region. Nonetheless, as a member of both the TPP and the RCEP, Australia has an opportunity to make a significant contribution to both negotiations.

TPP, RCEP and Australia

In strictly economic terms, neither the TPP nor the RCEP offers many direct benefits to Australia. The RCEP is unlikely to produce significant liberalisation of services and investment sectors, in part because China strongly resists this type of liberalisation, which requires greater transparency in the business activities in its state-owned companies. In addition, ASEAN as a whole does not have a strong appetite for WTO-Plus type liberalisation, given that the 10 ASEAN nations are highly diverse in terms of their stage of development, their openness, and their domestic sensitivities. ASEAN's 2009 'plus one' agreement with Australia and New Zealand (AANZFTA) reflects these preferences. The agreement offers little by way of improved access to Australian services exporters; its provisions on government procurement, which would normally be expected in a high quality agreement, are not well developed; and its investment access commitments have yet to be scheduled. The RCEP agreement is not likely to advance beyond the template established in this agreement.

Although the TPP has a much higher level of ambition than the RCEP, the offers currently on the table do not provide significantly improved access for Australian exporters in highly protected agriculture sectors (e.g. sugar in the US, beef in Japan). There is also little prospect of commercially meaningful access for Australian services providers in key TPP markets. Moreover, TPP participants differ considerably in their negotiating priorities, and the demands of the US will reach deep into regulatory systems, in some cases exceeding WTO rules (e.g. intellectual property, financial services, investment), and in other cases introducing rules that are not in the WTO at all (e.g. labour and environmental standards). These provisions pose heavy demands on the developing country members of the TPP and they may yet prove to be a stumbling block to reaching an agreement.^{xxxix}

Nonetheless, Australia is fortunate in being one of the few countries at the table in both the TPP and the RCEP negotiations (the others are Brunei, Japan, Malaysia, New Zealand, Singapore, Vietnam). This presents Australia with an important opportunity to influence both of these mega-FTAs in a way that advances the interests of the countries in the Region. Such a prospect is not fanciful: Australia has a long history of 'punching above its weight' in trade negotiations to provide intellectual leadership and innovative ideas to produce mutually beneficial outcomes. Significantly, Australia has done this by building and leading coalitions of developed and developing countries to advance their shared interests, rather than adopting the world-view of a 'like-minded' major power, such as the US. Well known examples of Australia's middle power leadership in trade negotiations include the Cairns Group of Agricultural Fair Trading nations, which had a significant impact on the WTO Uruguay Round outcomes, as well as Australia's role in the negotiations of the WTO General Agreement on Trade in Services.^{xxxix}

Australia's way forward

So, what might be the best way forward for Australia?

First, Australia needs to push very hard to ensure that it achieves improved access for its agriculture and services exports among the developed country partners to the TPP. Second, it needs to encourage and promote the RCEP as one element of a more comprehensive program of regional development and economic integration. Advancing the RCEP is in Australia's national interest – unlike the TPP, the RCEP includes all of the Region's major economies. But advancing RCEP as part of a broader strategy for regional integration also serves the interests of development and growth across the Region as a whole. The RCEP could be negotiated so as to allow different time frames for implementation of new rules and commitments, to give developing and least developed country members appropriate adjustment periods. Moreover, drawing on the Japanese and Korean approaches to FTAs in the region, as well as the AANZFTA, the RCEP should include provisions for economic cooperation. These can be designed to build confidence and capacity in ASEAN countries, helping governments to identify trade and investment policies that are appropriate to their circumstances, while also being supportive of the goals of transparency and non-discrimination.

The creation of RCEP should go hand in hand with other initiatives of ASEAN, the East Asia Summit, and APEC to promote regional economic integration. For instance, ASEAN is undertaking a number of initiatives to strengthen physical, institutional and people-to-people linkages, as well as obtaining access to infrastructure financing, which are key to the development of a single market.^{xxxiii} Similarly, APEC's continued focus on strengthening the 'soft' aspects of connectivity such as supply chain connectivity and structural reforms will help to improve regional connectivity. Such initiatives are complementary to the RCEP and consistent with APEC's commitment to advance a wide range of 'next generation' trade and investment issues that would help to realise the FTAAP.^{xxxiv} Finally, the US should be invited to join the RCEP, so as to mitigate concerns that the TPP and the RCEP represent competing and potentially divisive visions of Regional economic cooperation.

Addressing Australia's stalled bilateral FTA negotiations will prove a more vexing policy challenge. Concluding FTAs with important trade partners such as Japan, Korea and China could offer significant benefits for the Australian economy, particularly in areas such as agricultural market access that have hitherto been left behind in both WTO and regional FTA disciplines. But these talks have proved arduous due to national sensitivities around agriculture and service exports, and are unlikely to be concluded without Australia significantly moderating its requests. This might be achieved by prioritising the interests of a smaller range of export sectors, in order to 'sign the deal that is available now'. However, it is questionable whether making such trade-offs to complete bilateral FTAs is appropriate, given that it would necessitate picking and choosing between the interests of Australia's main export industries. In such a context, a more equitable and prudent approach would be to focus effort on regional-level trade arrangements (such as the TPP and RCEP), which can benefit all Australian export industries and genuinely liberalise trade and investment on a regional, rather than bilateral, basis.

Recommendations

Recommendation 7

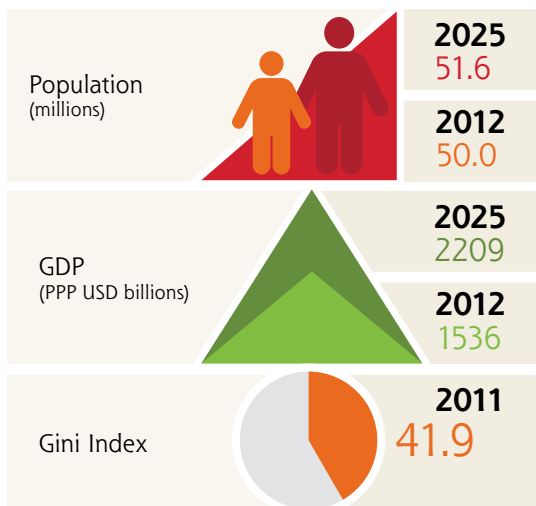
Australia is one of the few countries that is a member of both the TPP and the RCEP. Both agreements present Australia with an important opportunity to influence the evolving trade arrangements in the Region, in a way that advances the interests of all participants. The TPP, which involves major developed countries including Japan and the US, has a high level of ambition for the liberalisation of trade in services and agriculture. *Australia needs to push very hard for a high quality outcome in the TPP on market access issues* in order to improve export prospects for Australian agriculture and services industries.

Recommendation 8

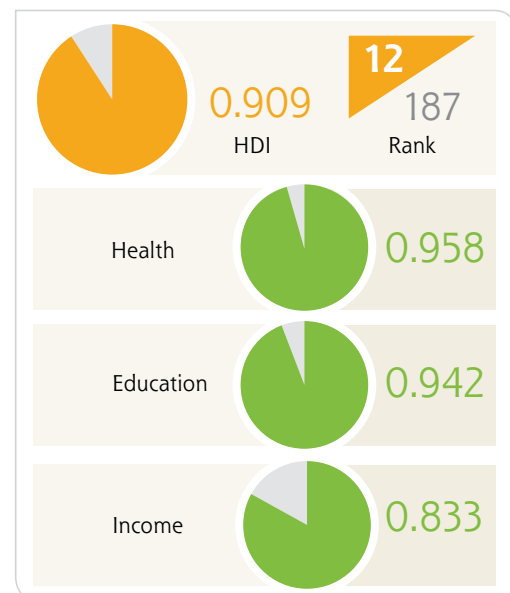
RCEP has a lower level of ambition than the TPP, but it includes all of the Region's major economies. Advancing RCEP as part of a broader strategy for economic integration will serve the interests of all economies in the Region, including its least developed nations. Australia has a record of leadership in trade negotiations to advance the shared interests of developed and developing countries alike. *It should draw on these capacities and traditions to advance the RCEP in a way that serves the interests of all involved.* Creative proposals could include different time frames for implementation, reflecting the different levels of development of its members.

Country brief:

SOUTH KOREA



Human Development Index (2012)



South Korea is Asia's fourth largest economy with a population of 50 million that is rapidly ageing. It is deeply traditional with a strong Buddhist heritage but also has one of the largest Christian populations in Asia. While Koreans are very proud of their heritage and language, they are also preoccupied with learning English, and more recently, Chinese. Over the last four decades South Korea has undergone substantial growth and global integration, becoming a high-tech industrialized economy. The export focus of the economy meant that it was hit hard by the 2008 global downturn but it has subsequently rebounded to register positive growth. After several decades of authoritarian rule, South Korea transitioned to democracy in 1987 and is now one of Asia's most vibrant democracies. In early 2013 President Park Geun-hye became South Korea's first female leader. The threat of war on the Korean peninsula has been a constant for more than 50 years, at times raised to serious levels. Australia and South Korea have well-established trade relations with great potential for further development. South Korea is a major market for Australia's raw materials and supplies a range of manufactured products into the Australian market such as cars, smartphones and electrical appliances. There are potential bilateral trade opportunities in areas such as two-way investment flows, agriculture, and partnerships on technical and services expertise. Australia and South Korea both have a strong security alliance with the US, and share a common concern for stability in the Asian region. They increasingly cooperate in international forums on global issues such as nuclear disarmament and climate change. People-to-people links go back to Australia's involvement in the Korean War



and this remains a positive element in Korea’s collective memory. There are now nearly 90,000 people of Korean ancestry living in Australia as well as significant numbers of Korean students studying in Australia. But this tends to be a one-way flow, pressing the need to further develop Australia-South Korea engagement.

In its Seoul consultations, the Commission heard from a range of voices on South Korea’s current situation and future prospects, and how Australia and Western Australia may figure in these considerations. The following provides some snapshots of these views

Challenges

- The security situation with North Korea and the issue of reunification are ongoing and permeate Korean life and public discourse. How and when it will be resolved remains a central conundrum.
- The emergence of China as an economic powerhouse provides South Korea with new opportunities but also difficulties. In particular, how can it develop economic relations with China while continuing to maintain its deep relationship with the US.

- The maturing of the South Korean economy has raised questions about how to evolve its developmental model, especially after its experience of the 2008 global downturn. A key challenge in this regard is finding a balance in the Korean economy between the heavy reliance on exports and developing domestic-oriented sectors.
- As in many advanced economies, South Korea faces the problems associated with a rapidly aging population. One way to deal with this problem is to develop immigration programs to bolster growth. Given its homogeneity, this presents the question if and how South Korea would deal with substantial immigration.

On Australia and Western Australia

- The Australian Korean War connection remains strong in Korean's minds. However, the general population knows little about, and rarely visits, Australia or Western Australia. The Australian government needs to do more to raise awareness of Australia in South Korea. At present there is good but narrow knowledge about each other.
- There is a sense in South Korea that Australia is preoccupied with India and China as economic giants. This detracts from efforts to further develop the Australia-South Korea relationship even though the trade figures are extremely strong.
- As middle powers, South Korea and Australia could do a lot more to collaborate on aid programs and capacity building in the Region. Also they could explore ways to work together on brokering dialogues between the US and China.
- Australian businesses operating in South Korea tend to find regulation settings overly burdensome and difficult. By contrast, South Korean businesses are attracted to the policy stability they experience in Australia. Moreover, Australia presents good opportunities for Korean offshore investment and more can be made of this. There is great anticipation about concluding the Australia-South Korea free trade agreement, especially on the part of Australian agricultural exporters.

Emerging leaders perspectives

- The emerging leaders expressed concerns about the ongoing North Korea threat and the view that reunification will eventually take place. However, while the issue is always present, people tend to get on with the rest of life.
- There were also concerns about what the implications are for Korea with the emergence of China's power. South Korea needs to develop its economic relations with China but this is complicated by the strong and longstanding relationship with the US.
- Australia is generally not considered a part of Asia because of its western cultural heritage and ethnic profile. However globalization and economic engagement is beginning to draw it more into the Region. Several young leaders argued that specific interaction is the more important point and that this generally focuses on finding common interests rather than resting on some notion of being 'Asian' or not.
- Koreans have a very strong preoccupation with the US and its culture, and young people aspire to study in the US. By contrast, Australia does not readily come to mind and there is little knowledge about Australia. There was only limited awareness of the South Korean community in Australia and in Sydney in particular. Nonetheless, they expressed a strong desire to know more about Australia.

Chapter 4

Resources: Interdependence and Security

The early 21st century is witnessing rapid change in the global patterns of production and consumption of natural resources. Industrialisation and urbanisation in a wide range of developing countries has caused world demand for energy, minerals and food to soar. Rising prices and concerns about scarcity are posing resource security challenges for governments around the world. This is particularly true in the Asia-Pacific, where regional interdependence between resource-poor consumers in East Asia and resource-rich producers on the Pacific Rim has come under stress during the recent global resource boom.

As secure resource systems are essential for economic growth and transformation in the Region, it is imperative that Asia's resource security is effectively addressed. How can regional resource systems in the Asia-Pacific be made more secure, interdependent, and resilient in the face of intensifying resource challenges? In this chapter, we survey the state of resource security in the Asia-Pacific, examine the nature of contemporary resource challenges at the national and international level, and explore the role Western Australia can play in fostering interdependent and secure resource relationships between the economies of the Region.

Resource Interdependence and Security in the Asia-Pacific

As outlined in Chapter 2, resource interdependence is a major driver of economic integration between the Asian economies. On one hand, the Region is home to major global centres of resource consumption – the industrialised economies of Japan, Korea and China – which lack sufficient reserves of natural resources to meet their domestic needs. However, the Region is also home to many of the world's major resource producers – such as Australia, India, New Zealand, Thailand and Indonesia – which possess large and globally competitive export industries across a wide range of primary industries.

This regional mix of producers and consumers is fortuitous, because it means Asia is highly interdependent yet reasonably self-sufficient in natural resources. In terms of international trade, there is a vigorous seaborne trade in food, energy and minerals from exporting countries on the Pacific Rim to consumption centres in Northeast and Southeast Asia. Flowing in the opposite direction, foreign investment from Northeast Asian industrial conglomerates into mining and agricultural projects helps to finance and develop resource industries around the Pacific region. As a result, resource interdependence is very deep, with just under half of countries' trade in resource commodities

being with other partners in the Region (Table 5). These trade and investment ties are mutually beneficial for all parties, providing producers with major export industries while helping to solve the resource security dilemmas of import-dependent consumers.

As the Region's largest net resource exporter, Australia is a lynchpin of resource interdependence in the Asia-Pacific. The Australian economy has historically relied upon primary industries – built upon wool and wheat exports in the early 20th century, before establishing major iron ore, coal and beef sectors from the late 1960s. Australia's resource production has grown strongly since this time, and it now exports \$98 billion of minerals, \$74 billion of energy and \$19 billion of agricultural products annually.^{xxxv} Much of Australia's resource production is financed by foreign investment, with the country attracting \$194 billion of inward investment into its mining sector alone between 2006-07 and 2011-12.^{xxxvi} The majority of resource output is exported to markets in Asia, and in 2010 Australia supplied 8 per cent of the Region's agricultural and 29 per cent of its mineral imports.^{xxxvii} Within Australia, the importance of Asian-oriented resource sectors is most pronounced in Western Australia. The state currently accounts for 58 per cent of Australian mining and 10 per cent of agricultural production,^{xxxviii} and the two sectors accounted for 37 per cent of Western Australian gross state product in 2011-12.^{xxxix}

Table 5: Resource interdependence in ASEAN+6 countries, 2010 (USD millions)

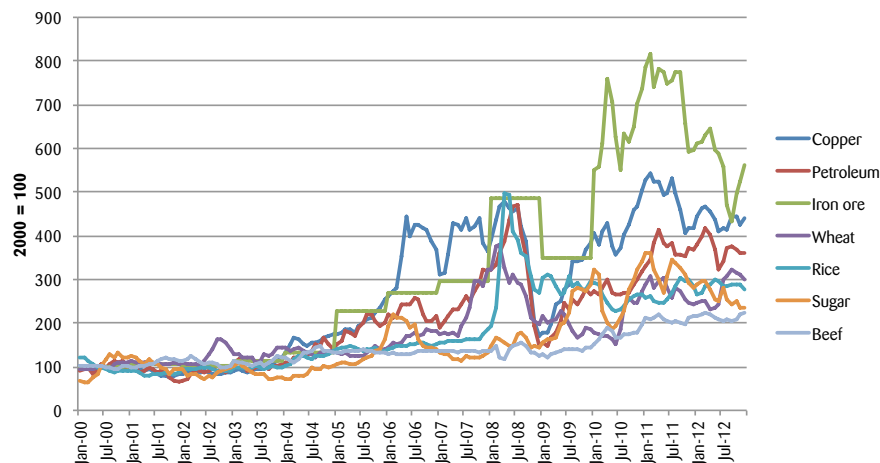
	Agriculture				Minerals and energy			
	Imports	Exports	Trade balance	% trade w/ region	Imports	Exports	Trade balance	% trade w/ region
Australia	7812	19237	11425	55%	26711	120485	93774	75%
Cambodia	167	55	-112	65%	375	7	-368	98%
China	48111	41855	-6256	30%	325688	30115	-295573	34%
India	5483	16405	10922	29%	122118	47606	-74512	21%
Indonesia	10755	8307	-2448	52%	29541	56677	27136	79%
Japan	56117	3966	-52151	41%	236773	18482	-218291	37%
Korea	17122	3922	-13200	48%	145004	33851	-111153	37%
Malaysia	9808	5676	-4132	61%	18801	32165	13364	78%
Myanmar	172	1490	1318	80%	952	2952	2000	99%
New Zealand	2669	15308	12639	49%	5058	1761	-3297	67%
Philippines	6063	2162	-3901	55%	11461	2033	-9428	52%
Singapore	6852	4012	-2840	70%	82224	57750	-24474	56%
Thailand	7977	23952	15975	44%	33044	10651	-22393	45%
Vietnam	6295	13500	7205	43%	9513	8274	-1239	83%
Total	185405	159847	-25558	43%	1047263	422809	-624454	45%

Source: UN Comtrade Database

The global resources boom

Despite patterns of mutually beneficial interdependence, resource issues have become a vexing policy issue for many regional governments due to the recent global resource boom. Driven by rapid industrialisation and urbanisation in a range of developing economies, world demand for minerals, food and energy has grown rapidly. However, owing to the economics of natural resource industries, where investment has long lead times in the order of five to 10 years, global supply has failed to keep pace with demand. World prices began a period of unprecedentedly rapid growth around 2005, and by 2012 most natural resource prices had grown between two-and-a-half and five times on their levels only a decade earlier (Figure 6). International investment in resource industries has surged as resource firms move to feed the increased demand at record-level prices, with global cross-border mergers and acquisitions in the mining and energy sector doubling from an annual average of USD 20 billion during the period 2000-04 to 41 billion in 2005-09.^{xi}

Figure 6: Global resource price indices, 2000-2012



Source: UNCTADStat Database

The global resource boom has threatened the resource security of many governments – a situation where an economy enjoys the *continuous availability* of needed natural resources at *reasonable prices*. With a few exceptions (Australia, New Zealand and Malaysia), all of the countries in the region are net resource importers, whose economies rely on overseas sources for their food, energy and mineral needs. Surging demand and rising prices have reduced the affordability of resource imports, set off inflationary pressures, and led to rising trade deficits. For example, the ASEAN’s minerals and energy import bill increased six-fold between 2001 and 2011, and now accounts for 26 per cent of grouping’s combined imports.^{xi} As a result, the global resource boom has instead been labelled as a ‘resource crisis’ in many Asian countries. This crisis has two distinct but interrelated strands.

Mineral and energy security

One part of the Asian resource crisis concerns *mineral and energy security*. With only a few exceptions, most countries in Asia have few to no reserves of mineral resources, leaving them highly exposed to movements in world prices. Mineral and energy security is particularly pressing for the Region's industrialised economies – Japan, Korea, and China – where the international competitiveness of manufacturing industries has been threatened by rising input costs. Energy costs have also proven challenging for the Region's developing economies, where soaring fuel prices have drained government revenues and negatively impacted on the economic security of those living in poverty. In Indonesia, for example, energy subsidies to reduce fuel prices for households cost the government USD 15 billion in 2009 – equivalent to 1.8 per cent of Indonesia's GDP.^{xiii}

Food security problems

The global resource boom has also posed *food security* problems across the Region. Given links between domestic and international agricultural markets, food prices paid by consumers have soared in both food importing and exporting economies. While all countries have been affected, food price inflation is a major issue in developing Asia, where both urban and rural poor are dangerously exposed to price rises. According to recent modelling by the Asian Development Bank, a 30 per cent increase in global food prices will increase the number of people living in poverty in developing Asia by 193 million. Indeed, links between food and social security were most recently exposed in 2008, when spiking grain prices set off protests and civil unrest amongst communities unable to access affordable food in many Asian countries. Environmental degradation associated with industrialisation – particularly through deforestation, urban encroachment on agricultural land, and water scarcity – all threaten to intensify regional food security difficulties in coming years.

The 2007-08 global food crisis and social unrest in Asia

In late 2007 and early 2008, world food prices rose rapidly. Drought in a number of cereal producing countries, declining national grain stocks and increased production costs due to high oil prices, saw the world price of wheat increase by 130 per cent and rice double in the first three months of 2008 alone. While all food consumers were affected by these price spikes, their impact was especially pronounced for urban poor in the developing world who lack access to secure food supplies. Civil unrest and food riots broke out in 25 countries in early 2008, forcing many governments to deploy police and military to restore order and distribute emergency food supplies. Several Asian countries were embroiled, with India, Bangladesh, Indonesia and the Philippines all witnessing demonstration against high prices from food-insecure social groups. All four governments were forced to enact emergency food security measures in the wake of the crisis, including export bans, increased grain subsidies and food rationing.

Source: M. Schneider, 'We are Hungry! A Summary Report of Food Riots, Government Responses, and States of Democracy in 2008' http://www.corpethics.org/downloads/Hungry_rpt2008.pdf, 2008.

Addressing resource insecurity

Resource insecurity in Asia will not be a transitory phenomenon. The International Energy Agency presently forecasts a 35 per cent growth in world energy consumption by 2035,^{xiv} while the UN Food and Agriculture Organisation expects global cereals demand will rise by 32 per cent by 2030.^{xiv} As growth, industrialisation and urbanisation continues apace, we can expect resource scarcity to be a significant feature of the 21st century world economy. Herein, then, lies the resource challenge facing Asia: *How to ensure secure and sustainable access to natural resources for the Region's transforming economies in the face of increasing resource scarcity?*

The solution to Asia's resource crisis arguably lies in a combination of two strategies. First, it is imperative to expand the production of minerals, food and energy in the Region in ways that are economically sustainable. Without increasing the available supply of natural resources, industrialisation and urbanisation in Asia will not be able to continue as it has over the last two decades. Second, it is essential to support and enhance resource trade and investment links between regional economies. The depth of regional interdependence, and the fact that many economies lack extensive reserves, means that resource security is a collective problem that cannot be addressed by individual governments alone.

At present, however, major barriers exist to increasing resource production and deepening integration within the Region, including price volatility and unpredictability in demand for resources. Recent developments in policy, occurring at both the national and international levels, threaten to exacerbate rather than improve regional resource security.

The National Dimension: Supporting Resource Development

There is considerable scope for increased resource production in Asia. While some economies are comparatively resource poor, many have natural resource endowments that can be leveraged to help meet burgeoning regional demand. In some countries, this can involve developing unused resource reserves – with Australia, New Zealand, Indonesia and China all possessing unexploited mineral, energy or agricultural resource bases. In others, it can involve the modernisation of primary industries to increase productivity from the existing resource base. For example, mechanisation and the application of modern agricultural techniques can increase farming yields throughout South and Southeast Asia. However several challenges are currently limiting the development of secure resource production systems in the Asia-Pacific.

Financing

The first challenge is financing. Whether building new oil and gas projects, disseminating modern agricultural practices, or increasing mining productivity, resource development is capital-intensive. Many economies in Asia lack the domestic savings to finance such projects on their own, making foreign direct investment crucial for resource development. Capital-rich but resource-poor consumer countries – such as Japan, China and Korea – have a key role to play, by providing the investment necessary to finance projects in producing countries. Indeed, such patterns of cross-regional resource investment are

already well-developed in Australia. The Australian iron ore and coal export industries were established during the 1960s with some investment or contracts from Japanese companies, and in recent years Chinese investors have become an increasingly important partner, sponsoring 25 joint-venture iron ore projects in Western Australia.^{xlvi} These investment relationships are mutually beneficial: providing Australia with competitive export industries while improving the resource security of its Northeast Asian partners.

Cross-regional resource investment is limited by the fact that many governments restrict – or entirely prohibit – FDI into resource sectors. Some governments, including Indonesia, China, India and Malaysia, require energy projects to be majority- or wholly-owned by state-owned enterprises. Others governments have recently placed regulatory limits on mining investment, including the Philippines (which placed a moratorium on issuing new mining permits in 2012) and Indonesia (where provisions demanding the 20 per cent ‘naturalisation’ of mining firms were enacted in 2010). Foreign ownership of agricultural land is politically controversial issue across the Region, and has seen many governments limit foreign investment flows. These kinds of restrictions limit cross-border resource investment between economies in Asia, making it harder to finance the modernisation and expansion of primary industries.

Infrastructure

Infrastructure is also a pressing issue for resource development. Resource projects typically have large infrastructural requirements: for transport facilities such as roads, rail and ports, and for water, energy and social services. The costs of resource infrastructure are increased by the fact that many resource projects are in remote and/or underdeveloped areas, where basic services are absent and construction costs are high. Resource infrastructure is a common-user asset – where the most efficient solution is typically for multiple enterprises to share in the use of a single set of facilities, whose construction and maintenance costs would otherwise exceed the financial capacity of any one user. Governments therefore have an important role in planning resource infrastructure provision, even if private sector involvement is sought through devices such as public-private partnerships.

Nonetheless, resource infrastructure planning is difficult to get right. Resource markets are highly volatile, with prices rising and falling more rapidly than for other commodities. Resource investments also have long lead times, and can take up to a decade between planning and completion. This creates uncertainty for both governmental and private sector infrastructure planners, resulting in bottlenecks where infrastructure and service delivery lags behind the expanding needs of expanding resource enterprises. Capability issues pose additional challenges for developing countries, where a lack of local expertise and/or financial capacity limits progress in building resource infrastructure. Expanding regional resource production not only requires building mines and farms, but also ensuring that common-user infrastructure and services are provided in an appropriate and timely fashion. Addressing uncertainty and capability issues is therefore essential to meet resource infrastructural needs.

Regulatory demands

Unfortunately, these financing and infrastructural challenges are being compounded by increasing regulatory demands from resource-producing governments in the Region. Many governments have exploited the global resources boom to engage in forms of *resource nationalism* – selective state intervention into resource markets for some kind of national or governmental gain. These interventions have taken a variety of forms, including governmental controls on resource exports, local ownership rules, increased and distortionary forms of resource taxation, and local processing requirements. Since the middle of the 2000s, resource nationalism has become widespread in Asia, with many governments increasing their regulatory demands on and control over firms in the mining, energy and agricultural sectors.^{xlvii}

These creeping regulatory demands weaken the prospects for robust resource growth. Such policies impinge both on the profitability of firms, and their ability to compete freely in international markets, which deters private investment in new resource projects. They reduce business confidence in the stability of national policy regimes, a key precondition for investors given long project lead times. They also compound financing and infrastructural challenges, by limiting foreign investment flows and adding to the uncertainty surrounding the development of new resource projects. As a result, resource firms have become very cautious about investing in many of Asia's major resource producing economies, preferring to focus on opportunities in more open jurisdictions elsewhere.

These national-level issues are exacerbating resource insecurity in the Region. Financing challenges, infrastructural concerns and increasingly restrictive regulatory environments are preventing primary industries in the Region from achieving their full productive potential. This not only affects producer economies, whose resource sectors are less productive than they might otherwise be, but also consumer economies whose resource security suffers due to diminished regional supply and high prices. As growth, industrialisation and urbanisation continues into the 21st century, resource demand in Asia will continue to rise. Unless these obstacles to resource development are addressed, resource insecurity in the Region is likely to worsen in coming years.

The International Dimension: Regionalising Resource Cooperation

Achieving resource security in Asia demands more than just addressing national-level obstacles to resource investment. It also requires building reliable, secure and responsive supply networks between producers and consumers. No country in the Region can meet its needs for minerals, energy and food solely from domestic sources, making resource interdependence between economies essential. A well-developed international legal architecture – in the form of intergovernmental trade and investment agreements – is required for resource interdependence and supply networks to develop. While several efforts to promote regional resource cooperation are presently underway, the success of these efforts has so far been modest.

Multilateral organisations

Multilateral organisations have a key role to play in facilitating intergovernmental resource cooperation – by setting principles for policymaking, establishing shared rules and building trust between parties. Indeed, resource cooperation efforts have recently been launched in three regional organisations. In 2001, APEC launched its *Energy Security Initiative*, which called on members to share information on energy markets and harmonise national energy policies. This was followed in 2007 by the *Darwin Declaration on Energy Security* and the *APEC Mining Policy Principles*, which both called for a reduction in resource trade and investment barriers. The East Asia Summit issued its *Cebu Declaration on East Asian Energy Security* in 2007, which focussed on supporting clean energy technologies and fostering open regional markets. For its part, ASEAN has issued five-year *Energy Cooperation Actions Plans* in 1999, 2004 and 2010, which detail a range of energy security strategies to be undertaken collectively by its members.

These multilateral efforts have laid the groundwork for deepening regional interdependence – particularly by establishing openness and market liberalism as a principle for resource cooperation. However, their achievements in going beyond principle setting have been less pronounced. The agreements have focussed primarily on outlining desired collective outcomes (such as trade liberalisation), but have left the concrete steps required to achieve these outcomes under-specified. These organisations are yet to develop legally enforceable agreements, with many of their commitments described as ‘non-binding’ or ‘voluntary’ in official texts. Thus far, they have also focussed on relatively easy and low-stakes issues (such as energy efficiency promotion), while leaving more substantive but controversial issues (such as trade and investment rules) off the agenda. As a consequence, the strong declarative commitment of regional governments to resource market liberalisation is yet to manifest in concrete agreements from multilateral bodies.

National resources strategies

Compounding matters, many governments have chosen ‘go-it-alone’ responses to resource security. As world prices have surged, the governments of Japan, China, India and Korea all launched resource security strategies in the middle of the last decade. These strategies have sought to secure access to supplies of minerals and energy by having national companies – often, though not exclusively, state-owned – invest in resource projects in foreign countries. The rationale for these strategies is that national ownership at the site of production will give the country more privileged access to resource supplies than arm’s length purchases from international markets. A range of policies – including governmental financial assistance for foreign investment, and various forms of ‘resource diplomacy’ aimed at key supplier states – have been undertaken by these governments to help national firms take some ownership of resource projects abroad.^{xlviii}

The effectiveness of these consumer states’ resource security strategies is disputed. Some have argued they are essential to sponsor new projects which can satisfy soaring demand; while others contend that transparent international markets free from governmental interference will prove more stable and reliable. But regardless of their merits, their nationally focused approaches have politicised resource interdependence in the Region. The strategies involve

competition, as one country's control of key suppliers may improve access by reducing the access enjoyed by other consumers. Indeed, a 'race for resources' has emerged between China, India, Japan and Korea, with each government racing to secure foreign resource projects in the face of competition from their peers. Such patterns of inter-consumer competition undermine trust between governments, and augurs poorly for future efforts to deepen cooperation at the multilateral level.

Consumer-producer tensions

There is also increasing evidence of consumer-producer tensions over resource issues in Asia. Producing governments' nationalistic policy regimes have clashed with the resource security objectives of consumer governments, resulting in a range of bilateral resource disputes. Such tensions are exemplified by recent developments in Sino-Australia economic relations. Iron ore trade between these countries is unquestionably of mutual benefit: Western Australia provides around 40 per cent of the iron ore used by the Chinese steel industry, while China accounts for close to three quarters of Western Australian iron ore production. However, the Chinese government has expressed concern over Australia's foreign investment screening regime, which it argues unfairly restricts Chinese investors from the Australian mining sector. These types of disagreements do little to build trust or cooperation amongst the major resource players in the region and may exacerbate price volatility in the Region.

FTAs and resources cooperation

When regional governments began aggressively negotiating FTAs during the early 2000s, resource issues were not high on the trade agenda. But as world prices have surged, governments have increasingly looked to incorporate resource cooperation initiatives into their FTAs. Since the mid-2000s, 11 FTAs including resource-related provisions have been agreed between producing and consuming governments in the regions, and a further 15 are currently under negotiation or study.^{xix} These FTAs typically include one of three legal devices to promote resource interdependence: tariff concessions for primary commodities; investment policy provisions offering protection to foreign resource investors; and 'resource cooperation clauses' committing the governments to some form of policy dialogue. These agreements have had a major impact in terms of building trust between parties, and establishing bilateral mechanisms for resource policy cooperation.

However, FTAs are not a universal panacea for promoting resource interdependence. First, there are limits to what can be achieved in these FTAs, due to concerns about national policy autonomy. Most producing governments have agreed to *most-favoured-nation* but not the more stringent *national treatment* investment protections for resource industries; and none have agreed to limit their use of quantitative resource trade controls. Second, these FTAs have focussed predominantly on trade and investment rules, but do not cover many of the so-called 'WTO-Plus' issues relevant to resource sectors, such as government procurement, services, infrastructure, competition law and intellectual property. Third, only bilateral FTAs have addressed resource issues, as the multilateral ASEAN and ASEAN-China FTAs do not contain such provisions. The inherently multilateral nature of resource interdependence in Asia means that bilateral FTAs are at best a partial solution to the Region's resource security challenges.

These considerations suggest there is a need to improve intergovernmental resource cooperation in the Asia-Pacific. The foundations for such regional cooperation already exist, in the form of bilateral FTAs and multilateral dialogues at APEC, ASEAN and the East Asia Summit. But the achievements of these existing initiatives are modest at best, and emerging resource disputes between governments clearly demonstrates the need for more to be done. Improving the national-level climate for resource investment will only go halfway towards addressing resource insecurity in Asia. If intergovernmental architectures for trade and investment are not augmented, the mutually beneficial patterns of resource interdependence in the Region will not develop to their full potential.

Western Australia and Asian Resource Security

Challenges to resource security in Asia are clearly pressing. National level obstacles to expanding resource production need to be addressed, alongside a deepening of intergovernmental efforts to foster resource trade and investment links between regional economies. Importantly, both Western Australia and Australia as a whole are well placed to productively contribute to the Region's resource challenges. Many policies and initiatives are already in place, but more can be done within Western Australia to help strengthen resource security and interdependence in Asia.

Production

First, Western Australia will play an increasingly important role as a supplier to regional partners. Western Australia is richly endowed with the natural resources needed by Asian economies – particularly iron ore, base metals, natural gas and agricultural land suitable for grain and pastoral production. Output of these commodities is already rapidly expanding with West Australian iron ore production almost tripling from 171 to 476 million tonnes per annum between 2002 and 2012.¹ The prospects for sustained production increases in the coming years are good. While some transport supply chains – particularly in the Pilbara for iron ore – remain challenging, much has already been done to put in place the infrastructure needed to sustain growing resource exports from Western Australia over the coming decades.

Investment

Governmental policy settings make Western Australia an ideal location for resource investment. Unlike many resource-producing governments, Australia has an open foreign investment regime. While foreign investment in mining and agriculture must pass a 'national interest test' administered by the Foreign Investment Review Board, the overwhelming majority of investment applications have been approved in recent years.⁵ Neither the Western Australian nor Commonwealth governments have engaged in many of the common forms of resource nationalism seen in their peers, such as performance requirements, trade restrictions and distortionary export taxes. As a result of this policy stance,

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Since 2001, only one business investment proposal has been rejected by the Treasurer through the FIRB – the takeover of the Australia Securities Exchange by the Singapore Stock Exchange in 2010. See Foreign Investment Review Board. Foreign Investment Review Board Annual Report 2010-11. Canberra, Department of Treasury, 2012, p. xv. For a detailed review of Australia's foreign investment policy in the mining and energy sectors, see J.D. Wilson, 'Resource nationalism or resource liberalism? Explaining Australia's approach to Chinese investment in its minerals sector', *Australian Journal of International Affairs*, vol. 65, no. 3, 2011, pp. 283-304.

Australia is considered to be one of the safest countries for resource investment, and in 2012 consultancy Behre Dolbear ranked it first in its global assessment of political risk in the mining industry.^{li} This open and market-based policy framework ideally places Western Australia to continue to attract investment and expand resource production in future years.

Regional industry development

Western Australia also has an important role to play in helping to modernise and expand resource production in other countries in the Region. As identified in Chapter 6 of this report, Western Australia has extensive technical capabilities in many areas relevant to primary industry – particularly in agricultural and veterinary science, mining services, and resource infrastructure. These capabilities can be leveraged to assist resource development efforts in partners in the Region, where such capabilities are presently in high demand. Part of this effort can be driven by the private sector, via foreign investment into regional countries by Australian mining and agricultural businesses, as well as through increased mining and agricultural service exports. But as some of these capabilities are located within universities, state agencies and public research institutions, governments also have a role to play. The Western Australian and Commonwealth governments can assist these efforts by encouraging and supporting technical cooperation initiatives between public sector bodies and their counterparts in the Region.

Model of reliable supplier

Finally, Western Australia should continue to emphasise its role as a reliable resource supplier to its Asian partners. As a result of increasing resource competition and insecurity within the Region, many consumer governments have become anxious about access to resource supplies. Western Australia is already a reliable resource supplier. Maintaining an open and market-based trade and investment framework will be critical in ensuring this role continues. Nonetheless, some governments – particularly China and Japan – have expressed concerns over their access to the Australian resource sector. Therefore, more could be done to politically reassure partners this open and market-based stance will continue. One avenue could be the inclusion of ‘resource clauses’ in free trade agreements currently being negotiated by the Commonwealth government, in which Australia can commit to resource policy dialogue and cooperation with consumers. There is also a role for the state government, in emphasising resource policy stability and openness via its trade facilitation and economic diplomacy efforts throughout the Region. Deepening technical cooperation, through both state and Commonwealth government agencies, will also go a long way to reassuring resource partners that Australia will remain a reliable supplier, committed to contributing towards regional resource security in the coming years.

Recommendations

Recommendation 9

Governments in the Region have pursued bilateral trade agreements to address resources security, which have helped build trust between parties. However, there are limits to how far this approach can promote resource security, as it has yet to move beyond dialogue processes to deeper forms of policy cooperation. Bilateral FTAs and multilateral dialogues offer a foundation but *governments need to harmonise and coordinate their resources policies through intergovernmental cooperation across the Region.*

Recommendation 10

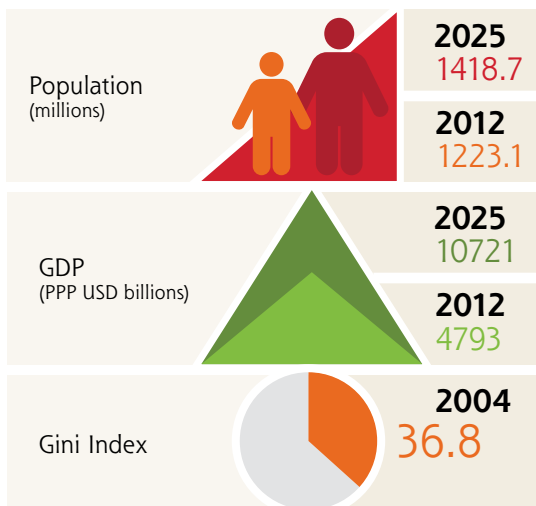
As a global resources industry hub, Western Australia has a key role to play in addressing the issue of resources security. This is about Western Australia not only doing what it already does well, but also doing more in this vein. First, it is well placed to substantially expand and sustain its supply of minerals, energy and food production well into the future. The ongoing delivery of food quality is worthy of special mention given the growing market in this area. Second, more can be made of Western Australia's role as a reliable resources supplier in the Region, especially by promoting its favourable investment settings of resources policy stability and openness. Third, the State's resources expertise has great potential to help build and expand resources production in other countries in the Region.

Recommendation 11

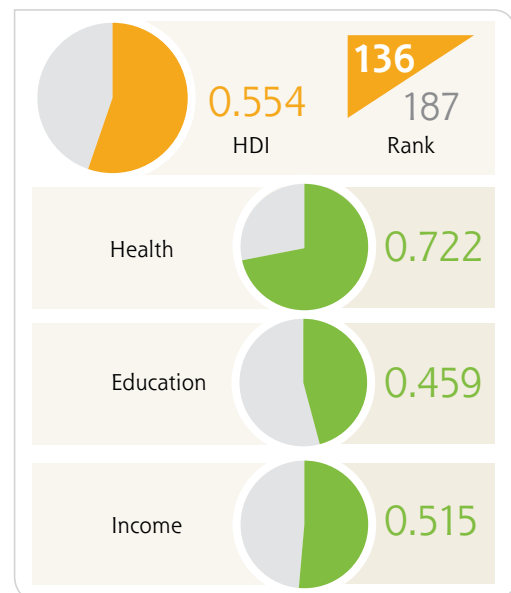
Given the scale of the problem, it should be emphasised that Western Australia can make a very strong contribution to meeting the challenges surrounding food security in the Region. In particular, its research and technical expertise in such areas as agriculture and veterinary science, grains development, water management, environmental sustainability and transportation logistics are all key capacities required to improve the food security situation. Western Australia is in a prime position to help advance capacity building in these areas across the Region and there are already research partnerships underway. Government, business and the scientific community are urged to pursue this agenda with vigour through greater regional collaboration and cooperation.

Country brief:

INDIA



Human Development Index (2012)



India is the second most populous country in the world with two-thirds of its population under 35 years of age and a growing middle class. It is the world's 10th largest economy (in nominal GDP terms). Since 1991, when market-based economic reforms were introduced, the Indian economy has grown at well above the world average. The annual average growth rate was more than 7 per cent between 2002 and 2012 though current estimates are at around 4-5 per cent for 2013-2014. India is a federal constitutional democracy made up of 28 states and seven union territories.⁶ Indian society is multi-lingual, multi-ethnic and pluralistic, and has a robust free media. It also faces significant challenges including poverty, malnutrition, rapid urbanisation, internal and border security issues, and an array of infrastructure and governance problems. Australia and India share certain historical-cultural and sporting links, and there are strong people-to-people connections. From Indian independence up to the end of the 20th century there were varied attempts to bolster Australia-India diplomatic relations. Since the early 2000s however, the relationship has begun to grow in a more sustained way.

The Commission's Delhi consultations provided the opportunity to hear a range of voices on India's current situation and future prospects, and how Australia and Western Australia may figure in these considerations. The following provides some snapshots of these views.

6

There are currently moves in Congress to divide the state of Andhra Pradesh into two though amidst great controversy.



Challenges

- Despite the burgeoning middle class, absolute poverty remains a huge problem in India. This is related to the urban-rural divide, but also an issue associated with mega-cities. Research on the ground suggests that connecting metropolitan cores with their peripheries can offer the benefits of urbanisation while avoiding the downsides of massive urban agglomerations. However, this requires far better coordination between land use planning and infrastructure planning, and a raft of institutional reforms to underpin it.⁷
- India is internally very diverse and there are major differences between individual Indian states. This presents many problems, administrative and regulatory, for doing business especially in cases that involve several states such as in the resources area. Moreover, public policy and public administration is subject to a great deal of bureaucratic inertia and lack of consistency. This has significant impact across Indian society including on the ability to address issues of inclusion, sustainability, and efficiency.

7

World Bank India, *Urbanization beyond municipal boundaries: Nurturing metropolitan economies and connecting peri-urban areas in India*. World Bank, 2013.

- Infrastructure challenges are multiple with major ramifications on such issues as food security and spoilage, healthcare, and education. Capacity deficits are part of this, for example, the dearth of qualified engineers and the more general effect of India's brain drain. Government has engaged in public private partnerships to address some of the infrastructure problems but has struggled with how to make full use of them.
- Increasing education levels and skills training are particularly urgent priorities to meet the growing needs of developing India. Among the middle classes, addressing this gap domestically is complicated by a strong preference for their children to enter the top universities, which have limited places.

On Australia and Western Australia

- There are many great opportunities for Australia and Western Australia to work with India. Food, minerals and energy resources are obvious items of mutual interest. There are already substantial links in the areas of education and services, but more could be done in the fields of agriculture, science and technology, and investment, as well as on joint venturing in third countries. Key here is dramatically increasing the knowledge and awareness of each other's capacities and needs.
- Australians' perceptions of India can be dated and Australian businesses can often tend to approach India with unwelcome attitudes such as 'we're here to help.' Because of their size and growth, there is also a tendency to view India as if it was the same as China with little appreciation of how different they are and that different approaches are required.
- India is Australia's largest source of permanent and skilled migrants, and there are strong people-to-people connections via family, business and education. Australia is seen as a nice place to visit but there is little knowledge about Western Australia's specific strengths and expertise. Much work needs to be done to build the knowledge base about Australia and Western Australia in India.
- India is an important power in the Indian Ocean context and its major security concerns are with China and Pakistan. Its concerns about China in particular has been a factor in strengthening India's security ties with Australia as well as the US and Japan.

Emerging leaders perspectives

- There is a strong sense of policy stasis afflicting Indian politics, with the view that this will not change soon. More generally, while great challenges are facing contemporary India, the political system is seen as faltering with problems of nepotism, aging politicians, lack of accountability, and policy formation stifled by too much politics. Administrative and governance systems require dramatic reform but this will only come about with fresh leadership and the development of a new big picture for India's growth and development. The current controversy over online freedom of speech is seen as part of a larger story of how technology can assist to mobilize people to influence change.
- Gender inequality is seen as a major issue in Indian society in need of serious attention. Recent high profile cases of sexual violence are symptomatic of a far deeper and more pervasive problem. Addressing gender inequality is integrally linked to the broader human rights and equality agendas in India.
- Concerns were voiced about India's security issues, including terrorism threats, the tensions with Pakistan and China, and about the more general issues around security in the Indian Ocean and the US presence.
- The emerging leaders have very clear views about the magnitude and complexity of the problems confronting India but they also express great confidence about the nation's ability to maintain high levels of economic growth.

Chapter 5

Engagement and Diplomacy

Previous chapters have examined some of the major trends in Asia's rise and the more specific detail on economic trends, trade integration and resources issues. As this analysis has shown, ongoing economic prosperity and mutual benefit cannot be assumed but needs to be actively pursued if opportunities are to be realised and challenges addressed. In terms of economic engagement, Australia and Western Australia are now very much a part of the Region. This engagement however does not necessarily extend beyond the transactional, at least in the minds of some. Narrow and shallow connections do not sustain mutually beneficial relationships over time. In order to avoid the pitfalls of short-term opportunism, efforts need to be made by industry and the wider community to cultivate a stronger sense of a shared regional future and the accompanying commitments. Current circumstances are ripe for this to occur but it requires strategic choices to be made and the development of new approaches on how national and sub-national actors can be best integrated into the process.

Engaging in the Region

A key question currently in circulation in Australia is how it might proceed both to benefit from and help to shape the Region's ongoing prosperity. While there has been a good deal of discussion on this issue, the Commission considered it important to highlight several aspects that it found have not received due attention so far. These items are addressed particularly to our Australian audiences.

Australia faces a somewhat *exceptional foreign policy challenge*. Unlike other Western democracies, most countries central to Australia's foreign policy focus are not only ethnically different but also come from quite different historical, cultural and political traditions. This places a substantial relative responsibility on Australia not only to accord greater priority to educating its domestic community about the Region, but a heavier requirement to propagate among Australia's neighbours a sense of what Australia is about as a nation. These responsibilities do not lie just with the federal and state government but with the leadership in business, education, policy circles and the media.

The second issue is *constancy*. In recent years Australia as a nation has acknowledged the resurgence of Asia. But there is more required than this. Australia can ill afford complacency and to simply congratulate itself on a job well done. Its efforts must be ongoing and relentless. Australia has to understand the importance of patience and long-term relationships as it engages in the Region. It must avoid the trap of wooing a country when it is fashionable to do so. For example, Japan was the focus in the 70s and 80s, Indonesia in the 1990s, and China and India over the past decade. These relationships cannot be

switched on and off at the flick of a switch. Countries, like people, remember. While some nations may loom large at times, it is also important to continue to sustain longstanding relationships.

The third issue concerns *balance*. It is neither in Australia's national nor subnational interests to see the Region only in terms of its potential benefit to Australia. Foreign policy is about furthering interests. But if Australian foreign policy becomes driven by the visible short-term benefit to Australia, as it can be, the long term benefits of trust and unspoken reciprocity with its regional neighbours will be eroded. Ultimately this will be contrary to the long-term interests of Australia.

Underlying all of these points is the observation that *nothing is static*. The various scenarios outlined in Chapter 1 indicate the potential for major changes to occur in the political, economic and social dynamics of the Region. In some of the less sanguine alternatives, Australia might have to radically rethink its external policies. But even in the absence of major changes to regional political configurations, national and subnational diplomacy will have to remain alert and flexible. Changes in leadership have recently taken place in China, Japan and Korea. In 2014 there will be elections of potentially enormous significance in India and Indonesia.

These changes will be happening against a background of societal shifts in Asia that, while different in each country, frequently have the common hallmark of generational change. There is nothing particularly novel about this. What is different in current times is the degree of acceleration in technological change that now often seems to accompany political change. The speed and apparent suddenness of events have a growing propensity to surprise, as the turmoil in the Middle East over recent years has underlined.

There is no magic prescription for Australia at the national or subnational level to be able to deal with these types of changes in the Region. Nonetheless, it is of paramount importance to be alert to regional events, to evaluate their impact on Australia, and where possible, to influence those events. This suggests a wider diplomatic focus that is not simply government-to-government. The tools of public diplomacy could be more widely utilised offering a means to interact and engage more broadly with those thinkers and opinion makers generating new social and political currents among Australia's neighbours.

On a positive note, differences in perspective with some of Australia's neighbours may be converging, particularly among the cohort of emerging generations. Two decades ago, the advocacy of causes relevant to good governance, human rights (including those relating to gender) and corruption were largely seen as Western fixed ideas. This is no longer the case.

There is an increasing awareness, particularly among young leaders, on issues to do with corruption, governance and gender inequality in India, China and Indonesia. These issues have traditionally been the cause of occasional friction between Australia and some of its neighbours, sometimes intensified by exaggerated media coverage. However, change coming from within Asia's societies, particularly from those who will within a few years move to leadership positions, seems to indicate that there is some convergence growing on these issues.

Australian Foreign Policy and the States

While Australian foreign policy falls within the constitutional prerogative of the Commonwealth there is no reason why a state should not make its views known in areas of direct relevance, whether this be its own economic interests or wider considerations. Western Australia has particular interests in minerals and energy policy and arguably policy relating to the Indian Ocean region. Tasmania has interests in fisheries issues and Antarctica. Moreover all states in the federation are entitled to take a view on foreign policy generally because, notwithstanding the constitutional responsibilities of the Commonwealth, they have a collective stake in Australia's future.

Among the big challenges facing contemporary Asia, there are three closely interrelated security subsets in which Western Australia has a major stake. The first is energy and resources, where Western Australia leads as Australia's preeminent resources producer. The second is food production. Western Australia, especially in the area of wheat production, is an important participant in Australia's national endeavor to continue to be a reliable supplier to meet Asian food needs. The third is water and environmental management. Western Australia's experience and expertise in dealing with water resources and environmental protection in demanding conditions places it well to make a major contribution to how this issue is addressed across a range of contexts in the Region. It is as much in the long-term interests of Western Australia to rally its capacities and expertise to meet these urgent challenges as it is in the interests of the Region.

The federal framework of the Australian Commonwealth has traditionally defined the limits of how far a state such as Western Australia can contribute to foreign policymaking. However, in contemporary global conditions, subnational regions and large cities are increasingly called upon to play important roles as distinct economic actors and as key zones of economic activity. While remaining within the domain of national sovereignty, these subnational units are now engaging in new modes of operation in the facilitation of economic activity across national borders. This prompts a need to consider the adequacy of current Australian practices at the state and national levels, especially in regard to how the two may be working in tandem or otherwise.

The Commonwealth and States in the Regional Engagement Mix

The Australian federation has a number of similarities with other federal nations such as Canada. But unlike Canada, no Australian state has a land border with another sovereign nation and thus there are no cross border issues to navigate. An upshot of this is that to the extent that they exist, distinct Australian state identities have tended to emerge out of endogenous experiences. In the Western Australian case, the economy is quite different from the rest of the country. This often has an impact on political interaction and policy negotiation between Western Australian and Commonwealth governments. Current conditions demand some critical reflection on how this relationship is evolving or should evolve.

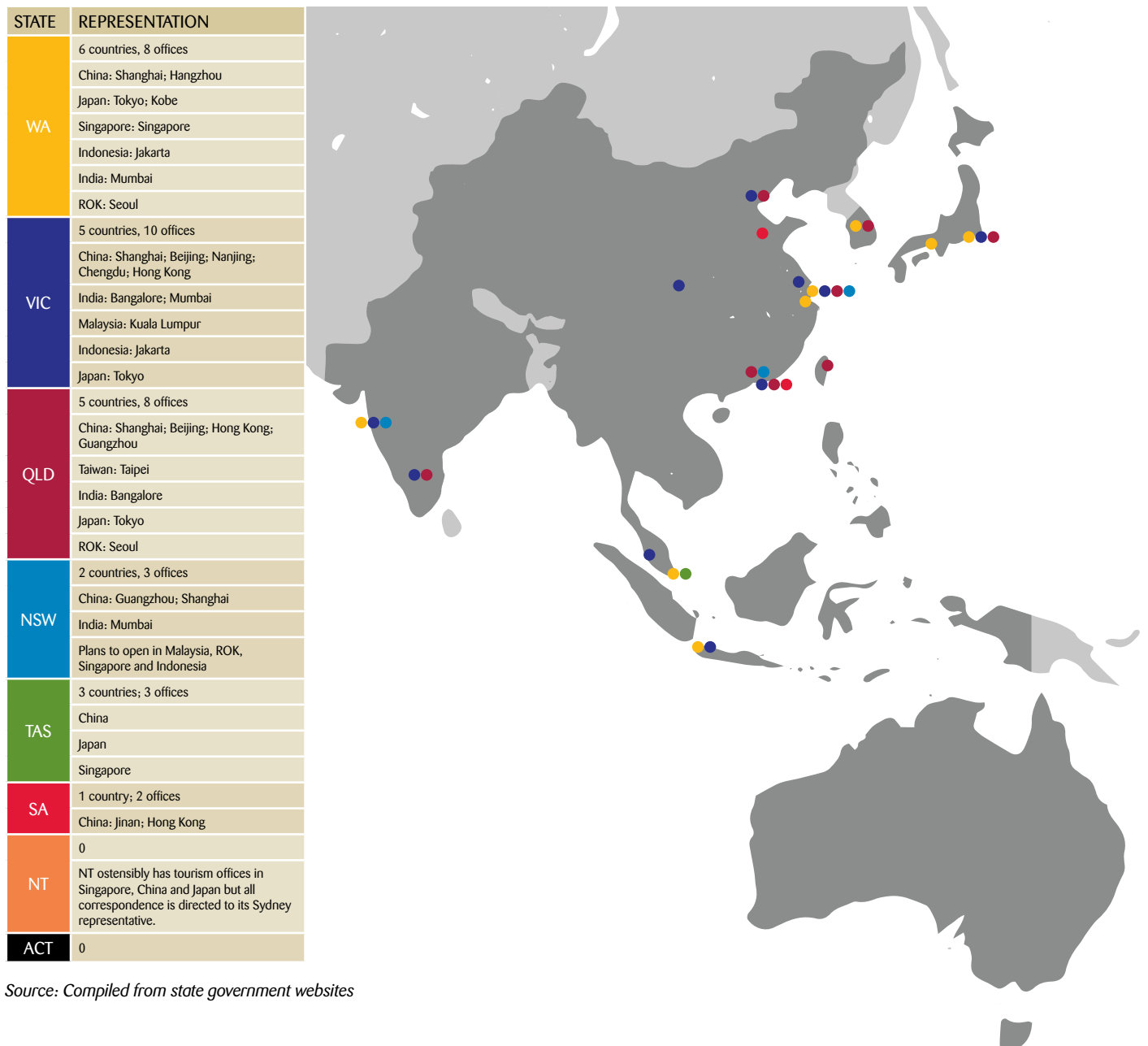
In the contemporary age of globalisation the lines between a federal nation's internal affairs (some of which falls under state jurisdiction) and its external relations (predominately a federal government responsibility) have become more blurred. The areas in question include the environment, aspects of foreign

commerce, foreign investment and land tenure, education of foreign students and promotion of tourism. In terms of policy, this blurring of domain has been evident in two areas: first, in the international diplomatic activity conducted by states; and second, in the federal government's negotiation of treaties and in particular multilateral and bilateral trade treaties in recent decades.

State government diplomacy

Up until the 1960s, the Australian states' overseas representation was overwhelmingly based in London. Since then it has broadened first to the United States, then Japan, and during the 80s and 90s to elsewhere in Asia. Western Australia has significant representation in Asia alongside Victoria and Queensland. In the wake of this trend, varying perspectives have emerged on the efficacy of diplomatic engagement by state governments. Two divergent views can be ascribed as indicative.

Overseas Representation – Australian state governments



Source: Compiled from state government websites

A Western Australian view—no doubt with resonance for other states—would be that its priorities abroad are not always the same as those of the Commonwealth. From this perspective, the state is entitled to further its own interests. As a resources rich and export oriented economy, Western Australia may consider that it has a specific interest in South Asian and North Asian markets, including on investment. The state's geographical location would also recommend that it have its own dealings with South East Asia and Indian Ocean countries. Many Australian businesses appreciate the support offered by state-based trade agencies, which have special expertise that complements that of Austrade. This seemed especially the case where companies perceived that their state office had a closer appreciation of their local circumstances and specific needs.

A Commonwealth view would be that it is useful for the states to have their own representation particularly in terms of inward investment promotion and on routine everyday matters such as managing visits by state ministers. Major existing investors and customers know about the powers of the state government. However, in this view, most foreign governments do not want to have dealings with a sub-national government and in many cases do not understand the Australian federal system. While Britain, New Zealand and Canada may have some sense of an Australian state's status, even in these countries there can be limited understanding of their sovereign responsibilities. From the Commonwealth perspective, state offices are seen to have issues accessing governments, a limitation that usually requires Australian embassy assistance, particularly with national governments and even foreign state governments. State overseas offices are seen as costly and duplicate what the Federal government does or could do. The small size of these offices means that state representatives often have to act across a range of activities, which may well be an inefficient use of resources.

Both views would agree that there can be considerable value in state premiers making regular and targeted visits to key markets and sources of investment. These visits should focus on major business links, with governments fostering such connections through the cultivation of long-term relationships and mutual understanding. To a lesser extent there would be agreement on the merit in relevant state ministers undertaking industry specific visits. In some instance there have been advantages from Premiers taking small groups (up to 10) of senior business people with them. Larger groups seem to be less effective in developing connections. Anecdotal accounts from New South Wales and Victoria as well as from the Canadian federal government suggest that large business delegations accompanying political leaders may have domestic political benefits but have limited effects in terms of fostering business growth.

On the ground there is variation in the operations of state offshore offices and there are frequent discussions within Australian state governments as to how their interests are best served overseas. Some states mainly use their own offices while some use their own in conjunction with Austrade. Other states rely heavily on Austrade to represent their interests abroad. Most of these offices work well with the local Commonwealth offices. Yet a few do not. This is not a unique situation. In the Canadian case for example similar differences emerge. The biggest province, Ontario, has all its representatives as designated provincial representatives in Canadian foreign missions. Quebec is a case unto itself. The province with the most overseas offices is Alberta – another commodity-based economy like Western Australia.

A number of Australian state governments have established their own representatives and offices in countries in the Region. These offices are able to concentrate on the pursuit of state-specific interests, often complemented by the functions of the Australian Commonwealth government's overseas missions. Coordination and cooperation is important between the two levels of government to limit duplication and to avoid confusion and the potential to send mixed messages, especially in countries unfamiliar with Australia's federal system. There is scope to consider the efficacy of current state-federal interaction in this area, and whether things can be done better, domestically and in the field.

In cases where resources are stretched, the Canadian case offers some alternative approaches to state level overseas representation. One option is to consolidate resources by assigning national diplomatic status to a state's representatives and locate them in Commonwealth foreign missions. The state representatives would retain their distinct state identity and mission in these arrangements. The merits of this approach include the potential to avoid confusion and duplication and to achieve cost savings. Another option is to concentrate state offices in a few major centres strategic to a state's specific interests and ensure that they are properly resourced. In this option, state representation could possibly use Commonwealth offices in smaller countries and report to the relevant state department.

Intergovernmental cooperation

The other main area in which Australian federal and state responsibilities have been at times blurred relates to the Commonwealth's constitutional powers over foreign affairs. Two specific situations can be highlighted. The first is the Commonwealth's use of its constitutional powers to override a state's legal authority on issues that would otherwise fall within the state's jurisdiction. The second is the case where the Commonwealth negotiates and implements treaties with implications for state interests.

The High Court of Australia has consistently adjudicated that only the Commonwealth government can speak for Australia in international affairs, including on treaty negotiations. States can enter into international arrangements but with less than treaty status (normally in the form of Memoranda of Understanding). The High Court has also supported the Commonwealth Parliament's use of legislation to implement treaties, where implementation impacts on areas normally under the jurisdiction of a state. Prominent past examples include the use of world heritage treaties to override state approval of development projects, and human rights treaties to override states legislation regarding Indigenous peoples. Over the past two decades however, there is increasingly the trend towards the Commonwealth and the states working more closely on foreign relations issues. In part, this has arisen because of the difficulty in practice of pushing federal legislation through the Senate where there has been significant state opposition.

In the area of treaty negotiations, practice has shifted. Up until the 1980s, the rights of states to impede implementation of treaties were protected by the use of a so-called federal clause (in which the Commonwealth would only accept

responsibility for those matters within its traditional constitutional authority). However, this measure was abandoned in 1983. Subsequently, protection of state prerogatives is based largely on the 'Principles and Procedures' protocol for consultation between the states. These provide that, where appropriate, a state or territory representative be included in relevant Australian delegations.

Joint efforts on investment also illustrate a more cooperative approach emerging. In the last two years there has been a good deal of work done by Austrade and relevant state departments on overcoming duplication on investment promotion and follow up policies. This has involved the allocation of specific tasks to each state according to sector. It has also entailed a distribution of responsibilities for each stage of the inward investment process broadly between Austrade and the states. The efficacy of the new arrangements is still to be fully tested but they do project a thoughtful and more cooperative tendency to issues of common concern. Other coordinating mechanisms have been floated to link-up Commonwealth offices and their state counterparts though hitherto unrealised. The multilevel character of the global and regional settings would suggest that the need to further develop Commonwealth-state coordinating mechanisms and cooperative arrangements is imperative, especially in trans-borders areas such as education, investment and the environment.

In the final analysis, there is good sense in attempts to ensure that the external operations of the Commonwealth and of Western Australia keep in some form of alignment. Undoubtedly, different parts of Australia have different external emphases but there is little to be gained if each is engaged in pursuing lone enterprises overseas. This is a recipe for confusing existing and potential partners, and runs the risk of projecting Australia as a fragmented nation. Distinctive features and competitive edges are important to emphasise in the pursuit of subnational interests. But operational differences are best addressed domestically rather than displayed regionally. There is some scope to further develop coordination and cooperation strategies in this area to maximise the benefits of economic diplomacy for both the states and Commonwealth.ⁱⁱⁱ

Recommendations

Recommendation 12

Governments, as well as leadership in business, education, and civil society, need to be careful to avoid complacency in the conduct of Australia's regional relations, especially given that nothing is static in the Region. While some nations may loom large at one moment, it is important not to forget or take for granted longstanding regional relationships.

Recommendation 13

In regional partnerships, government, industry and NGOs should undertake the development of professional exchanges and sabbatical programs to share and develop good governance practices and capacity building in the public and private sectors. The experience of pooling knowledge and witnessing how things can be done differently is seen to be particularly relevant to addressing the issue of corruption, with its negative impacts on conducting business and the efficient running of government.

Recommendation 14

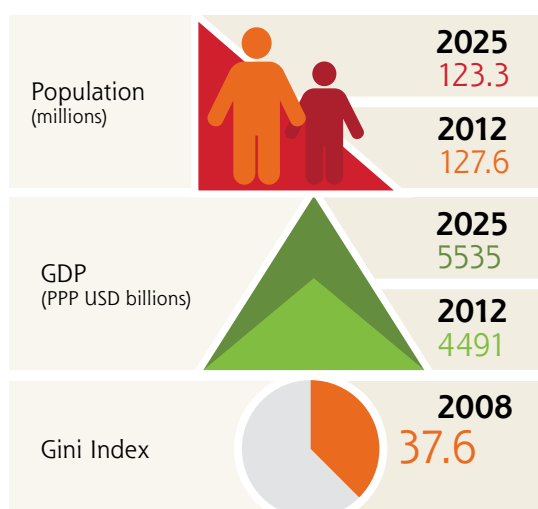
Schools, universities and research institutions, with the positive aid and support of government, should up-scale student exchanges & research collaborations and partnerships in the Region. These types of regional programs and partnerships have many direct educational and research benefits but also deepen a wider sense of common purpose and reciprocity. These efforts should also be linked to the greater development of alumni and other networks for ongoing understanding and mutual benefit.

Recommendation 15

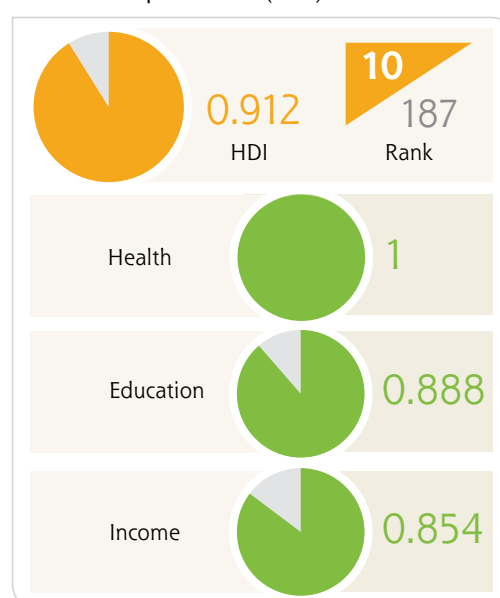
Given the growing involvement of Australian states in the facilitation of regional economic engagement *there is a need to further develop robust state-federal intergovernmental mechanisms* to deal with these matters in relation to policy and international negotiations as well as field operations. These mechanisms would be helpful in the advancement of greater cooperation and coordination between federal and state governments, especially on trans-border issues such as trade, investment, education and the environment.

Country brief:

JAPAN



Human Development Index (2012)



The population of Japan is c.127 million and is rapidly ageing. It is the world's fourth largest economy (in purchasing power parity terms). After three decades of spectacular growth, the Japanese economy slowed markedly in the 1990s, after which it experienced modest growth in the 2000s. The massive earthquake and tsunami disaster in March 2011 had a calamitous effect on the economy but in 2012 it returned to positive growth (1.9 per cent nominal GDP). There is ongoing domestic debate about restructuring the Japanese economy for growth and how to reduce the huge national debt (c.245 per cent of GDP). Japan is a democratic constitutional monarchy, and is linguistically and culturally homogenous (with 98.5 per cent of the population ethnically Japanese). Australia has a longstanding relationship with Japan centred on substantial economic ties, security and defence cooperation, shared commitments to good global citizenship, and wide-ranging people-to-people connections.

In its Tokyo consultations, the Commission heard a range of voices on Japan's current situation and future prospects, and how Australia and Western Australia may figure in these considerations. The following provides some snapshots of these views.



Challenges

- A central issue facing Japan is the stalling of the Japanese economy and the need for fundamental structural reform. The task confronting Prime Minister Shinzo Abe's government is how to achieve growth and at the same time reduce debt. Abe is in a strong position to undertake reform, enjoying high public popularity, no immediate leadership rivals, and a large majority in the Diet. The implementation of 'Abenomics' is beginning to produce some positive results in the economy with an increase in exports. In addition the decision to raise the consumption tax rate in 2014 to reduce national debt has been welcomed by a majority of Japanese as well as overseas investors. Nonetheless Abe also has to manage a range of vested interests in areas badly in need of reform.
- The challenge of an ageing population in Japan and its implications for economic growth is vexed. It is already having adverse effects in higher education, where universities are battling to fill places, and in labour markets. There are suggestions that far higher levels of female participation in the workforce would help but this has to contend with traditional views about women's proper place being in the home. Immigration is one possible solution but there are concerns that this would dilute Japanese identity and way of life.

- Energy supply is a critical issue for the Japanese economy and public policy. This has become highly charged after the Fukushima disaster and the closing down of Japan's entire nuclear power program. This has produced the imperative to rethink Japan's energy mix. What this may look like in the immediate future is a technical and supply puzzle, but also a highly charged political problem.
- In the area of strategic security, the Abe government has committed to the establishment of a national security council as well as allowing Japan to exercise the right to collective defence. This has the potential to further complicate Japan-China and Japan-Korea relations, with implications for wider regional security.

On Australia and Western Australia

- There is a certain feeling in Japan of neglect in the longstanding relationship with Australia because of the rise of China. Australia needs to ensure that it does not appear to be just focused on China. The newly elected Coalition federal government in Australia has made the relationship with Japan a priority, sending an important signal in this regard, as have the ongoing efforts of the Western Australian government to maintain and strengthen the Japan relationship. There is great potential for further developing the relationship. This can be achieved by connecting at a range of levels including business-to-business, city-to-city, and university-to-university.
- While people-to-people relations have been strong, older friendship links and networks are fading as those involved are aging. Japanese students are travelling less overseas to study and younger Japanese tend to be more interested in things Japanese. If they do travel, it is to other 'Asian' countries in the Region rather than Australia. In the wider Japanese community there is a poor grasp of Australia and its culture.
- There is great potential to further develop bilateral trade and investment relations, especially for Western Australia in the areas of energy (uranium, hydrogen, LNG), high-end food and beverage produce, defence science and technology, and investment. Australian marketing and branding into Japan needs to be better informed about local Japanese culture and sensitivities to gain market traction and to avoid offence.
- There are various opportunities for further developing professional exchanges, as well as research collaborations. English language proficiency among Japanese researchers, and vice versa, can present difficulties for engaging in global scholarly circles. Nevertheless, there are significant collaboration possibilities for Australian and Japanese researchers to work together on joint projects combining their varied capacities.

Emerging leaders perspectives

- The emerging leaders reiterated concerns about the economic situation and the impediments to structural reform. The difficulties encountered with the proposal to raise consumption tax were seen as indicative of the larger challenge. Although having a big majority in the Diet, Prime Minister Abe nonetheless has to deal with many vested interests in his parliamentary ranks.
- The ageing population is a well-recognised problem because of its limiting effect on Japan's ability to pursue economic growth. There is potential for far greater participation of women in the workforce and this would help the situation. But, there remain some well-entrenched views about the role of women being primarily in the domestic sphere.
- Immigration may be another way to help address the aging population issue and to aid future growth. In principle immigration was seen as welcome. However, in practice any immigration program would present many difficulties, above all, that non-Japanese people would not fit into the Japanese way of life.
- The image of the Japanese 'company man' is fading as the job for life model disappears. While open to the idea, young Japanese are reticent about working abroad as this would interrupt career continuity in Japan and thus adversely affect their prospects for advancement.
- A number of the emerging leaders had direct or indirect knowledge of Australia through personal and educational connections. However they reported that young Japanese more generally did not have any deep sense of Australia except as a good tourist destination.

Chapter 6

Western Australia in the evolving regional order

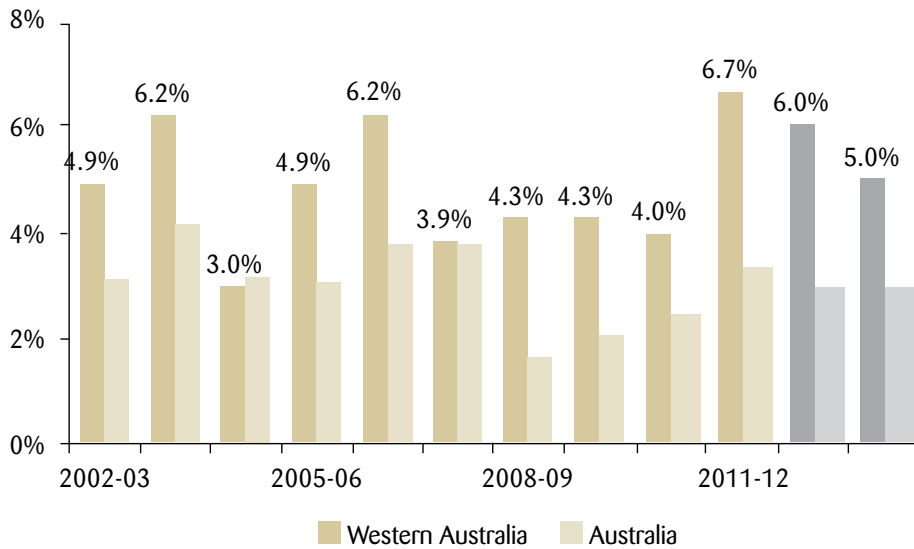
Emerging trends in the Asian region offer great opportunities for Western Australia to develop and prosper. As has been examined in earlier chapters, Western Australia has been a lead player in the nation's economic engagement with Asia's rise. The export orientation of the State's economy and resources sector has placed it in an extremely favourable situation in this regard and bodes well for future ventures. Nonetheless, optimal growth in economic prosperity is not a given and needs to be cultivated through the action of government and business. Western Australia's edge in resources is an extraordinarily vibrant base for the development of the State. It also has strengths in other sectors that have enormous potential for growth, especially in areas relevant to the opportunities and challenges identified in the Region. This chapter examines ways that Western Australia can further a regional agenda for development and deepening engagement.

Western Australia as a Regional Economic Player

The impressive rates of growth in Western Australia's resources sector in recent years often leads to the impression that the State is simply a 'quarry' supplying the Asian economic miracle. This impression may make easy headlines but it misses the fuller story. For instance, the mineral and energy sectors in the Western Australian economy are sophisticated operations with high-level expertise and technologies, placing them among world leaders in the field. This includes capacities ranging from world leaders in geoscience and resources software, environmental management, through to local community engagement and development. A fuller picture of other sectors such as agricultural and pastoral production in the state are also often overshadowed by the 'quarry' caricature of the state's economy. Leading science and technology capacities and research capabilities cluster around these sectors in Western Australia. The larger point is that Western Australia is a modern economy that centres on the development of natural resources to meet growing world demand for minerals, energy and food, yet also has great potential in 21st century 'knowledge economy' competencies and skills (as well as natural environment and lifestyle attractions and industries).

Given the importance of its trade and investment ties with Asian economies, Western Australia is susceptible to the fortunes of its regional partners. The recent slowdown in Chinese economic growth has implications for the Western Australian economy especially in regard to demand for mineral resources. This moderation in Chinese growth is sometimes presented as a portent of decline for the mining sector and the Australian economy. In fact, while demand growth may have moderated at current prices the industry is still healthy, even as expansion plans and employment have been curtailed as the industry has become more focused on its international competitiveness.^{liii}

Figure 7: Gross state (domestic) product growth



Note - Forecasts start in 2011-12 for Western Australia and Australia.

Source: ABS 5220.0 State Accounts; ABS 5204.0 National Accounts; and WA and Australian Treasury

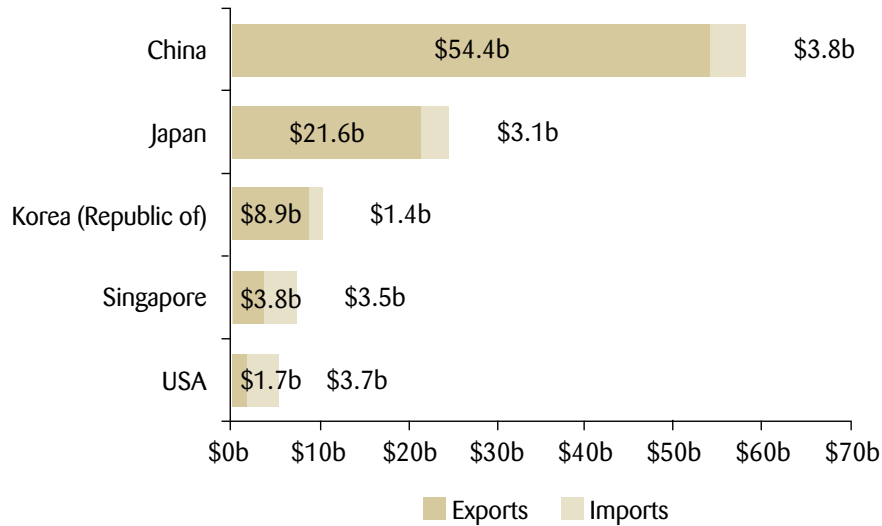
The slowing of expected growth in China alongside adjustments to Australia's terms of trade have an impact on Western Australia's economic growth. This emphasises the ongoing need to diversify the economy into areas with potential for international competitiveness, in order to foster longer-term growth and resilience. While the State is fortunate in terms of its mineral, energy and agricultural resources, Western Australia needs to broaden its economic base beyond these exports. New trade opportunities are being pursued yet more systematic efforts are required. An area for particular focus is the export of high value-added goods and services.

Western Australia is well placed to expand service exports given its established trade and investment links in the Region and its strengths in areas of growing demand. Some of these areas involve the upside of Asia's rise and in particular the market opportunities associated with the rapidly expanding middle classes. For example, Western Australia is a source of clean fresh food produce, education services, and quality tourism.^{liv} Other areas of opportunity relate to some of the downsides of Asia's rise, including the challenges associated with urbanisation pressures, environmental stress, food security and capacity deficits. Western Australia has world-class expertise and research capabilities relevant to address these challenges including in food production and water management in semi-arid regions, fisheries and marine ecology, health sciences and environmental management, business management, and public administration.^{lv}

Australia's investment abroad doubled over the last decade from \$524.4 billion in 2002 to \$1297.6 billion in 2012. Foreign investment stocks in Australia amounted to around \$2000 billion, the majority of which comes from the UK, the US and Europe. Foreign investment from Asia was about 11 per cent of Australia's FDI accumulated FDI stocks in 2012, and was predominantly from Japan and Singapore.^{lvi} Chinese investment is growing, and is expected to continue to grow in the future. Within Western Australia investment from

the USA and the UK has been important in developing resource projects, with Japanese investors also playing a key role as minority investment partners in the iron ore sector.

Figure 8: WA's major trading partners, 2012-2013 (WA, DSD, August 2013)



Investment flows between Western Australia and the Region are a key aspect in further developing regional links and mutual benefit. The appraisal processes of Australia's Foreign Investment Review Board (FIRB) are not always well understood and may generate a level of uncertainty. However, only one business investment proposal has been rejected by the Treasurer through the FIRB assessment process. Nonetheless, given the substantial benefits that come from investment flows, there is a need to raise greater awareness of the conditions and benefits of investment flows. This is particularly important in the promotion of Australian investment in the Region. One important way to do this would be to profile success stories that increase knowledge of the processes involved and the array of potential benefits. The generation and circulation of this type of information may help Australian investors to look to the wider range of opportunities on offer in the Region.

The minerals and energy resources sector will remain central to Western Australia's economic growth and development into the future. The diversity and abundance of the Western Australian resources sector combined with its business expertise and its technological specialization leaves the industry in a strong position even given the moderation in demand and the need to maintain international competitiveness.^{lvii}

Knowledge Economy

Education services and the higher education sector in particular are major components in the dynamics of the knowledge economy. Traditionally these services have trained professional and research personnel for various sectors of the economy and for public services, as well as undertaken pure and applied research, some of which was commercialised. The sector still delivers these types of services. However, it has undergone substantial change induced by a number of factors, some financial but also some more fundamental. Above all else there is the direct implication of knowledge production with innovation and economic growth. For instance, advances in scientific and technological research and its translation into practical applications provide substantial and lucrative commercial opportunities in high value add areas. The demand for higher education has accelerated exponentially in the wake of this situation. The sector is becoming increasingly global and competitive as a tradeable service. In this sense, it is now more an industry than simply a domestic capacity builder. Research programs are becoming more collaborative and increasingly international, partly due to the complexity of problem sets now being addressed but also to pool human capacity and other resources. The higher education educational experience is also being construed more and more as an international endeavour, offering programs that emphasise skills and competencies that are mobile and agile in a global setting. In this regard, the higher education sector is now both tradeable and infrastructural with the potential to operate in a virtuous circle that develops broader economic and societal capacity as it advances as an industry in itself.

There are however shortfalls in the area of knowledge economy capacity in a number of the Asian economies (a gap which Australian educational services among others have filled to some degree).^{lviii} This lag is indicative of the larger situation in which the dramatic growth in the export-manufacturing sector has not been matched by commensurate advances in the services sector in these economies. As a result, there has been a degree of relative underdevelopment in this sector, making it a top priority area for developing Asia. The Asian Development Banks reports that regional cooperation in the higher education sector has not mirrored the extent of economic integration in the Region, and thus there is great potential for greater regional collaboration with the range of benefits this can bring.^{lix}

Aside from the resources sector, Western Australia has significant prospects in developing its demonstrated strengths related to the knowledge economy. It has excellent research and technology capabilities in minerals and energy along with life sciences and agriculture, with research opportunities arising with the State's ranking in the top 34 locations in the world for bio-diversity. Western Australia also has strengths in areas such as radio astronomy, physics and bio-medical research that have great potential for investment and development. For example, the State has a major role in Australia's participation in the international scientific infrastructure project, the Square Kilometre Array Radio Telescope. This introduces substantial levels of investment into radio astronomy research in the State with a wide range of possibilities for practical applications. Another example is the decision by the major energy corporation Chevron to establish the State as its third world wide hub for energy research. These initiatives demonstrate how great opportunities can be leveraged off existing and emerging capacities through partnerships and collaborations.

Higher education has a central role to play in the knowledge economy and the State has strong credentials in this area. Universities in Western Australia offer quality teaching and learning programs and are ranked among the world-class research universities in the world. For instance, the University of Western Australia is in the top one 100 on the Shanghai Jiao Tong rankings and Murdoch University is ranked 57 in the Times Higher Education top '100 under 50 years old' universities. The Western Australian university sector has an impressive set of world-renowned expertise that is relevant to the range of opportunities and challenges that have emerged with the rise of the Asian economies. There are already university and research connections into the Region both in the delivery of degree programs onshore and offshore, and in research collaboration and joint projects. However, there is both untapped potential and a great deal of scope to extend and intensify these links to advance the State's knowledge economy as a significant player in the Region.

Indeed further development and investment is needed in Western Australia's knowledge economy in order to meet demand in the Region and to make the most of emerging opportunities. State government authorities and agencies have been strong advocates for increasing science and technology capacity and innovation and a number of Centres of Excellence have been established. The Office of the Chief Scientist is particularly notable for its vigorous advocacy in this area, and the State Government is strongly promoting a science agenda.^{ix} There has also been industry support of research and development especially in the areas of geoscience, energy and environmental research. Western Australia's universities and other education peak bodies have been active in this space as well promoting the state's higher education institutions in the Region, especially through groups such as Perth Education City.

Nonetheless, more needs to be done to advance the capacity of the State's knowledge economy. Two dimensions can be identified that can help to achieve this. First, in order to flourish and develop, researchers and research effort require a greater critical mass than is currently the case in Western Australia. In the contemporary world of science and technology research break-throughs and innovation in the main are the outcome of research teams collaborating on problem sets. This type of collaboration not only produces significant outcomes in knowledge and its practical application, but also increases and develops capacity among those involved in the collaborative research teams. One way to

generate greater critical mass in research is through international partnerships. This means ramping up efforts to develop collaborative connections in research areas in which Western Australia has established strengths.

The second aspect concerns investment in research, especially in the area of translational research with its strong practical ramifications. In Australia generally, there is a need for greater public and private investment in research.⁸ Thinking about this problem through a regional lens may be helpful. What is needed is the capability and attractiveness to invest in research programs that often require significant financial resourcing. A way to do this would be to leverage with major corporations in other countries in the Region to finance what are often expensive endeavours. Joint venturing in research and research funding in this manner offers the chance to be able to build the types of high cost research programs that can lead to scientific innovation and commercialisation potentials.

Western Australia's Policy Reach: Limits and Possibilities

Public policy settings and regulatory regimes are major considerations if the Western Australian economy is to prosper and diversify. A key issue in this regard is the extent to which the State government and its agencies can make a difference and have impact. On the constraints side of this question there are formal limitations on what a state government as a subnational unit can do in the context of the Australian federal system. There are major policy areas that fall under the national jurisdiction or that have been nationally influenced, and in which the State government is not directly able to exercise sovereign power.

These federal areas include fiscal and monetary policy, income tax, telecommunications, higher education finance and regulation, immigration, customs and quarantine, federal transportation regulation, foreign affairs and trade agreements, and the administration of foreign direct investment. While state governments in the Australian system have oversight responsibility in such areas as health, primary and secondary education, transport and housing, many of these are subject to fiscal arrangements with the Commonwealth government that can effect the degree of autonomy a state government can exercise.

There are thus crucial policy and regulatory areas of responsibility that relate directly to regional economic relations that are out of the hands of the Western Australian government. Obviously it is able to introduce its own policy settings and programs in a number of these areas and to lobby and advocate for specific national policy settings and reform that may be seen to facilitate and benefit the State's regional economic engagement. Given Western Australia's positioning, there is a good argument to be made that this engagement is in the national interest. In terms of the State's ability to pursue the opportunities in the Region identified above, there are a number of key items at stake including the negotiation of free trade agreements, the administration of foreign direct investment, people and business mobility, research and higher education funding, taxation settings, federal transport regulation and telecommunications.

8

On business expenditure in R&D, Australia is positioned below the OECD average (OECD, *OECD Science, Technology and Industry Scoreboard 2011*, 2011: ch.2). In Western Australia, business expenditure on research and development was 1.50% of gross state product in 2011-2012, leading all the other states with New South Wales next at 1.40% followed by Victoria at 1.21% (Australian Bureau of Statistics, *Research and Experimental Development, Businesses, Australia 2011-2012*, September 2013, cat. no. 8104.0, Canberra, ABS).

The effectiveness of a state government to have influence on the shape of these items can be somewhat variable and subject to the play of politics. Nonetheless, and as already noted in Chapter 5, state government scrutiny, and involvement where possible, is critical.

On the positive side of the ledger, Western Australian government authorities have shown a notable willingness to act as a subnational unit on the regional stage. On the diplomatic front, it has actively engaged with other subnational units at the city-to-city, province-to-province, and province-to-national levels. The value of these efforts is variable ranging from the purely ceremonial through to the development of substantial partnerships. Nonetheless, it does indicate the potential benefits that may be gained from complementing and supplementing the regular modes of engagement between nation-state actors. The government and non-government subnational facilitation of business-to-business, business-government and institution-to-institution relations can also have positive results in realising regional opportunities and developing mutual understanding. All of these efforts indicate a growing awareness of how important the Region has become to the economic fortunes of Western Australia. The next step will be to dovetail this mindset with the need to diversify the State's economy as the major Asian economies evolve and transform.

State government authorities and agencies seem attentive to the need to emphasise the benefits of an export-orientated economy and the development of Western Australia's knowledge economy. The public promotion of science and technology is reasonably non-controversial though more may be needed to ensure that an increasing proportion of secondary students choose to study mathematics and science.⁹ The State's welcoming of certain types of foreign direct investment is not understood by some sections of the wider public and could benefit from better information and education to convey the mutual benefits that can be achieved. This is quite aside from this being a regulatory area of Commonwealth responsibility. Examples like these indicate the types of hurdles that are present, but also the possibilities that a subnational unit can encounter and encourage as it operates at the domestic, regional and global levels.

What can be done?

Western Australia now faces the dual challenge of coming to grips with the transformations involved in the evolving regional economic order and how it can make the most of the opportunities arising out of these transformations. Its edge in resources is an extraordinarily vibrant base for the development of the State, especially with Perth as a global resources industry hub. Western Australia also has strengths in other sectors that have enormous potential for growth. The State government has a part to play in realising this, as does the private sector, both domestic and international. The following recommendations suggest ways that Western Australia is able to advance a regional engagement agenda.

9

This is also a pressing concern for Australia as whole with the growing importance of the knowledge economy. See Office of the Chief Scientist, *Science, Technology, Engineering and Mathematics in the National Interest: A Strategic Approach*, July 2013, Canberra, Australian Govt, 2013.

Recommendation 16

There is an ongoing need to emphasise and promote the fact that Western Australia is already an active player in the regional economy. This should be integral to all policy and strategic economic thinking in government and business about how to make the most of existing and new opportunities.

Recommendation 17

There is a need to pursue greater diversification of the Western Australian economy. This involves a realisation of the great opportunities on offer in the further development of the high value-add sectors of economic activity and where Western Australia can potentially be internationally competitive. It also entails an appreciation of the potential benefits to be made through joint ventures and foreign investment flows in the Region to develop existing and new areas of economic opportunities. A prime candidate here is the strength of Western Australia's knowledge economy including its scientific research and technical expertise, and how this fits with regional demand and problems. This presses the need for far greater investment in research and development through partnerships and collaborations with other universities, research institutions and businesses in the Region.

Recommendation 18

There is great scope and mutual benefit for Western Australia to intensify its connections in the Region. There are many existing business links, government-to-government relations, university and people-to-people connections into the Region that can be further developed. The learning of Asian languages, student exchanges, and various forms of cultural engagement, all help to increase understanding and connectivity. Moreover, increasing knowledge in the wider community about the Region and Australia's place therein is essential to advancing this agenda.

Recommendation 19

The development of the international agenda of higher education and its ability to increase regional connectivity is paramount. The gains are multiple ranging from the people-to-people dimensions through to core aspects of knowledge economy development. This can be realised through student exchanges and internships, joint badging of degrees with universities in the Region (to produce 'regional-global' graduates), the mutual benefits of research collaborations and partnerships, and the merits of alumni and other network mechanisms.

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Appendix 2 - Commissioner's Profiles

Mrs Kerry Sanderson AO

Mrs Kerry Sanderson AO is a Non-Executive Director of Atlas Iron and Chairman of Gold Corporation. Kerry was Agent General for the Government of Western Australia from November 2008 until December 2011. Based in London, the Agent General represents the Government of Western Australia in Europe and Russia and promotes investment in Western Australia and Western Australian exports to Europe. Ms Sanderson was Chief Executive Officer of Fremantle Port Authority from 1991 to 2008, a period during which container trade quadrupled and in 2004, was named an Officer of the Order of Australia for service to the development and management of port and maritime industries in Australia, and to public sector governance in the areas of finance and transport. Kerry is a director of Downer EDI Limited, St John of God Health Care and serves as Chairperson to the State Emergency Management Committee. Kerry received an Honorary Doctorate of Letters from the University of Western Australia in 2005 and is a Member of the Advisory Council, Curtin University Business School; a former Member of the Ambassadorial Council, University of Western Australia Business School in the UK; and a former Member of the Advisory Board, Menzies Centre for Australian Studies, Kings College London. She has previously served as a Director of Austrade, the Australian Wheat Board, Rio Tinto WA Future Fund and the Western Australian Lands Authority (Landcorp).

Professor Chung Min Lee

Dr. Chung Min Lee is a Professor of International Relations in the Graduate School of International Studies at Yonsei University in Seoul. In June 2013 he was appointed as South Korea's Ambassador for National Security Affairs. He is also an Adjunct Senior Fellow for Asian Security Affairs at the International Institute for Strategic Studies (IISS) and was a visiting professor at the Lee Kuan Yew School of Public Policy, National University of Singapore (2005-2007), the Graduate Research Institute for Policy Studies, Tokyo (2004-2005), a policy analyst at the RAND Corporation (1995-1998), and a visiting research fellow at the National Institute for Defense Studies, Tokyo (1994-1995). Dr. Lee also served as a research fellow at the Sejong Institute, Seoul (1989-1994) and the Institute for Foreign Policy Analysis, Cambridge, Massachusetts (1985-1988). He is currently a member of the board of the Seoul Forum for International Affairs (SFIA). For over twenty years, Dr. Lee has written extensively on various aspects of East Asian security including strategic developments on the Korean peninsula. His research covers international and Asian security and defence planning, WMD proliferation, crisis management, and intelligence.

Mr John McCarthy AO

Mr John McCarthy AO is the National President of the Australian Institute of International Affairs. He has served as Australian Ambassador to Vietnam (1981-1983); Mexico (1985-1987); Thailand (1992-1994); the United States (1995-1997); Indonesia (1997-2000); Japan (2001-2004) and as Australian High Commissioner to India (2004-2009). Mr McCarthy is currently Chair of the Australia-India Council, Deputy Chair of the Australia-India Institute, Chair of the Advisory Board of the Griffith Asia Institute and Co-Convenor of the Australia - Indonesia Dialogue. He is also involved in the private sector.

Professor Dorodjatun Kuntjoro-Jakti

Professor Dorodjatun is an Emeritus Professor at the University of Indonesia specializing in Monetary Economics and Public Finance, and Political-Economy of Development. He also holds a Doctor Honoris Causa in Management from the Technology University of Malaysia (UTM). Professor Dorodjatun has previously served in the Indonesian Department of Foreign Affairs, and as a Senior Expert for Economic and Social Affairs in the Executive Body of the Non-Aligned Movement (NAM), a consultant to Indonesia's Pacific Business Forum (PBF) and as an advisor to Indonesia's ASEM Economic Business Forum delegations to the Paris and Bangkok AEBF meeting.

From 1998-2001, Dorodjatun served as Ambassador Extraordinary and Plenipotentiary to the United States, Grenada, St. Lucia, St. Vincent and the Grenadines, and the Commonwealth of Dominica. He was appointed as Coordinating Minister for Economic Affairs (2001-2004). Dorodjatun has received the Chancellor's Distinguished Honour Award of the University of California at Berkeley, USA (1998), Medal for Distinguished and Loyal Service of 30 years in the Government of Indonesia (Satyalencana Karya Satya) (2002), the Elise and Walter A. Haas International Award of the UCB, USA (2002), Medal of Honor of Mahaputera Adiprana presented by Presiden Susilo Bambang Yudhoyono (2005), Medal of Honor of The Order of The Rising Star, Gold and Silver Star, from His Majesty The Emperor of Japan, presented by PM Hatoyama (2010).

Dr Denis Hew

Dr. Denis Hew is currently the Director of the Asia Pacific Economic Cooperation Policy Support Unit (APEC PSU). In this position, he is responsible for the work program and operations of the PSU, which is the research and analysis arm of APEC. Before taking up his current appointment, Dr. Hew was Regional Cooperation Specialist at the Asian Development Bank (ADB), where he managed technical assistance and coordinated efforts on regional cooperation and integration in the Southeast Asia department. From 2001 to 2008 Dr. Hew was Senior Fellow and Program Coordinator (Regional Economic Studies) at the Institute of Southeast Asian Studies (ISEAS) Singapore. He was also for many years the Managing Editor of the ASEAN Economic Bulletin, a leading academic journal that focuses on policy-relevant economic issues in Southeast Asia. Dr. Hew has written extensively on regional economic cooperation and integration, especially in ASEAN and the Asia-Pacific region.

Professor Wang Yong

Dr. Wang Yong is a Professor at the School of International Studies, Peking University, Beijing and Director of the Peking University Center for International Political Economy Research. His primary research interests concern international political economy, the politics of the World Trade Organisation (WTO) and other international economic institutions, as well as regional integration in East Asia and US-China relations. He tries to illuminate the relations between the state and market on both global and domestic levels. His current interest concerns the changes produced by economic globalisation and the impact on China's economic and political policy making. Since 1995, he has conducted field research on US- China economic negotiations and Mainland China and Taiwan's WTO accession respectively in the United States, Mainland China and Taiwan. At Peking University, he teaches courses in International Political Economy, China-US Economic and Trade Relations, and Politics of International Trade.

Professor Kanishka Jayasuriya

Kanishka Jayasuriya is currently Professor of International Politics and Director of the Indo-Pacific Governance Research Centre (IPGRC), University of Adelaide. Prior to this he was Principal Senior Research Fellow at the Asia Research Centre (ARC), Murdoch University. He has held teaching and research appointments in several Australian and overseas universities including the ANU, the University of Sydney, Murdoch University, National University of Singapore, and City University of Hong Kong.

Mr David Flanagan

Mr David Flanagan is the Chairman, Atlas Iron. David is a geologist with more than 20 years experience in mining and mineral exploration in Australia, Indonesia and West Africa. Prior to founding Atlas as Managing Director in 2004 he was Exploration Manager with Gindalbie Gold NL where he led the geological component of the company's gold mining and then iron ore development projects. Since 2004, Atlas has grown from a \$9 million exploration company with one employee to a \$3 billion top 100 ASX listed company with mining operations employing over 600 people. The company declared its first dividend from its maiden profit of \$161M in FY11. David also participates in industry organisations, not for profit boards and charities, holding positions on the board of Youth Focus, GivingWest, Australian Mining Hall of Fame, Western Australian Academy of Performing Arts, the Australian Institute of Company Directors, the Western Australia (WA) Business Advisory Board for the Leukaemia Foundation and is patron for Many Rivers Microfinance. In August 2013, David was appointed as the Chancellor of Murdoch University in Perth, WA.

Professor Takashi Terada

Takashi Terada is a professor of international relations at Doshisha University in Kyoto, Japan. He received his Ph.D from Australian National University in 1999 and has held positions as an assistant professor at National University of Singapore (1999-2006) and associate and full professor at Waseda University (2006-2011). He also has served as a visiting fellow at University of Warwick, U.K. (2011 and 2012) and a Japan Scholar at Woodrow Wilson International Center for Scholars, Washington D.C. (2012). His areas of specialty include international political economy in Asia and the Pacific, theoretical and empirical studies of Asian regionalism and domestic and international politics of FTAs. He has been regularly consulted on national and international affairs by Japanese, Australian and Singapore governments. He is completing his book project in Japanese to be published by University of Tokyo Press in 2013 concerning power struggles over regional integration in East Asia and the Pacific with a focus on role of the US, China and Japan. He is the recipient of the 2005 J.G. Crawford Award.

Dr Rajiv Kumar

Dr. Rajiv Kumar is a well-known Indian economist, the author of several books on the Indian economy and India's national security and a widely read columnist. He was the Secretary General of the Federation of Indian Chambers of Commerce and Industry (FICCI) one of India's three apex Chambers until October 2012. Prior to FICCI, (May 2006 to August 2010) he was the Director & Chief Executive of the Indian Council for Research on International Economic Relations (ICRIER), one of India's best recognised independent economic policy think tanks. He was also the Chief Economist of the Confederation of India Industries (CII) during 2004-2006. He is presently a member of the International Board of the King Abdullah Petroleum Studies & Research Centre (KAPSARC), Riyadh. He is in his second three year term (2012-15) as a non-executive Director on the Central Board of the State Bank of India, India's largest commercial Bank and also serves as an independent director on the Board of Directors of the Gokhale Institute of Politics and Economics, a deemed university in Pune, India. Dr Kumar was a member of Government of India's National Security Advisory Board for 2006-2008, a think tank attached to the National Security Council. He was a member of the Warwick Commission on global financial crisis, set up in 2009 by the Vice Chancellor of Warwick University, England.

Associate Professor Helen Nesadurai

Helen E. S. Nesadurai is an Associate Professor in the School of Arts and Social Sciences, Monash University, Malaysia. Much of her research explores how the tensions between the global and the domestic are negotiated in the construction of regional governance arrangements, especially in the Asia-Pacific region. While continuing to study regional cooperation and governance through ASEAN, ASEAN Plus Three and APEC, her research increasingly explores the politics and political economy of non-state governance arrangements initiated by NGOs and/or private firms. She is especially interested in examining how these arrangements interact with state authorities in Southeast Asia, their influence on the way states govern and what that says about power, authority and sovereignty in the region. She is currently exploring these dynamics using the case of the Roundtable on Sustainable Palm Oil, a global, multi-stakeholder regulatory regime aimed at enhancing palm oil sustainability.

She is the author of *Globalisation, Domestic Politics and Regionalism: The ASEAN Free Trade Area* (Routledge, 2003) and the editor of *Globalisation and Economic Security in East Asia: Governance and Institutions* (Routledge, 2006). Her published work has also appeared in *Third World Quarterly*, *New Political Economy*, *The Pacific Review*, and *Australian Journal of International Affairs*. She is an external associate of the Centre for the Study of Globalisation and Regionalisation at Warwick University and the Asia Research Centre at Murdoch University and currently serves on the editorial boards of *The Pacific Review*, *Journal of Current Southeast Asian Affairs*, and *Contemporary Southeast Asia*. She has also consulted for the ASEAN Secretariat and the Asian Development Bank.

Dr Jeffrey Wilson

Dr Jeffrey Wilson is a Fellow of the Asia Research Centre and Lecturer in Politics and International Studies in the School of Management and Governance, Murdoch University. He received his Bachelor of Economics and Social Sciences (Hons) from the University of Sydney, and his PhD in International Relations from the Australian National University. His research interests include international political economy, the role of corporate actors in global economic governance, and international resource politics in the Asia-Pacific region. Jeffrey was awarded the University of Sydney Medal in 2006, and was the inaugural recipient of the Boyer Prize from the Australian Institute of International Affairs in 2012. He has published widely on the political economy of resource security in Asia, and is the author of *Governing Global Production: Resource Networks in the Asia-Pacific Steel Industry* (Basingstoke: Palgrave Macmillan, 2013).

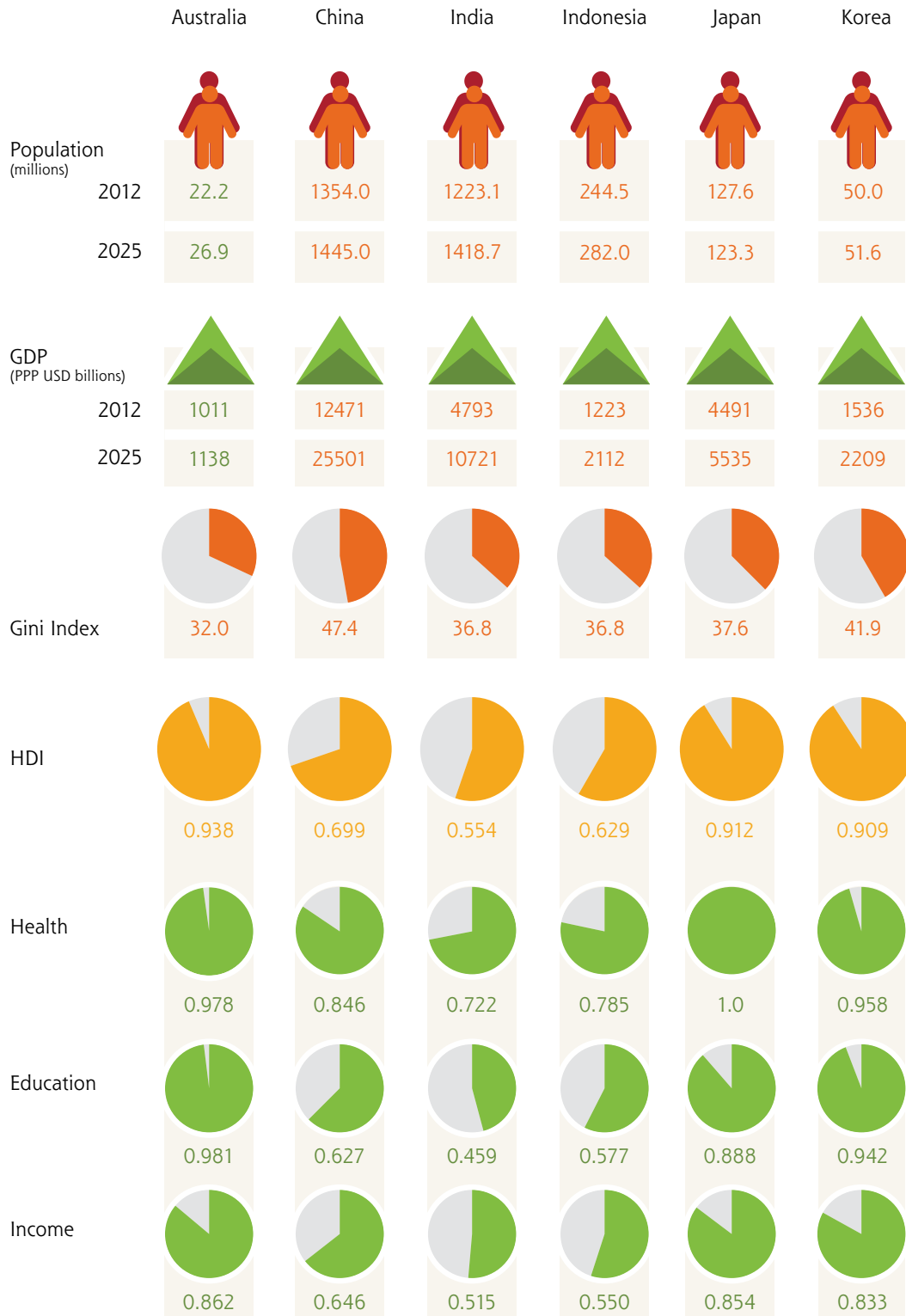
Associate Professor Michael Crozier, Director of Studies

Michael Crozier is the Vice Chancellor's Senior Fellow and Associate Professor in Political Science at Murdoch University. Before joining the VC's office at Murdoch, Michael was in Political Science at the University of Melbourne for over two decades. He has extensive experience in university teaching, research and leadership roles. Michael has reviewed teaching and research programs at a number of Australian universities, and is an ARC assessor and a regular peer reviewer for scholarly journals and university presses. Michael was educated at Monash University and La Trobe University in Melbourne. He has held previous academic positions at the University of Melbourne and Deakin University. He has been a visiting research fellow at the Australian National University, McMaster University (Canada), University of Padua (Italy), and Queens University (Canada).

Ms Cat Bevan-Jones, Research Coordinator

Cat Bevan-Jones is the Research Coordinator in the Vice Chancellor's Office at Murdoch University. Cat is the project manager for The First Murdoch Commission, providing professional and research support to the Commission in the Secretariat. Prior to joining the Vice Chancellor's Office, Cat worked within the WA public service as a project manager in both Western Australia Police and the Department of Fire and Emergency Services. She has previously worked as a project leader in the Office of the Deputy Vice Chancellor (Global) at Monash University. Cat also served in the Royal Australian Navy for a number of years. She holds a Master of Environmental Management and postgraduate qualifications in Forensic Science.

Appendix 3 - Australia in regional perspective



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The information contained in this publication was correct as at November 2013, but is subject to amendment without notice. The University reserves the right to cancel, without notice, any units or courses if the number of students enrolled in these falls below limits set by the University.

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