



Asian Engagement Strategy Consultation Paper



November 2018

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Introduction

Western Australia has longstanding relationships with many countries in Asia. These relationships have been largely founded on the State's resources export industry and Asia's demand for those resources. This has provided benefits to both Western Australia (investment, exports and jobs) and to Asia (a long-term and stable source of imports).

In many ways, Western Australia's engagement with Asia has been successful. Western Australia has the highest share of any state of Australia's merchandise exports to China, Japan and the Association of South East Asian Nations (ASEAN); and has established strong trading relationships with many other countries. The State's relationship with Asian countries is more than economic, with cultural, sporting and education exchanges developing over time.

Western Australia has many things in its favour for engaging with Asia. The State shares the same time zone with key Asian business centres such as Hong Kong, Shanghai, Singapore and Kuala Lumpur. We have much potential to offer beyond the traditional resources exports. As many countries in Asia enter a new phase of economic development, there will be opportunities for the State's agrifood, tourism, education and business services exports.

However, simply relying on these factors will not be enough. Western Australia needs to be active in pursuing opportunities in Asia. To be successful, the State will need not only the capacity to supply high-quality goods and services, but to develop the trust of Asian countries. We need to have a relationship with Asia that is more than transactional.

The Western Australian Government is developing an Asian Engagement Strategy to outline how the State can – and will – develop these long-term relationships. Given the sheer size of Asia – both in terms of area and population – the Strategy will also help the Western Australian Government to lead and better coordinate the multitude of interactions that currently occur between Western Australia and nations, provinces, cities, industry and community organisations and individuals. The Strategy will also explore how to harness the alumni of people in Asia who have studied or worked in Western Australia and the diaspora Asian communities in Western Australia to help build these relationships.

This Consultation Paper is the first formal step in developing the Asian Engagement Strategy. The objectives of this paper are to:

- Explain Asia's growing importance for Western Australia;
- Outline how Western Australia currently engages with Asia;
- Invite submissions to respond to the consultation questions about how Western Australia can better engage with Asia in the future.

Submissions in response to this consultation paper are very welcome and can be made through the Department of Jobs, Tourism, Science and Innovation's website or through the email address asianengagement@jtsi.wa.gov.au. The closing date for submissions is Friday 18 January 2019.

What is Asia and why is it important to Western Australia?

Asia is difficult to define in a geographic, cultural and economic sense. The definition of Asia – and the countries that constitute it – depends on context.

For the purposes of this Asian Engagement Strategy, Asia is defined as the countries of South-East, North-East and South Asia as listed in Attachment 1. This definition excludes the countries of North-West and Northern Asia (Eastern Russia and the former Soviet republics to its south) and the Middle East. From Western Australia’s perspective, these excluded countries offer a different set of opportunities and require a different style of engagement compared to the countries included in the definition of Asia.

Even within this narrower definition, there is much diversity between – and within – the countries of Asia in terms of population, history, ethnicity, language, religion, natural resource endowment, economic development and style of government. For example:

- Brunei, Maldives, Bhutan and Timor-Leste have populations of around one million or lower, while both China and India have populations in excess of 1.3 billion;
- Over 2,000 languages are spoken across Asia;

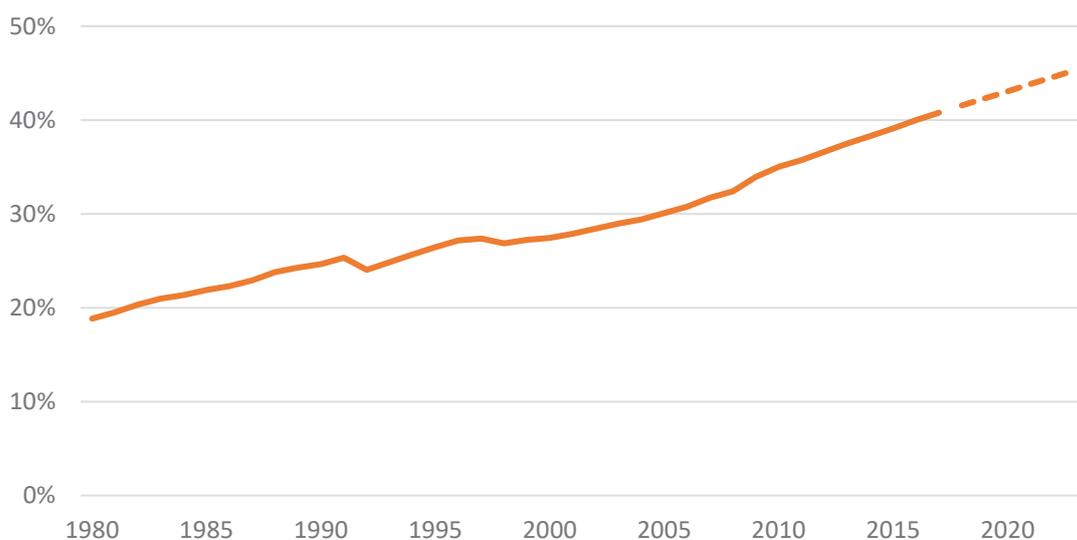
- Economic development varies from the small, developing economies of Bhutan and Timor-Leste to the advanced economies of Japan, South Korea, Singapore and China’s special administrative regions of Hong Kong, Taiwan and Macao; and
- Per capita incomes in 2017 ranged from US\$848 in Nepal to US\$77,111 in Macao.

Despite these differences, the region is well connected. Countries within Asia have formed formal associations, such as ASEAN and the South Asian Association for Regional Cooperation. Although their economies are at different stages of development, the economic growth of Asian countries is increasingly reliant on trade and investment with each other. Economic growth in China and India is providing an opportunity for other Asian countries to accelerate their development by providing large, expanding markets for trade and investment.

The growing importance of Asia

The countries of Asia have a combined population of around 4 billion people, which is over half of the world’s population. While the demographics of some countries, such as Japan and South Korea, means that population growth is slowing or negative, other countries, such as the Philippines, have high population growth. On balance, it is likely that Asia’s share of the world’s population will decline over the medium term, but only slightly.

Chart 1: Asia’s share of global gross domestic product



Note: Country shares of global gross domestic product measured on a purchasing power parity basis.
Source: International Monetary Fund, World Economic Outlook Database, October 2018.

However, Asia's share of the global economy is increasing significantly. Chart 1 shows that Asia's share of the world's economy has increased from less than 20 per cent in the early 1980s to over 40 per cent today and is forecast to be over 45 per cent by 2023. This is despite Japan's falling share of the global economy over the past 25 years and the Asian financial crisis of the late 1990s.

As the economies of Asia have developed, their populations are earning higher incomes. Average per person incomes in Asia have more than doubled in nominal terms from 2000 to 2017, increasing from US\$2,534 to US\$6,399. This trend is expected to continue with Asia being the main driver of world economic growth in the medium term. With a growing middle class in Asia, the consumer choices of the region will have a greater influence on global markets.

As the countries of Asia are at different stages of development, there is a breadth of opportunities and challenges across Asia that is not matched by other regions. Japan, South Korea, Singapore and the special administrative regions of China are advanced economies that need their businesses to continue to innovate to remain competitive. Malaysia, China, Indonesia, Thailand and Sri Lanka are emerging economies that need their businesses to develop more efficient production processes and increase product quality. Other countries of Asia, such as India, Vietnam and the Philippines, have developing economies that are looking to develop human capital and infrastructure.

Clearly, Asia is already important and is growing in importance in an economic sense. Asia's influence on global politics and culture, while growing, has to date not matched its economic influence, at least not outside of Asia itself, but this may change over time. The longer term changes require a longer term strategy for countries outside the region on the best way to engage with Asia for the future.

How does Western Australia currently engage with Asia?

To form a strategy on how Western Australia can better engage with Asia for the future, we first need to know how Western Australia currently engages with Asia.

Engagement encompasses a broad range of activities. At a very formal level, engagement involves agreements between governments, such as a Sister-State relationship. At an informal level, engagement can be how everyday people interact with tourists or students from a different country; interactions that can shape people's views of the State as a place to visit or live. There are a range of interactions in

between that are organised by government, businesses, schools and universities and other organisations.

The primary goal of many of Western Australia's Asian engagement activities is economic: to increase trade and investment between Western Australia and a country/state/city in Asia. This can provide benefits to both parties: investment for new projects, collaboration for research and development, access to goods and services and jobs. For engagement with an economic motive, the value-add of engagement activities can vary. The value of engagement activities is probably highest when seeking to enter a new, long-term market and when the market for the good or service is highly competitive. This is not to say that once a relationship is established that engagement activities wind down; indeed maintaining long-term relationships is arguably more important for countries in Asia compared to other regions.

Of course, not all engagement activities have an economic motive. There are many Asian engagement activities that focus on cultural exchange and developing cultural understanding. Cultural awareness is also developed when people attend a performance, exhibition or event, whether it be in Western Australia or Asia. While these activities may ultimately assist the trade and investment relationship, a better understanding of the culture, history and aspirations of countries in our region is a good outcome in itself.

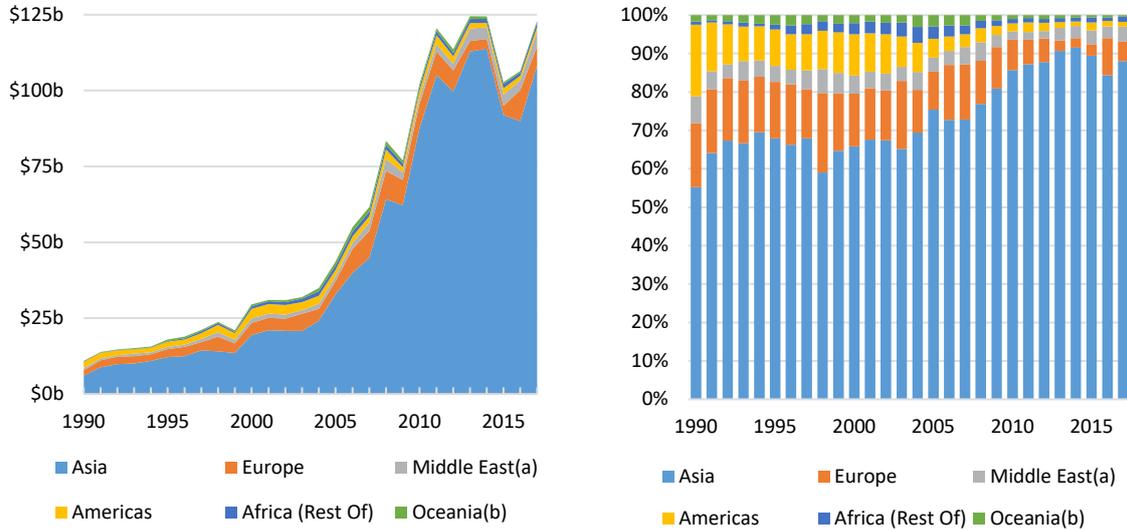
The next sections of this paper provide information on Western Australia's current Asian engagement activities, beginning with an overview of the State's trade and investment relationship with Asia. The detail of Asian engagement activities focuses on current Government-led activities. One of the aims of the consultation process is to collate a comprehensive picture of activities led by business, community and other organisations.

Western Australia's trade and investment relationship with Asia

Merchandise exports

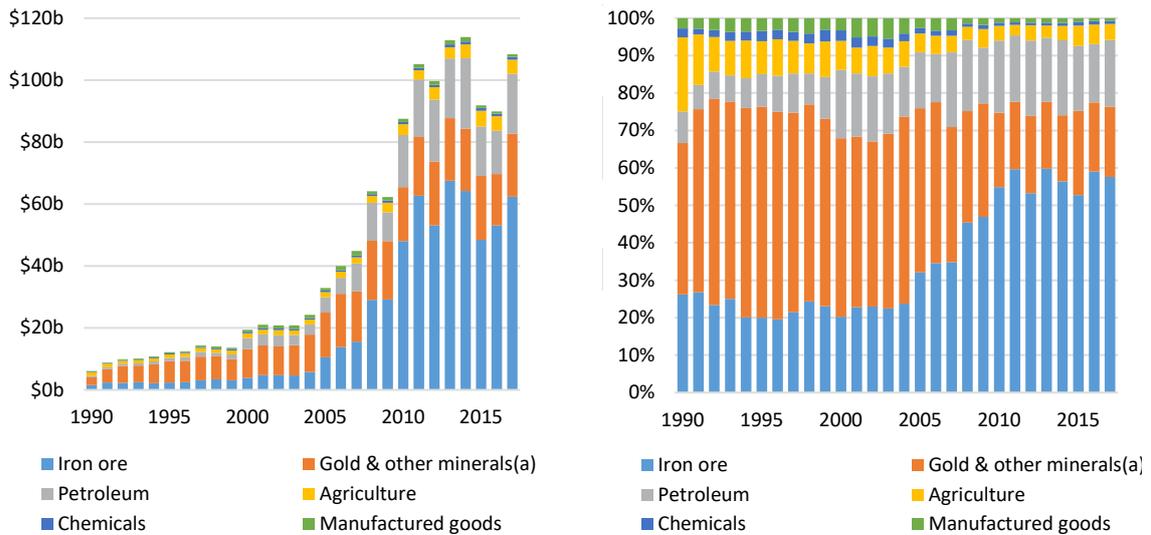
Western Australia's trading relationship with Asia largely reflects the State's own phases of economic development. Trade with Asia began with agricultural products and gold in the second half of the 19th century. The development of Western Australia's iron ore and liquefied natural gas industries has largely been a result of export opportunities in Asia: first with Japan and more recently with China. Western Australia's exports to Asia also expanded to other minerals that have supported the manufacturing sector in a number of countries.

Chart 2: Western Australia's merchandise exports by region



Notes: (a) Includes North Africa and North-West Asia; (b) Includes Other
Source: Australian Bureau of Statistics.

Chart 3: Breakdown of Western Australia's merchandise exports to Asia



Notes: (a) Includes alumina/bauxite; base metals (copper/lead/zinc); nickel; precious metals; lithium (spodumene); mineral sands; cobalt; and gold and other coins.
Source: Australian Bureau of Statistics and Department of Mines, Industry Regulation and Safety.

The most rapid growth in Western Australia’s exports to Asia began in the mid-2000s, with China’s growing demand for iron ore and other minerals. China replaced Japan as Western Australia’s largest export market in 2006.

Overall, Asia has become increasingly important for Western Australia (Chart 2). In 1990, Asia accounted for 55 per cent (\$6.1 billion) of the State’s merchandise exports. By 2017, Asia’s share of the State’s merchandise exports had grown to 88 per cent (\$108.3 billion).

Chart 3 shows the breakdown of Western Australia’s merchandise exports to Asia. Iron ore’s share of merchandise exports has increased from 26 per cent in 1990 to 58 per cent in 2017.

While Western Australia has been successful in capturing export opportunities in Asia, the State’s exports to Asia are, in a sense, quite narrowly based. Although exports cover a range of different resource, agricultural and manufactured commodities, Chart 4 shows that a large proportion of exports to Asia are from iron ore to China, petroleum (mostly LNG) to Japan and gold to Hong Kong.

Merchandise imports

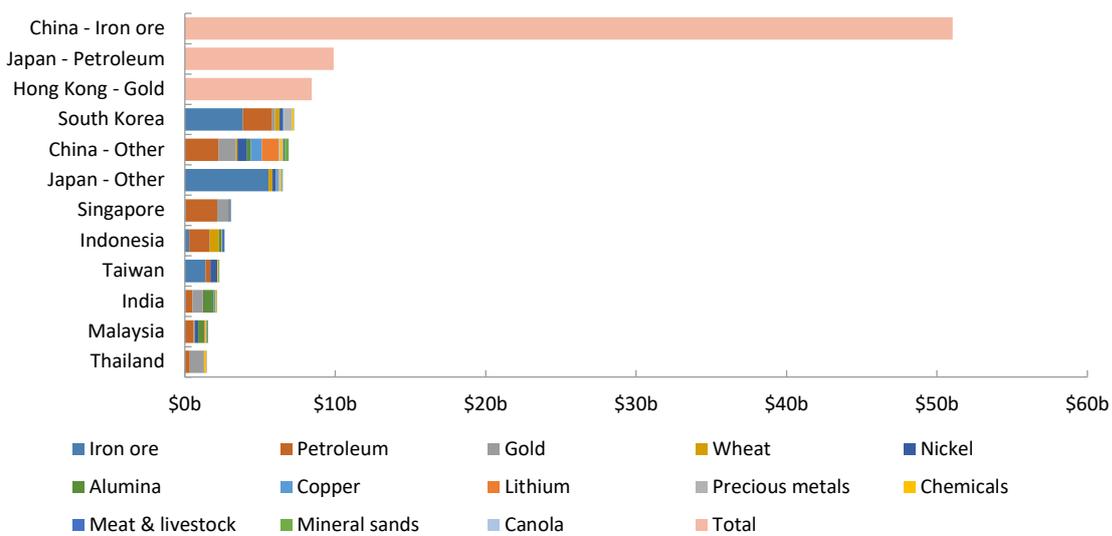
Asia is also the source of the majority of Western Australia’s merchandise imports. In 2017, Asia accounted for 64 per cent (\$24.4 billion) of the State’s total merchandise imports. Western Australia therefore has a large trade surplus with Asia, with the value of exports to Asia around four to five times higher than the value of imports from Asia.

The composition of Western Australia’s imports from Asia has been variable over the past few years. While Western Australia regularly imports manufactured consumer goods and passenger motor vehicles from Asia, in recent years the value of imports has been affected by high-value capital requirements for individual resource projects (such as the importation of the Prelude floating LNG vessel that was manufactured in South Korea).

Services trade

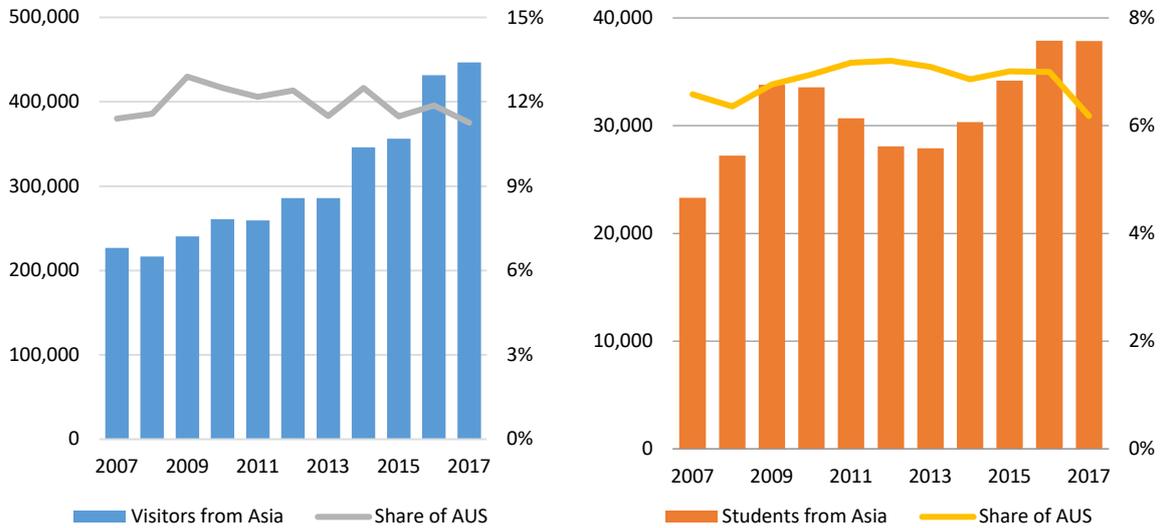
International visitors and students come to Western Australia from nearly every Asian country. In 2017, the most visitors came from Malaysia, Singapore, China and Indonesia, while the most students came from China, India and Malaysia.

Chart 4: Western Australia’s merchandise exports to Asia by selected country and commodity



Source: Australian Bureau of Statistics and Department of Mines, Industry Regulation and Safety.

Chart 5: Western Australia's international visitors and students from Asia



Source: Tourism Research Australia and Department of Education and Training

Visitors from Asia almost doubled (up 97 per cent) from 2007 to 2017, increasing from 226,700 to 446,800. Over the same period, students from Asia increased by 62 per cent from 23,314 to 37,853. Despite these increases, as Chart 5 shows, Western Australia's shares of Australia's international visitors and students from Asia have declined over the past few years.

In terms of individual markets, there is considerable variation of Western Australia's share of the national total.

- For international visitors in 2017, Western Australia had a high share for Malaysia (31.6 per cent) and Singapore (26.7 per cent), but a low share for Japan (6.9 per cent) and South Korea (3.7 per cent).
- For international students in 2017, Western Australia had a high share for Malaysia (11.0 per cent) and India (9.0 per cent), but a low share for China (3.5 per cent) and Thailand (2.9 per cent).

In terms of services imports, Asia is the main destination for Western Australian overseas travellers. In 2017, 61 per cent of Western Australia's outbound visits were to Asia, compared to 44 per cent for the rest of Australia, which is partly due to the

relative proximity of the State to Asia and the popularity of Bali as a tourist destination for Western Australians. Perth Airport is currently served by 12 international and domestic airlines flying to eight destinations in Asia, including the Asian hubs of Hong Kong, Bangkok, Kuala Lumpur and Singapore.

Comparative data on Western Australia's other services exports to, and imports from, Asia is not readily available, but there are a range of companies providing business, legal and logistical services. There is likely to be growth in opportunities for these services as Asian economies develop, including in the areas of skills and workforce training and technology services.

Investment

While investment from Asian countries is growing, the developed economies of Europe and North America still account for most of the stock of foreign investment in Western Australia. Direct investment from Asian countries has, to date, tended to be on minerals and petroleum projects that export goods back to the investing country

as a means of securing long-term supply. This type of investment has been used by Japanese companies for LNG projects and Chinese companies for iron ore and, more recently, lithium projects.

There are strengths and weaknesses in Western Australia's current trade and investment relationship with Asia. However, one of the important messages from this analysis is that the range and location of trade and investment opportunities varies over time as countries move through different phases of economic development. As a general rule, more advanced economies offer opportunities for trade in new, higher-value products and services, while economies at earlier stages of development present opportunities for trade in traditional commodities of minerals, petroleum, bulk agricultural products and manufactured goods. To make the most of future opportunities, Western Australia needs to continue to be aware of how the individual economies of Asia are changing and to tailor its engagement accordingly.

Western Australian Government-led Asian engagement activities

Western Australia's trade and investment relationship with Asia is supported by a range of Government-led engagement activities. Foremost among these are the Western Australian Government's trade and investment offices. The Western Australian Government currently operates trade and investment offices around the world, including in China, Japan, India, Indonesia, South Korea and Singapore. These offices are the first point of contact for international investors seeking opportunities in Western Australia. The offices also identify opportunities in these countries (and neighbouring countries), which assists in setting priorities for Western Australia's engagement in Asia.

Western Australia also has a number of Sister-State relationships, which create and foster links in areas such as trade, education and culture. The relationships are guided by memoranda of understanding that outline cooperation in these areas and have generated numerous inbound and outbound delegations pursuing opportunities.

Western Australia's Sister-State relationship with Hyogo prefecture in Japan, signed in 1981, is the State's most enduring. The relationship has led to many economic, educational, cultural and social exchanges between government officials, artists, athletes, teachers and students. Recent notable activities include Governor Toshizo Ido's visit to Western Australia in April 2017 and Premier Mark McGowan's return visit to Hyogo in

November 2017; and collaborative research between Murdoch and Kobe Universities into membrane technology.

Western Australia's other Sister-State relationships are with:

- Zhejiang in China, established in 1987;
- East Java in Indonesia, established in 1990; and
- Andhra Pradesh in India, established in 2016.

In addition to the Sister-State relationships, there are more than 24 sister-city/town/port relationships between Western Australian local governments and Asian cities/towns/ports. Of these relationships, nine are with Japan, eight with China, two with Indonesia and there is one each with Malaysia, Taiwan and South Korea.

Western Australia also has agreements with other government bodies in Asia. For example, the Western Australian Government has an agreement with China's National Development and Reform Commission to encourage investment and industry development in Western Australia and China, particularly in resources, energy and infrastructure.

Asian engagement activities led by business, cultural and academic groups

There are a range of organisations and individuals outside Government that are devoted to improving Western Australia's relationships across Asia. Most of the major Asian countries have Business Councils or Chambers of Commerce in Western Australia that work to promote the business and trade relationship between the State and their respective countries. The Western Australian business community and peak bodies also conduct a range of Asian engagement activities.

A number of cultural associations are also active in Western Australia. These groups provide assistance to migrants as well as organise festivals and other events that create important community links with Western Australians.

In the academic sphere, Curtin University has campuses in Singapore and Malaysia and Murdoch University has campuses in Singapore and Myanmar. Western Australia's universities have a number of international exchange programs with universities in Asia as well as research institutions that focus on Asia (such as the Perth USAsia at The University of Western Australia and the Asia Business Centre at Curtin University). International exchange programs are also run through some schools.

Asia literacy in Western Australia

Asia literacy refers to awareness and understanding of Asian languages, cultures and business practices. This can be developed through cultural exchanges and collaborations. There are few Asian cultural and literacy programs in Western Australia, most of which are offered online or delivered through workshops. Programs are often focused on specific sectors such as tourism. The Office of Multicultural Interests *Diverse WA* is a general cultural awareness program that offers free online training for employees from State and Local Government and not-for-profit-organisations. Other organisations offering training are the Tourism Council Western Australia, consultants such as Whande Group and Asialink Business.

There appears to be scope for improvement in Asia literacy. Research by Asialink Business, PwC and IML¹ found that:

- 90 per cent of ASX200 companies are not Asia ready, when assessed against six key Asia capabilities²;
- 82 per cent of BRW top 30 private companies are not adequately equipped to do business in Asia;
- Only 9 per cent of Australian companies are currently operating in Asia and only 12 per cent of Australian companies have any experience of doing business in Asia at all.

While this was a national report, similar findings are likely to apply to Western Australia.

Recent Government initiatives

Since its election in March 2017, the Western Australian Government has introduced new Asian engagement initiatives, including:

- Appointment of the State's first Minister for Asian Engagement;
- Pursuing more direct flights between Perth and key Asian markets, including a second direct route from China, a new direct airline route from Japan by 2020 and investigating opportunities for direct routes from India and other markets;
- Launching the Priority Sector Funding Program, which assists Western Australian companies to engage with and develop international business capabilities in Asia;
- Commencing an engagement program with Western Australian – Asian Business Councils to build their capacities to support job creation, trade, investment and diversification of the State economy;
- Initiating a youth soccer exchange as part of the Sister-State relationship with East Java, with the Persebaya Under 19 team from East Java visiting Perth in 2018 and the Football West Gold Fields State Team travelling to Indonesia in 2019; and
- Hosting the first WA-ASEAN Trade and Investment Dialogue to discuss how Western Australia can further broaden its economic, social and cultural partnerships with the ASEAN region.

The Government is also implementing strategies to improve how Western Australia recognises and acts on opportunities for international trade, investment and cultural exchange.

These include the international education strategy, which was launched in October 2018 with the aim of growing the number of international students coming to study in Western Australia; and a brand campaign to profile the State's economic and social attributes to external markets. These have a primary focus on the Asian region and will complement the Asian Engagement Strategy.

¹ 'Match Fit – Shaping Asia capable leaders' https://asialinkbusiness.com.au/uploads/documents/MatchFit_Shaping_Asia_Capable_Leaders.pdf - August 2017

² These six capabilities are: sophisticated knowledge of Asian markets; extensive experience operating in Asia; long-term trusted relationships in the region; ability to adapt behaviour to Asian cultural contexts; capacity to deal with government; and useful level of language proficiency.

Consultation questions

This paper has set out the aims of the Asian Engagement Strategy and outlined major Government-led Asian engagement activities. However, the Government-led activities are only a subset of Western Australia's Asian engagement, both in the State and in Asia. We would like to hear from interested parties on their Asian engagement activities, their views on how the government can work with stakeholders to better engage with Asia for the future and the outcomes that can be achieved from improving Western Australia's Asian engagement. While we welcome all contributions, we are particularly interested in responses to the following four questions.

1. What type of Asian engagement activities are you currently involved in and why?

There are many organisations involved in some way in Asian engagement. We are unlikely to be able to collate every single activity, but we would like to develop as comprehensive a picture as possible. Crucially, we are interested in the motivation for the current range of Asian engagement activities.

Responses to this question will assist the Western Australian Government in understanding the breadth of Asian engagement activities and the organisations leading these activities.

2. What are your priorities for Asian engagement in the future?

As this paper has outlined, as countries in Asia change over time, so do Western Australia's opportunities for trade and investment with those countries. While the State needs to continue to value its long-term relationships, Asian engagement activities also need to respond to developments in individual countries and sectors, including new opportunities in emerging industries.

In this context, we are interested in hearing about your future priorities for Asian engagement and what are the factors that make these priorities. This will assist the Western Australian Government in confirming its priority activities for Asian engagement.

3. Are there any specific factors that assist or limit your Asian engagement activities?

We would like to hear from you about what is working well and what could be improved. In thinking about how things could be improved, there may be many ideas that require new funding. While some of this may be achievable, we also need to be realistic about how activities would be funded.

4. Thinking about Western Australia as a whole, how can the State better engage with Asia for the future?

Many stakeholders will have a particular interest and specialty in Asian engagement for an individual Asian country, an individual sector or an individual region of the State. While we are interested in receiving information about individual countries, sectors and regions, we would also like to hear views on what Western Australia can do more generally to better engage with Asia for the future and what the outcomes will be for Western Australia from improved Asian engagement. For example:

- Are there new institutional arrangements the Western Australian Government could set up to better coordinate and manage Asian engagement activities?
- Are there any policies the State should pursue to encourage investment from Asia?
- What can Western Australia do to encourage greater Asian literacy among the population?

Submissions can be made through the Department of Jobs, Tourism, Science and Innovation's website or via email:
asianengagement@jtsi.wa.gov.au.

The closing date for submissions is Friday 18 January 2019.

Attachment 1: Population and economic indicators for Asian countries (2017)

	Population (millions)	Population % of world	GDP (\$US billion)	% of world GDP (PPP)	GDP per capita (\$US)
SOUTHEAST ASIA	644	8.7	2,762	6.2	4,287
Myanmar	53	0.7	67	0.3	1,278
Cambodia	16	0.2	22	0.1	1,379
Laos	7	0.1	17	0.0	2,541
Thailand	69	0.9	455	1.0	6,591
Vietnam	94	1.3	220	0.5	2,353
Brunei Darussalam	0.4	0.0	12	0.0	28,278
Indonesia	262	3.6	1,015	2.5	3,876
Malaysia	32	0.4	312	0.7	9,755
Philippines	105	1.4	314	0.7	2,989
Singapore	6	0.1	324	0.4	57,713
Timor-Leste	1	0.0	3	0.0	2,237
NORTHEAST ASIA	1,603	21.7	19,404	25.4	12,105
China (excludes SARs & Taiwan)	1,390	18.8	12,015	18.2	8,643
Hong Kong (SAR of China)	7	0.1	341	0.4	46,080
Macau (SAR of China)	1	0.0	50	0.1	77,111
Mongolia	3	0.0	11	0.0	3,640
Taiwan	24	0.3	573	0.9	24,292
Japan	127	1.7	4,873	4.3	38,449
South Korea	51	0.7	1,540	1.6	29,938
SOUTH ASIA	1,729	23.4	3,288	9.1	1,901
Bangladesh	163	2.2	262	0.5	1,603
Bhutan	1	0.0	2	0.0	2,991
India	1,317	17.8	2,602	7.4	1,976
Maldives	0.4	0.0	5	0.0	12,527
Nepal	29	0.4	25	0.1	848
Pakistan	197	2.7	305	0.8	1,546
Sri Lanka	21	0.3	87	0.2	4,073
ASIA – Total	3,977	53.9	25,454	40.8	6,401
World	7,378	100.0	80,051	100.0	10,850
<i>Australia</i>	25	0.3	1,380	1.0	55,693
<i>Western Australia¹</i>	3	0.0	195	0.1	74,628

¹ Estimated based on Western Australia's share of Australia's GDP, GDP per capita and population from ABS statistics.

Source: International Monetary Fund World Economic Outlook Database, October 2018; and Australian Bureau of Statistics.

Attachment 2: Map of Asia (as defined for the Asian Engagement Strategy)



United States Geological Survey (USGS), National Aeronautics and Space Administration (NASA), Esri Inc.

Source: United States Geological Survey (USGS), National Aeronautics and Space Administration (NASA), Esri Inc.

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