

Submission from members of the board of the Australia-ASEAN Council

Foreign Policy White Paper

Executive Summary

1. As the relative ranking of world economies in terms of GDP shifts over time Australia will need to re-direct its foreign policy effort towards emerging growth markets. Australia's foreign policy can pave the way for new and enduring business and cultural ties in non-traditional markets. The Australia-ASEAN Council's role should be expanded to help prepare Australia psychologically for this change in its relative place in the world.
2. Australia's foreign and domestic policy settings could be better aligned to encourage greater utilisation of the Asian diaspora living in Australia.
3. The case for openness to foreign investment is just as strong as the case for openness to trade. The community understands the latter but has a poor understanding of the former. If Australia is to continue to attract much needed foreign capital the nation's foreign policy should support a broader understanding of Australia's need for foreign investment from diverse sources.
4. Australia's foreign and domestic policy settings could be better aligned to help Australian businesses participate more directly in the growth of the Asia region.
5. Public and cultural diplomacy initiatives are fundamental to developing long term and deep relationships and building trust in the region. Investment in public diplomacy is required to underpin, support and enhance the important security and business / trade relationships currently being developed by the Australian Government.

Australia's place in the world

A driver of Australia's foreign policy should be to protect the nation's prosperity as Australia's relative place in the world ranking of economies falls. The reality is that Australia's position in the world's GDP rankings will drop significantly over the next 33 years. Although this extends beyond the ten-year planning horizon of the White paper, the latest PWC 'The World in 2050' Report <http://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf> shows Australia dropping from 13th position (at market exchange rates) to 19th position by 2050. In purchasing power parity (PPP) terms Australia drops from 19th position today to 28th position by 2050. Over the same period, Indonesia rises from 9th position to 4th; Pakistan rises from 25th to 15th and Nigeria from 20th to 9th. Australia's growth and prosperity will be enhanced by tapping into growth markets in these emerging economies. This will require Australia's foreign policy settings to include new and expanded government to government, industry and cultural ties with these non-traditional markets.

It is also important to note that future Australians are going to have to get used to the fact that their GDP peers will be (previously small) countries such as Indonesia, Vietnam, the Philippines, Thailand and Malaysia rather than various European countries. The White Paper needs to prepare Australians for this psychological shock and one way is to beef up the Australia-ASEAN Council's role.

Australia's foreign policy thinking dwells a lot on discussing how to deal with China and countries such as Japan and India. But in many respects we have more in common with ASEAN countries historically in figuring out how to deal with a rising Chinese diaspora population, rising Chinese investment and sheer Chinese power. The White Paper should be emphasising how this challenge for our domestic system from Chinese power will become more of a common feature we share with ASEAN countries over time. This is going to become more of Australia's future.

Engage with the ASEAN diaspora

More deliberate and systematic engagement with foreign born residents in Australia will be an important part of Australia's long-run prosperity and security. The ACOLA Report 'Australia's Diaspora Advantage' <http://www.acola.org.au/pdf/saf11/SAF11%20extract.pdf> clearly articulates a competitive strength of the Australian nation that is not being fully utilised. The starting point for the report is the four million Australians (17 % of the population) who identify as being of Asian origin. The report finds that they are under-utilised and their cultural knowledge, skills and networks could be better used in more systematic and strategic ways. The business diasporas are linked to innovative transnational business practices and understand the shifting nature of Asian markets. The report uses China and India as case studies but is equally applicable to Australia's diaspora communities from ASEAN. The report findings indicate where there is overlap between foreign policy and domestic policy. For example, to exploit the diaspora advantage we need more diasporas on boards, in institutions, business associations and in government agencies. Only 4% of Australia's top 200 publically listed companies have board directors of Asian descent.

Thailand is a good illustration of this. One in every ten residents of Sydney's Central Business District was born in Thailand. The Thai population in Australia approximately doubled in size between the 2001 census and the 2011 census. The Thai-born population is one of the fastest growing in Australia. Australia is home to more than 3000 Thai restaurants, about one-quarter of which are in Sydney. Ref. Thailand in Australia, Sydney Southeast Asia Studies Centre, University of Sydney Ref. <http://sydney.edu.au/southeast-asia-centre/documents/pdf/thailand-in-australia.pdf>

In our efforts to engage with the region, we need to also engage with culturally and linguistically diverse communities at home. They have significant linkages to ASEAN, are Australians, and are often underutilised resources in soft diplomacy. In doing so, Australia needs to psychologically orient ourselves with our local ASEAN neighbours. On the domestic front, this necessitates a proactive approach to social inclusion, embracing our diverse country and harnessing the cultural capital of migrants and diaspora communities. By improving the state of our domestic politics with regards to minorities, this will promote a consistent message in the region that we are an open, harmonious country that respects and embraces diversity and is willing to engage in ASEAN.

The importance of FDI from ASEAN

The case for Australia remaining open as a destination for FDI is well known and should be reinforced in the White Paper. The total stock of FDI in Australia is A\$3 trillion. Of this, the largest source of FDI (28%) comes from the US (A\$860bn); followed by the UK (16% with A\$500bn); Belgium (8% A\$238bn) and Japan (7% A\$200bn).

Australian total investment in ASEAN is \$100.7bn and FDI is \$37.6bn while ASEAN investment in Australia is \$126bn and FDI is \$41.5bn. While it is easy and fashionable to take the negative view of these figures, ie that they lag trade shares (very true) and are small (a relative argument for which is hard to find the right international comparator) the positive point is that that the two-way ASEAN investment relationship is very evenly balanced. Each of these flows has grown by more than 350 per cent over the past 15 years which is the fastest growth rate for any investment relationship apart from China. But the Chinese relationship (like the Japanese and US investment relationships) is unbalanced and dominated by incoming Chinese money. So with ASEAN we have a ***platform for a potentially more harmonious investment relationship.***

Australia's total investment stock in ASEAN overtook investment in New Zealand for the first time in 2015 \$110.7bn v \$98.7bn. This is a small but historically significant shift in orientation.

Facilitate greater understanding of ASEAN in Australian business

In 2014 PWC published the results of a survey of over 1,000 businesses in a report titled 'Passing us by' <https://www.pwc.com.au/asia-practice/assets/passing-us-by.pdf>

The cover page of the report says it all. By 2025 Asia will produce half of the world's total economic output and Asia's growing middle class will reach 3.2 billion people by 2030. Nevertheless, only 9% of Australian businesses are currently operating in Asia and 65% of Australian businesses have no intention of changing their stance in the next 2-3 years. The bottom line is that a majority of Australian businesses are missing the opportunity to participate more directly in the growth of the Asia region. While a multidisciplinary

approach is required to address this issue there is a large role for Australia's foreign policy to make Australian businesses more comfortable doing business in Asia.

There is a lack of 'voice' or visibility of the ASEAN and Asia-capable talent within Australian organisations. Around 9.6% of Australians have Asian cultural origin, but only 1.9% of ASX 200 senior executives have Asian cultural origins. Only 17% of Asian talent strongly agree that their organisation uses their Asia capabilities well, 15% that their organisation takes advantage of workforce cultural diversity to better service clients, and 12% that their organisation effectively uses workforce cultural diversity to access new markets. Ref. Diversity Council of Australia <https://www.dca.org.au/dca-research/leading-in-the-asian-century.html>

The White paper should support the provision of a platform for Asia-capable leaders to share their expertise with the Australian business community. It should ensure that ASEAN-experienced and Asian identifying talent are engaged with business dialogue and programs and the good work of existing actively engaged business chambers and networks.

Ease of doing business in Australia

As trade and investment is a two-way street there is an imperative for domestic reform to align with our objectives in foreign policy. The World Bank 'Ease of doing business' Report <http://www.doingbusiness.org/rankings> ranks Australia 15th in the world (New Zealand in no.1). The reasons for this poor relative ranking should be addressed if we are to continue to attract foreign investment, engage with Asia and protect our prosperity.

China's economic ties with ASEAN

With the Trans Pacific Partnership (TPP) stalled under the incoming US Administration there will be more focus on ASEAN's initiative to combine five of its FTAs (with Australia, NZ, China, India, Japan and Korea) into a Regional Comprehensive Economic Partnership (RCEP) to deepen economic ties in the region. America's stalling on the TPP not only leads to the US forgoing the annual income gains of the agreement (estimated by the Peterson Institute to be US\$130bn by 2030) but it also suffers trade diversion as the seven members of TPP who are also in RCEP (including Australia) negotiate preferential access with each other. Australia's foreign policy needs to adapt to this shift in regional economic architecture.

Rural and regional issues

There is a range of issues specific to rural and regional Australia that should be taken into account in the Foreign Policy White Paper:

1. Business, infrastructure, logistics & communications

Infrastructure and communications are critical for trade in cities, rural areas and between countries. The rapid advance in electronic trading (E-Commerce) is creating

opportunities for regional businesses in Australia and ASEAN. Australian businesses can capitalise on demand for Australian produce in ASEAN markets, and similarly ASEAN products and services are in demand by Australian customers. Agriculture and other rural businesses cannot respond efficiently to customer needs, nor accelerate growth in export markets, without adequate communication and infrastructure (particularly transport, energy, cold chain logistics) and services.

In Australia and ASEAN countries, while urban areas have reasonable access to communications and infrastructure, remote communities, where there is a huge opportunity to refine and process food, fibres and other products close to production areas, have inadequate infrastructure and patchy access to communications. This presents significant barriers to trade.

Australia can accelerate trade across the region by supporting the development of communication platforms and infrastructure. Australia can provide services and expertise to rural ASEAN regions on the development of communications, transport and logistics services and satellite hubs that will enable rural communities to trade across the region and globally.

2. Rural-Urban divide and strengthening the rural diaspora, employment, education and skills training

Australia is extremely urbanised, about 85% of the population live in coastal areas and cities. ASEAN is rapidly becoming more urban, over 50% now live in cities. For example, Manila, Jakarta, Bangkok, Ho Chi Minh City are already mega cities and growing. This is driving change in retail outlets and consumer purchasing. Mega city economies are increasing the purchasing power of millions of people, creating the middle class of Asia. Many Asian consumers are internationally educated and are adopting the food habits of western consumers. Increasingly, shelf-ready packaged meats, cheese and imported fruit and vegetables are now purchased from supermarkets rather than local wet markets. This presents huge opportunities for rural areas to produce quality food (eg. fresh, chilled and fast foods) that meet the changing demands of the rapidly growing population of busy, urban consumers.

However, for business in rural areas of Australia and ASEAN to respond to this opportunity, they need skilled labour. Across the region, the average age of people in rural areas is increasing and the skills shortage in rural areas is also increasing. Women in ASEAN are taking the role of farmer, food deliver, marketing and head of household, because many males are living in the cities, where they can get work. A younger generation, with skills in agriculture, food production and aligned businesses is needed to develop the rural businesses of the future.

Across the agricultural and food processing sectors rural Australia is very dependent on the ASEAN diaspora. Australia can work with ASEAN to explore how to grow opportunities for rural employment across the region, and how to develop targeted agriculture, food and logistics training and skills development that is supported by the development of infrastructure and communications.

3. Food security and disaster management

The ASEAN region is very vulnerable to extreme weather events. Rapidly expanding cities in low lying river deltas are prone to floods, storm surges and high winds; remote rural areas in hilly and coastal regions have poor communications, roads and disaster relief resources.

Overall the ASEAN region has limited cold storage systems; most food is transported in non-refrigerated trucks along slow, bumpy roads that are congested – this exacerbates food spoilage. The systemic failures across food distribution and waste management systems are a particular risk to water and food security when extreme weather events occur. Energy failures and food spoilage will be further exacerbated as the population grows unless due consideration is given to energy, urban planning, food storage and logistics.

Australia has considerable expertise in managing extreme weather events and disasters, such as fires and floods. Increasing expert networks across the region and sharing Australia's expertise and services will reduce the risk of humanitarian disasters and increase food security and encourage investment by business.