



# REGIONAL AUSTRALIA IN THE ASIAN CENTURY

Massive challenges and opportunities but the policy response remains unclear.

## Key Points

- The Asian Century White Paper forecasts significant regional development opportunities:
  - Regions already engaged in the resources industry should continue to thrive and have further opportunities to build an export services industry.
  - Rural regions will have significant new opportunities for prosperity as the Asian middle class grows and demands higher value food.
  - Other regions will need to rely on their natural advantages, success in services or the successful adjustment of manufacturing to succeed.
- The White Paper is based on an industry sector analysis. While the spatial variations in challenges and outcomes are acknowledged, no detailed assessment of relative regional opportunities and challenges has been prepared to date.

### POLICY ISSUE

The Asian Century will be the most important driver of economic and social change in regional Australia for the coming decades.

### ABOUT THE RESEARCH

This policy briefing is based on a review the findings of the recently released Australian Government White Paper on the Asian Century.

The White Paper can be accessed at:  
<http://asiancentury.dpmc.gov.au/white-paper>

## Policy Implications

There are clearly profound regional policy implications for Australia in the Asian Century. The predicted structural shifts are most immediately in regionally based industries and the White Paper emphasises the importance of community and local business leadership in Australia's response to these changes.

An effective national policy approach must therefore consider the variations in regional competitiveness and the relative preparedness of different parts of the country for the Asian Century. The White Paper's analysis identifies that a region's connections with Asia, its competitive advantage and the quality of local leadership and entrepreneurialism will determine the extent to which any region thrives in this new environment.

An assessment of each region's competitiveness against expected future trends is an important next step in developing a substantive and effective policy response to the opportunities of the Asian Century. The Regional Australia Institute is currently assessing each region's competitiveness (due for completion in April 2013).

This comprehensive assessment will enable a more precise understanding of each region's strengths and weaknesses. The likely effectiveness of proposed national policy approaches can then be considered and tested across different regional contexts and the need for region specific policy assessed.

Better information can also be provided at the regional and local level to stimulate a more effective local response to the opportunities outlined in the White Paper.

## Context

The OECD has demonstrated that maximising the performance of regions is essential to national economic success.<sup>1</sup>

Any region's potential for future prosperity is driven by a mixture of endogenous (from within) and exogenous (from without) factors.

Global market conditions and the extent to which a region can attract outside resources (people or money) are crucial exogenous determinants of regional potential. These factors are being increasingly driven by the emergence of Asia.

The extent to which a region is positioned to respond to these external forces depends on variations in the competitive advantage of regions as well as local leadership and entrepreneurialism (endogenous factors).

The Asian Century represents a profound structural shift in the world economy which is reshaping almost all of Australia's economy and society.

However, the effect on regions will be inconsistent. While some communities and businesses will thrive, others will be significantly challenged by the rise of Asia.

## Findings

### **Australia needs to mount a strategic response to succeed in this environment**

The White Paper emphasises that Australia needs to be active in responding to the Asian Century. To meet the challenges of the major structural shifts, Australia needs to act in five key areas in order to succeed in the Asian century:

1. Build on Australia's strengths, particularly a fair and open society, comparative economic advantages and record of productivity reforms
2. Develop new capabilities that will help Australia succeed, particularly in skills and education and through building stronger connections and partnerships across the region.
3. Create highly innovative, competitive Australian firms and institutions by developing new business models and new mindsets to operate and connect with Asian markets.

4. Cooperate with other nations to support sustainable security in the region.
5. Strengthen Australia's deep and broad relationships across the region at every level.

The paper emphasises that success in the Asian century requires a whole-of-Australia effort, with businesses, unions, communities and governments being partners in a transformation as profound as any that have defined Australia throughout our history.

### **Regional policy response**

While the paper identifies significant opportunities for regionally based industries, it only alludes to the importance of regions in realizing the potential for growth and change associated with the Asian Century.

It appears that no detailed assessment of relative regional opportunities and challenges in the Asian Century has been prepared for the White Paper.

Of the many 'policy goals and pathways' outlined, the adaptability section is the only one which links directly to a regional policy approach.

This sets the general goal that Australian communities and regions "will benefit from structural changes in the economy and seize the new opportunities emerging in the Asian century."

Pathways to achieve this include that the Government will:

- Work cooperatively with industries and businesses to develop strategies to ensure sustainable growth and jobs.
- Work with communities and regions right across Australia to help them manage structural transition, diversify their economies and take advantage of new opportunities that promote sustainable growth.
- Work together with business and the Northern Territory Government to accelerate Darwin's evolution.
- Explore options to extend this strategy to other well-positioned, high-growth centres in northern Australia as well as other regions across Australia with growing links to Asia.

## Strengthening the Regional Policy Analysis and Response

The White Paper provides little substantial analysis or policy recommendations for regional communities. The exception is the identification of Darwin (as the regional city closest to Asia) as a priority region which requires a focused policy response.

However through its sectoral assessment, the White Paper implies some significant regional trends.

- Regions already engaged in the resources industry should continue to thrive and build an export services industry but only if a mutually beneficial relationship between communities and the industry is established and maintained over time.
- Rural regions will have significant new opportunities for prosperity but only if they can provide the innovation and skills needed to succeed in a less commodity driven agricultural sector.
- Other regions will need to rely on their natural advantages, success in services or the successful adjustment of manufacturing to the new international environment.

Each of these trends may require quite different policy responses.

### **Analysis of the competitive advantage of regions in the Asian Century to support future regional planning and policy design**

A thorough analysis of regional competitive advantage will help support future regional policy initiatives.

Key trends and indicative strengths and weaknesses of each region need to be understood and incorporated into regional policy planning. Policies should be tailored to enable regions to reach their full potential in the Asian Century and support communities which may be disadvantaged.

RAI's Regional Competitiveness Index, scheduled for release in 2013 will provide the analysis that can support such an assessment.

### **Understand and actively developing regional connections to Asia**

Central to the strategic response proposed by the White Paper is the concept of connections with Asia. This includes connections at the personal, business, community and government level.

To establish connections with Asia a key role will need to be played by local leaders in both government and business in identifying existing connections and areas for growth potential.

The development and support of these connections will be an integral element of regional Australia's success in the Asian Century. A thorough understanding of any existing structures and a policy response accounting for any change in services or programs is necessary to position regional Australia.

Understanding existing connections between regional Australia and Asia will complement the competitiveness assessment.

### **Fostering regional entrepreneurialism, new business models and co-investment with Asian businesses**

Regional leadership and entrepreneurialism have a crucial role to play in identifying potential outside of a region's borders, be it forming partnerships with an Asian firm or identifying markets within Asia that signal potential interest.

The White Paper predicts that Australian firms who can broaden their operations beyond national borders (particularly in the manufacturing sector), will lower their cost base, increase productivity, reduce domestic dependency and create migration opportunities within the region by providing opportunities for flow and exchange of workers.

It is important the government consider policy to foster regional entrepreneurialism, new business models and partnership with Asian businesses. This may necessitate cooperative action to be taken jointly by government, industry, private business and regional bodies.

## Summary of the White Paper's Analysis

The Asian Century White Paper provides a detailed assessment of the international drivers of Australia's potential and their impacts on Australian industries.

**Profound structural shifts are already transforming the Australian economy and will accelerate in the future.**

While it is not stated explicitly, the paper identifies that a fundamental shift already occurred in the world economy as 'Factory Asia' emerged in the 1990's and 2000's.

Asia became the production engine for the world, transforming the developed world's manufacturing industry which has not been able to compete with lower cost structures in Asia without significant innovation.

The White Paper identifies a sequence of three further major waves of economic change that will shape the future of the Australian economy:

1. The resources wave;
2. The food wave; and
3. The services wave.

Each of these structural economic shifts has profound implications for regional Australia.

### **The First Wave - Resources**

Asia's rapid growth and urbanisation has already transformed global commodity markets and will support higher production and export levels for Australian resources into the future.

In 2011-12 mineral and energy exports comprised 50% of the value of Australia's exports, doubling in the 9 years since 2002-03.<sup>ii</sup>

The White Paper identifies three phases in Australia's resources boom – a price boom, an investment boom and an export production boom.

The price boom, symbolised by record high prices in iron ore and coal, is likely to be behind us. The investment boom is continuing with approximately \$500 billion worth of projects in train. The expanded capacity associated with these investments will then underpin the production phase of the boom.

Regional Australia and the resources industry are intimately related.

The resources industry relies on regional communities as a source of labour and services. The quality and cost of labour and services will become increasingly important as the resources wave moves from being high price and investment driven to the high production phase where productivity is paramount.

This wave will continue to be transformational for those regional communities with a resource development nearby or who supply significant labour or services to the resources industry. These communities should have continuing opportunities for increased economic activity and some infrastructure investment.

However, the level of success in the relationship between regional Australia and the resources industry will have a significant impact on the extent to which Australia benefits from the latter stages of the resources wave in the Asian Century.

### **The Second wave – Food**

A second transformation is taking place in international food markets. As average Asian incomes grow, demand is boosted for better quality, higher protein and more diverse diets, including for more dairy, fish, vegetables, fruits, edible oils and meat. This is underway and will accelerate as the Asian middle class grows.

The Asian Century White Paper predicts that although Asia contains some of the world's largest agricultural economies, the region will require greater food imports. This import demand is projected to raise the value of Australia's agricultural exports to over 5% of our GDP by 2025.

Agriculture is a regional industry. While aspects of the productivity and innovation agenda for agriculture are managed through national or state research structures, many aspects are regionally driven.

The business level innovation required for success and the availability of skilled workforce will depend as much on the success of regional communities and institutions in responding to this shift as any industry or national response.

Given the vast differences in agriculture between regions and ongoing social transitions in many rural regions, tailored policy approaches may be required for the potential of this shift to be realised.

### **The Third Wave – Services**

As incomes in Asia have grown, an increasingly wealthy and mobile middle class has emerged, with a resulting shift in the balance of consumer markets towards Asia. Demand for a diverse range of goods and services, from health care to household goods, is growing. Asia is now poised to transform consumer markets with significant implications for the future of Australian services industries.

Services are the largest output producers in the Australian economy and the largest employer (both in urban and regional Australia). Currently the services sector accounts for two thirds of Australia's economy and one-fifth of our exports.

The services sector is predicted to grow, though its exact composition is expected to alter in response to business and consumer demand. The development of new products and adaptation of existing services to meet Asian demand will be essential.

This has important regional implications. The White Paper refers to education and tourism, both of which are significant industries for many parts of regional Australia.

#### *Education*

Education is Australia's largest services export, and fourth-largest export earner overall. As a result of Asia's growing middle class, it is expected to increase in its share of the economy. Already 79% of the income generated by the education sector is linked to Asia, mostly through universities.

Regional universities, schools and vocational education institutions will play an important role in growing Australia's education services industry. Regional cities can become attractive places for Asian students to study, particularly where specialised qualifications are on offer.

#### *Tourism*

Tourism was worth approximately \$24 billion in 2010-2011, making it one of Australia's largest export industries. In the 2011-2012 year, Asian

nations made up seven of the top ten most valuable inbound tourism markets, with China becoming Australia's most valuable source of tourism. By 2021, inbound arrivals from Asia are expected to account for 45% of Australia's total inbound tourists.

Tourism is one of regional Australia's most important industries and source of contribution to national wealth. The White Paper predicts this will particularly benefit Indigenous Australians engaged in tourism and regional Australia more generally.

It is not clear how this growing Asian demand will influence regional tourism, which offers different experiences to major cities. Significant work is required to ensure that regional Australia alongside the major cities can attract the growing Asian demand for Australian tourism services.

## **Contacts and Further Information**

To discuss this policy briefing or find out more about RAI's research agenda please contact us:

<http://www.regionalaustralia.org.au/contact-us>

The White Paper can be accessed at:

<http://asiancentury.dpmc.gov.au/white-paper>

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## **Disclaimer**

This briefing translates and analyses findings of research to enable an informed public discussion of regional issues in Australia.

It is intended to assist people to think about their perspectives, assumptions and understanding of regional issues.

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i

[http://www.regionalaustralia.org.au/images/downloads/RAI\\_OECD\\_Regional\\_Policy\\_Briefing.pdf](http://www.regionalaustralia.org.au/images/downloads/RAI_OECD_Regional_Policy_Briefing.pdf)

ii Ergas H and Owen J, 2012, Rebooting the boom: Unfinished business on the supply side, Minerals Council of Australia