

The great transition: Asia's emergence and Australia's opportunity

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In today's global economy, the 'great transition' is the great fact of our time. From parity less than a decade ago, the output of emerging market economies has already rocketed to almost 145% of the gross domestic product of developed countries, with China and India leading the way.

It is a dramatic transition which tells the story of hundreds of millions of people in Asia lifted from poverty and striving toward prosperity. It makes our Asian neighbours ever more important as trade partners. It means economies like Victoria must change, adapt and build the future in partnership with the emerging giants and dynamic economies of Asia.

Globalisation – the international interdependence that now characterises our daily lives – has created a great opportunity here in our region. Now, the challenge of this young century is to seize it.

Nations remain the dominant building block in the 21st century but states, provinces and cities can play a vital role in building our collective prosperity and in bringing our peoples closer together. As Princeton University's Anne-Marie Slaughter has said, 'the emerging networked world of the 21st century ... exists above the state, below the state, and through the state'.

Victoria is determined to play a dynamic role. The Commonwealth Government has recently commissioned a white paper on 'Australia in the Asian Century'. But when it comes to engagement with our region, Victoria is not waiting to take its cues from Canberra – Victoria is leading.

Victoria was built on the entrepreneurship and innovation of pioneers and migrants. Asia's emergence is creating extraordinary opportunities for our entrepreneurship and our innovation to once again drive our prosperity and growth. But to make the most of this

opportunity, we must be more than just in the right place at the right time.

In grasping the opportunity of our Asian engagement, we stand on the shoulders of predecessors who displayed remarkable foresight. In 1979, just one year after China's government initiated the 'reform and opening' programme that would transform the Chinese economy, then Premier of Victoria Rupert Hamer established a sister-state relationship with Jiangsu Province. This relationship, now 32 years old, has evolved and strengthened to our mutual benefit and provides a framework for ongoing cultural, commercial, educational and government-to-government exchanges. Over time, Victoria's ties with Jiangsu have proven invaluable to expanding business opportunities across China and Asia more broadly. None of this would have been possible without the underlying trust and understanding we have established over the last three decades.

In September, with the Governor of Jiangsu, I signed an agreement that lays out our plans for future cooperation and takes our relationship to a new level. I also announced the introduction of the Hamer Scholarships, which will enable Victorians to study at one of our partner institutes in Jiangsu Province, developing both language skills and cultural literacy. Australia's future engagement with Asia rests on our ability to both communicate with and understand our neighbours and to help them better understand us. The study of Asian languages in Australia has been in gradual decline over the last decade. We cannot be complacent about what this means for our future economic competitiveness.

The Jiangsu partnership and Victoria's other sister-state arrangements with Aichi Prefecture in Japan and Busan Metropolitan City in Korea mean Victoria has valued relationships in each of the great North-East Asian economies. But to succeed in a rapidly changing region, formal

ties must be complemented by raising the standard and depth of Victoria's on-the-ground capabilities, establishing and strengthening vibrant networks and entrenching and growing our knowledge and understanding of Asia's cultures, economies, languages, societies and governments.

Navigating Asian countries' cultural, business and regulatory environments takes time and effort. Government can help and support businesses and institutions as they engage with Asia through information provision, advice and in-country representation. This is why the Victorian Government is increasing its presence in China and India.

We will soon open a State of Victoria Representative Office in Beijing, which will serve as Victoria's permanent 'commercial embassy'. This is in addition to our existing offices in Shanghai, Nanjing and Hong Kong. An additional Victorian Government Business Office will open in Mumbai, India's commercial capital, complementing our existing representation in Bangalore. Existing offices in Tokyo and Kuala Lumpur underscore the premium we place on engagement with Japan and South-East Asia.

There is much more government can do to nurture and create opportunities in Asia. Victoria's trade mission to India in April 2011 was Australia's largest ever to India. It is anticipated to facilitate tens of millions of dollars in exports and investment and the creation of hundreds of jobs over the next two years.

Victoria will be even more ambitious in 2012 with Super Trade Missions to China and India. These will be the largest-ever Australian trade missions to each country, with more than 100 companies and organisations participating in each trip. The missions will create and realise opportunities across industries including food and beverage, urban planning and design, life sciences, education, tourism, ICT, cleantech and energy.

The Super Trade Missions and Government Business Offices are examples of the enabling role of government – bringing partners together to support and extend the people-to-people and business-to-business networks on which shared prosperity ultimately depends.

One example of the dramatic change ahead is China's plan to build a clean economy. The 'strategic emerging industries' identified in China's current Five-Year Plan include electric vehicles, energy efficient products and renewable energy. As UBS' George Magnus has said, the Chinese 'don't have 250 years of industrial infrastructure to pull down before they can rebuild a green economy'. The move to a clean economy in China is both a unique opportunity for Australian and Victorian businesses and an event with significant global implications.

A second example: China's government estimates that Chinese outbound foreign direct investment (FDI) has gone from US\$15 billion in 2004 to more than US\$220 billion in 2010. This puts China at 1.2% of global FDI, on a par with Denmark. There is no doubt that China's outbound FDI will continue to increase in the next decade. The questions for Australia and Victoria are how we will compete for China's FDI, to which industries should we encourage it and what impact will increased capital inflows have on our economy and society.

More broadly, a growing middle class is increasing demand within Asia for tertiary education, tourism and professional services.

For Victoria, prospering through Asia's emergence means doing better what we already do well. *Fortune* magazine's 'Global 500' survey recently identified Melbourne as one of 15 'best new cities for business' in the world. Ten are in emerging economies, with two each in China and India. That is the company we should be in. Keeping us there means improving productivity

and making our economy increasingly open and internationally connected, particularly with Asia.

Connectivity is vital. One reason Fortune singled Melbourne out is our 'diverse labour pool', pointing out that 'about a third of [Melbourne's] growing population was born overseas'. In other words, our multiculturalism gives us a head-start. In Victoria, the open arms of this state welcoming communities from all over the world is part of our core character and core advantage. We must promote multiculturalism and recognise it for the asset that it is.

There is no doubt that people-to-people connections are vital and our greatest asset. In my recent visit to China, I met Victorian professionals and entrepreneurs engaged in the exciting work of building China's cities and meeting the demands of China's consumers. Australians who live and work in Asia have knowledge and insights that can only come from on-the-ground experience. Together with the 'New Argonauts' who studied or worked in Australia before returning to Asia, they are central to our success in realising the opportunities of Asia's emergence.

For all its complexity, Asia's emergence is an unalloyed good. Increasingly, the great issues of our time demand cooperation across borders. This makes it all the more vital that we build partnerships with our Asian neighbours. Government must play its part, and in an emerging Asia we have willing partners. The days when a trade mission to China could be dismissed on the grounds that 'we have never valued ingenious articles, nor do we have the slightest need of your country's manufactures' are long gone.¹

As the world's centre of gravity moves our way, Australia must be more than just in the right place at the right time. The hundreds of millions of people building their own futures in emerging Asia are, and will be, our colleagues, customers and competitors. Our companies, technologies and professionals can enable their continued development. Governments must be agile and forward-leaning to make the most of this unique opportunity and enable greater prosperity for all.

¹ As the Qianlong Emperor famously dismissed Lord Macartney's embassy to China in 1793.