Australia in the Asian Century – Country Strategies

by

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**Introduction**

Founded in 2000, the Tim Fischer Centre for Global Trade and Finance (the ‘Centre’) is an interdisciplinary research centre devoted to the examination of global trade and finance issues. Its key focus is on producing applied research addressing the issues confronting Australia and Australian businesses in the fields of globalisation, trade, and finance. The centre aims to increase public awareness by contributing to the national debate on the role of Australia and Australian businesses in a globalising world; contribute to government policy formulation in the fields of globalisation, trade, and finance; and provide research and consulting services to businesses and the government. The Centre regularly organises events and conferences focusing on trade, investment and finance issues. The following highlights some of its activities:

- **Conference**: The Rise of the BRICS: Changing Paradigms for the Global Political Economy? (10-11 August 2012) (Considering the potential impact of the BRICS on such areas as economics, finance, trade, investment, to name but a few, this conference was conducted to explore the implications of the changing landscape of the global political economy and to draw lessons for the future).

- **Conference**: Globalisation, the Global Financial Crisis and the Reinvention of the State (27-28 July 2011) (The Centre co-sponsored this conference to broach the questions and challenges posed by globalisation).

- **Conference**: Trade and Investment in the Mining and Energy Industries (22-23 July 2011) (This conference provided a valuable forum to discuss export restrictions and investment measures from both domestic and international perspectives).

- **Distinguished lecture**: On 3 March 2011, H.E. Mr. Zhang Junsai, the Ambassador of the People’s Republic of China, delivered a speech on the importance of the growing relationship between China and Australia.

- **Distinguished lecture**: On 12 March 2008, H.E. Mr Bruno Julien, the Ambassador and Head of Delegation of the European Union, delivered a speech on the Lisbon Strategy.

- **Conference**: Free Trade Agreements: Where Is the World Heading? (9-10 March 2007) (This conference explored the implications of the changing landscape of world trade).

Given the Centre’s mission and objectives, this memorandum briefly comments on the opportunities for deeper engagement by fostering closer people-to-people, economic, and political links with leading Asian economies. However, the main theme of this memorandum is to address the question of 'What
more can Australia do to connect productivity in trade and investment, innovation, research and development vis-à-vis Japan, China, Indonesia, India and South Korea?'

1) Fostering closer educational links and other contacts

Australia is active in regional institutions, such as the ASEAN, APEC and ADB. From the perspective of an educational institution, our view is that we should develop deeper bilateral relationships on a people-to-people basis. Such relationships should ideally be facilitated by the government, but not run through the government.

From the perspective of a university (and a law faculty within that university), we believe that creating new and enhanced opportunities for staff and student exchange and joint research programs (particularly in the fields of international trade, investment, dispute resolution and corporate law) would go a long way in promoting closer cooperation between Australia and the leading economies of the Asia-Pacific Rim.

The Faculty of Law at Bond University has developed a significant record of regional participation, which includes (1) teaching a significant number of students at the undergraduate and postgraduate level from the region, (2) taking and sending our students to study at Asian universities (especially in Japan and China), and (3) encouraging students to participate in regional activities (including mooting). Our students, especially at the postgraduate level, come to our institution because they see it as a gateway to Asia.

Apart from a highly international student body, we are involved in an advisory capacity with the publication of several important journals based in Australia and Asia. We have hosted important international conferences with many regional speakers, leading to important publications that have been well received both at home and abroad. Some of our distinguished academics are regularly invited to speak at regional conferences on matters of law and education. We receive delegations from foreign countries from time to time, such as delegations from China’s legislature, judiciary and law schools.

We are also of the view that volatility in government policy on certain matters, such as teaching of Asian languages, availability of student visas and scholarships, and support for the recognition of law degrees in trade agreement negotiations and in bilateral exchanges, has impacted the learning and work experiences of both domestic and foreign students and graduates. This is sharply contrasted with the position on CPAs and engineers. We believe that our future students require language skills
and exposure to the economic, social and political environments of the region, which needs instruction, encouragement and development. Meagre financing of universities by the government will not achieve much progress. The government could consider the development and financing of language institutes like the Goethe Institute in Germany (but with those institutes based within the region to give immersive exposure to our students) and setting up more scholarships to students from Asian countries like those given by the Japanese government and Japanese corporations (young civil servants and outstanding students from such countries as Vietnam, Myanmar, China and Cambodia study in Japanese universities on a wide range of scholarships, which not only promotes the building of human capital in developing countries, but also facilitates the fostering of professional relationships among students).

Australia is a country heavily populated by migrants, who need appropriate legal advice on matters concerning their affairs in their country of origin. Australia has a liberal regime for recognition of foreign lawyers. However, more needs to be done to recognise the skills of professionals in the region. Along with that, the internationalisation of the law curriculum should be promoted. In particular, the newly formulated dual-degree programs, which enable Australian law graduates to be admitted for practice in two jurisdictions and facilitate the portability of law degrees, will increase international enrolment in Australian law schools and deepen the professional exchange between Australian and foreign lawyers.

As a private educational institution, we feel that Bond University is in a strong position to contribute to Australia’s growing links with leading Asian economies. However, we are often excluded from regional initiatives funded by the government even when we all compete equally for support. ACISIS (praised as a model endeavour in the White Paper) is open to us, but our university lacks expertise on Indonesia. Similar organisations would be beneficial in relation to India, Japan and China.

2) The Role of Foreign Investment Review Board (FIRB) in regulating investment from Foreign State-Owned Enterprises

The FIRB plays a vital role in regulating foreign investment in Australia. The underlying aim of the FIRB is to ensure that inbound investments are not prejudicial to national interests. Any finding of investments being contrary to national interests prompts governmental intervention. This raises the question of what constitutes the Australian national interest. In this regard, the Centre is holding a conference broaching the question of national interest in trade, investment and security on 26-27 September 2013 at Bond University.
The guidelines currently advertised by the FIRB on its website are deliberately kept vague and flexible in order to enable a case-by-case determination. This purportedly ‘maximises investment flows while protecting Australia’s national interest’. The current approach juxtaposes national interest with security considerations in the narrow sense. The test covers, amongst other considerations, the identity of the applicant investor, the nature of the proposed investment and the location of such investment. These overriding considerations are often viewed as exemptions to Australia’s international obligations.

The question that needs to be asked is: Should the current approach continue or should there be reform/flexibility, taking into account the ever-growing energy and commodities requirements of the identified economies? Tailoring the investment thresholds, entry requirements, equity standards and other conditions through negotiations would encourage a streamlined investment regime to further boost foreign direct investment into Australia from the specified countries. The suggested approach adopts a country-specific investment regime that can be tailored to incentivise investment. This involves consultation process with countries that can be designated in advance as ‘preferred’ investors. In essence, this approach aims to replicate the criteria for investment that appear in various Australian BITs and FTAs.

Australia is currently negotiating FTAs or similar agreements with all of the countries under consideration. It already has in place an agreement with Indonesia in the framework of AANZFTA. It may be possible to negotiate preferential processes that shorten and streamline approval processes as part of these negotiations, and Australia could look for reciprocal benefits from its FTA/trade/investment partners. If this is done through the vehicle of an FTA, compliance with the WTO obligations will not pose a problem. However, in concluding these FTAs or closer economic cooperation agreements, the emphasis needs to be placed on avoiding MFN process clauses in the FTAs; otherwise, the onerous MFN obligations would have to be extended to all WTO members by Australia.

RECOMMENDATION: Substitute the case-by-case approach that is currently adopted with a ‘preferred country’ or ‘preferred investor’ approach based on negotiations and consultations.

3) Diversification from over-reliance on China as a trade partner and responding to China’s industrial transition

Currently, China is the most significant trade and investment partner of Australia. In most basic terms, China supplies Australia with goods and Australia provides China with its energy and commodity
needs. However, China need not be the only supplier of goods and buyer of commodities, as Indonesia, India and South Korea have made rapid advancements in industrialisation. Australia is well placed and proximate enough to engage major Asian manufacturers and supply them with their commodity needs. In this sense, Australia becomes a competitor of China in foreign markets.

Australia’s policymakers must also consider the ongoing process of industrial transition and restructuring in China. In this period, China is expected to graduate to higher value-added products while reducing reliance on more basic sectors, such as textiles, clothing and footwear. Such restructuring is characterised by increase in wages, surge in currency values, and influx of goods into the Australian market that has the potential to further undercut the Australian manufacturing sector in the domestic market. The sector that is expected to be the most adversely affected is the automobile sector. While Australian manufactured automobiles still hold an overall qualitative edge, this advantage will not last long. The best example is the automobile exports from South Korea manufacturers, who have significantly improved the quality of their products and sold their automobiles at competitive prices.

Therefore, Australia must search for alternative markets within the Asia-Pacific region (most notably India, South Korea and Indonesia) for its value-added products in order to retain its manufacturing capabilities. This will necessitate a process of investigation and marketing prior to taking the plunge. All of the aforementioned Asian economies have a burgeoning middle class that has exhibited appetite for imported products in the past. The challenge for Australian manufacturers is to achieve the right balance between quality and pricing.

Another consequence of China’s reducing reliance on basic manufacturing sectors (such as textiles, clothing and footwear) is the shift of these imports into Australia from China to other Asian manufacturers. This transition will occur over the next few years and will coincide with China’s shift into capital-intensive rather than labour-intensive sectors. Although China will move away from labour-intensive sectors, Australia will continue to face fierce competition in basic manufacturing sectors from other Asian countries as a result of their competitive advantages. Thus, it is imperative for Australia to transform the manufacturing sector in order to retain its competitiveness.

In the case of high-end manufactures (where establishing brand reputations takes time), a more obvious move is to enlarge the export of professional, educational and resources-infrastructural services. Developments of cross-border financial services are hindered by current tax and corporation laws. Therefore, the idea of Australia as an Asian corporate HQ preferred destination is quite unrealistic. However, our advantages with Chinese currency conversion are very good for Australian
exporters. Adopting Yuan as the currency for clearing will reduce transaction costs. Whether Australia can become a niche financial centre for this purpose is doubtful at present, except in terms of the transactions involving Australian Dollar.

RECOMMENDATION: Australia needs to have a BRICS strategy in order to spread the focus from China to include other countries under consideration. The BRICS is an association still in its developmental cycle. It needs to be closely monitored, and we need to have clear strategies for dealing with each of the members. This is a matter that transcends an Asian focus.

4) Diversification from reliance on commodities into other sectors

Australia is well endowed with abundant land and resources to expand its agricultural base in a world where farmlands are increasingly becoming scarce. This represents a classic opportunity of investment in scarce assets. Once the domestic food security considerations are met, Australia can become a supplier of food and agricultural products (both processed and raw) to Asian countries with booming populations. The agribusiness represents a growing export field for green products as well as dairy and wine. In particular, China, Japan and South Korea are lucrative markets for seafood and beef. In this respect, we face strong competition from New Zealand exporting to China. Because they have negotiated an FTA with China, they face tariffs at 50% of those imposed on Australian exports. Because of the Rules of Origin, we cannot take effective advantage of our CER relationship with New Zealand by tapping into the supply chain. This underlines the importance of preferential agreements discussed above, even if they cannot at this stage be comprehensive. With a stable economy and reduced ‘sovereign risk’, Australia has the right combination of transparency and governance to attract foreign investment in Australian agriculture. Also, Australia must exploit its proximity to Asian countries with fast growing populations on earth. The challenge comes in terms of distance to market and the cost of transport which in itself contains another investment opportunity.

Foreign investment in Australian land has existed from the colonial period. Cattle, grain, sugar and fruit have been the main reasons for investment which has often taken the form of long leases. Three quarters of Australia’s sugar mills are now foreign-owned. Foreign owners often invest for the long term. It is difficult to get Australian pension funds to invest in this sector.

RECOMMENDATION: We need to have an accurate register of foreign ownership, knowledge of the structure of markets, and greater transparency. The test to measure national interest can be adapted from our recommendation above in 2. Further protection can be through covenants in leases. It is also necessary to protect native title.
Conclusions

Compared with the EU and the US, Australia has a geopolitical advantage because of its proximity to the countries under consideration. Having rich resources and advanced technologies, Australia can be a significant supplier of quality goods and services to its Asian neighbours. In view of the changing landscape of the global economy, Australia needs to be proactive and take a long-term perspective in strategic planning. Basically, Australia should capitalize on its strengths and try to avoid protectionism. International trade and investment are both inbound and outbound because complementarities arise as a result of comparative advantages.