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VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

## SESSION 3 – ENGAGING WITH ASIA IN BUSINESS THE CHALLENGES AND OPPORTUNITIES

**Chair:** Ben Foskett, Director, Pathway Services Pty. Ltd.

**Panel:**

1) Paul Morris, Executive Director, Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES)

2) Kee Wong, Founder and the Managing Director of e-Centric Innovations Pty. Ltd.; Chairman, Australian Information Industry Association; Deputy Chairman, Asialink; and Board Member of the Australia-Malaysia Institute Advisory Board

3) Bruce Rasmussen, Director, Centre for Strategic Economic Studies, Victoria University

**Ben:** Welcome everyone. Congratulations to Victoria University and Asialink. As Ken Henry said, we need more organizations like them. We have an interesting and diverse panel to discuss business opportunities: an academic, a bureaucrat and an entrepreneur, who all bring different perspectives.

There has been a discussion that has been going on for a long time. Do we see ourselves as part of Asia? Are we Asian? I don't care if we see ourselves as Asian, or if Asians see us as Asian. What matters is that we are in the vicinity, we are 'close to the action'. We should be taking advantage of this reversal of fortune regarding Geoffrey Blamey's 'Tyranny of Distance'. We need to take advantage of the new reality of the 'Advantage of Proximity'. We are blessed with a truly multicultural community, which is critically important, as it provides critical cultural understanding, which is sadly underutilised in the pursuit of opportunities for the Asia Century.

We are not alone in this. All over the world similar conversations are taking place on how to overcome their new found 'tyranny of distance' to access Asian markets. And their strategies are working. They are 'eating our lunch'. It is important that we have the right skills and knowledge base in order to succeed in Asia. Does Victoria have the products and services Asia wants/needs? Asia is not one market, it is a multiplicity of markets, as Europe is a multiplicity of markets. What are we/should we be doing to make Asians see us as attractive partners as opposed to competitors or even threats? Does Victoria have the links? Higher Education is already well placed for 'inter-linkage' with Asia, as it combines business, education and networking.

Too often Victorians lack critical mass in areas of our high quality capabilities. Victorian needs to do more to exploit its capabilities. It needs more fruitful economic engagement with Asia. Education and Tourism are our best performing economic export sectors. Education is worth double that of Tourism and in turn Tourism is worth double the next best. We need to do more to bring up our other sectors.

A rising tide lifts all boats - We will benefit naturally with Asian market growth. But we need to do better than rely on that and to increase our market share. We need to be better than just being the mine, the hotel, the farm & the school. Government patronage is highly regarded in Asia. This is in contrast with the way business is done in Australia and causes confusion for our Asian counterparts.

**Bruce:** Last year there was at a similar conference that discussed the Victorian economy and the successful transition from a manufacturing centre to a services one. This is a transition that Detroit failed to do. It stuck with cars, an opportunity it grasped in the 1920s but has failed to transform its economy in to a modern service based one subsequent decades. It has now defaulted on its debts. This illustrates two things: the world owes no one a living, especially former larger and prosperous cities; second, we need to grasp opportunities when they are offered.

Asia offers tremendous opportunity for high skilled, specialised services. We have highly skilled, specialised services in Victoria. We haven't taken grasp of this opportunity. There is growth in demand for these services (shows graph comparing US and Victorian growth in high skill levels) One of the features of a modern economy is the demand for high skilled services. As countries like China and India become more modern, the demand for such services will increase.

| Comparison in % of skilled workers | | |
|---|---|---|
| YEAR | US | VIC |
| 1950 | 30% | 32% |
| 2010 | 52% | 46% |
| **Comparison in % of low skilled workers** | | |
| YEAR | US | VIC |
| 1950 | 30% | 34% |
| 2010 | 21% | 36% |

According to various studies, for developing economies, US$4000 GDP per capita is the threshold of economic development for demand for high skilled services to increase and make a bigger contribution to the economy. China passed this threshold in 2002 and India passed it a couple of years later, in 2004.

| Victoria's top 5 economic services and its share of the economy: | |
|---|---|
| Education | 9.6% |
| Personal travel | 4.2% |
| Business travel | 8.7% |
| Architectural, engineering, science services | 2.4% |
| 'Other business services' (Legal, Accounting, Management, PR) | 7.5% |

The majority of Indian and Chinese service imports are high skills. In 2002 this economic sector was worth US$48 billion, in 2012 it was worth US$275 billion. Out of this US$65 billion was on 'other business services' China is now the 3rd largest importer of skilled services, behind the US and Germany. India is 7th. Most of Victoria's 'other business services' go to countries like the US, UK and Singapore. We need to start transferring these to India and China.

'Travel' in most statistics indicate education, as it is mainly students travelling to Australia.

Victoria's economic powerhouse is Higher Education, not car manufacturing. Melbourne, Monash and RMIT universities had a combined revenue of $300 million in 2000. In 2011 this had risen to $1.35 billion. Government's treatment of Education is odd, taking a casual attitude. It would not treat the car manufacturing industry like it does Education.

Out of the top 7 service markets for Australia in 2012, two (China and India) are developing countries and Education makes up 90% of our service market with them.

Why isn't Victoria doing better?

- There is a high proportion of professional services exports to Asia (especially China) generated by FDI proposals in resource and property areas where local expertise is essential
- US firms are able to assemble large teams that more easily amortise fixed costs
- Foreign firms are not so willing to pay premium prices for Australian expertise in their home markets and prefer home grown talent
- Cultural and regulatory issues like the FTA with China

The universities have led the way and overcome these obstacles, demonstrating to other service sectors that it can be done. Cut backs in university funding in the late 1990s spurred the universities to look abroad and diversify. They are now reaping the benefits.

**Paul:** ABARES provides statistics and analysis regarding Australia's primary industries. All statistics are available on the ABARES website. It is working with the CSIRO in North Australia to see what challenges there are to turn Australia into 'Asia's food bowl'.

At present, Australia makes enough food for 60 million people. 60% is exported to overseas markets. We need to know what Asia wants, what the demands will be in the future and start preparing to meet those demands, which includes building infrastructure. To find out what the market wants we are achieving closer vertical coordination. Looking at supply and demand, a 11.5% rise in the price of food between now and 2050 is predicted. ABARES believe that food production will increase to meet demand in Asia and most of this (72%) will come from inside Asia itself, with China alone providing 46%, which means Australian farmers will face competition from other countries. This 11.5% price rise increases to 22% if climate change is factored in. These price rises are mainly due to major increases in the price of meat, fruit and vegetables, dairy products and cereals. All of these are major Victorian agricultural industries.

China accounts for 18% of Australian agricultural exports, double what it was a decade ago. This includes 75% of Australia's wool. It is predicted in the future they will buy more Australian vegetables, while India will buy more fruit, vegetables and dairy products.

Transformational change is required to take advantage of the Asian Century. We need to reinvigorate productivity growth; target what consumers want; and turn our costs into advantages. Australia is going through slowing agricultural growth. 1.8% growth from 1977-78 to 1994 decreased to 0.2% growth from 1994 to 2010-11. ABARES are looking at North Australia to combat this, which is challenging as it is not a traditional agriculture area and China is investing in agriculture, particularly sugar cane. The best method is mosaic agriculture-patchwork, not broad based.

Australia are relatively high cost producers, and we need to compete with cheaper producers. To do this we need to add value to the product, to persuade them to pay a premium, to turn our costs into advantages. Our high costs absorb energy, labour and red tape/regulations. We have sustainable agricultural production, animal welfare rules, food safety and low pest and disease status. We can make these premiums that consumers are willing to pay for. Our low pest and disease status gives us access to markets other competitors don't have, for example our beef exports to Japan.

Most growth in agriculture has historically been through foreign investments. We need to target consumers though the value chain. Government must ensure safety protocols are in place, and we need to recognise the trade-off between economy, environment and society.

**Kee:** There is no Asia. There are countries in Asia, and inside those countries are regions. Sometimes those regions don't even like each other. For an entrepreneur every dollar counts. You have to ask where would you spend your next dollar and why? In Melbourne, Sydney, Indonesia, China, South China, North China etc.?

You can have all the statistics in the world, but in the end it is people to people contact that matters. You need to offer your services to the right people and highlight what you have to offer compared to companies in their own backyard. This is where you strategize. Do you spend $10 to compete, or do you spend $3 to partner with local competition, and give away $2 but save $5?

I would go as far to say that in Asia, marketing dimensions change. Along with product, place, promotion and price we need to add a 5$^{th}$ P – people. Australia has a large multicultural community that it can utilise for networking. But we don't do it often enough. How many former international students do we keep in contact with who are in places of influence in business, government and the community?

Preparation is the key. Don't go to markets where you don't have friends or have no competitive advantage. The facilitation fee is the elephant in the room. You may compete on uneven ground if you don't 'play the game', so you need to make it part of your strategy. Do you avoid those markets, or do you adopt a 'don't ask, don't tell' policy like the US military? You can't avoid dealing with the fee. However, there are strategies that can "inoculate" you from such an issue – it is building long lasting and trusted relationships. Once the trusted relationship is in place, such considerations usually becomes redundant. So, in Asia I recommend the mantra of "building relationships when you DON'T need them", not when you expect something in return. Australia is expensive, but we can turn this to our advantage. Australia is highly regarded in governance, planning and design skills across Asia. Our market is high value and high quality and not underrate our qualities.

Australia offers the best IP protection in the region. I would like to close with an anecdote. Microsoft in China is not a big market, despite its huge potential. This is because everyone including government use copies of their software without paying licence fees, which means Microsoft doesn't get a lot of revenue.

## Question time

1) Tim Colebatch from the Age: The level of the dollar as an influence on our exports to Asia compared to Malaysia for example who have a stable relationship with the US Dollar. We have gone from US$1.05 to US90c. How does this affect our imports?

Bruce: If the Aussie Dollar sinks really low it will affect our performance, but little changes will only be marginal. But this is under the assumption that price is affecting our performance in Asia, which may be true for the education sector, but the business sector can work around it.

Paul: It affects returns for our farmers as they are quoted in other currencies. A 1c permanent reduction equals a $200 million reduction for our farmers. I didn't cover currency in my talk today because currency changes are short term, not long term.

Kee: You need to hedge currencies. If you create value you cannot get elsewhere, price is not an issue. You can have a Australian rice industry without growing a grain of rice in Australia. Grow it in Burma. Also if you set your price at AU$1 equals U70-80c for example, this bandwidth is your profit, anything else is a bonus.

2) Audience member: My question is on red tape. Kee seems to have his businesses in other countries. Is red tape a reason?

Kee: If I had a choice between governance and no governance, I would pick governance every time. If there is too much governance, as an industry we need to push for less governance to make us competitive.