

TREASURY COMMENTS ON TASMANIA'S PLACE IN THE ASIAN CENTURY ISSUES PAPER

Introduction

The extraordinary rates of growth witnessed in China and several other Asian countries in recent years provide some significant opportunities for the Tasmanian economy, most obviously for the State's exporters of goods and services and also for investment by Tasmanian-based firms in these countries. In addition, this growth also provides increased opportunities for investment by Asian businesses in Tasmania, such as the recent purchase of a 75 per cent stake of Hydro Tasmania's Musselroe wind farm by Chinese firm Guohua Energy.

From the outset, sustainable economic growth is mostly facilitated and driven by markets. The Tasmanian Government will necessarily have limited capacity to influence trade with Asia and the developing world – and is considerably more limited than the Australian Government, which has a role in setting foreign and trade policy, including the negotiation of trade agreements and the setting of tariffs. Nevertheless, the Tasmanian Government will be able to positively influence Tasmania's trade with Asia by ensuring that unnecessary barriers to trade and investment are minimised and that the economic environment is optimal for the State's businesses to operate.

For Tasmania to maximise the economic benefits it receives from engagement with Asia, it will need to develop those industries for which it has a clear comparative advantage over other nations, as competition is becoming very strong for these emerging markets. These comparative advantages will evolve over time, as the global economy develops and as preferences change. While there is typically much focus put on increasing sales of high value Tasmanian products, this is only likely to be commercially successful where the State's firms have a comparative advantage in producing these products.

The rise of Asia will create new pressures as well as benefits. At the same time that Asia may be seeking to import more Tasmanian products, it will also be developing its own industries and is likely to become a competitor in the production of a growing range of goods and services currently produced by Tasmania.

Developing Asia

The Issues Paper sets out the historical context and some of the expected future developments concerning the rise of Asia and its increasing economic significance.

The very high rates of growth expected in the future in Asia and the expanding Asian middle class present opportunities for an expanded source of export income for the Tasmanian economy and offer other significant opportunities for the State.

Economies are complex entities and some important factors need to be considered regarding the rise and development of Asia. Economic development is never linear and as China and the rest of Asia continue to grow, its industry mix will change, its areas of comparative advantage will evolve, and the goods and services it demands from other economies will change over time. As the real incomes of Asian households grow, their tastes and preferences will change.

It is likely that Asia may become increasingly able to meet its own demand for goods and services. For example, as demand for skilled labour increases in Asia, and as the population becomes better and more widely educated, it seems likely that Asia will establish more of its own universities and other higher education facilities.

The demand for various goods and services from its trading partners will vary over the decades ahead. Economies in other parts of the developing world will continue to grow, including in South America and some regions of Africa, and will be increasingly able to develop new industries and compete with Australian exporters in Asian and other markets. For example, Chile is developing its aquaculture industry; it already produces farmed abalone and is a major exporter of Atlantic salmon and is likely to be an increasingly significant Tasmanian competitor in these products.

In any discussion of the growth of Asia and Australia, there tends to be a strong focus on the growth of the Asian middle class, the expected demand for premium products, and the need for Tasmania or Australia to increase the intellectual content and value-add of our products. The critical issue is whether Tasmania has a sustainable brand advantage in such products.

While there is a tendency to rate Australia as an advanced country with greater capacity to produce goods with high information technology or intellectual property content, this is not reflected in the pattern of much of the international trade between Australia and Asia. It is, for example, developing Asia including China which is manufacturing and exporting many smartphones and other electronic goods with a “high intellectual content”, often manufactured using the raw minerals supplied by Australia.

Trade in goods

Tasmania, with its pristine environment, rich soils and clean air, is popularly known for producing gourmet fresh food and fine wine and for being a major drawcard for international tourists. Along with this image goes an assumption that such products are major export industries for the State and important sources of income.

The data tell a somewhat different story. Despite the existence of a large middle class already in Asia, particularly Japan but also Taiwan, South Korea and increasingly China, global exports of primary commodities remain the most significant sources of merchandise export income to Tasmania. Over half of Tasmania’s international exports in 2011–12 were in non-ferrous metals or metallic ores (Table 1).

Table 1 – Tasmanian exports by product, 2011–12, nominal original data

	Value	Share
	\$m	%
Food products	520	16.3
Dairy products	101	3.1
<i>Cheese</i>	22	0.7
Fruit and vegetable products	49	1.5
Live animals (other than fish and crustaceans)	2	0.1
Meat products	139	4.4
<i>Beef - fresh, chilled or frozen</i>	112	3.5
Other food and beverages	69	2.2
<i>Beverages (including wine)</i>	4	0.1
Seafood products	159	5.0
<i>Abalone - processed, live, fresh or chilled</i>	88	2.8
<i>Atlantic salmon</i>	33	1.0
<i>Rock lobster</i>	26	0.8
Non-food products	2 676	83.7
Animal and vegetable based products	63	2.0
Chemical and related products	15	0.5
Confidential items of trade	408	12.8
Machinery and transport equipment	196	6.1
Ores and concentrates	754	23.6
Other items, not elsewhere classified	35	1.1
Other manufacturing	5	0.2
Plastic and rubber products	1	0.0
Processed metals and metal products	1 012	31.7
Textile, yarn and fabric products	24	0.8
Wood and paper products	163	5.1
Total	3 196	100.0

Source: *Tasmania's International Exports: 2011–12*, Department of Economic Development, Tourism and the Arts

To date, the sales of goods and services to the Asian middle class comprise a relatively small share of total Tasmania exports. Goods exports that are consumed by these households (which include meat, dairy products, beverages including wine, cakes, honey and some seafood) comprise around 9.2 per cent of total international exports from Tasmania.

In the case of rock lobster and abalone, however, which account for around 3.6 per cent of total Tasmanian exports, opportunities for further growth are limited as the fisheries management plans set a total allowable catch for wild abalone and rock lobster. The only prospect for growth in these areas is through increasing the output of farmed abalone. At present, a relatively limited number of land-based facilities are doing so.

While Tasmania's export mix has changed over time, primary commodities have comprised a very large share of the State's exports for an extended period of time (Table 2). This is likely to reflect the fact that Tasmania has a comparative advantage in the production of these commodities, rather than any specific policy or target to develop these sectors.

Table 2 – Share of Tasmanian export value by commodity, nominal original data

	1991–92	2001–02	2011–12
	%	%	%
Meat and meat preparations	3.9	3.3	4.5
Dairy products	3.4	4.9	3.2
Fish, crustaceans and molluscs	8.7	7.6	5.1
Vegetables and fruit	3.2	2.4	1.5
Wood and woodchips*	0.6	1.9	3.0
Textile fibres and wastes	4.1	1.0	0.7
Metallic ores and metal scrap	15.3	7.9	24.9
Paper and paperboard	1.3	0.6	0.5
Iron and steel	4.1	0.1	0.2
Non-ferrous metals	27.0	32.0	30.2
Road vehicles and transport equipment	5.0	3.3	4.9
Other and confidential items*	23.5	35.0	21.3

* Most woodchip exports from Tasmania were classified in the confidential category in 1991–92 and 2001–02.

Source: *International Trade in Goods and Services*, ABS cat no 5368.0 (data on subscription)

Compared to most of the developing world, including much of Asia, Tasmania is a relatively high cost, high wage economy. As China and other Asian regions develop, they are themselves likely to produce an increased volume of premium food and other products. It may not always be possible for Tasmania to remain competitive in these markets under this increased competition.

Securing a reputation for premium quality produce appears to be the optimal strategy that Tasmanian exporters will need to pursue, in light of the cost issues they face.

In order for Tasmania to maximise its export opportunities, it needs to develop those sectors and products for which it has a market advantage. An alternative strategy of providing generous financial assistance to support products with the highest value-added content is not likely to be sustainable.

For example, it is the comparative advantage in dairy production, and not any generous allowances, which is driving the current strong investment in the dairy sector in Tasmania.

Currently, Tasmanian exports of primary commodities are predominantly sold to Asia and India (Table 3). The less developed economies have been the most important source of export growth for Tasmania. While exports to Asia (excluding Japan) have grown strongly over the past decade, exports to Europe and the United States have remained relatively stable or declined over this period. As some export markets in advanced economies have declined, developing Asia has often been an important new customer for some key Tasmanian products.

In 2011–12, 40 per cent of Tasmanian exports of wood and woodchips were destined for China (including Hong Kong) and 28 per cent were sold to Japan, by value. In contrast, in 2009–10 around two-thirds of exports of wood and woodchips went to Japan and just 20 per cent went to China (including Hong Kong).

Table 3 – Tasmanian export commodity shares by major destinations, 2011–12, nominal original data

<i>Original</i> Country	Non-ferrous metals	Wood and woodchips	Metallic ores and metal scrap	Agriculture
	%	%	%	%
China (including Hong Kong)	31	40	48	26
India	2	0	24	2
Indonesia	5	0	1	3
Japan	5	28	3	26
Malaysia	7	2	13	3
Republic of Korea	9	1	1	3
Taiwan	16	9	4	3
Other	25	19	5	34
Total *	100	100	100	100

* Components may not add to total due to rounding.

Source: *International Trade in Goods and Services*, ABS cat no 5368.0 (data on subscription)

International exports comprise only around one-third of total Tasmania merchandise exports. The majority of Tasmanian exports, by value, are sold to the Australian mainland. While overseas markets may provide the greater long term opportunities for further growth, it is important to sustain the interstate export market and identify opportunities for further growth.

Trade in services

Asian countries and residents comprise a significant share of Tasmanian trade in services. Full-fee paying international students are a crucial source of income to the University of Tasmania and provide a significant source of demand in many local markets including accommodation and the retail sector. Some estimates suggest that international tourism directly contributes around 1.7 per cent of economic activity in Tasmania in 2010–11.

The growth of the Asian middle class over the coming years may result in greater demand for Tasmanian education and tourism services. However, Tasmania does face some challenges in attracting students and visitors from Asia such as its geographical separation from the rest of Australia and possibly its relatively cold climate. The share of all overseas students studying in Australia that come to Tasmania is below Tasmania's share of the national population and international students comprise around 13 per cent of all students at the University of Tasmania, compared to a national average share of around 20 per cent. To date, therefore, Tasmania has not yet demonstrated any comparative advantage within Australia in attracting international students.

Table 4 – International students, higher education sector, state or territory of enrolment, calendar year to date at August 2012

	Asia*		All other regions		Total	
	no.	%	no.	%	no.	%
NSW	53 168	34.3	24 671	35.5	77 839	34.7
VIC	47 952	30.9	19 174	27.6	67 126	29.9
QLD	21 298	13.7	12 806	18.4	34 104	15.2
SA	11 609	7.5	3 254	4.7	14 863	6.6
WA	12 428	8.0	6 293	9.1	18 721	8.3
TAS	2 489	1.6	719	1.0	3 208	1.4
NT	194	0.1	562	0.8	756	0.3
ACT	5 878	3.8	1 945	2.8	7 823	3.5
Australia	155 016	100.0	69 424	100.0	224 440	100.0

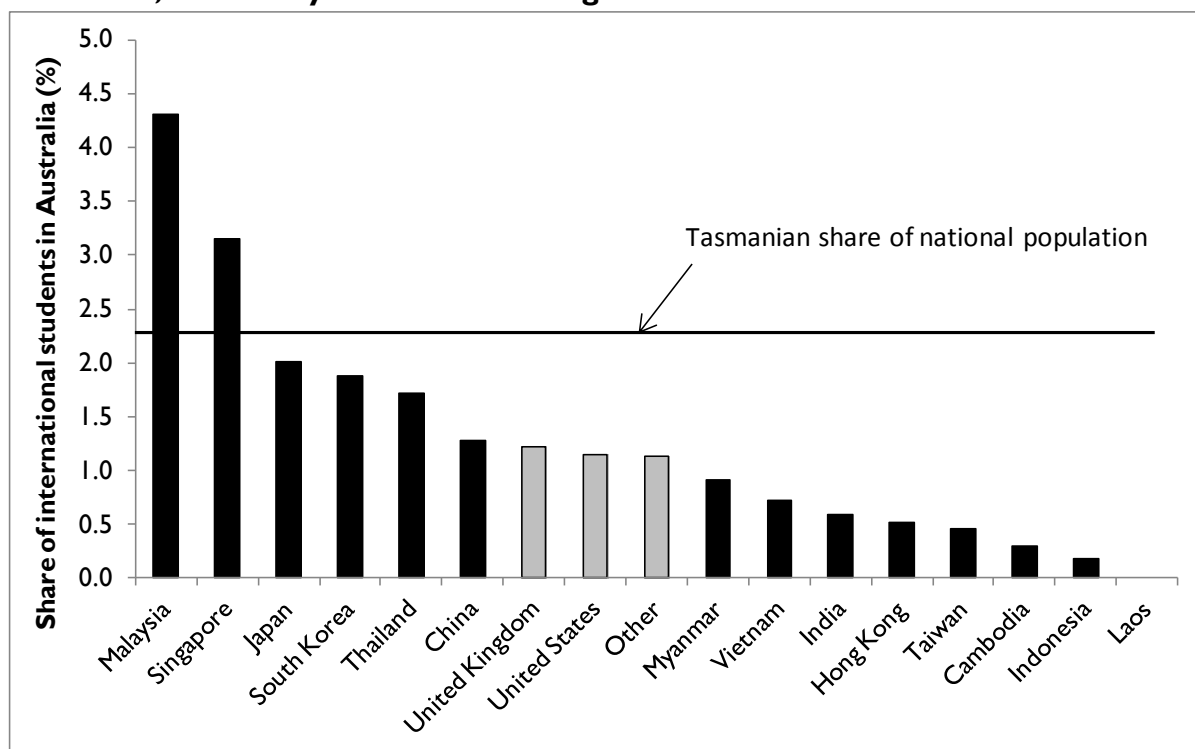
* For this table, Asia includes Cambodia, China, Hong Kong, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, Singapore, Taiwan, Thailand and Vietnam.

Source: Austrade

For example, of all international students enrolled at Australian universities in the calendar year to August 2012, 1.4 per cent of these studied in Tasmania (Table 4). Around 1.6 per cent of Asian international students in Australia studied in Tasmania during this period. This compares to Tasmania's share of the national population of 2.3 per cent.

However, there is some variance between individual countries in the share of university students enrolled in Tasmania (Chart 1). Singapore and Malaysia have relatively high enrolment rates in Tasmania compared to other nations.

Chart I – Tasmanian share of international students enrolled in higher education, calendar year to date at August 2012



Source: Austrade

These data suggest there is potential for Tasmania to attract a great share of international students in Australia.

The capacity of Tasmanian institutions to secure new opportunities in international education in the decades ahead will depend on:

- the growth in demand for advanced education in Asian countries;
- the quality and price of further education offered in Tasmania;
- the way university and other courses are delivered;
- the growth of high quality universities within the Asian region; and
- the extent to which international students from Asia seek some experience of studying in English speaking countries such as Australia.

With the continued advances in information technology and improved opportunities for distance learning, it cannot be assumed that the number of Asian students studying overseas will continue to grow in line with the expansion of the Asian middle class. This suggests the focus is more likely to be on identifying the emerging trends in international education to assess where the market opportunities may lie – which may be increasingly in providing more consultancy services, and entering into more joint ventures and other partnerships with Asian universities.

Despite the importance of tourism to Tasmania's economy, Tasmania captures a relatively small share of Australia's international visitors from Asia, in terms of visitor nights spent in the jurisdiction (Table 5).

Table 5 – Room nights by international visitors, 2011–12

	Tasmania	Australia	Tasmanian share
	'000	'000	%
Asia	1 229	89 662	1.4
All other countries	1 640	107 122	1.5
Total	2 869	196 784	1.5

Source: *International Visitors in Australia*, Tourism Research Australia

According to these figures, visitor nights in Tasmania from Asian visitors comprise over 40 per cent of international visitor nights spent in Tasmania. A sizeable share of these visitors are international students rather than tourists.

China is the second most important source of international visitors to Tasmania, in terms of visitor nights in the State, with an estimated 300 000 room nights spent in 2011–12. This is only slightly below visitors from the United Kingdom, who spent an estimated 306 000 room nights in Tasmania. The purpose of the visits and the size and nature of expenditure are very different, however, as the Chinese visitor nights are predominantly by international students while the UK visitors are principally tourists or visiting family members in the State.

As is the case for merchandise exports, the source of the majority of visitors to the State is mainland Australia rather than overseas (Table 6). Australian residents do not face exchange rate impacts when travelling domestically, which has partly shielded Tasmania from exchange rate pressures, which has affected international visitor numbers. However, the strong Australian exchange rate has reduced the relative cost of travelling internationally, and this is likely to have contributed to the recent drop in interstate visitor numbers to Tasmania. While the cost of visiting Tasmania is lower for mainland residents than overseas residents, the potential market for visitors from overseas is growing much more rapidly.

Table 6 – Interstate and international visitors to Tasmania, 2011–12

	Interstate	Share of	International	Share of	Total
	visitors	total visitors	visitors	total visitors	visitors
	'000	%	'000	%	'000
Visitors	864	86.0	141	14.0	1 005
Room nights	6 014	67.7	2 869	32.3	8 883

Source: *Travel by Australians and International Visitors in Australia*, Tourism Research Australia

Opportunities for Tasmania's government business enterprises in Asia

The scope of involvement of government businesses in Asia has predominately been through Hydro Tasmania with its consulting arm, Entura, providing consulting services and its equity involvement in wind developments. This has included projects in China, India, South Africa and the Malaysian state of Sarawak. While the Government previously endorsed such involvement, any future involvement must be considered in the context of the principles that have been issued by the State Government for government businesses, titled *Principles for Strengthening the Oversight and Governance of Government Businesses*.

The Principles were announced in 2011 as part of the government business reform direction, which is aimed at improving the performance of government businesses through setting clear business objectives and operating constraints, establishing clear trade-offs and requiring greater accountability for delivery of performance targets.

In regard to overseas investments, Principle 2 states that unless there is a compelling business case based on risk mitigation, the core business of government businesses is restricted to on-island activities which provide a service to the Tasmanian community.

Principle 5 also requires that government businesses have rigorous decision making processes in place for capital investment and that Shareholding Ministers must be satisfied that investments are consistent with the Government's objectives.

Consequently, approval of any future proposals that involve government businesses in dealings in the expanding Asian economies will need to be consistent with the Principles.

Past experience with overseas investment has not delivered expected returns, which in part may be the result of difficulties in repatriating profits back to the State due to the specific policies of other countries. As the State Government's focus is on improving the overall performance of the government business sector, with an emphasis on delivering services to the Tasmanian community, opportunities for Tasmanian government businesses are likely to be limited in Asia.

Barriers and risks

China and other regions of Asia apply tariffs to a number of the products that they import. These have been, and remain, a barrier to maximising the opportunities for exports of Tasmanian products to Asia. In the case of China, the liberalisation of its centrally planned economy over the past three decades has been accompanied by a significant reduction in its average tariff rates, especially since China joined the World Trade Organisation in 2001. China's current official tariff policy is to promote economic reform and the opening of its economy, and this has been reflected in a continued reduction in its average tariff rates over the past decade.¹

¹ See *Tariff Schedule*, Chinese Ministry of Finance; Trading Economics (www.tradingeconomics.com); *Australia-China Free Trade Agreement Feasibility Study*, Department of Foreign Affairs and Trade; World Bank (<http://data.worldbank.org/indicator/TM.TAX.MRCH.SM.AR.ZS>)

On 18 April 2005, Australia and China agreed to commence negotiations on a Free Trade Agreement (FTA) following consideration of a joint FTA Feasibility Study. The study was completed in March 2005, and concluded that there would be significant economic benefits for both Australia and China through the negotiation of an FTA. The negotiations are complex, covering an array of issues, including agricultural tariffs and quotas, manufactured goods, services, temporary entry of people and foreign investment.

Tasmania has little or no ability to influence market access into China or other regions of Asia. This is clearly an Australian Government role, and Australia is limited in its capacity to influence Chinese policy. As Asia's share of the global economy increases, so does its market power and its ability to act in its own interests in its trade with the rest of the world. These actions may not always align with Tasmanian interests, and this presents a risk for Tasmania and Australia generally in coming years.

Progress has been very slow, with 15 negotiating rounds having been completed in seven years. If agreement is reached, this is likely to benefit Tasmanian firms by reducing the relative cost of importing Tasmanian goods into China.

Tasmania will always be a relatively small trading partner for most Asian nations. The State's exporters will always be at some risk where a single Asian nation is the major export market for a particular good or service. This has occurred in the woodchip export market, where the demand from Japan has fallen sharply in recent years, and was highlighted in an incident in late 2010 when China imposed a temporary ban on imports of Australian rock lobster, for reasons related to the use of Hong Kong as the entry into China. This ban immediately led to a fall in lobster prices and fishers' incomes and many complained of the great deal of uncertainty that the industry faced due to the lack of a Free Trade Agreement with China.

Tasmania's physical and geographical remoteness from major Australian and Asian ports and cities will continue to present a significant challenge to the competitiveness of its exports. Higher freight costs due to the lack of a direct international shipping service are likely to remain an ongoing issue for the State. This will constrain the capacity of some Tasmanian businesses in competing with businesses in regions much closer to the emerging Asian countries.

Summary

Tasmania's capacity to maximise its benefits from the rise of Asia will depend on its ability to meet the growing demand for goods and services from Asian households and businesses. It is not possible to forecast what this demand may comprise or where the major competition will be from.

While there will always be a strong need to identify these emerging markets, it is equally important to focus on the supply factors within Tasmania. One major factor that affects costs of production is productivity.

Currently, Tasmania's average productivity rates lag behind national rates. Improving productivity in Tasmania's private and public sector industries is critical to ensuring that businesses in Tasmania can respond to the opportunities as they arise. This requires improvement in labour skills, an economic environment that encourages business investment, effective workplace arrangements that allow factors of production to be combined efficiently to minimise costs, and appropriate public infrastructure such as roads and ports.

Achieving an improvement in Tasmania's productivity, relative to Australia as a whole, is likely to be the single most important factor in improving Tasmania's prospects for benefiting from the rise of Asia.