KEYNOTE BREAKFAST SPEECH
AT ASIALINK'S ASIACONNECT CONFERENCE
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NOVEMBER 18TH, 2005

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I would like to thank AsiaLink for their invitation to speak at this Conference. It is a very timely event as there has never been a better or more exciting time for us to strengthen our involvement in Asia.

Growth of global trade and Asia

Probably the single most important trend in the post war global economy has been the growth of world trade – especially as a driver of world and regional GDP.

Between 1983 to 2003 world output or real GDP grew by 3.0% annually, while world trade grew at double that pace: 6% annually to be worth around A$22,000 billion by 2003 – making it the world's single biggest business growth sector.

Asia has been at the forefront of this growth. Between 1983-2004:

- Asian trade growth was 10% per annum compared to 6% for the developed countries; and
- Asian GDP growth was 7% per annum compared to 3% for the developed countries.

Australia and Asia

This growth has very interesting implications for Australia. Historically, our economic prospects have repeatedly benefited from the rise of Asian powers, particularly through trade and Foreign Direct Investment - first primarily with Japan and then South Korea and now China.

Today, seven of Victoria's top ten trading partners are Asian. China (including Hong Kong) is our biggest single partner with two way trade worth over $9 billion in 2004-2005.

In Japan's case it was over $6.7 billion last financial year, and for Korea it was over $2.4 billion. Other Asian trading partners in Victoria's top ten include: Singapore, Malaysia, Taiwan and Thailand.

Changing nature of the global economy

However it is important to emphasise that Australia's economic partnerships with Asia over the past few decades were largely driven by us exporting commodities and in turn importing consumer products.

But now the globalisation of the world's economy is causing a fundamental shift in our relationship with Asia and dramatically transforming how we all do business.

In 1960 the global economy was balanced: one-third agriculture, one-third manufacturing, and one-third services. By 1998, agriculture went to 4% of the economy. Over two-thirds of the wealth generated in the world today is based on knowledge and services.

Now we are in a middle of another major change, one that Thomas Friedman has described in his recent book, "The World is Flat".

It is a change driven by new technologies that have created a global, Web-enabled playing field that lets anyone work together or compete with each other, regardless of geography, time zones or soon, even language.

The nature of this changing environment is reflected in how complex and interconnected global supply chains have become. For example, I may be sitting at home, accessing the internet through a computer assembled in Taiwan, using Irish-built processors and running software developed in the US, to buy a product designed in Italy and manufactured in China.

My credit card will be processed in India, the product shipped from a warehouse in Singapore on a Norwegian freighter, tracked by an Australian TDL company and delivered to my door by a van assembled by the Korean subsidiary of a German-American automotive company.

Importance of knowledge and skills

This is the world that we all have to compete in now – whether as companies seeking new business opportunities or Governments seeking new investment in their economies.

It is a world where more and more economic value is being found in creative and innovative ideas. Or to put it another way, if your main commodity is knowledge and you can produce intellectual property then you can sell knowledge.

And it is a world where the skills and ideas that generate IP, turn individual companies into industry leaders or even transform entire industries can now come from anywhere.

So the competition now is not just for capital and markets but also for the skilled and talented people that generate the knowledge driving this new wave of globalisation.

New opportunities for Victoria in Asia

This shift is also driving the growth of a new generation of economic superpowers and regional economies that will transform the global landscape.

For example, a forecast by the financial house Goldman Sachs suggests that in less than 40 years, the emerging BRIC (Brazil, Russia, India and China) economies could be collectively larger than the G6 (minus Canada) economies.

Across the rest of Asia, Japan's economy is performing well again, and the Asian Tigers such as Thailand, Indonesia, Malaysia, the Philippines, Singapore , Tawain and Korea have rebounded from the currency crisis in the late 90s and are also growing strongly again – along with Viet Nam, which is now emerging as a significant player in the region.

This growth is opening up new market opportunities across Asia. For example China's middle class is a fast growing demographic who see a private house or apartment, a car, quality higher education and healthcare, travel and consumer goods as affordable and desirable.

Currently this middle class is estimated to be only about 15 percent of China's population - as opposed to 60 percent in the US – but that still totals about 110 million people and is projected to reach 200 million by 2005.

This story of a rising middle class plugged into a global economy is also being played out across the rest of the region.

This rapid growth has also seen urbanisation emerging as the main economic activity in Asia.

China alone is now creating new urban environments for up to 20 million people annually – increasing its urban population by the size of Australia every year. At this rate it has been estimated that within 20 years, China will have constructed an urban fabric (which includes new cities and infrastructure) equal to Western Europe's urban fabric now – which took over 200 years to develop.

So what we are looking at is a region with a rapidly growing demand for:

- the products and services sought by a increasing middle class; and
- the services needed to manage major structural challenges.

So clearly we have real opportunities to position Victoria in Asia:

- as a strategic partner in transforming and enabling sectors such as healthcare, R&D, financial, professional and technical services, environmental technologies, and education; and,
- as a supplier of high value added consumer goods and services where we have unique and competitive advantages, such as clean high quality food and beverage products and tourism.

Many of these opportunities are already unfolding for us.

R&D and advanced technologies

For example in R&D and advanced technologies:

- Victoria has taken the lead on the Australian Taiwan Electronics/ICT Strategic Framework Agreement which covers 67 projects jointly agreed to by the Australian and Taiwanese electronic and IT industries;
- Victorian company CEOS is part of a consortium developing new ultra broadband services technology in Thailand;
- the Indian software giants Infosys and Tata Consultancy Services have both set up Global Development Centres in Melbourne; and
- leading Victorian biotechnology company Stem Cell Sciences Co forming Japan’s first dedicated embryonic stem cell company, SCS KK, in partnership with the international Japanese biopharmaceutical company, Sosei Co Ltd *(pron. soh – say)*.

Financial services

Financial services is another area that offers more opportunities for strategic alliances and further investment between Asia and Victoria – especially in key sectors such as funds management.

Victoria is already at the centre of Australia’s highly sophisticated funds market which has become the world’s fourth largest market for managed funds - bigger than Italy, Germany or the UK.

So we are rapidly emerging as a regional key location for funds management. Increasingly, Asian investment managers are basing here, finding both the industry depth and time zone yields optimal results.

Professional and technical services

The rapid urbanisation of Asia I mentioned earlier is also creating new markets for our professional and technical services.

For example, providing services such as planning, design, engineering, environmental services and project management is estimated to represent around 30% of annual urbanisation expenditure in China– or over A$50 billion annually.

Victorian companies have already worked on Chinese infrastructure projects worth a total of over $40 billion – and I will shortly be announcing an exciting new initiative to help us capture even more of this market.

Victorian Government strategies for Asia

What I have just outlined are just a few examples of the many new opportunities opening up for our skills and knowledge-based sectors in Asia.

There will be many more, especially given the growing web of Free Trade Agreements between Australia and key Asian economies - such as the existing ones with Singapore and Thailand and the proposed ones with China and Malaysia.

Our Government is already working to help more Victorian companies capture these opportunities. Earlier this year we launched Australia's first whole-of-government country strategies for China and Japan - and we are now developing one for India. These strategies:

- outline our vision for Victoria's trade and investment relationship with these countries;

- identify emerging opportunities to leverage mutually beneficial business relationships; and
- capture and optimise opportunities on a Whole-of-Victorian-Government basis.

We have also appointed Special Trade Envoys for India and North Asia and expanding our network of Victorian Government Business Offices - which now includes three in China and Hong Kong, one in Japan and one which opened last month in India.

Our Chinese offices also deliver the *Access China* Program through which Victorian export companies can get access to complimentary office facilities and export related assistance.

Over the past year, nine missions were bound for Asia showcasing Victoria's strengths in areas such as aviation services, building and construction, environmental industries, food and beverages.

Filling the innovation capability and skills gaps

We also recognise that to be international competitive in knowledge-driven industries, we need to make sure our ideas are backed by strong business skills as well. This is why we established VicStart to help successfully bring Victoria's innovation capabilities to market.

VicStart works with 11 external partners to:

- help Victoria's **emerging innovators** – those high-tech companies that require assistance with business development skills and the access to finance needed to grow and export globally.
- assist **established innovators** – those companies that are interested in developing or buying R&D innovation to improve competitiveness, growth and sustainability; and
- **to boost the overall innovation business environment** by providing general capabilities in finance, information and networking.

A recent VicStart initiative is a major report, *Skills and capabilities for technology commercialisation and exporting,* that we commissioned from Cutler and Company.

It is the most comprehensive report of its kind ever undertaken in Australia - based on in-depth interviews with industry leaders in the biotech, ICT, nanotech and the environmental technology sectors.

Among other findings, the Report highlighted the need for greater export marketing skills in Asian markets. The "skills gap" identified here was not just access to market information, but equally important, the development of an aptitude for effective cross-cultural engagement.

We are now looking closely at these findings, and at the options and kind of partnerships that could best deliver strong outcomes here.

<u>Victorian Expatriates Network</u>

Another VicStart initiative is the *Victorian Expatriate Network* (VEN), a free membership-based network of expatriate Australians and Victorians involved in the innovation sector.

VEN encourages international collaborations, business opportunities and knowledge exchange between expatriates and Victorian innovation professionals. Membership includes domestic and international networking events and regular updates about developments in the Victorian innovation sector. I encourage you to consider joining and you can find out more at: www.ven.business.vic.gov.au/

Conclusion

As you can see Asia's growth offers enormous potential for Victoria as we position ourselves as:

- politically, socially and economically stable base from which regional and international operations can develop links with Asia;
- a major university town and healthcare centre for the region;

- as a key driver of new industries - developing, exporting and licensing knowledge and skills; and
- as a key regional provider of professional services and high quality food and leisure experiences.

In doing so, we will ensure a sustainable and prosperous place for Victoria in the emerging new geopolitical landscape - while also playing a significant role in the development of our neighbours.

Events like this conference play an important part in helping to develop and focus the people, skills and networks needed to deliver this vision - and I congratulate the Asialink Centre, the Myer Foundation and the University of Melbourne for their valuable work here.

Finally I hope you have a very productive day and I look forward to seeing you building more bridges between Victorian and Asia for our mutual futures.

Thank you.