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1. WA is an open economy, whose prosperity is dependent on trade and investment relationships with Asia. But while its economic links with Northeast Asia are strong, they are less developed with Southeast Asia. Given that ASEAN will increasingly become the centre of Indo-Pacific economic dynamism, this needs to change.

2. WA’s economic relations with Asia have historically been predicated on its world-class resource sector. However, minerals and energy are less likely to drive trade and investment ties with Southeast Asia. WA will need to explore a more diverse range of industries – particularly in the services and technology sectors – to build these new partnerships.

3. There are many industries in which WA’s capabilities are well-matched to emerging patterns of demand in contemporary Southeast Asia. Some are built on existing resource sector capabilities, such as automation, engineering, and mechanical and agricultural technologies. Others – in the education, health, and professional services domains – reflect the world-class knowledge base of the WA business and knowledge communities.

4. There is a disconnect between how WA and ASEAN view each other as potential partners, reflecting historical understandings of their economic structures and regional outlooks. A new narrative is required, which focuses on contemporary and emerging opportunities to broaden the base of the WA-ASEAN economic partnership beyond commodity exports.

5. In priority growth sectors, the capacity of WA to build economic relationships with ASEAN should be strengthened. WA business, government and the public need to learn more about the region, to augment their ‘Southeast Asia literacy’ and enable the development of new trade and investment relationships.

6. The State Government has a lead role to play in driving this agenda. This can be achieved by updating local knowledge and understanding of Southeast Asia, and facilitating trade and investment partnerships led by the private sector. The State Government can devise creative ways to build local capacity and knowledge to place the state on ASEAN’s radar, and ultimately ensure both sides view the other as important economic partners.
Western Australia (WA) is well placed to participate in the dynamic economic rise of Southeast Asia. At the heart of the Indo-Pacific region, where 55% of the global population reside – Southeast Asia is poised to become a key driver of regional and global growth. By 2050, the ten-member Association of Southeast Asian Nations (ASEAN) is predicted to become the world’s fourth largest economic market. With rising urbanisation rates and a growing demand for high-quality goods, services and expertise, enormous economic opportunities exist on Western Australia’s doorstep.

WA has a long track record of economic engagement with Asia. Driven by the resources sector, over the last four decades WA businesses have developed a regional perspective and capacity to build trade and investment ties with foreign partners. The state hosts many global businesses, a highly-skilled workforce and internationally-engaged research and educational institutions. However, while WA businesses have proven very successful in building economic ties with Northeast Asia, they are still developing their understanding of Southeast Asian markets. As ASEAN progressively becomes the growth engine of the Indo-Pacific, there is a pressing need to capitalise the opportunities it presents.

Trade and investment ties with Southeast Asia will not simply follow by virtue of WA’s geography.

ASEAN will increasingly trade, invest and build regional value chains between themselves, and the involvement of other economic powers in Southeast Asia will only increase. For WA to be meaningfully engaged, relationships of genuine partnership need to be developed. ASEAN leaders need to view WA as a source of technical expertise across sector areas where demand is rapidly rising. WA businesses need to develop stronger knowledge of, and relationships with, the changing economic environment of contemporary Southeast Asia.

To advance this agenda, the Government of Western Australia and Perth USAsia Centre partnered to convene the inaugural Western Australia-ASEAN Trade and Investment Dialogue in November 2018. Bringing together forty distinguished experts from WA and around the region – drawn from the business and policy communities – the dialogue explored strategies for developing stronger trade and investment ties between WA and ASEAN. Discussions were guided by the following questions:

1. How are the economies of WA and ASEAN evolving in the early 21st century, and where are the complementarities between them?
2. Where are the existing strengths of contemporary WA-ASEAN trade and investment relationships, and what opportunities exist in new sectors?
3. What policies and strategies – from both governments and businesses – are required to fully capitalise on these emerging opportunities?
4. How can the State Government best nurture and support deeper trade and investment links with Southeast Asia?

Over the course of a full-day workshop, the group held extensive and in-depth discussion of these matters, moderated by experts from the Perth USAsia Centre. This report provides a summary of these discussions, and outlines practical and impactful policy recommendations to help augment trade and investment relations between WA and ASEAN.
Western Australia is an extremely open and trade-oriented economy. Since European settlement, the state has exploited its natural resource wealth to attract capital inflows and build competitive export sectors beyond what its small local market would allow. In recent years, these external economic relations have been principally built around resource ties with Northeast Asia, whose industrialising economies have required large volumes of minerals and energy. Indeed, WA is considerably more trade-oriented than the rest of Australia. Exports presently account for 52 percent of gross state product, a rate much higher than any other Australian jurisdiction and triple the national average (Figure 1).

**WA’s economic future is intrinsically connected to the strength of its trade and investment relations with the Asian region.**

**Figure 1** Export orientation of Australian states and territories, 2016-17

Source: Author’s calculations, from ABS International Trade in Goods and Services, Australia (Cat No. 5360.0) and Australian National Accounts: State Accounts (Cat No. 5220.0).
Within the broader Indo-Pacific, ASEAN is emerging as the new epicentre of regional growth. Southeast Asia was a key element of the ‘East Asian Miracle’, which saw developing economies enter a phase of rapid industrialisation, urbanisation and high-speed growth from the early 1980s. Driven by complementarity between its economies, a dense network of trade, investment and technology ties developed within the region. Importantly, Southeast Asia is poised to become the engine-room of the next stage of growth in the Indo-Pacific. Given its favourable demographics, natural resource wealth, stable political institutions and dense network of trade and investment ties, ASEAN has recently emerged as one of the fastest growing regions in the global economy today (Table 2). Forecasts indicate that it will improve its performance in coming years; and by 2050 will be the world’s fourth largest regional economic bloc.

Table 1 Growth rate of ASEAN economies in global comparison (GDP PPP, annual average %)

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<tbody>
<tr>
<td>ASEAN</td>
<td>10.52%</td>
<td>6.23%</td>
<td>6.65%</td>
<td>7.27%</td>
</tr>
<tr>
<td>Non-ASEAN developing Asia</td>
<td>10.85%</td>
<td>11.26%</td>
<td>9.54%</td>
<td>8.76%</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>5.86%</td>
<td>5.01%</td>
<td>2.81%</td>
<td>3.93%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>5.50%</td>
<td>5.25%</td>
<td>3.56%</td>
<td>4.32%</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>6.61%</td>
<td>7.50%</td>
<td>4.29%</td>
<td>4.71%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>7.58%</td>
<td>7.54%</td>
<td>6.00%</td>
<td>5.75%</td>
</tr>
<tr>
<td>World</td>
<td>7.03%</td>
<td>6.39%</td>
<td>4.80%</td>
<td>5.69%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations, from IMF World Economic Outlook Database.

As ASEAN becomes the economic engine room of the Indo-Pacific, WA is ideally placed to participate in the next phase of regional growth.

WA benefits from this economic dynamism through its strong trade relationship with ASEAN. Two-way trade reached $18.5 billion in 2017, with ASEAN accounting for 11 percent of the state’s total trade. However, the WA-ASEAN trade relationship has been somewhat overshadowed by the state’s dramatic successes with China. Trade with China grew very rapidly during the recent resource boom, driven by soaring export prices and volumes for iron ore consumed by the Chinese steel industry. As a result, ASEAN now accounts for only 9.5 percent of state exports (Figure 2).

Nonetheless, the impact of the iron ore trade with China has obscured major improvements in the WA-ASEAN trade relationship during this period. Exports doubled to $12 billion in the decade to 2017, elevating ASEAN to become the state’s third largest export market behind China and Japan. As iron ore plays a far less pronounced role in the state’s trade with ASEAN, this growth speaks to the breadth and diversity of contemporary WA-ASEAN trade ties.
The investment relationship is similar to that for trade, albeit growing off a lower base. Australia\textsuperscript{5} has robust and balanced investment ties with Southeast Asia, with $110 billion of inward stocks and $98 billion of outward stocks in 2017\textsuperscript{6}. Approximately two-thirds of these are with Singapore, reflecting its position as a hub for businesses involved in the regional production networks spanning Southeast Asia. Capital flows are also growing strongly, with bilateral investment stocks having more than doubled over the last decade.

However, the scale of Southeast Asian investment ties is dwarfed by those with Australia’s main partners: the US, EU and Northeast Asia (Figure 3). This is principally due to Australia’s position as a net capital importer, whose large corporations raise finance from key global investment markets. Southeast Asia is yet to become a major target for Australian investment abroad, with ASEAN accounting for only 4.3 percent of outbound stocks. This indicates there is significant room to grow investment links with Southeast Asia, particularly beyond Singapore.
WA’s trade and investment with ASEAN is already well-supported by inter-governmental linkages. Southeast Asia features very prominently in Australia’s suite of free trade agreements (FTAs): with bilateral FTAs in place with Singapore, Thailand and Malaysia; and an agreement concluded with Indonesia in September 2018 (Table 2). The ‘FTA coverage ratio’ of Western Australia’s exports to ASEAN is presently 67 percent, which will rise to 86 percent once the Indonesia agreement enters into force. Australia also has a plurilateral FTA with the ASEAN bloc. These FTAs lower – and in many cases eliminate – tariffs on the main products traded between WA and ASEAN, and also establish standardised rules for investment, services and customs procedures.

There will soon be new opportunities offered by the two ‘mega-regional’ FTAs underway in the Indo-Pacific. Singapore, Malaysia, Brunei and Vietnam are members of the reformed Trans-Pacific Partnership (TPP-11), which following the ratification process should enter into force during 2019. All Southeast Asian economies are participating in negotiations for the Regional Comprehensive Economic Partnership (RCEP), which will combine the existing network of six ‘ASEAN-Plus-One’ FTAs into a single trade framework. These mega-regional FTAs are distinctive because they provide a multilateral, rather than bilateral, model for trade liberalisation in the Indo-Pacific. This is particularly important for the development of regional value chains, which combine the capabilities of multiple economies to produce final goods and services.
Table 2 Australia’s free trade agreements and Southeast Asia, 2018

<table>
<thead>
<tr>
<th>FTA</th>
<th>Type</th>
<th>Entry-into-force</th>
<th>Southeast Asia coverage</th>
</tr>
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<tbody>
<tr>
<td>Australia-NZ CER</td>
<td>Bilateral</td>
<td>1983</td>
<td></td>
</tr>
<tr>
<td>Singapore-Australia FTA</td>
<td>Bilateral</td>
<td>2003</td>
<td>Singapore</td>
</tr>
<tr>
<td>Australia-United States FTA</td>
<td>Bilateral</td>
<td>2005</td>
<td>Thailand</td>
</tr>
<tr>
<td>Thailand-Australia FTA</td>
<td>Bilateral</td>
<td>2005</td>
<td>Thailand</td>
</tr>
<tr>
<td>Australia-Chile FTA</td>
<td>Bilateral</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>ASEAN-Australia-NZ FTA</td>
<td>Plurilateral</td>
<td>2010</td>
<td>All ASEAN</td>
</tr>
<tr>
<td>Malaysia-Australia FTA</td>
<td>Bilateral</td>
<td>2013</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Korea-Australia FTA</td>
<td>Bilateral</td>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>Japan-Australia EPA</td>
<td>Bilateral</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>China-Australia FTA</td>
<td>Bilateral</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>Indonesia-Australia CEPA</td>
<td>Bilateral</td>
<td>Completed 2019, pending ratification</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Trans-Pacific Partnership-11</td>
<td>Regional</td>
<td>2018</td>
<td>Brunei, Malaysia, Singapore, Vietnam</td>
</tr>
<tr>
<td>Regional Comprehensive Economic Partnership</td>
<td>Regional</td>
<td>Negotiations ongoing</td>
<td>All ASEAN</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank ARIC Database

The time is right to invest in further developing WA-ASEAN economic ties. The trade relationship is strong, growing, and will continue to rise in prominence as the WA economy diversifies following the resources boom. The investment relationship is also expanding, with Singapore already a key platform for WA-ASEAN capital flows. As Southeast Asian economies continue to mature, this will open up new investment opportunities in the services and technology sectors. The institutional architecture of FTAs is already in place, providing the required trade and investment rules necessary for deeper economic integration.

The existing network of trade, investment and institutional linkages provide a solid foundation for a broader and deeper set of WA-ASEAN economic ties.

Perhaps most importantly, WA arguably needs ASEAN more than ASEAN needs WA. Southeast Asia is a large, fast-growing, diverse and increasingly sophisticated market, which is attracting the attention of major economies around the world. Conversely, WA is a small economy principally globally known for its world-class resource sector. As the state seeks to diversify its economy beyond the mineral and energy industries, ASEAN provides an ideal economic partner. But while minerals and energy have ‘pulled’ WA into the orbit of Northeast Asia in recent years, they are less likely to support trade and investment ties with Southeast Asia. WA will need to devise new strategies to ‘push’ itself into the region, which are aligned to the contemporary needs of ASEAN’s economies.
There are many attractive opportunities for developing new partnerships between WA and ASEAN. But to capitalise on the proximity and complementarity between their economies, both sides need to have effective knowledge, capacity and connections with the other. To what extent do WA businesses understand the contemporary economic, social and institutional environment of Southeast Asia, and have the capacity to take advantage of partnership opportunities? How do Southeast Asian business and policy leaders view WA, and see it as an integral partner matched to their economic needs? To some extent, attitudes on both sides reflect dated understandings, and need to be updated to reflect contemporary realities.

Southeast Asia has changed dramatically in the last two decades. The region’s high-speed growth has led to three inter-related socio-economic transformations:

- **Urbanisation**: as industrialisation and the provision of higher-quality infrastructure has enabled the growth of modern cities. Southeast Asia’s urban population increased by 67 percent to 320 million in the two decades to 2018; and is predicted to grow to 526 million by 2050 (Figure 4).

- **Emergence of the ‘global middle-class’**: as industrialisation and urbanisation open new economic opportunities across a wide range of social strata. The number of middle-class households in ASEAN – defined as those with an annual income over USD 10,000 – is predicted to grow to 161 million by 2030.

- **Rapid penetration of digital technologies**: as middle-class households ‘leapfrog’ directly to 21st century telecommunications. This shift has been led by the rapid uptake of mobile devices, with Southeast Asians spending more time on mobile internet than users in any other global market.

**Figure 4** Population structure of Southeast Asia, 1950-2017 and projection to 2050
Socio-economic transformations have fundamentally changed the structure of Southeast Asian economies, which are shifting from a focus on agriculture and basic manufacturing to more sophisticated and complex types of economic activity. In the industrial sphere, upgrading from labour- to technology-intensive manufacturing is driving demand for advanced science and engineering skills and practices. In the consumer sphere, middle class households can increasingly afford access to higher quality food and new service products, particularly in health and education.

WA’s economic capabilities are well-calibrated to ASEAN’s emerging needs. Some of these leverage off the state’s resource sector, including world-class capacity in the engineering, automation, infrastructure and agricultural technology domains. Others reflect the service-sector capacity of WA as a mature and developed economy. Education and healthcare are matched to the needs of middle-class households; while business and professional services will be needed by the Southeast Asian businesses that serve the consumer markets these households are creating. In these domains, WA and ASEAN have complementary economic profiles that should enable the growth of mutually-beneficial trade and investment ties.

However, misperceptions abound. Business and policy leaders on both sides have views of the other than reflected dated understandings of the nature of their economies, and the extent of the opportunities between them.

- In WA, Southeast Asia is sometimes viewed as a ‘difficult’ and high-risk environment, due to perceptions regarding regulatory stability and the ease of doing business. Moreover, Southeast Asia is often overlooked in favour of larger and better-known markets in the region. While many WA businesses have China- (and increasingly India-) focussed strategies, few have developed ASEAN-oriented ones.

- For its part, economic leaders in ASEAN tend to view WA as primarily a resource-driven economy. In some industries – such as agriculture, energy, and the engineering sectors which build upon them – this is advantageous. But for service sectors, this perception obscures the strengths of WA, and hampers efforts to position the state as a valuable partner across a range of industries beyond the resource space.

To develop more diverse economic ties with ASEAN, WA must engineer a significant shift in how it views its northern neighbours, and how it markets itself to the region.

Small- and medium-enterprises (SMEs) also require attention. These firms play a key role in service and technology sectors. Yet they face unique ‘pain points’ when expanding internationally due to their size and capacity. One relates to their access to finance, and their ability to be ‘partnership ready’ when expanding outside of their home context. Another relates to their access to expertise and local market knowledge. There is a growing but still small ecosystem of Southeast Asia-capable professionals in WA, which needs to be further cultivated to increase SME access to information and contacts in ASEAN markets. Together, these resource and knowledge constraints raise barriers for WA businesses to develop ASEAN-oriented growth strategies and identify appropriate partners for successful market-entry.

The diversity of the ASEAN bloc itself poses an additional challenge. Southeast Asia is one of the most diverse regions in the world, with markedly different developmental levels, cultural and linguistic background, regulatory institutions and business practices. Local contexts vary widely between its member economies, and one-size-fits-all strategies will not work in ASEAN’s highly-competitive markets. The WA government and businesses will therefore need to identify and prioritise key countries and sectors within Southeast Asia, and first invest in building capacity in selected areas before seeking to expand regionally. Patience will be required during this learning process, as well as the flexibility to gradually tailor strategies as partnerships expand. Openness, learning and flexibility are key attributes for developing effective partnerships in this diverse environment.

Building effective WA-ASEAN economic links will require prioritisation, partnerships and persistence.
FEEDING AND FUELLING:
PARTNERSHIPS IN AGRICULTURE AND MINING

WA is fundamentally a resource-driven state. Its rich endowments of minerals, energy and agricultural land have long been the foundation for both its economic prosperity, and for its trade and investment links with Indo-Pacific partners. There is significant scope for WA and ASEAN to grow economic partnerships based on the resource trade: pairing the state’s world-class assets with burgeoning demand for primary products in developing Southeast Asia. However, there are also new opportunities afforded by the technological and scientific capacities embedded in WA’s resource sector, which could be fruitfully applied across a range of contexts in the region. Building partnerships for ‘feeding and fuelling’ will require an integrated set of trade, investment and technologies linkages.

The quality and competitiveness of WA’s resource sectors are already well-known across the region:
• It is a globally-important producer of iron ore, liquefied natural gas (LNG), gold and several base metals (Table 3).
• It also hosts emerging lithium, rare earth and cobalt sectors. These minerals are used extensively in clean energy industries, where demand is growing rapidly.
• In the agricultural sector, it is a major exporter of cereal grains (wheat, canola and barley), beef cattle, sheep, wool and several horticulture and aquaculture products.

These primary sectors are the mainstay of WA’s trade relationships in the region. Mining accounts for 85 percent, and agriculture a further 7 percent, of its $128 billion of merchandise exports in 2017-18\(^\text{11}\). Given the size of the iron ore trade – which contributes just under half of state exports by value – the state’s principal resource trade partners are China and Japan. However, in the agricultural sector Southeast Asia is more prominent, with Indonesia, Singapore and the Philippines major buyers of WA cereals and cattle.

Table 3 Major WA mineral and energy sectors, 2017

<table>
<thead>
<tr>
<th>Production (thousand tonnes)</th>
<th>Share world production</th>
<th>Sales value 2017-18 (AUD billions)</th>
</tr>
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<tbody>
<tr>
<td>Iron ore</td>
<td>795000</td>
<td>33%</td>
</tr>
<tr>
<td>LNG</td>
<td>33000</td>
<td>12%</td>
</tr>
<tr>
<td>Gold</td>
<td>210(^\text{^})</td>
<td>6%</td>
</tr>
<tr>
<td>Alumina and bauxite</td>
<td>14000</td>
<td>11%</td>
</tr>
<tr>
<td>Nickel</td>
<td>165</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: JSTI WA, Western Australia Economic Profile October 2018.\(^\text{^}\) Expressed in tonnes.

The size, competitiveness and technological sophistication of the WA mining sector means it will be the core component of the state’s trade profile for years to come. While this has proven a successful formula with industrialising Northeast Asia – whose steel industries require reliable supplies of iron ore – it offers less utility in Southeast Asia, where economic structures demand fewer mineral imports. In this regard, LNG offers the best opportunity for growing the WA-ASEAN resource trade:
• In coming years there will be significant demand growth, as the ‘global energy transition’ towards more sustainable energy sources sees more widespread adoption of LNG in national energy systems.
• The ongoing maturation of the regional LNG market, and construction of more integrated liquefaction and gasification infrastructures, will progressively open new markets in ASEAN.
• WA has a very well-established LNG sector\(^\text{12}\), and enjoys proximity to Southeast Asian markets, facilitating closer physical and informational ties between producers and consumers.
Beyond the export of minerals, there are also major opportunities for developing technology partnerships based on WA resource expertise. The state has world-class capacity in a range of knowledges and technologies derived from the resource sector. These include automation and robotics, construction and heavy engineering, mine-site management and rehabilitation, energy microgrids, and major-project finance and planning capabilities. As ASEAN economies seek to develop the efficiency and sophistication of their own resource sectors, there is considerable scope for joint projects in the resource technologies space. An important step will be ensuring compatibility between WA expertise and the projects with which they are partnered. The social, environmental, technological and regulatory contexts of Southeast Asia’s resource industries differ markedly from that of WA.

For resource-based technology partnerships to succeed, WA businesses will need to tailor their approaches, and ensure shared ownership with local partners.

Agriculture also provides an attractive space to grow WA-ASEAN trade. The state already has a solid presence in Southeast Asian food markets, principally based on premium meat, seafood and horticulture products. This leverages WA’s reputation as a safe and high-quality food producer, as such products are being increasingly demanded by the growing ASEAN middle class. To grow this trade further, the state will need to adopt longer-term and relationship-based strategies. As the marketing of premium food products requires well-organised supply chain connections between producers, distributors and retailers, there is an imperative for WA agribusinesses to embed themselves more deeply in regional agro-food value chains. Further improvements in transport infrastructure will also be required, particularly for products which require cold-chain storage and/or provenance tracking.

Building investment partnerships is critical for participation in regional agro-food value chains. Unlike bulk commodity markets where products are sold undifferentiated, premium food products rely upon close and ongoing relationships between the various links in the value chain. Investment is an important mechanism for cementing these value chain relationships. It allows the exchange of information and knowledge, cross-border planning, and risk sharing amongst participants. Some WA companies – particularly in the grains and beef sectors – have already enjoyed considerable success from joint ventures that embed them within Southeast Asian agro-food networks. This requires a new way of thinking about WA’s agricultural links with ASEAN, where investment and the relationships it creates are used to establish and cement long-term trading networks.
EMERGING SECTORS: SERVICES AND TECHNOLOGY

While the resources sector will continue to be a major contributor to WA’s economic relationships with the region, there are significant new opportunities in a range of service and technology sectors. This imperative is driven by two complementary developments. The first is the diversification of the WA economy following the mining boom of 2005-13, where efforts are underway to build upon existing strengths and broaden the contribution of the state’s service and technology sectors. The second is the increasing sophistication of Southeast Asian economies, as urbanisation, the growth of the middle class and digital transformation are changing patterns of investment and consumption.

The service sector offers the greatest prospects for developing new WA-ASEAN trade and investment ties.

As industrialisation and urbanisation have underpinned Southeast Asia’s recent developmental success, conventional wisdom often views ASEAN as manufacturing-driven economies. As a result, the role of service sectors is often overlooked. Yet services make an outsized contribution to the dynamism of contemporary Southeast Asian economies. Services account for just over half of the GDP of the group; and make a larger contribution than either manufacturing or primary industry in every ASEAN economy (Figure 5). They are also the largest contributor to macroeconomic performance. In the decade to 2016 ASEAN service sectors grew at an

Figure 5 Service sector share of ASEAN economies, 2006 and 2016

Source: UNCTADStat Database
average of 8.8 percent per annum, compared to 7.9 percent for non-service sectors. This pattern of services-led growth is expected to accelerate, as urbanisation and technology penetration drive greater demand for modern consumer and business services.

ASEAN’s leading economies are undergoing a digital transformation at the same time as they are industrialising and urbanising. ASEAN is emerging as a world leader in digital infrastructure, internet usage and e-commerce:

- An estimated 3.8 million new internet users come online in Southeast Asia every month.
- Southeast Asia’s online economy is growing at above 20% and is on course to be worth more than $US240bn by 2025.
- The cost of digital infrastructure in Southeast Asia has dropped dramatically in over recent decades. From 1992 to 2012 the cost of generic computing power decreased from $288 (for one million transistors) to $0.08, while the cost of data storage decreased from $739 per gigabyte to $0.04.

**Improved digital connectivity is an important enabler for WA-ASEAN economic ties, particularly in services and e-commerce.**

By reducing geographic barriers to trade, it allows companies to participate in a wider range of markets than would be possible if a sustained physical presence was required. For WA companies looking to expand beyond the state, ASEAN’s digital connectivity means it should be considered a high priority market. Part of ‘updating’ WA’s business mindset is to raise awareness about the emerging service, innovation and trading opportunities that exist in ASEAN. The State Government can work with the business community to provide not only the physical infrastructure that reduces logistical impediments, but also implement programs that support business utilisation of the digital platforms needed to tap into ASEAN’s growing consumer markets.

ASEAN’s youthful demographics provide a further opportunity for developing these ties. In Indonesia alone, national policy is determined to skill nearly 60 million people for the domestic workforce by 2040. This includes training across both the university and vocational domains. WA has capacity in not only the provision of education services, but in the governance arrangements that underpin a competitive and responsive education system. There are also opportunities for WA to be quality provider of ASEAN’s rising health and aged care needs. At a later stage than Australia, but on a much larger scale, key ASEAN populations will begin to age. WA’s experience in aged care, nursing and healthcare training and accreditation can be leveraged not only for services exports and health tourism, but for in-ASEAN operations by WA companies.

For WA companies looking to invest in ASEAN service and technology sectors, a major challenge is the limited Southeast Asian capabilities of the local business ecosystem. Businesses need skills and knowledge to identify market opportunities, find appropriate local partners, operate across different commercial climates, and manage challenges when they present. Fortunately, the state has a range of diaspora-affiliated Asia business councils, a growing number of ‘Asia capability’ private sector resources, and its network of trade offices across the region.

Further efforts to augment these capabilities, and to strategically coordinate activity between the different public and private service providers, will assist in adding depth to the local business ecosystem. Two-way engagement activities between WA and ASEAN businesses will also contribute to mutual learning on both sides. This can be achieved by increasing the number of business, education and peak body exchanges to and from the ASEAN region, with a focus on building relationships in the digital start-up, professional services, youth, entrepreneur and technology domains.
A key chapter in the development story of several Asian countries is the decentralisation of policymaking to the provincial level. As is the case in Australia, provincial governments often hold responsibility for a range of important economic policy domains, particularly for infrastructure, natural resources and education. The WA Government has a history of successfully cultivating inter-provincial relationships to help foster trade and investment ties in areas of mutual interest. To develop locally-specific and targeted engagement strategies, there is scope for the State Government to strike new and enhance current inter-provincial partnerships across ASEAN.

While there is great diversity in political and economic systems of Southeast Asian nations, a common theme is the devolution of regulatory responsibilities to provincial governments. Many large provinces achieve year-on-year growth rates that outpace national performance, making an outsized contribution to their economies. For example, East Java, one of the Indonesia’s thirty-four provinces, accounts for 15 percent towards Indonesia’s GDP\(^1\). Urbanisation is also often concentrated in a small number of high-growth provinces, whose economic dynamism has enabled the rapid development of new cities.

Emerging cities are the epicentre for service and consumer sector growth, and where the extensive opportunities for enhanced WA-ASEAN trade relations reside.

The State Government principally organises its overseas provincial engagement through formal ‘sister-state’ relationships. These partnerships are founded by memoranda of understanding which establish a framework for coordinated intergovernmental activities between WA and provincial-level counterparts. WA has five long-standing sister-state relationships, including two in Northeast Asia (Hyogo Prefecture in Japan and Zhejiang Province in China) and one in Southeast Asia (East Java in Indonesia).

While each is calibrated to the unique objectives of its particular relationship, several themes are common. These include facilitating cooperation for industrial regulation, public sector training, private sector capacity-building, and trade and investment facilitation activities. Sister-state relationships also provide a vehicle through which ministerial visits, industry delegations and cultural exchanges can be organised. The WA-East Java sister-state arrangement is an example of state-level engagement in Southeast Asia, which has recently facilitated two-way education delegations, sport exchanges and energy partnerships.

Complementing the sister-state architecture is the state government’s on-the-ground international presence of global offices (Figure 5). WA has two overseas trade offices in Southeast Asia (Jakarta and Singapore), compared with four in Northeast Asia and another four worldwide. These offices support WA businesses seeking to trade and/or operate in their local market, and attract foreign investors seeking to enter the WA market. They have a key role to play in assisting WA businesses to customise their strategies to the particularities of specific ASEAN markets. They are especially important in areas where policy responsibilities lie with provincial governments – such as in the education and training space – by providing an entry-point for WA businesses to engage with key regulatory agencies.
Under Australian federal arrangements, the WA Government has responsibility for the provision of several services (including education, healthcare and energy) and some industrial regulations (mining governance, land and water management). Given the overlap in the roles and responsibilities of the WA government and provincial counterparts in ASEAN, there are opportunities for the WA Government to build closer governance and cooperative relationships. In domains where attractive WA-ASEAN complementarities exist – particularly the education, infrastructure and resources sectors – inter-provincial cooperation has a major role to play in facilitating new partnerships. The utilisation of sister-state relationships and the strategic deployment of the WA's global offices will be crucial for fostering private sector activity.

To make the most of new opportunities, WA will need to take a strategic approach to its inter-provincial engagements with Southeast Asian partners.

The benefits of an expanded regional footprint should be considered, given its ability to contribute to the realisation of many of the trade and investment opportunities identified in this report. However, ASEAN is a large and diverse region, and careful decisions must be made as to which geographic and/or sectoral initiatives should be accorded priority. High-growth provinces, and those whose economies are rapidly increasing in sophistication (and thus will demand WA’s technological and services capabilities) should be accorded priority. Over recent decades, WA trade offices in Bangkok, Kuala Lumpur, Manila and Surabaya have all been established but subsequently closed. As future decisions are made, it will also be important to adopt a long-term approach, which identifies key opportunities and commits resources for the timeframe necessary to realise of their objectives. As patience and persistence is a key ingredient for long term outcomes in Southeast Asia, a strategically-calibrated and long-term approach will ensure the best returns from the state inter-provincial engagement efforts.
POLICY RECOMMENDATIONS

WA needs to update its understanding of Southeast Asia to reflect the contemporary economic, social and institutional landscape of the region. Learning about and engaging with the region is the first step required to establish a new narrative, in which ASEAN is viewed as a dynamic partner of critical importance to the state’s economic future.

WA needs to communicate the state’s value proposition to Southeast Asia. The state has much to offer the region, derived both from its existing resource capabilities and the strength of its world-class education, science and services sectors. WA needs to ensure that governments and businesses in ASEAN are aware of the opportunities for mutually-beneficial economic ties, and the state’s commitment to developing such partnerships.

Developing trade and investment ties in new sectors and industries is a key priority. While the resource sector has been a pioneer of WA-Asia economic partnerships, there are many emerging opportunities which reflect the maturation and sophistication of ASEAN economies. The agenda should focus on how to broaden the existing base of partnerships to capitalise on these diverse opportunities.

The State Government has a critical role to play in catalysing this transformation in WA-ASEAN economic relations. First, it can work to facilitate a learning process, through which WA businesses and the public update their knowledge and perspectives on contemporary Southeast Asia. Second, it can nurture the growth of trade and investment links by facilitating the development of private sector partnerships in identified industries and countries of opportunity.

The State Government should strategically focus its ASEAN engagement efforts. It already has a well-developed toolkit of engagement mechanisms, including state offices in key regional capitals, sister-state relationships, commercial exchanges, and educational and cultural programs. Given the transformations in both the WA and Southeast Asian economies, now is the time to appraise these efforts to ensure they are strategically prioritised and appropriately resourced to match opportunities posed by contemporary business environments.
ABOUT THE WESTERN AUSTRALIA-ASEAN TRADE AND INVESTMENT DIALOGUE

In partnership with the Government of Western Australia, the Perth USAsia Centre convened the inaugural Western Australia-ASEAN Trade and Investment Dialogue in November 2018. With ASEAN poised to become the region’s engine of growth, and its economies quickly becoming more sophisticated, there is a need to reinvigorate Western Australia’s perspectives on ASEAN as a trade and investment partner. The Dialogue sought to enable Western Australian government and business communities to build stronger relationships with influential Southeast Asian leaders.

The Perth USAsia Centre thanks those who generously gave their time and effort to participate in the Dialogue in Perth on Thursday 15 November 2018.

• **Syed Nabil Aljeffri**, Head of Corporate Advisory and Structuring, Aljeffri Dean Chartered Accountants
• **Suzanne Ardagh**, Director, Board Advisory Services, Partner, Lester Blades
• **Dr Muhamad Chatib Basri**, Former Minister of Finance, Republic of Indonesia
• **Rebecca Brown**, Director-General, WA Department of Jobs, Tourism, Science and Innovation
• **John Catlin**, Commissioner, Western Australia Government Office Singapore
• **Terrence Cheong**, President, WA Singapore Business Connect
• **Professor Gordon Flake**, Chief Executive Officer, Perth USAsia Centre
• **Hendro Fujiono**, Director, FujiShepherd and Associates
• **Andrea Gleason**, State Director, WA State Office, Department of Foreign Affairs and Trade
• **Michelle Guthrie**, Director, Starhub
• **Greg Harvey**, Managing Director & Chief Executive Officer, Harvest Roast Group
• **The Hon. Bill Johnston MLA**, Minister for Asian Engagement; Minister for Mines and Petroleum, Western Australia
• **Reuben Kooperman**, Honorary Consul, Kingdom of Thailand
• **Dr Doan Duy Khuong**, Vice-Chairman, Vietnam Chamber of Commerce and Industry
• **Eugene Lim, President**, Singapore Chamber of Commerce Western Australia
• **Phung The Long**, Consul-General of the Socialist Republic of Viet Nam, Perth
• **Edi Irwan Mahmud**, Consul-General of the Federation of Malaysia, Perth
• **Gemma Manning**, Founder and Managing Director, Manning & Co. and Gemstar Technology
• **Jennifer Mathews**, Commissioner, Western Australia Government Office Indonesia
• **Brodie McCulloch**, Founder and Managing Director, Spacecubed
• **David Morgan**, President, Western-Australia-Vietnam Business Council
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• Ron Sao, Senior Principal Adviser, Minister for Asian Engagement, Western Australia
• Hugo Seymour, Research Officer, Perth USAsia Centre
• Professor Stephen Smith, Distinguished Fellow, Perth USAsia Centre; former Minister of Defence; former Minister of Foreign Affairs Australia
• Kyle Springer, Program Manager, Perth USAsia Centre
• Ross Taylor AM, President and Founder, Indonesia Institute Inc.
• Praba Thiagarajah, Chief Executive Officer, Basis Bay
• Dewi Gustina Tobing, Consul-General of the Republic of Indonesia, Perth
• Dewi Sri Umi, Co-Founder and Managing Director, Peninda Capital Advisors Ltd
• Dr Duc Hong Vo, Director, Economic Regulation Authority of Western Australia
• Deidre Willmott, Non-Executive Director, Australia Post
• Dr Jeffrey Wilson, Director of Research, Perth USAsia Centre
• Peter Yu, Chief Executive Officer, Nyamba Buru Yawuru
• Nadira Yusoff, Co-Founder and Chief Executive Officer, Nadi-Ayu Technologies

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Dr Jeffrey Wilson is the Research Director at the Perth USAsia Centre. He provides leadership and strategic direction in developing and managing the Centre’s research programs across its publications, policy and dialogue activities. He specialises in how transformations in the regional economic architecture—including trade agreements, multilateral organisations and policy dialogues—are reshaping the contemporary economic and business environment of Asia. He has contributed to a range of national and international policy dialogues with the governments of the US, China, Korea, Indonesia, India, Singapore and Australia.

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Hugo Seymour is the Research Officer at the Perth USAsia Centre. He develops policy content and publishes on Western Australia and Australia’s engagement in the Indo-Pacific region. He has previously worked at Francis Burt Chambers as an assistant to the barrister in civil litigation matters, and has contributed to the advocacy work of the Welfare Rights & Advocacy Service. He has volunteered with social justice and migration organisations, including the Australian Red Cross. Hugo holds a Bachelor of Laws and Bachelor of Arts from The University of Western Australia.

The Perth USAsia Centre located at The University of Western Australia is a non-partisan, not-for-profit institution strengthening relationships and strategic thinking between Australia, the Indo-Pacific and the USA. The Centre is a leading think tank focusing on geopolitical issues, policy development and building a strategic affairs community across government, business and academia. Since the Centre’s inception in 2013, we have collaborated with over thirty partners to convene more than four hundred events across sixteen cities in eight countries, engaging a world class community network of more than 10,000 strategic thinkers and leaders.

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ENDNOTES


3 Supra note 2.

4 Author's calculations, from ABS International Trade in Goods and Services, Australia (Cat No. 5360.0).

5 Unfortunately, no statistical agency decomposes Australian investment data by state of origin or destination. Investment statistics in this report therefore present Australian rather than WA data.

6 Author's calculations, from ABS International Investment Position, Australia: Supplementary Statistics (Cat No. 5352.0).

7 Author's calculations, from ABS International Trade in Goods and Services, Australia (Cat No. 5360.0).


9 Business Insider (2017), ‘Southeast Asia could be a leader in mobile internet usage next year’, 13 December.


