

## **Perth USAsia Centre and the Lowy Institute**

### **Launch of the Asia Power Index**

**Address by the Honourable Kim Beazley AC  
Governor of Western Australia**

**Wednesday, 28 October, 2018**

I would firstly like to acknowledge the traditional owners of the land on which we meet – the Noongar people – and pay my respects to their elders past and present.

Thank you to the Perth USAsia Centre and the Lowy Institute for inviting me to open the launch of the Asia Power Index in Perth, Western Australia. As the southern gateway to the Indo-Pacific, Western Australia is already bearing witness to the geopolitical shifts in the region. The Asia Power Index enables our State and the country more broadly to develop a clear and informed picture of what changes are occurring and who the existing and emerging regional players are.

Whilst we will be discussing the Asia Power Index in some detail during today's panel discussion, I would like to share with you now some of my observations.

One, which may come as no surprise to this audience, is that the Asia Power Index identified the United States and China as effectively equal in core economic strength. What is startling however, when viewing the capacity of states to exercise influence through economic means, (such as leveraging existing trade and investment relationships) is that the Index has found that the United States lags behind China by a large margin.

China is ranked in the top two of each category with defence networks being the only exception. Its GDP is forecast to be almost twice the size of the US by 2030. There are also other growing economies in Asia worth mentioning.

In a 2015 report '*The World in 2050*', PwC predicted Indonesia would become the fourth largest economy (by PPP) by 2050. The Asia Power Index goes one step further, listing Indonesia as the fourth largest economy by 2030.

India, whilst already a large economy, sitting currently as the third largest economy (by PPP), is forecast by both PwC and the Asia Power Index to maintain this ranking in 2030 and is predicted by PwC to overtake the United States and become the second largest economy by 2050. It is also expected to be the fastest growing

economy in the region, with the Index predicting India to grow 169% between 2016 and 2030, and the country's working-age population to grow by 169 million people by 2030.

The Index places Australia alongside Singapore and South Korea as over-performers in the region. Our three countries demonstrate greater influence than would usually be expected from a country of their economic size. However this should not allow us to grow complacent. The Index also predicts Australia will fall from sixth to thirteenth in overall power by 2030 with our economy dropping from eighth largest by purchasing power parity to eleventh by 2030.

It is vital that we embrace innovation, support research and development and continue striving to diversify our economy. This could be through continued exploration of new opportunities in our mining, resources and energy sector, cyber security, medical technologies, food and agribusiness and other industries.

When considering military capabilities and regional defence networks in the 25 Index countries, the Index highlights a remarkable difference. Although marked number two in overall military capability, China falls to eighth place in the region in overall defence networks.

A similar reversal occurs with Australia, which is placed ninth in overall military capability and rising to second when considering overall defence networks. This reinforces the importance of maintaining our key security allies amidst the evolving global geopolitical architecture. Australia's military capabilities are integrally linked to our defence alliance networks.

Nevertheless the shifting equations in all the calculations indicate the onus will be on us as a partner of value and one whose demands for protection are low. We will need to intensify our capacity to operate our own version of asymmetric defence military strategies. We cannot afford mistakes in equipment purchase and work to sustain a technological edge. Defence spending is not about local political advantage, it is about national survival. We need to be a low cost, high value partner to allies and friends.

Australia stands proudly in the top three countries ranked in the resilience category. The Index defines resilience as our capacity to deter real or potential threats to state stability; measured through economic, political and institutional stability.

A dynamic and responsive private sector is also central to resilience, particularly in such a rapidly changing region. Unfortunately, this is one area in which Australia falls short.

As indicated in the Government's recent Asian Engagement Strategy Consultation Paper, which quotes the findings of a 2017 PwC report, ninety per cent of ASX200 companies are not Asia ready; eighty two per cent

of BRW top thirty private companies are not adequately equipped to do business in Asia; only nine per cent of Australian companies are currently operating in Asia and only twelve per cent of Australian companies have any experience of doing business in Asia at all.

As Asia's economic transformation continues to reshape our region, becoming 'Asia ready' will ensure that Australia continues to strengthen its resilience and becomes 'future ready.'

This is further reinforced in the future trends category of the Asia Power Index, where Australia is ranked thirteenth. Australia is not currently future ready, and the Index predicts that our working-age population will significantly decrease. In the 2030 Index predictions, Australia will become the seventeenth place in terms of working-age population.

The economic size of Australia is also predicted to fall to eleventh place by 2030. At our current rate of growth, Thailand, the Philippines and Pakistan are all forecast to overtake us in economic size by 2030, with Malaysia and Bangladesh only a small margin behind. Building and enhancing regional economic partnerships and economic diversification is central to 'future proofing' our economy.

Western Australia is leading the way in the development of a comprehensive Asian Engagement Strategy. Whilst the Index indicates that we are by no means poor performers, deepening our engagement with our Asian neighbours will ensure we maintain our relevance and significance in a shifting geopolitical climate.

Deepening our engagement with our nearest neighbour, Indonesia would be particularly advantageous to us, and indeed, Indonesia too. Within the Asia Power Index, Indonesia does not fall below thirteenth place in any ranking category and is projected to overtake Japan and Russia's economy to be the fourth-largest among all 25 countries included in the Index.

As noted at the recent Defence West and Perth USAsia Centre Defence Conference, when I did the 1987 Defence White Paper our GDP exceeded ASEAN's as a whole and was not too far off China's – about 70 per cent of China's GDP in fact. Now Indonesia's alone will pass us soon.

The impending conclusion of the Indonesia-Australia Comprehensive Economic Partnership Agreement will be beneficial in expanding our economic relationship, opening opportunities for Indonesian and Australian businesses and skills exchanges. Our relationship with Indonesia will be critically important when navigating through a rapidly changing global environment.

Our State and National prosperity will depend upon us enhancing our engagement with countries in the Indo-Pacific region, particularly those in South and South-East Asia. It is arguably more important now, than it has ever been.

As stated in the 2017 Foreign Policy White Paper – “Australia and our regional partners have a shared interest in seeking to build a regional economic and strategic culture that supports stability, cooperation, the rule of law and openness.”

It is the interests, not just of Australia, but of the region, that countries continue to foster ongoing dialogue and cooperation.

As stated in the Index, in 2016 Australia was the second-largest destination for international students. Education is Australia’s third-largest export sector and the largest service export. International students contributed \$28 billion to the economy in 2016-2017 and will contribute approximately 130,000 skilled migrants to our workforce upon graduating. Observing the Index predictions of Australia’s declining working-age population, international education and international students will play a central role in our future prosperity.

The means to monitor strategic shifts within a rapidly changing environment, in such a clear and timely manner, makes the Asia Power Index a real analytical asset. Whilst the challenges we are presented with, in the global economic and political environment, are considerable, diplomatic opportunities are plentiful. To quote a recent piece by Dr Michael Fullilove, “We need to bolster our own national capabilities so that we are better positioned to shape our external environment and buttress the international system.”

I congratulate Dr Michael Fullilove, Hervé Lemahieu and the team at the Lowy Institute for constructing such a comprehensive assessment of power and influence in the Indo-Pacific region. I will be interested to see how power and influence in the region shifts in future iterations of the Index.

I now invite Dr Fullilove, Executive Director of the Lowy Institute to officially launch the Asia Power Index.