



# 3 THE STATE IN THE NEIGHBOURHOOD

A snapshot of Queensland's engagement in the Asia Pacific

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## Introduction

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Significant transformation in Australia's neighbourhood—the rise of Asian economies, cities and middle classes, unprecedented digital disruption, and near insatiable demands for knowledge, innovation and infrastructure—offers enormous potential to business and industry for Northern Australia. Queensland in particular is well placed to take advantage of these trends, a fact highlighted through the state's ambitious AUD\$35 million *Trade and Investment Strategy 2017-2022*, and reflected in its growing international presence.

Recent steps taken to reimagine the state's natural and emerging economic assets provide positive signals, but there is some way to go before Queensland's aspiration to become 'the nation's most innovative and dynamic trading economy and magnet for global investment' is likely to be fully realised.<sup>1</sup> Resistance to a coherent strategy, persistent gaps in Asia engagement, and the potential inertia of a forthcoming state election may well work against Queensland's wider goals in the near to medium term. Maintaining positive momentum becomes even more challenging set against the backdrop of great power rivalry, trade tensions and the spread of nationalist tendencies both in the region and globally, not to forget the ever-looming threats from a changing climate. Complacency is not an option. As Queensland Premier Palaszczuk suggests, 'in a changing world, standing still is to fall behind'.<sup>2</sup>

In delivering the 2019 Budget Speech, Queensland Treasurer, Jackie Trad, emphasised the point that 'Queensland is the most decentralised state in the federation'.<sup>3</sup> Queensland, she notes, 'is a state that relies—more than any other—on the strength of its regional cities and towns'.<sup>4</sup> On the face of it, Trad's assessment is indeed accurate. Queensland regions have powered, literally and metaphorically, much of the state's economic success to date, and will continue to do so. And just as the 2019 federal election outcome demonstrated, political leaders will neglect the significance of the state's regions at their peril. But Trad's assessment provides only part of the picture. Queensland today also relies more than ever on engaging with the outside world—the world that exists beyond its borders and shores—for its ongoing prosperity and even perhaps for its broader identity and sense of place. Connecting regional Queensland to opportunities in the Asia-Pacific region is the critical task ahead.

It is a reasonable aspiration. The natural assets of the "sunshine state" have lured global tourists and travelers in their thousands for decades. Major events, from World Expo 88 to the 2019 Gold Coast Commonwealth Games, continue to reinvigorate local precincts and draw the gaze and interest of global audiences. Meanwhile, recent investments in advanced manufacturing, infrastructure, health, education and service delivery initiatives build on the state's traditional strengths while growing industry capabilities and maximising geographic positioning.

As the strategic dynamics of the Asia Pacific change shape, maintaining Queensland's global outlook and connections, especially in the near neighbourhood, has never been more vital. It is especially so for regional areas that sit outside the Southeast corner. This report makes the case for deepening Queensland's Asia-Pacific engagement. In doing so, it provides a snapshot of the state's global presence, highlights key successes alongside the gaps that persist, and suggests practical measures that might go some way to bringing further coherence to Queensland's Asia-Pacific presence.

## Longstanding connections to the wider world

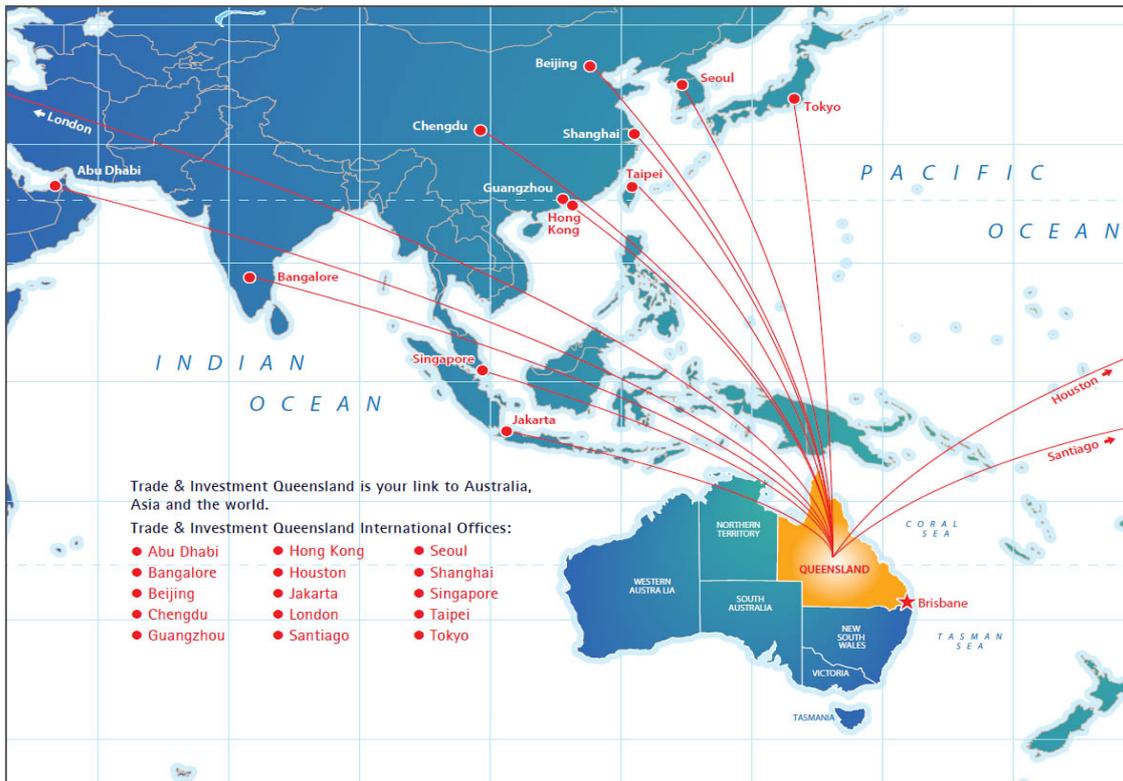
Queensland's ties to the wider region stretch back to pre-federation times, borne primarily out of the commercial and trade interests of the former colony. This legacy is not without issue. Indeed, it was during this period that the practice of "blackbirding"—the enslavement of Pacific Islanders as labour for the state's sugar cane farms—emerged: a scheme that was formalised under the Pacific Labourers Act 1880 (Queensland). Though short-lived, acknowledging the experience of Pacific Island labourers through this period, while recognising the early connections made, holds significance today.

The federation of the nation in 1901 saw authority for foreign and defence matters 'unambiguously' vested in the Commonwealth Government by virtue of section 51 of the Constitution.<sup>5</sup> But Queensland, along with the other newly federated states, continued to maintain its connections to the wider neighbourhood. Ensuring these state-based constituencies stayed onside and within the ambit of federal policy, localised external affairs' offices were established in the capital cities of Sydney, Melbourne and Brisbane in 1949, and in Adelaide in 1965. Similar officers were later established in Perth, Hobart and Darwin.

With a mandate to support and inform Australia's domestic business and trade outreach and interests, these State and Territory offices (STOs), administered now from within the Department of Foreign Affairs and Trade (DFAT), continue to operate today as a unique and important, though sometimes overlooked, feature of Australia's foreign policy landscape. The Torres Strait Liaison Office established on Thursday Island for the purpose of overseeing the implementation of the 1985 Torres Strait Treaty between Australia and Papua New Guinea extends this domestic mandate even further, and today provides a unique gateway from Queensland to the Pacific neighbourhood.

Just as Australia's international diplomatic and trade network has expanded in recent years, so too has Queensland's global trade presence. Today the state boasts one of the largest international networks of state representation with 15 Trade and Investment offices and a further 13 Tourism and Events Queensland offices based largely in the nations of Asia. This network is strengthened further by the myriad of sister city relationships established by cities across Queensland with their counterparts, mainly in Asia. These city-to-city connections have evolved from symbolic gestures of global friendship to connections that offer strategic potential for innovative collaborations and partnership, linking in particular to Asia's expanding smart cities agenda. Highlighted through initiatives like the Brisbane City's Asia Pacific Cities Summit, these connections give cause for optimism, but remain largely underutilised as Queensland moves into the 21st Century.

Figure 1: Queensland's international presence



Source: Queensland Prospectus.<sup>6</sup>

## Queensland trade and investment imperatives

As an outward facing economy, Queensland relies on the free flow of goods, services, investment and talent in order to maintain current levels of stability, growth and prosperity. It is already a positive story. The Queensland economy continues to outperform the rest of Australia, including in the face of external challenges and weakening trade conditions. Trade statistics released in June 2019 by the Australian Bureau of Statistics (ABS)<sup>7</sup> show that the value of Queensland exports increased \$12.7 billion to \$87.0 billion (representing an increase of 17.1%) over the previous year, putting the state well on track to meet its strategic target of lifting Queensland's overall share of national exports to 22% or more by 2022.<sup>8</sup>

Strong trade performance speaks to an underlying natural advantage in resource and agricultural assets, alongside recent investments in infrastructure and the benefit of a growing population, albeit concentrated in the Southeast corner. Yet change and uncertainty in the external environment demand that business leaders, policy makers and influencers continue to reimagine Queensland's trade, economic and investment priorities.

When viewed through the lens of trade and investment, the economies of Asia are of critical significance to Queensland. China is Queensland's largest export destination by a significant margin, with export demand continuing to grow. Meanwhile, Japan, India, South Korea and Taiwan continue to be important export destinations, underpinned by longstanding relationships with Queensland businesses.

Shifts in recent trade data point to the potential of fast growing consumer-based economies within South East Asia, including Indonesia, Malaysia, Vietnam and the Philippines. Foreign direct investment-led growth within these economies offers potential for Australian businesses to increase their investment footprint in the region, particularly in emerging digital infrastructure and smart city innovations (see Market Insights box). Without overstating the opportunity, it is worth noting DFAT's 'Market Insights' commentary on South East Asia: 'Australian companies risk missing out if they are not alert to trade and investment opportunities, as North Asian and European companies are already well-established in the market'.<sup>9</sup>



Table 1: Queensland exports by country

Rank (change)	Country	June 2019 \$	Annual Change \$	Annual Change %
1 (—)	China	28,658.3	6,074.6	26.9
2 (—)	Japan	12,180.8	441.7	3.8
3 (—)	India	10,693.7	860.4	8.7
4 (—)	Korea, Republic of	9,481.7	1,574.8	19.9
5 (—)	Taiwan	3,278.7	307.3	10.3
6 (↑3)	Vietnam	2,141.2	923.7	75.9
7 (↑4)	Malaysia	2,047.3	1,017.0	98.7
8 (↓1)	USA	1,871.1	323.4	20.9
9 (↓3)	Netherlands	1,748.9	-35.0	-2.0
10 (—)	Indonesia	1,561.9	405.2	35
	Other countries	13,317.6	826.0	6.6
	<b>Total all countries</b>	<b>86,981.2</b>	<b>12,719.2</b>	<b>17.1</b>

Source: Queensland Government.<sup>10</sup>

The nations of South East Asia working together through the architecture of ASEAN represent a combined population of 647.5 million people, a combined GDP of US\$ 3.1 trillion, and an average economic growth rate of 4.8 per cent.<sup>11</sup> In 2010 the Australian Government concluded the Australia-ASEAN-NZ Free Trade Agreement (FTA). The AANZFTA has expanded market access and provided a framework for improved transparency and cooperation over time, although it's fair to say that the extent to which Australian businesses feel the direct benefits of the FTA is, as yet, unclear. Negotiations are currently underway to improve the outcomes that might be achieved within the terms of the FTA going forward.

## Market insights – engaging ASEAN<sup>12</sup>

While the ASEAN framework provides a useful reference point for economic engagement, it appears that bilateral trading relationships remain a priority. Trade and Investment Queensland (TIQ) Trade Commissioner to ASEAN, Tom Calder, provides an important reminder on this point:

While ASEAN aspires to be an integrated single market there are still a multitude of political, cultural and economic differences among ASEAN's individual member countries. Each of these markets need a unique strategy when considering opportunities. Returns generally take longer than expected due to challenges encompassing lower abilities to adopt advanced technology, poor infrastructure, lower incomes and consumer purchasing power. Relationship development is key in ASEAN and time must be spent with potential business partners, so you understand whether they are a good fit (and vice versa).

TIQ Trade Commissioner in Jakarta, Ben Giles, makes a further assessment about the Indonesian market:

A huge consumption-driven economy with opportunities across the board for Queensland businesses provided they are prepared to operate locally. We always hear about the growth projections for Indonesia but that doesn't mean an arm's length approach from Queensland will work. There are complexities and challenges but in many cases business conditions here have improved. Indonesia can still be a fruitful market for Queensland companies that are committed and have a separate and specific Indonesia strategy (just as they would for China or India).

A scan of economic performance and market insights from across the region suggests that the South East Asian economies to watch include Indonesia, Malaysia and Vietnam—each growing at an average rate of between 5–8 per cent each year. For these fast growing consumer economies, the demand for high-end goods and services is on the rise, including in food and beverages, health and aged care, international education (higher education and vocational), and advanced manufacturing (aviation, automotive, packaging and processing equipment). Furthermore, impressive investments in digital infrastructure coupled with high mobile device penetration and the emergence of digital free trade zones underscore an emerging appetite for digital economy expertise (across fintech, agritech, cybersecurity, and e-commerce) and smart city solutions (road safety, intelligent transport).

These are all areas where Queensland businesses can make a genuine contribution to and learn from developments in the wider neighbourhood. Yet, as Calder observes, challenges remain: ‘Queensland is perhaps better known as a tourist destination than a provider of innovative business solutions’.<sup>13</sup> In his view, the key is to ‘highlight areas where Queensland has credible competitive advantage and leverage these with governments and corporates as potential partners’.<sup>14</sup> TIQ Commissioner to Japan, Tak Adachi, makes the point that even in established markets like Japan, greater effort is required to present a more sophisticated Queensland image. Investing in and sustaining long-term partnerships on the ground, promoting positive collaborations and mobilising key networks—from business councils to alumni—may go some way to addressing reputational gaps.<sup>15</sup>

## Queensland’s soft power in the Asia Pacific

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Creative engagement also requires a consideration of “soft power”. Providing a useful counterpoint to hard power, which relies on military force or economic strength to coerce or compel others to do what you want, soft power is about persuading ‘others to want what you want’.<sup>16</sup> It trades in the currencies of values, culture, institutions, policies and ideas. There’s nothing particularly new in soft power, and even the scholar who coined the term in the 1980s, Joseph Nye, would argue that soft power reflects the fundamentals of human interactions and relationships.

The *2017 Foreign Policy White Paper* put soft power officially on Australia’s foreign policy agenda. Defined as the ‘ability to influence the thinking or behaviour of others through the power of attraction or ideas’, the White Paper affirmed the value of soft power as an ‘enabler’ of foreign policy outcomes.<sup>17</sup> More specifically, it articulates the significance of soft power as a reflection of Australian values: reaching beyond negotiations between officials or the transactions of traders to tell a story about ‘who we are and how we approach the world’.<sup>18</sup> The recognition of soft power holds significance for national and state-based approaches to the world.

Firstly, it reflects a new reality that Australia must engage more strategically through official and public forms of diplomacy if it is to remain a “persuasive voice” in its own region. Coming at a time when the competition to influence narratives, set political agendas, and frame the rules of a changing regional order is intense, the stakes couldn’t be higher. Secondly, it challenges, albeit in a subtle way, the deeply entrenched idea that Australia approaches the world from a position of vulnerability or powerlessness. Indeed, as former foreign minister Julie Bishop observes, ‘Australia starts from a position of strength in global surveys of soft power’, but there is always more to be done to improve Australia’s relationships, standing and influence in the world.<sup>19</sup> Although as Jonathan McClory, author of *Soft Power 30*, suggests, it takes more than a cuddly koala to really build soft power.<sup>20</sup> Thirdly, it brings attention to the fact that partnerships between all levels of government, and with business and civil society, cities and educational institutions, are essential to Australia’s wider influence.

While soft power doesn’t necessarily feature in state economic policy, each of these points is relevant to Queensland’s global engagement. Queensland boasts natural and environmental assets that generate global appeal and draw audiences towards it—from the Great Barrier Reef to the beaches of the Sunshine and Gold Coasts. Queensland’s educational and cultural institutions and active civil society organisations speak to other ideational dimensions of the state’s soft power. Cultural diplomacy initiatives including the Queensland Art Gallery and Gallery of Modern Art’s (QAGOMA’s) Asia Pacific Triennial, the Asia Pacific Screen Awards (APSA), and the Brisbane City Council’s Asia Pacific Cities Summit (APCS) all work to deepen awareness and understanding of the diverse Asia-Pacific region, promote cultural cohesion at home, and further enhance Queensland’s reputation and standing abroad. The strength of the state’s education, community and sporting institutions, supported by strong volunteering cultures, adds to the texture of Queensland’s soft power

narrative. Building on these strengths to reflect a more sophisticated story of Queensland to the world will underpin the state's credibility and competitiveness in the crowded Asia Pacific going forward.

## The soft power of sport

*Sports Diplomacy 2030*: the Australian Government's Sports Diplomacy Strategy highlights the role and relevance of sport as a vehicle for strengthening relationships, enhancing influence, and unlocking new opportunities for trade, tourism and investment—especially in our neighbourhood. Across any number of sports—football, basketball, rugby, badminton, athletics or triathlon—the demand for competition within the Asia-Pacific region is high. A new emphasis on the hosting of major sporting events—from the Winter and Summer Olympics, to the Asian and Pacific Games—demands expertise across all aspects of sport and the sports industry. Queensland's love of playing, watching and delivering sport, alongside a commitment to strong performance—backed up by the state's recent success in delivering the 2018 Gold Coast Commonwealth Games—offers new opportunities to develop and promote the state's wider sporting capabilities into the region.

The value of the sporting industry, including in terms of innovation and infrastructure, not to mention broader health and educational outcomes, is significant.<sup>21</sup> Sport contributes \$83 billion in combined economic, health and educational benefits for the nation each year, with an estimated return of \$7 for every \$1 spent.<sup>22</sup> The sports diplomacy agenda offers potential for Queensland's broader international trade and investment profile. The demand for services associated with sporting performance, participation and spectating—including stadium design and construction, media and broadcasting, high performance training and technologies, and professional services—will only grow as the sport industry expands globally. These are areas where Queensland already boasts strong credentials.



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## Moving forward

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The Queensland Government has in recent years lifted its emphasis on the state's closer engagement in Asia and the Pacific. Steps taken to i) strengthen trade representation in key posts, including Jakarta and Singapore; ii) invest in forward-thinking projects like the Sunshine Coast undersea broadband cable and landing station, the Cairns marine precinct, and regional manufacturing hubs in Townsville, Cairns and Rockhampton; and iii) reinvigorate key strategies, including for international education, all bode well for enhancing the state's capacity to engage with the dynamic region. Yet challenges remain.

The first of these relates to a lack of strategic coherence underpinning Queensland's international policy and positioning, particularly in light of recent major federal initiatives relating to the region. For example, the Australian Government's "Pacific Step-Up" strategy launched by Prime Minister Morrison in late 2018 has significant implications for Queensland's role in the neighbourhood. The opportunity to leverage the competitive edge that Queensland offers by virtue of its geographic proximity, sector alignments and existing connections should not be missed. Speaking at the inaugural 2019 South Pacific Defence Industry Forum in Cairns, Queensland's Minister for State Development, Manufacturing, Infrastructure and Planning, Cameron Dick, confirmed Queensland's commitment to grow industry capability in priority areas—including defence and maritime industries, aviation and aerospace technologies, and biosecurity—in partnership with regional Pacific neighbours over the long term.

To be fair, the emerging signals are positive. But they remain patchy and limited. Scope exists for strategic reshaping of the scale and scope of Queensland's global priorities and presence to better reflect and maximise areas of policy alignment and competitive advantage.

Other states are already thinking about their own positions. For example, having recently launched an "Asia Engagement Strategy" which included the appointment of a new Minister for Asian Engagement, the WA Government makes a clear case for boosting its Asia focus—providing proactive leadership and clear direction,

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A SNAPSHOT OF QUEENSLAND'S ENGAGEMENT IN THE ASIA PACIFIC

particularly to the state's business, industry and educational sectors. Queensland's perspective towards the nations of Asia and the Pacific will be distinct, but no less compelling. Understanding the interests, needs and trajectories of our neighbours is central to this outlook. Building on Queensland's strengths with an emphasis on innovative, green, smart technologies, high-end commodities and produce, and services that contribute to a more resilient, prosperous neighbourhood will be key. Expanding and strengthening Queensland's representation across the Asia Pacific, while promoting the state's soft power assets, would be welcomed as part of such a strategic approach.

Secondly, business capacity to engage in Asia, particularly at the small and medium enterprise level, and including across Queensland's regional and rural areas, remains weak. There are a number of reasons for this. Anecdotal evidence suggests that successful business engagement in Asia demands sustained investment and on-the-ground expertise to navigate the complex political, business and regulatory landscapes. Additionally, many Australian companies lack the cultural competencies, confidence and wider networks to engage effectively and confidently in the diverse markets of Asia and the Pacific. This is an issue of workforce and boardroom diversity, and businesses today should consider the impact of diversity—cultural and gender—in their outward looking business strategies.<sup>23</sup> In addition to government, Queensland's bilateral business councils—already active in supporting the development of skills, knowledge and networks—play an ongoing and important role to this end. They bring deep knowledge of cultural and political landscapes, far-reaching networks alongside an awareness of sector nuances in-country. Taking this line of thinking one step further, the role that schools, universities and other education providers play to ensure Queensland students—as the next generation of state leaders—understand, experience and embrace opportunities in the Asia Pacific also remains critical to Queensland's longer-term outlook.

The final challenge is to ensure that the Asia Pacific remains on the radar during what is likely to be a tough state election year. Clearly, the 2019 federal election outcome refocused the gaze of state political leaders and policy-makers towards the domestic agenda, a trend that is likely to intensify over the next twelve months. But Queensland businesses, producers and industries do not have the luxury of naval gazing when it comes to taking up opportunities in the fast-moving economies of Asia. Deeper geostrategic shifts and dynamics will demand more, not less, attention towards the region. Engaging in the Asia Pacific is a long game, one that extends well beyond the short-term electoral cycles of Australian federal and state governments.



Ensuring that Queensland remains attuned and attentive to opportunities in the Asia Pacific through the next twelve months will underpin longer-term success. Additionally, the ability to engage creatively, drawing on soft power assets to build long-term relationships with key partners at multiple levels—people-to-people, institution-to-institution and city-to-city—will become ever more critical as Queensland navigates the opportunities and uncertainties that lie ahead.

## Notes and references

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