

Northern Australia: A Service and Supply Hub for the Asia-Pacific Region

"It is the economic activity to the north and west which is defining Australia's prospects, and protecting the country against the weak global economic environment."

- Deloitte Access Economics, Investment Monitor December 2011

Despite an unprecedented mining boom, Australia's economic credentials are slipping further and further into the red. Outstanding government debt stands at \$223 billion, and our unemployment rate may reach a nine-year high in 2012 if current trends persist.

It is time to put in place policies that rely on less government spending, less government interference, that allow competitive Australian industries to grow incomes and employ more Australians. The current government has not managed to 'plan the economy,' despite government spending increasing by 30 per cent over the last four years.

The north is the lifeblood of Australia. However, the enormous wealth we derive from our trade of agricultural products and mineral resources with China, India and elsewhere is not growing thanks to government intervention and economic 'planning,' but rather in spite of it. We believe the combined areas of northern Western Australia, the Northern Territory, and northern Queensland have the potential to act as a gateway to the growing wealth of the Asia-Pacific region. What we are calling Northern Australia is ideally placed, not only in terms of geography, but also due to natural resources the skills of the population to benefit from and contribute to what will undoubtedly be known as the 'Asia-Pacific Century.'

It is refreshing to see that Tony Abbott said early in 2012 that the Australian government should have 'a Jakarta focus, rather than a Geneva one.'

Northern Australia has much that the developing Asia-Pacific needs - cheap resources, vast fertile land capable of feeding millions, as well as technical expertise and skills often in scarce supply in less-developed nations. Yet in order to make the most of our comparative advantage in these areas, a shift in thinking is required to transform Northern Australia into a service and supply hub for the Asia-Pacific region.

The crux of this policy shift is simple, yet brings with it powerful benefits. We need to empower Australian ingenuity by removing stifling government bureaucracies, regulations, and taxes that seem to be designed to punish the only sectors of Australia's economy that are weathering the global financial storm.

In the same vein, we should allow the benefits of Northern Australia's success to flow through to the rest of the economy, rather than seeing these benefits as a burden of a 'two-speed economy.' It is true, higher wages in the resources sector push up wages in other sectors of the economy. Measures to reduce the skills shortage such as the 457 visa program should be expanded instead of pandering to those who argue for protectionism in all markets, including that of labour.

We present the following industries in which we believe Australia has the potential to become a market leader in the immediate region, if not the world. All that is required is for government to respect traditional boundaries between public, and private enterprise. Australia is in a unique position - a developed nation strategically placed among the world's fastest developing region. Australia has the potential to be a market leader in providing mineral resources, health education and food products, as well as being a strategic lynchpin for our traditional military allies in the region.

For Northern Australia to provide more jobs, and boost the incomes of all Australians, we must provide a competitive tax and regulatory framework. Investment, including foreign direct investment (FDI), is absolutely vital to finance the creation of a service and supply hub in Northern Australia.

A huge amount of literature has established that lower taxes and a more streamlined regulatory process are directly correlated with stronger economic growth and lower unemployment, as well as higher rates of investment. The inverse is also true, higher tax rates and more burdensome regulations have a negative effect on the same metrics.

It is time to deliver policies which grow incomes and put more people in jobs, not through more government borrowing and spending, but through reforms which empower individuals and businesses to take risks and reap the rewards.

Resources Hub

Northern Australia is home to some of the world's richest and most accessible mineral deposits. Consequently, Australia has been the beneficiary of a mining boom which has ridden on the coat-tails of China and the wider Asia-Pacific regions growing appetite for mineral resources. This is reflected in the record expenditures on minerals and energy projects in Australia - according to the Department of Agriculture, Fisheries and Forestry (ABARES), as of April 2011 there are 94 projects at an advanced stage of development, worth \$173.5 billion. More importantly, according to the same source, the vast majority of these projects are located in areas comprising Northern Australia.

- As of April 2010, 89 per cent of advanced mineral and resource projects were located in either Western Australia, the Northern Territory, or Queensland.
- A typical mine built in Queensland is delayed by the completion of at least 3,104 different permits, under 48 pieces of legislation, regulations, and local government planning schemes.
- According to the Department of Mines and Energy (DME, Queensland), each 12 month delay for a new mine can forego up to 800 construction jobs, 650 permanent jobs, 2,200 indirect local jobs, and export revenues of \$2 billion.
- The DME estimates that as of April 2010 a 'simple mining lease application' takes between 12 and 15 months to be approved, and a mining lease with native title and an environmental impact statement takes 24-36 months.
- The heritage listed Kimberley region of Western Australia is estimated by the Chamber of Minerals and Energy of Western Australia to have a range of mineral deposits worth \$360 billion.

This abundance of natural resources and the resulting wealth, however, is not an excuse for complacency. Australia, whilst enjoying geographic proximity to our key commodity trading partners and fast-emerging economic giants, China and India, will rapidly see its current competitive advantage eroded as South American and West African nations export raw commodities with greater efficiency and in greater volumes.

Previously, Australia has been able to rely on its proximity to emerging economies to ensure the competitiveness of its exports of iron ore, bauxite, manganese, diamonds and other minerals. Yet this transport cost advantage is being eroded due to historically low iron ore freight rates, as well as the construction of much larger ore carriers. The first of Brazilian miner Vale's 400,000 tonne ore carriers made its first trip to China last year, docking in Dalian on December 28 2011. The use of these massive 'Valemax' ships is estimated to see a 10 per cent drop in shipping rates from already historically low levels, according to UBS estimates.

Australia is expected to benefit from \$76 billion of mining investment in 2011-12, up from only \$5 billion in 2006. But Australia should not assume that this investment is guaranteed. In the global marketplace the major mining companies have many investment options outside of Australia.

The Australian resources sector is not only subject to external competition, but it also faces attacks from ever increasing taxes, regulations and a section of society that seeks to stop its growth, and ultimately abolish its entire existence. Suggestions of penalising those who make 'super profits,' as well as the carbon tax and other stifling regulations seem designed to cripple, rather than nurture Australian competitiveness and growth. The role of the government should not be to create a 'level playing field,' but rather to allow those industries in which we have a competitive advantage to flourish, whilst at the same time creating jobs and opportunities for all Australians.

In addition, Australian resource projects are faced with time and cost blow outs, and Northern Australia faces severe skills shortages, under-population, unfair regulatory burden, a lack of necessary infrastructure, and increasing energy prices. A coal mine constructed in Queensland currently requires applying for at least 3,104 individual permits under both state and Federal legislation as shown by exclusive IPA research. In addition, it was estimated that Australian LNG projects are typically delayed nine months to a year, and come in about \$1 billion over budget.

The Mining Council of Australia argues that environmental regulation and project approvals causes *"the delays that result from such duplication represent a disincentive to investment, increasing project costs and exacerbating the lag phase between discovery and commissioning of production projects."*

In order to guarantee that multinational companies continue to see Australia as a viable investment destination, the tax and regulatory burden must be reduced in Northern Australia. A targeted simplification of rules and regulations governing freehold land use would be one way to reduce this burden. There is much scope to simplify or abolish many of the permits required under federal, state and local legislation to build infrastructure in Northern Australia. Currently there are a minimum of 48 pieces of legislation, regulation, and local planning schemes that need to be examined to build a mine and associated railway and port infrastructure in Queensland. Much of this consists of

duplicated permits. Comparable economic, environmental and social outcomes could be achieved if the burden of this regulation was reduced through the deletion of duplicated requirements. This would go a long way to reducing the time and cost burdens that are faced by resource and associated infrastructure projects in Northern Australia.

Yet for all the challenges, Australia is still ideally placed to supply cheap resources to the Asia-Pacific. Australian miners can ship iron ore to Chinese ports in 10 days, while their Brazilian counterparts still take 45 days - a 35 day advantage that translates into far lower costs for Australian suppliers of minerals and resources. What Australia needs are specific policies that promote investment, skilled migration, and ultimately leads to sustainable economic growth not just in the resources sector and Northern Australia, but Australia as a whole.

We suggest;

- Simplification of, and elimination of regulation which is seen as overly onerous and restrictive to economic growth and expansion in the resources sector. There is scope to remove much environmental regulation for example, while still maintaining desired environmental standards.
- To remain competitive in the international resources marketplace, the federal government should reduce corporate tax for activities in Northern Australia. Ideally, this should occur concurrently with efforts by state governments to reduce payroll taxes, land tax and stamp duty.
- To increase the supply of skilled labour, the federal government should modify or expand the 457 visa program to increase the amount of skilled labour in Northern Australia. The recent calls by Immigration Minister Chris Bowen (November 2011) for processing times to be reduced to 10 days or less is a welcome step in the right direction.

Food Bowl

Although most irrigated agriculture in Australia occurs around the Murray-Darling Basin in southern Australia, regions in Northern Australia such as the Timor Sea and Gulf of Carpentaria record almost twice the average annual rainfall of the Murray-Darling Basin. This begs the question, why is Northern Australia not a food bowl, feeding not only the Australian population, but also the Asia-Pacific region.

- The world population is set to peak at 10.1 billion in 2100 according to the UN.
- The CSIRO has stated that in the next 50 years the world will need to produce more food than we have in the thousands of years since agricultural civilisation began.
- Australia currently produces enough food to feed 60 million people.
- Australia could feed up to 120 million people if Northern Australia is opened up to large scale commercial agriculture.
- According to the Northern Australia Land and Water Taskforce (NALWT) 1 million gigalitres (1 billion litres) of water falls across Northern Australia every year; this is more than eight times the annual runoff in Australia's principal agricultural area, the Murray-Darling Basin.
- The two northernmost drainage divisions - the Timor Sea and Gulf of Carpentaria divisions - have a mean rainfall of 800-900mm annually.

- There is also around 600 gigalitres of groundwater potentially available for agricultural use across Northern Australia, according to the NALWT Final Report.
- Only 20,000 hectares of arable land is under irrigation in Northern Australia, according to the NALWT. This is in comparison to the 40-50 million hectares already used for agriculture in southern states.
- According to members of the International Union of Soil Scientists (IUSS), up to 17 million hectares of land in Northern Australia is arable.
- According to Meat & Livestock Australia (MLA), live cattle exports totalled 806,855 head in 2010-11, valued at \$660.4 million. This is 16 per cent lower than the previous year, in part due to the federal government's decision to suspend the live cattle trade to Indonesia.
- Western Australia accounted for 38 per cent of live cattle exports, the Northern Territory accounted for 28 per cent and Indonesia was the largest export market for Australia, at 57 per cent of the total in 2010-11 according to MLA. South East Asia is our biggest live cattle export region, at 62 per cent.
- According to MLA, due to rising incomes in developing nations and a growing preference towards more protein rich diets, global demand for livestock will strengthen, particularly in Asia, South America and the Middle East.

Australia has remained a net food exporter for well over a century, and it produces enough food to feed 60 million people. An increasing global population means that the underdeveloped North of Australian climate holds an opportunity for the development of a food bowl, with the potential to feed up to 120 million people a year and thus to make a substantial contribution towards global poverty eradication and food security.

A 2010 study by members of the International Union of Soil Scientists (IUSS) found that up to 17 million hectares of land in Northern Australia was arable. This includes areas in the Fitzroy region of Western Australia, the Daly River Basin in the Northern Territory and Queensland's Cape York. Developing these areas could add significantly to the 40-50 million hectares already used for agriculture in southern states.

In order to reap the benefits that these 800-900mm of rainfall areas of Northern Australia could provide, policies should be put in place that enable commercial enterprise to develop agricultural infrastructure to turn the region into a food bowl to feed the growing world population. These policies would include such measures as reducing regulatory hurdles that can delay the building of agricultural infrastructure, such as dams, and in many cases preventing their commercial viability.

The agricultural industry exported around \$29 billion of produce in 2009-10, 30 per cent of which came from Northern Australia. If all of Northern Australia's arable land was utilised, this could increase to annual exports of more than \$40 billion. Australia's strategic location in the midst of the Asia-Pacific means that we are ideally placed to benefit from rapid population growth in the region.

Currently, restrictive environmental and native title regulations on development mean that building agricultural infrastructure in some of Australia's most arable land is costly, and in most cases all but impossible. Measures that the government has previously taken to prevent economic development in Northern Australia need to be rescinded, such as the heritage listing of the Kimberley region - 19

million hectares, an area the size of Great Britain - and the Wild Rivers Act 2005, which prevents the use of water for irrigation in much of Northern Australia.

An immediate action that must be taken is the creation of regulatory certainty for the live cattle industry. This industry is already concentrated in Northern Australia, on land highly suited to this purpose. It is a major industry earning 1.8 billion in export dollars. The debacle of the federal government's ban on live cattle exports to Indonesia has resulted in retaliation in the form of lower Indonesian quotas for Australian exports. Australia needs to pursue diplomatic and regulatory efforts to recover and expand this industry.

We suggest;

- Modify, or abolish Wild Rivers legislation as well as the Kimberley heritage listing, which prevents the use of abundant water in Northern Australia for agriculture. It should be noted that, apart from irrigated agriculture, access to a reliable supply of water is also important for mining, fishing, and the cattle industry.
- Put in place measures to ensure regulatory certainty in the live cattle trade.

Military Strategic Centre

Defence is one area of development in which the government should have a larger role to play. The concentration of vast mineral wealth, and our economic reliance on its safe shipment to foreign ports leaves our undefended north vulnerable to incursion by unfriendly forces.

It is welcoming to see the release of the progress report on the Defence Force Posture Review, and its recommendations of a strategic shift to areas of Northern Australia is pleasing. Whilst the bulk of our population resides in a small pocket of Australia running from Brisbane to Adelaide, our economic prosperity and growth is increasingly tied to an expanse beyond the so-called 'Brisbane line.' The most recent Deloitte Access Economics Investment Monitor revealed that while this region holds only 20% of employed Australians, it accounts for over half of all projects under construction or in the investment pipeline. When one considers certain industries, like mineral resources, the vast bulk of investment occurs in Northern Australia.

The Asia-Pacific century will be characterised by growing incomes in China, India, Indonesia and beyond, but this will be complimented by a corresponding increase in these countries' military capabilities. These growing capabilities will include an increasing reliance on regional countries' use of 'first strike' weapons as well as vastly modernised navies and air forces.

Northern Australia needs to host a larger military presence due to the importance of the region to our current prosperity. Most of the shipments of raw materials that we send to China, India and elsewhere come from ports in the north such as in the Pilbara, and there is great concern over the vulnerability of the North West Shelf to attack from pirates, terrorists, or from a traditional conflict in the region. Australia must protect our economic lifeline with greater vigour if we are to ensure the continuity of the mining boom.

The release of the interim Force Posture Review in January 2012 came with welcome suggestions for a shift in focus to the north of Australia. The increasing importance of mineral and resource exports

from the region, as well as the continuing rise of the ASEAN economies, means that our defence force must have a dramatically larger presence in Northern Australia.

The establishment of, and expansion of US forces based in Northern Australia brings with it benefits from US Defence Force spending, as well as the less obvious economic benefits from the provision of rear line services that Australian companies are able to provide to US troops.

Studies of military installations around the world have confirmed that their presence has substantial positive economic impacts on the surrounding regions. Local businesses that supply goods and services to the installations receive income, and this has a direct impact on employment in the region. In addition, local businesses also provide consumer goods to personnel from the installation. Regions surrounding military bases have been shown to benefit from the multiplier effect, that is, civilian income will increase by more than the initial public military spending. For example the US Department of Commerce estimates that for every dollar paid by a military base for procurement or contracts, there is \$1.20 in output of goods or services by local businesses. The same source also estimates that for each military employee at the base, 1.2 local civilian jobs are created.

Australia's purchase of the F-35 fighter aircraft, along with other Asia-Pacific neighbours like Singapore, South Korea and Japan could allow areas in Northern Australia to turn into a multinational F-35 hub. The many purchasers and the commonality between variants of the aircraft means that a city like Darwin is ideally placed to benefit from the introduction of the aircraft, given Darwin's proximity to other F-35 fleets. Compared to Pearl Harbour, the closest American home base to the Asia-Pacific region, Darwin has a significant geographical advantage. Darwin is 4,800 and 3,800 kilometres from South Korea and Taiwan respectively, while Pearl Harbour is 7,200 and 8,200 from South Korea and Taiwan.

Areas of Northern Australia are ideally placed to benefit from an expansion of both domestic and international military presence. A quarter of the ADF is already based in Queensland, and the presence of major defence contractors means that much of the groundwork to set up an Asia-Pacific defence hub in Northern Australia has been undertaken.

We suggest;

- Larger, more visible presence of ADF forces in Northern Australia as a deterrent to state and non-state aggressors.
- Act on the 2009 Defence White Paper calling for operational ports along Australia's northern coastline to support forces that may need to be deployed to protect Australia's interests along the coastline and in the Asia-Pacific region, as well as to support humanitarian operations.
- Expansion of existing, and establishment of new military facilities in Northern Australia with the aim of creating a military hub capable of servicing Australia and its allies in the region.
- A particular emphasis placed on the establishment of an F-35 training, maintenance and repair hub in Northern Australia, capable of servicing Australia's allies in the region.

Medical Diplomacy

Hospitals in and around Northern Australia have been increasingly utilised during and after natural disasters and terrorist incidents in the Asia-Pacific region. Following such events as the Bali bombings of 2002 and the Boxing Day tsunami of 2004, the readiness of hospitals such as those in Darwin, Cairns and Brisbane has been increased, Australia is more prepared for similar future events.

- Health programs have increasingly been used to increase political reputations as well as improve relationships with international trading partners. The US President's Emergency Plan For AIDS Relief (PEPFAR) was intended to improve US diplomatic relations through the use of so-called 'soft power.'
- Emerging nations like China and Cuba have also utilised medical diplomacy since the 1960s. Chinese doctors had treated around 180 million African patients as of 2005.
- A report by Econtech Australia found that capturing just 3 per cent of the Asian health tourism market would amount to export earnings of \$6.8 billion and employ 79,400 Australians.
- 11.6 per cent of Australia's 795 public hospitals are located in Northern Australia. 3.1 per cent of Australia's 549 private hospitals are in Northern Australia.
- Northern Australia has 2,775 health workers per 100,000 people, compared to 3,102 per 100,000 people across the entire country.
- There are no private hospitals in northern Western Australia, and only one in the Northern Territory.
- The Royal Darwin Hospital services 150,000 people in Australia and South-East Asia, yet only has 363 beds, according to the Northern Territory Government Department of Health.
- Total hospital beds available (public and private) per 1,000 people is 3.9 in Queensland and Western Australia and 3.6 per 1,000 people in the Northern Territory.
- In 2007 the Productivity Commission found that the average cost of a hospital bed in Australia was \$1,117 per day.

The strategic location of world class facilities such as Darwin and Cairns hospitals amongst the largely developing region of the Asia-Pacific means that overseas patients are able to access appropriate medical treatment in a timely fashion. Often patients may face poor outcomes in their countries of origin due to lack of appropriate treatment facilities and resources in the region.

The image of foreign patients being treated in Australian hospitals after horrific natural disasters presents a powerful image of Australia as a humanitarian nation, and the importance of this in the context of foreign affairs and regional diplomacy should not be overstated. As Australia seeks to grow its influence as well as maintain security and stability throughout the Asia-Pacific region, we need to be able to rely on the leverage that such humanitarian action affords us.

Hospitals in Northern Australia must continue to increase their readiness to respond rapidly to humanitarian disasters in the Asia-Pacific. Communication between hospitals and civilian and military authorities should be nurtured to improve responses. In addition, hospitals should ensure they are able to provide appropriate healthcare whilst sensibilities of patients from other countries.

By way of comparison, the distance from Darwin to Jakarta, Kota Kinabalu, Port Moresby, Denpasar or Dili is shorter than the distance from Darwin to Canberra. Hospitals in Northern Australia are ideally located, and they are staffed and equipped with modern technology, so they could be a large asset in the event of an emergency in the Asia-Pacific region. While individual hospitals like Darwin have already taken steps to ensure their preparedness for disasters in the wider region, a specific Northern Australia regional health care policy is needed to ensure that Australia takes advantage of its ability to provide first class medical care in the developing Asia-Pacific region.

We suggest;

- Medical diplomacy should be actively used as part of Australia's foreign policy agenda. Co-operation between Australia's diplomats as well as medical authorities should be strengthened so that foreign policies are followed.
- Specific government funding should be directed to hospitals in Northern Australia, in order to ensure they can treat larger number of patients from the Asia-Pacific who are affected by disasters.

Export of Medical Education

"Education remains the only top export that captures Australia as more than a quarry with a view."

- Alan Olsen, Director of Strategy Policy and Research in Education Pty Ltd

According to a German study, the global healthcare market will grow to USD20 trillion by 2030, with growth of 12 per cent and 13 per cent a year in China and Vietnam respectively. There is an opportunity for cities in Northern Australia to become for medical education what cities like Melbourne have become for providing world class tertiary education in accountancy and finance. Already, orthopaedic surgeons from Indonesia train in Darwin on a rotating basis to take advantage of Australia's modern facilities and knowledge base. Countries around the world face shortages of trained doctors, nurses, surgeons and other medical practitioners, and one of the reasons for the shortage is the lack of available training places, facilities and educators for medical students in the country.

- In 2006 the World Health Organisation estimated a shortage of 4.3 million health workers globally.
- Australia exported education services worth \$19.1 billion in 2009-10 according to the Department of Foreign Affairs and Trade (DFAT).
- According to the 2011-12 Times Higher Education World University Rankings, there are seven Australian universities amongst the world's top 200 institutions.
- According to COAG, education exports supported around 125,000 jobs in Australia in 2009. International student numbers have grown from 47,000 in 1990 to almost 500,000 in 2009.
- Prior to 1986, education services as an export had been provided at no cost, or a subsidised cost to the student as a form of overseas aid. After 1986 educational institutions were allowed to provide education to overseas students at full cost.
- This deregulation in 1986 resulted in a doubling of overseas students enrolled at Australian institutions

- According to Strategy Policy and Research in Education (SPRE), education is Australia's third largest export, behind coal and iron ore. It is worth more than Australia's exports of gold, tourism, crude oil and natural gas.
- A 2009 Access Economics study has found that in 2007-08, the international education sector contributed \$12.6 billion to the economy, and created the equivalent of 126,240 full time jobs.
- An Australian job is created for every two international students enrolled at Australian institutions, according to the John Curtin Institute of Public Policy.
- Far from being a cost burden, each student generates an average of \$50,874 for the Australian economy, according to the John Curtin Institute of Public Policy.
- China and India are our two largest individual education export markets at 23.8 per cent and 17 per cent respectively. ASEAN nations account for another 19.2 per cent according to DFAT.

There is an opportunity to transform and diversify some of Australia's most valuable trade relationships through exporting education. Much of the demand for North Australian raw materials comes from China and India. This demand will continue for the foreseeable future, however it is important we do not rely on one source of income in foreign trade. According to the Australian Education International, over 230,000 international students from China and India alone are enrolled at Australian institutions, or 41 per cent of all international students. Northern Australian cities need to attract more students, not just through first class courses and education, but through marketing cities as liveable and student friendly.

It is not only the quality of the institutions that matter, but lifestyle factors that attract international students. Availability of cheap accommodation, food, entertainment and shopping venues within easy reach are just as important. There are low cost policy options governments can take to ensure the attractiveness of cities in Northern Australia.

Trainee doctors perform many vital tasks in a healthcare system, albeit under the supervision of fully qualified doctors. Bond University, Griffith University, James Cook University, The University of Queensland, Notre Dame University and The University of Western Australia are among those who offer medical courses in Northern Australia. Policies to encourage the expansion and creation of new programs such as these should be put in place to take advantage of Australia's place in the Asia-Pacific.

The benefits from such medical education programs would not simply be measured in goodwill; there is also a substantial financial incentive to providing such services in the form of student fees. A 2005 study showed that international students in Western Australia on average spent \$476 per week on non-fee related spending. If we are to tap into the vast market for medical students in Indonesia and elsewhere in the Asia-Pacific, Northern Australia must take steps to ensure that it becomes a world-recognised provider of tertiary education in medical and health studies.

We suggest;

- Efforts for greater international recognition of Australian qualifications and education products.

- Streamlined visa processes for international students wanting to study in Australia.
- Reducing or abolishing restrictions on land use to create more affordable housing for students in and around new and existing universities.
- Reducing or abolishing restrictions on things such as shop hours of operations and liquor licenses to create a more student friendly atmosphere.