



SUBMISSION TO THE JOINT STANDING COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO DIVERSIFYING AUSTRALIA'S TRADE AND INVESTMENT PROFILE

The Export Council of Australia

About the Export Council of Australia

What is the ECA?

The ECA is a not-for-profit, member-driven organisation. Its purpose is to support Australian entrepreneurs and firms in undertaking international business.

What does the ECA do?

The ECA supports its members through various efforts, including:

1. Providing updated information – Members are alerted to news and reports, including on government policies and regulations, as well as market conditions.
2. On-going capacity building – Exporters benefit from tailored training to build on their knowledge and skills, as global rules and practices change, trade patterns shift, and technologies develop.
3. Advisory services – Exporters can get immediate insight on pressing challenges and questions, such as on licensing, clearances, access to finance and trade agreements.
4. Creating ecosystems – Facilitating crucial business relationships help exporters progress opportunities, including with sourcing materials and new ideas, getting things stored and delivered, and channelling financial transactions.
5. Advocating on behalf of members – Members' views and concerns are articulated to government partners. Effective and sustainable solutions are best reached through collaboration with governments and other stakeholders.

Who are ECA's members

The ECA's membership covers a wide range of industries and sectors. Its members are individuals, small, medium and large enterprises.

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Highlights

This submission focusses on the important role that small and medium sized enterprises can play in diversifying and growing Australia's exports.

The lack of diversification in Australia's trade may be a matter of perspective, but there is much room for improvement, in both the type of goods exported and market destination.

There are strong arguments for diversifying Australia's trade, including for the purposes of managing risks, such as economic downturns of key partners and the impact of 'trade wars'.

Diversification would best be advanced through small and medium sized firms increasing their contribution to total exports. SMEs are more likely to be responsive to any government action, and more likely to deliver the required economic impact, such as building livelihoods and creating jobs.

SME exporters will require additional funding assistance to ride the current Covid-19 crisis, and to boost their competitiveness in the longer term. Additional targeted support is required for research and development, for broader efforts to realise overseas market opportunities, and to reduce overall trade transaction costs.

Initiatives should also be developed to build the entrepreneurial and exporting capacity of SMEs. These should include individuals and firms in regional and from Indigenous communities, as part of a process of building the pool of exporters for the future.

The very low level of SME contribution to Australian exports (at just 4% of total goods exports by value) suggests that there might be fundamental economic hurdles. A separate comprehensive investigation of this must be undertaken.

A strategic approach must include international efforts, including more 'aid for trade', and co-ordinated action between Australia and relevant trading partners in the region to encourage SME trade and to strengthen supply chains.

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Context

In 2018-19, total Australian exports (of goods and services) were valued at around A\$470 billion.¹ Based on ABS data, we calculated that Australia exports over 260 different kinds of products,² to over 190 countries.³ In addition, Australia exports a range of key services, which represent about 20 per cent of total exports by value.⁴

In this context, Australian exports seem fairly diverse. However, Australia's exports of goods are concentrated in raw mining and some agricultural products, and its export markets are heavily weighted towards China.

Australia's top five goods exports altogether add up to around 73 per cent of total goods traded.⁵ If you combine goods and services, the top five Australian exports still add up to 55 per cent (but at least they include services).⁶

In terms of our export markets, China leads significantly – representing 33 per cent of Australia's total exports. Australia's next top four markets (Japan, South Korea, United States and India) combined, only represent 29 per cent.⁷

¹ <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-25-exports-2018-19.pdf>

² ABS. 5368.0 International Trade in Goods and Services. Table 12b Merchandise Exports, Standard International Trade Classification (3 digit), FOB Value. 2020.

³ TradingEconomics.com. Australia Exports By Country. 2018.

⁴ Department of Foreign Affairs and Trade. Trade in Services Australia 2018.

⁵ Tradingeconomics.com. Australia Exports By Category based on UN COMTRADE data on international trade. 2018.

⁶ <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-25-exports-2018-19.pdf>

⁷ <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-15-partners-2018-19.pdf>

It is therefore not surprising that reputable external observers have assessed Australia's trade profile as not being particularly diverse. For example, the Harvard Growth Lab ranks Australia poorly in its Economic Complexity Ranking. In this list, Australia ranks 87, just ahead of Burkina Faso and Paraguay.⁸

This aligns with feedback received from some exporters about the continuing overseas perception of Australia being primarily an exporter of rocks and crops.

Managing risks means diversifying

The ECA accepts that the current situation reflects the reality of the global marketplace. We sell our products to markets where there is demand. With China's annual real GDP growth averaging 9.5 per cent between 1979 and 2018⁹ (and still performing strongly), and a GDP representing more than 11 per cent of the global economy¹⁰, it is a market we cannot ignore.

However, there are reasonable arguments for diversifying exports, which include enhancing sustained economic growth and managing risks. Economic theory suggests that diversifying from primary exports to manufactured high value-added exports can offset the impact of inelastic or unstable demand, which economies dependent on commodity exports tend to face. This can reduce volatility and declining terms of trade. Diversification can also contribute to building of skills and knowledge, and the adoption of new technologies and innovation, which can then lead to higher income per capita.

Covid-19 has highlighted that there are risks that we can no longer afford to ignore. Exporters need to factor into their planning, risks associated with the economic slowdown of key trading partners, natural disasters occurring (whether environment-related or health-related), and the fallout from trade wars.

⁸ Atlas.cid.harvard.edu. N.D.

⁹ Congressional Research Service. China's Economic Rise: History, Trends, Challenges and Implications for the United States. 25 June 2019.

¹⁰ TradingEconomics.com. China GDP. 2019.

On the potential economic slowdown of a trade partner, a Reserve Bank study concluded that due to the substantial relationship with China, a 5 per cent decline in its GDP could lead to a 2.5 per cent drop in Australia's GDP.¹¹

Covid-19 has shown that authorities are willing to take drastic measures to safeguard the health of its population, including shutting down its borders at significant economic costs. As late as December last year, few would have considered this health crisis as plausible, including its severe impact on a relatively strong Australian economy.

Also, with the trade wars and broader relationship between Australia's major trading partners turning for the worse, Australian traders are watching closely the developments in the foreign policy and security space. They are increasingly aware, as some have already experienced, that Australia could easily become a casualty in the cross-fire.

In addition to managing risks, there are relevant trends that would support trade diversification efforts. For example, there seems to be increasing attraction to reshoring or moving of manufacturing operations back to Australia. This will have export implications. As Australian firms reconfigure their supply chains, a path to growth will have to be through exporting and seeking sales in overseas markets, simply because Australia's domestic market is just too small.

Bilateral and regional trade agreements provide opportunities for improved market expansion. For example, the trade agreement with the United States has allowed Australian defence exporters to tender for procurements in that market. With future agreements, there are potentially significant prospects for better access to emerging markets, such as India and Indonesia, and to developed markets outside our region, such as the EU and UK. But apart from negotiating these agreements, appropriate information dissemination must be undertaken to ensure exporters are able to utilise these opportunities fully.

¹¹ Guttman, R. et al. Reserve Bank. Spillovers to Australia from the Chinese Economy. Bulletin. June 2019.

Diversification efforts should focus on SMEs

If we are to see any meaningful change to Australia's export profile, we believe it will have to be through the efforts of SME exporters.

At this particularly challenging time, entrepreneurship, start-ups, and small business growth will be crucial to building livelihoods and creating jobs. Australia's SMEs account for around 70 per cent of employment and 55 per cent of value-added activities.¹² Young SMEs (firms aged 0–5 years) make a significant contribution to net job creation in Australia (of around 40 per cent). And start-ups (firms aged 0–2 years) are responsible for most of that growth.¹³ The OECD has found that SMEs are more likely to hire individuals with lower chances of finding a job, such as young people, older workers and the less skilled.

During Covid, SME exporters have demonstrated a far greater preparedness to keep their staff on board. In one of ECA's recent surveys, we found that only 24 per cent of SME exporters made changes to their staffing levels during Covid. On this point alone, SMEs deserve our strong support.

There is ample room for Australian SMEs to improve their contribution to exports. While Australian SME goods exporters make up 87 per cent of all exporting businesses, they only represent 4 per cent of the total value of goods exports.¹⁴

A comparison with other economies is difficult due to the differing definitions of SMEs, how data is collected and what is counted. Nevertheless, Australia's SME contribution to total goods exports by value is glaring next to the figures of other developed countries, even if we reduce those countries' category to just small businesses. For example, Denmark's

¹² OECD. SME and Entrepreneurship Outlook. 2019.

¹³ Luke Hendrickson, Stan Bucifal, Antonio Balaguer and David Hansell. Department of Industry and Science, and Australian Bureau of Statistics. The employment dynamics of Australian entrepreneurship (A study of the period between 2001 and 2011). 2015.

¹⁴ Australian Bureau of Statistics. 5368.0.55.006 - Characteristics of Australian Exporters, 2017-18.

small businesses contribute 22% to its total goods exports by value. While Canada's small businesses represent 20.5% of its total goods exports (see table below).

SME CONTRIBUTION TO TOTAL GOODS EXPORTS BY VALUE 2017 SELECT COUNTRIES

Country	SME (up to 249 employees)	Small business only (up to 49 employees only)
Denmark	49%	22%
Germany	24%	11%
Netherlands	65%	28%
Hungary	48%	34%
Sweden	42%	24%
Canada	42% (for firms up to 499 employees)	20.5% (for firms up to 99 employees)

Source: [https://ec.europa.eu/eurostat/statistics-](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Shares_by_size_class_for_exporting_(goods)_enterprises,_2017.png)

[explained/index.php?title=File:Shares_by_size_class_for_exporting_\(goods\)_enterprises,_2017.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Shares_by_size_class_for_exporting_(goods)_enterprises,_2017.png)

And <https://www.international.gc.ca/trade-commerce/sme-pme/sme-roles-pme.aspx?lang=eng>

The figures above are based on combined intra- and extra- EU exports. We recognise that within the EU, SMEs have the advantage of a single market. But even for extra-EU trade only, the average small business contribution to goods exports by value is 12%. Still well above Australia's 4%.

Australia's extremely low SME contribution to exports in comparison to other countries, suggests Australia might be facing a unique set of economic structure and conditions that warrant fixing, or at least further investigation. A better understanding of these might reveal useful new policies and initiatives that contribute to the resurgence of the Australian economy.

SME challenges to exporting

SMEs face many significant challenges to exporting, including high trade transaction costs, which can eat into revenue very quickly when sales are both of low volume and value. In 2017-18, the average Australian SME exporter shipped just over \$290,000 in

goods.¹⁵ According to the World Bank, the cost of exporting (in relation to border compliance) in Australia in 2018 is US\$766. This is significantly higher than the world average at US\$396 and that of Singapore at US\$335.¹⁶ Any effort that reduces the costs of at-the-border and behind-the-border processes would help SME exporters.

There is a level of complexity to exporting, which often quickly discourages SMEs from proceeding with such a venture. These include having to contend with unfamiliar regulatory requirements at home and abroad, as well as bewildering logistics and financing paperwork and jargon. Distance and culture make the endeavour even more taxing, especially when seeking to identify partners and marketing to foreign customers.

So apart from financial support, a set of initiatives is required that would shorten the jump from start-up to exporting. Such initiatives would include assistance that builds entrepreneurial and export skills, creates a supportive ecosystem for SMEs, and provides access to relevant up-to-date information on overseas markets.

We believe there is a link between exporting and the state of Australian entrepreneurial culture. The fear of failure is significant enough to stop many would-be Australian entrepreneurs from developing their ideas and pursuing a venture. That fear also stops entrepreneurs from ‘dusting themselves off’ after a set-back, and the rate of entrepreneurship among the youth is particularly low.¹⁷

Therefore, building export awareness should be incorporated into entrepreneurship initiatives, and efforts must involve regional communities and disadvantaged groups, such as Indigenous businesses, as part of the process of growing the pool of Australian exporters for the future.

¹⁵ <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5368.0.55.006Main+Features12017-18?OpenDocument>

¹⁶ https://data.worldbank.org/indicator/IC.EXP.CSBC.CD?name_desc=false

¹⁷ Steffen, P. and Omarova, A. Global Entrepreneurship Monitor 2017-18 Australian National Report. <https://eprints.qut.edu.au/127058/1/GEM%20AUS%20Report%20CLIENT%20corrected.pdf>

Aid for trade

Domestic initiatives must be complemented by international efforts. Our trading partners are suffering economically from Covid-19, just as we are. While developed countries are able to inject stimulus measures, poorer countries, including those in our immediate region, do not have the sufficient resources to get their economies back on track. Estimates suggest this economic decline may lead to 71 million people falling into extreme poverty around the world.¹⁸

How might this relate to the question of diversifying Australia's exports? In the short term, businesses and consumers in developing countries are likely to withhold purchases and/or delay investments. These will have a flow on effect on demand for imports from Australia, and on the reliability of these countries as supply chain partners.

Therefore, it would be prudent for any post-Covid Australian aid program to have an appropriate balance of health-related and trade-related assistance. There should be a meaningful component of Australian aid that is targeted at building livelihoods and trade capacity (or so-called 'aid for trade') of developing country partners.

Aid for trade efforts should focus on encouraging reforms in developing countries to reduce trade transaction costs, build capacity to access global value chains, such as implementing international standards, and adopt environment-friendly technologies.¹⁹

This needs to be approached with a clear underlying strategy, so efforts are aligned with broader government objectives in relation to sustainable supply chains and shifting geo-economic landscape.

Some might question the value of such assistance. But it is the right thing to do – morally and pragmatically. On the latter, ANU researchers found that for every \$1 spent on aid in

¹⁸ The World Bank defines "extreme poverty" as living on less than \$1.90 per person per day. <https://www.worldbank.org/en/topic/poverty/brief/projected-poverty-impacts-of-COVID-19>. 8 June 2020.

¹⁹ This would add to Australia's contribution to the WTO's Aid for Trade Agenda. https://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm

Asia, \$7.10 in Australian exports were realised²⁰. This is not about ‘tied aid’. It is about building capacity of the disadvantaged in developing countries, so they can pursue opportunities and succeed. It will help demonstrate that trade can address inequality, and that interconnectedness means economic success is shared between Australia and its developing country partners.

Recommendations

We recognise and appreciate existing government initiatives. However, we believe these could be fine-tuned, extended and better targeted to assist SMEs identify and act on opportunities, manage regulations here and overseas, and enhance their competitive advantage.

As part of any further Covid-19 recovery package, we suggest enhanced funding assistance be made available to SME exporters to reduce costs associated with:

- exploring new markets (including under new trade agreements) and alternative supply chains; and
- undertaking R&D in high-potential areas, such as in production, logistics, and environment-related technologies.

These may require reviews of existing programs and their eligibility coverage, such as the potential inclusion of the costs of product packaging design and labelling for small exporters under the Export Market Development Grants Scheme, and the inclusion of environmental technologies and services under the SME Export Hubs program.

Furthermore, the government should:

- provide bespoke information about opportunities arising from current and future trade agreements (especially in relation to standards, rules of origin, and intellectual property rights);

²⁰ <https://www.anu.edu.au/news/all-news/aid-study-shows-every-1-spent-returns-710-in-exports>. 16 October 2017.

- expand international development assistance or 'aid for trade', so that among other things developing country partners can consistently apply their commitments to trade agreements, and participate in global value chains;
- reach out to relevant trading partners in the immediate region and explore potential coordinated action to secure supply chains and boost economic growth post-Covid;
- add export training to current domestic programs designed to boost entrepreneurships and livelihoods, including those targeted at remote communities and disadvantaged groups; and
- undertake a comprehensive economic review of impediments to Australian entrepreneurship and SME exporting.

To progress these, including in developing appropriate initiatives, we look forward to working in a strategic and collaborative manner with all stakeholders, including government and business.