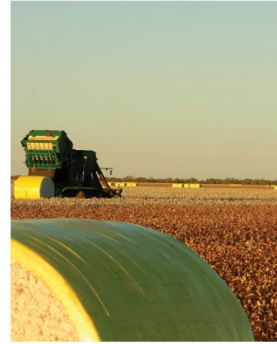


**The Voice for
Australia's exporters**



Submission to the Foreign Policy White Paper

March 2017

Submission by the Export Council of Australia



About the Export Council of Australia

The Export Council of Australia (ECA) welcomes the opportunity to provide a submission to the Foreign Policy White Paper. The recommendations in this submission build on the ECA's annual trade policy recommendations, found at <http://www.export.org.au/trade-policy/trade-policy-recommendations>. The ECA is the peak industry body for Australia's exporters and importers, particularly SMEs. With a membership base of around 1,000 and a reach of over 15,000, the ECA represents companies of all sizes and across a wide range of industries.

The ECA's core activities include research, advocacy, skills development and events. The ECA collaborates with a number of government agencies, at Commonwealth, state and territory levels, to advance the interests of its members and support SMEs. Within the Commonwealth, these agencies include the Department of Foreign Affairs and Trade, Austrade, Efic, the Department of Immigration and Border Protection, the Department of Industry, Innovation and Science, and the Department of Agriculture.

The ECA has developed, or is currently developing, a range of activities to support Australian SME exporters that are in line with the recommendations in the submission. Information about these is at Appendix A.

Key recommendations

The ECA recommends the Foreign Policy White Paper announce:

- a commitment to develop a national strategy for trade
- a commitment to develop a national brand
- measures to better support services exports
- measures to promote open trade and open investment, both in Australia and overseas
- a greater focus on the diplomatic network providing strategic economic insights
- an expanded aid-for-trade budget and agenda.

Australia's interests

The ECA believes Australia's economic interests are:

- a strong, internationally-focused, business-friendly domestic economy
- a rules-based international order
- an open international trading system
- the free flow of capital
- that citizens of key countries see Australia as a trusted partner and desirable destination
- a stable and prosperous region.

The context for Australia's trade

Our trade performance and future trade opportunities

Exports are essential for the future of Australia's economy and generating high-quality jobs for its citizens. In a 2017 study, the Department of Industry, Innovation and Science found:

Exporters are generally larger than non-exporters in terms of employment, value-added and capital expenditure. On average, exporters are also more productive and pay higher wages. Exporters demonstrate superior performance even before they begin to export.ⁱ



Since the last Foreign Policy White Paper, Australia's overall export performance has been good. Between 2005 and 2015, Australia's goods and service exports grew at 5.8% per annum.ⁱⁱ This contrasts favourably to overall world trade growth over the period of 5.3% p.a.ⁱⁱⁱ

Much of this was thanks to a strong minerals and fuel sector, which grew at almost 7% p.a. over the period. Goods exports other than mineral and fuel grew at around 3% p.a.^{iv} Services grew at 5% p.a.^v

But the number of Australian exporters—the businesses that generate better jobs and invest more than non-exporters—grew at 0.9% p.a. Over this period, export value became more concentrated in the major exporters. In 2006-07, the top 0.5% of goods exporters (by value) exported 79% of Australia's goods exports. In 2013-14 they exported 86%. (Comparable data are only available for this date range, and data are not available for services.) Over this time, goods exports grew \$105bn; this top tier of exporters was responsible for \$101bn, or 97%, of that growth. SMEs missed out.^{vi}

This minimal growth in the number of exporters has been despite the economic transformation happening across the region. From 2005 to 2015, the economies of ASEAN more than doubled in size, as did India's (in USD at current prices). China's economy grew from USD 2.3 trillion to USD 11.5 trillion.^{vii} This transformation will continue over the next ten years.

And opportunities will not just be in Asia. In general, developing economies are slowly but surely becoming much more important to the world economy. In 2005, developing economies accounted for less than a quarter of economic output. In 2015 it was just under 40%. They grew at 10% p.a. over this period, compared to 2% p.a. growth in advanced economies.^{viii}

As developing economies mature, they are becoming more attractive trading partners. Stronger governance and better infrastructure mean they are becoming targets for foreign direct investment particularly into the resources and manufacturing sectors. Greater wealth and demand from citizens for higher quality of life means these countries are investing more to build social and economic infrastructure—and they will need foreign know-how to do it.

The value chains of large multinationals will be dynamic. They are changing, taking advantage of more attractive labour, better infrastructure and lower tariffs. While much of their focus over the last decade has been centred on China, over the next decade it will become more disparate, with major opportunities opening up in ASEAN, India, Africa and South America.

Services will grow particularly strongly in developing economies. Typically, services account for around 74% of GDP in advanced economies. In developing economies, this is more likely to be around 55%.^{ix} As their economies become bigger, their service sectors will grow at a much faster rate.

There are enormous opportunities for Australian SMEs over the next decade. But to realise these opportunities, they will face a steep learning curve, need to do business with unfamiliar cultures and face more difficult operating environments. They will have to have the confidence to take risks. The government plays a vital role in giving this confidence. It facilitates their entry into export, smooths their barriers, provides the knowledge they need, and offers advice and support in-market.

To ensure Australian SMEs don't miss the opportunities of tomorrow, the government must look holistically at the support it provides them. It must develop **a national strategy for trade** to better coordinate how it supports businesses to trade internationally. This must include investing more in educating Australian businesses about these opportunities and supporting them to learn how to access those opportunities. In



particular, the government should seek to provide **better support to services exporters** seeking to access international markets.

The growth of the global middle class

The corollary to the economic development across the world is the swelling of the ranks of the global middle class—and their growing spending power. This is creating unprecedented opportunities for Australian businesses.

Through our resources sector, Australia has benefitted from the early stages of the growth in the emerging middle class. As workers—particularly in Asia—moved from regions to the cities, Australian coal, iron ore and increasingly LNG helped build and power their homes. While resources will continue to play an important part in Australia's export mix, food and consumer goods and services will grow in importance.

Lower tariffs, improvements in trade facilitation and the growth of e-commerce will enable Australian goods exporters to access these markets as never before. As incomes rise, people spend more on services—and Australia's extensive FTA network should ensure our service providers can access these consumers.

If these middle classes eat our food, buy our products, holiday on our shores, visit our universities, do business with us and have a positive opinion of us, then our future will be bright. But almost every Western country is looking at the same people with the same idea. And with more people moving into these consuming classes every day, the perceptions they are forming now will shape their choices for decades.

The next ten years will present a vital window of opportunity to establish a positive perception of Australia in the minds of these consumers. In addition to better aligning its trade support through a national strategy, the Australian Government must develop a **coherent national brand**. It should seek to expand trade by working multilaterally, regionally and bilaterally to resolve non-tariff measures, including by aligning standards and regulations, as well as reducing tariffs that impede trade. And it should continue to assist development through **expanding the aid-for-trade agenda** to facilitate private sector development in the region.

Technological disruption—challenges and opportunities

Technological advancement will transform both what is traded and how it is traded. Over the last ten years, new products and services have emerged that have become integral to people's lives and have disrupted entire industries. The next ten years will see even greater change. Products will become 'smarter'—equipped with Wi-Fi, sensors and an increasing ability to think for themselves. New services will emerge, as will new ways of delivering traditional services.

How things are traded will also change. Exporters will have far greater knowledge about, and control over, their goods as they transit the globe. The four centuries of using paper for export documentation is likely to end. 3D printing and other innovations will mean that increasingly IP will flow across borders rather than goods (much in the same way music has shifted from CD to digital).

The challenge for governments, both individually and collectively, will be to keep pace with these changes. To ensure goods and services face minimal trade barriers. To ensure customs processes enable rather than stifle innovations in the movement of goods. And to ensure new services are embraced, not resisted.

While these innovations are inevitably good for consumers, technological advancement will have down sides. As industries are disrupted and processes automated, there will inevitably be losers: industries, businesses and workers.



To minimise populist backlash against a changing world, the Australian Government must be future-focused. It must understand where business is headed, to ensure it accommodates the workers from sunset industries, and facilitates their transitions to the sunrise ones. And it must continually advocate for the values it holds, including an open international system and ensuring the benefits of that system are distributed fairly.

In many countries, the failure of governments to achieve this has led to the success of populist, anti-trade policies: policies that will inevitably make their citizens worse off. While this is unquestionably bad for these countries and the world, the silver lining is that Australia's status as a strong open economy has made it a more attractive destination for foreign talent and investment.

It will be increasingly important **for Australia's diplomatic network to provide strategic economic insights** to government and business about the changes on the horizon, how those changes may impact Australia, and how Australia could adapt. At home and abroad the government must **advocate more strongly for open trade and investment** as a driver for future prosperity. It must ensure Australia does not fall for the siren song of protectionism.

A roadmap to pursue Australia's economic interests

A national strategy for trade

To better enable SMEs to enter the export market, and strengthen those already exporting, the government must develop a national strategy for trade. The strategy, developed in partnership with state and territory governments and industry, would set the governments long-term approach to trade. It must:

- clearly articulate the government's objectives for international trade
- ensure there is better coordination and alignment across all agencies with an international focus (DFAT, Austrade, Efic, Industry, Agriculture, DIBP, and central agencies) to pursue those objectives
- identify gaps in the support that SMEs need in order to meet these objectives
 - in particular, it would include a stocktake of the international trade and investment training and skills programs available, ensuring businesses can build the capabilities to engage internationally. Where support is missing, it would need to be developed
- have a focus on better enabling service sector exports (see below)
- analyse the infrastructure gaps and bottlenecks that are holding back competitiveness
- improve coordination of Australia's international marketing activities to raise Australia's trade and investment profile (see below)
- include a plan to maintain community support for trade and investment, to reinforce the understanding that they are key to sustainable economic growth and rising living standards
- include resources to communicate the strategy to Australian businesses.

By setting key performance indicators to track progress towards overall objectives, a national strategy would maximise the value of the declining resources the Australian Government commits to supporting exporters.

Better support for services

As the developing economies across our region grow, services will shift from around 55% of their GDPs towards levels more typical of advanced economies (an average of around 74%). That is, services will represent much bigger slices of much bigger pies.

But while services account for over 70% of Australia's GDP, they only represent around one fifth of its exports. Given the huge growth in services in the region, developing Australia's service export sectors requires special attention from the government.



While goods sectors have champions within government, most service sectors do not. The Department of Industry, Innovation and Science supports resources and manufacturing, while the Department of Agriculture and Water Resources is focused on agricultural exports. By contrast, only the international education and tourism sectors have dedicated government support. The sectors that have strong advocates within government inevitably fare better when policies are developed and budgets allocated—services are missing out.

The Australian Government must substantially increase the focus and support it provides to service sectors. This should include:

- ensuring service sectors with major international potential (e.g. legal, healthcare, professional and business services, hospitality and retail) have champions within government that advocate on their behalf
- research to identify and quantify additional service sector export opportunities in the future. This will enable more targeted support to be provided and improve our understanding of the Australian services industry. Example research areas could include financial technology (fintech), scientific research and consumer services (e.g. hospitality and healthcare)
- initiatives comparable to the industry growth hubs. Priority should be given to less well coordinated service sectors that have the most potentially lucrative opportunities to engage with international markets such as:
 - agricultural services;
 - healthcare, wellness and aged care;
 - professional, scientific and technical services
- providing additional support and advice to businesses in the services sectors that are confronting challenges in exporting and improving the capability of Australian businesses, particularly SMEs. This could be by investing to expand Austrade's trade development focus to provide greater support for services
- improve statistics on trade in services. There are currently insufficient data on the value of Australian service exports. In particular, there is no data capturing data on sales by foreign affiliates (crucial in service exports). Better data would enable a better understanding of the importance of service exports.

Development of a cohesive national brand

Australia has a national interest to ensure the people of key countries see Australia as a trusted partner and desirable destination. They must see Australia as a destination where they want to live, work or study, somewhere they want to buy products and services from, and an important partner for their businesses and governments.

But despite their importance to our future prosperity, Australia spends a small amount of resources marketing itself. And worse, it sends mixed messages. DFAT engages foreign citizens as actors within a political system. Tourism Australia, which has the biggest marketing budget by far, sees foreign citizens as tourists and talks to them through the campaign *There's Nothing Like Australia*. Austrade developed two brands: Australia Unlimited to promote Australia as a partner for foreign businesses, and Future Unlimited aimed at students (with no strong link to the tourism campaign). Plus, there's been almost five years of talk about creating a national food brand.

Political actors, businesspeople, holidaymakers, students and grocery shoppers; each makes sense in isolation. But the reality is that every person Australia talks to will wear three or more of these hats. We shouldn't be talking to them in five different voices. This approach is at best inefficient and at worst counterproductive.

To communicate Australia's messages most effectively, there needs to be one clear overall image of Australia—a brand—the government is trying to promote. In this context, a brand is more than a logo or a colour scheme. It's about 'the intangible sum of a product's attributes'^x—in this case, Australia's attributes. A national brand should aim to shape perceptions of Australia in a way that supports our key priorities, and be



flexible enough to emphasise each of these priorities at different times. Examples of attributes that would capture all of our priorities could include sophistication, dynamism, multiculturalism, friendliness and safety.

While development can only be led by government, the priority for the brand should be the needs of Australian businesses. Since foreigners will have the greatest engagement with Australia as consumers—consuming our food, wine, cosmetics, travel, education, and other goods and services—the brand should prioritise engaging them as consumers.

This is not to say there's no place for tailored messaging around tourism, food, education and business. But pursuing them in the context of an overarching national brand would ensure they reinforce the other messages, not crowd them out. Tourism Australia's *There's Nothing Like Australia* campaign shows there is a lot of common ground on which to build a cohesive national brand. This campaign has successfully promoted food and wine, and will be used as the basis for a youth campaign. There should be enough insights to draw on from prior research to develop this campaign, and the other brands, to quickly identify where there is overlap.

In addition to these messages, a national brand should position Australia to attract foreign investment and talent. Given the global economic uncertainty arising in 2016 through anti-globalisation shifts in several major markets, Australia has a window of opportunity internationally to position itself as a beacon of open trade and investment. With an open, democratic medium-sized economy, strong institutions, a vibrant multicultural society, FTAs with its major trading partners and close proximity to Asian markets, Australia can and should make a compelling case.

To develop a successful national brand, that industry values, the government must develop a brand that:

- finds common ground between key industries and has their buy-in. It must find a balance between those industries that rely on the attributes Australia is traditionally known for, and those industries that need to emphasise attributes for which Australia is underappreciated
- positions Australia favourably to foreign talent and investors
- is implemented by all Australian Government agencies responsible for promoting Australia, and has a whole-of-government commitment to using it—from the Prime Minister down
- enables businesses to leverage it for their commercial objectives.

Promote open trade and investment, both in Australia and overseas

For centuries, economists have understood the benefits of open trade and investment. Periods of global protectionism have led to recession and depression, while periods of openness have led to prosperity. Despite this, there are always strong voices against trade. While Australia maintains a pro-trade consensus, other countries—even those which have previously been champions of open trade—have recently slid towards protectionist policies.

Australia's policy settings must remain geared towards making its citizens richer through open trade, rather than poorer through protectionism. To do this, the government must constantly advocate for trade and must be disciplined to ensure it does not forsake pro-trade principles for political expediency. To maintain global momentum for trade, the government must continuously pursue trade agreements that increase openness—at the multilateral, plurilateral and bilateral levels. Where necessary, it must be prepared to defend global trade rules by launching international legal action when these rules are violated, even by key allies.

To successfully defend and promote the principles of open trade, the government must:

- develop a long-term campaign directed at the general community, highlighting that trade benefit consumers and workers, and the worse-off benefit from trade far more from trade than the rich^{xi}



- this should not just focus on exports, but also include advocacy for the importance of imports, emphasising they increase the competitiveness of Australian businesses and the buying-power of consumers
- this should also provide resources to schools that enable student involvement and learning about the nature, benefits and processes of trade and investment
- expand programs to showcase those who are building Australia's economic future, and inspire young people to imagine new services, products and industries
- show the Australian public the international trading system is not rigged by more actively asserting its rights when other countries violate trade agreements to the detriment of Australia.

A greater focus on the diplomatic network providing strategic economic insights

The political, economic and technological changes over the last decade highlight that the world is changing more quickly than ever. As the technological innovation continues, and the global weight of economic power and consumption shift, the next decade is likely to see greater change than the last.

Australia must fully leverage its diplomatic network to better understand the major economic shifts occurring across the world and understand their implications. In the same way its diplomatic network seeks to identify major international security or political changes, and identify ways Australia can mitigate or adapt, it must do the same for economic changes. These economic changes might be caused by issues ranging from economic development to innovation to technological disruptions.

Although Australia's diplomatic network has made significant strides since it began to focus on economic diplomacy, it could use to greater effect its diplomatic staff with coverage of economics. It could do this by:

- having a greater focus on the major economic changes happening across the world, and the potential consequences for Australian businesses, employment and society
- helping Australia understand how these changes are playing out in other countries and how they might impact Australia
- have a greater voice in domestic policy debates to ensure Australia's policies are set to be able to maximise the opportunities from these economic changes while minimising their negative impacts
- changing its focus from seeing government as its only stakeholder to having a far greater focus on understanding and meeting the needs of businesses and other actors (e.g. unions and not-for-profits)
 - for businesses, Australia's diplomatic network should focus on providing many more insights, engaging more in Australia, and ensuring all heads of mission and senior diplomats actively support Australian businesses—not just big businesses but also SMEs.

Continue and expand the aid for trade program

It is in Australia's interests for its region to be stable and prosperous. For developing countries in the region, prosperity can only come through the development of a strong private sector. With imports leading to a more competitive economy, and exporting leading to stronger businesses that employ more people and pay higher wages, trade is crucial to developing a strong private sector. Australia's aid-for-trade program is an important tool to promote private sector development in the region. And the program has clear benefits for Australia: not only does a more prosperous region mean greater stability, it also means more opportunities for Australian businesses.

As with Australian businesses, businesses in developing countries face major barriers to international business: not only formal ones such as tariffs and regulations, but also major knowledge and financial barriers. These include how to go about exporting, effective business and market entry strategies, and securing finance to invest



in marketing or building capacity. The aid-for-trade program should help these businesses, particularly SMEs, to overcome these barriers.

A key part of the aid-for-trade program should also be to facilitate trade in the region. It should do this by investing to improve customs and trade infrastructure in developing countries. It should also invest to reduce non-tariff measures (NTMs). Given current regional trade agreements in force and under negotiation, plus those under negotiation, tariffs have become relatively less prominent as barriers to trade. By contrast, NTMs have increased in prominence. The aid-for-trade program should look at ways to better align standards and regulations across the region. Australia can and should do its part by more actively looking for ways to eliminate NTMs as a means to facilitate imports. But it should also seek to export its world-class standards and regulations (where appropriate for the recipient country).

The Australian Government should expand its aid-for-trade program and ensure it

- develops initiatives targeted at building the knowledge and capacity of entrepreneurs and SMEs in developing countries to do business across borders
- promotes trade facilitation by improving customs and infrastructure in developing countries, as well as seeking to align standards and regulations where appropriate
- facilitates engagement between the private sectors of developing countries and Australia, particularly SMEs, to enhance business connections and allow the sharing of expertise and best practice
- strengthens domestic champions of trade in developing countries, including by building the capacity of relevant industry bodies to undertake research and engage their governments on the need for reform and to encourage trade.



Appendix A: ECA activities to support Australia's SME exporters

Export training for SMEs

For over 60 years the ECA has educated Australian businesses on international trade. Through practical education and training, the ECA has helped thousands of companies to develop the business skills that have enabled them to succeed internationally.

Export Awards and Export Heroes

The ECA showcases Australia's top exporters by running Export Awards programs for NSW, Qld and WA, as well as running its own Export Heroes Awards program.

The Export Awards is a national program that recognises and honours Australian companies engaged in international business who have achieved sustainable growth through innovation and commitment. The awards measure businesses against their peers based on the strength of their international growth, marketing and financial strategies.

Australian Export Heroes Awards recognise individuals who have made an outstanding contribution to building Australia's position and performance in international trade. Export Heroes are the champions of Australia's export community, having contributed to building modern export enterprises and helping to further develop a uniquely Australian export culture.

Australia's International Business Survey

In 2014, the ECA launched a longitudinal survey, Australia's International Business Survey (AIBS), with Austrade and Efic. The 2014 survey captured data on the international business activity of over 1600 Australian exporters. It was the most comprehensive investigation into Australia's international business activity in more than 15 years. There have been annual AIBS surveys since 2014, with the 2017 survey going to field early 2017.

Advancing Trade Development report

This report examined the export-oriented trade promotion services offered by public agencies in some of the world's largest exporting nations. It highlighted the programs the governments of these countries offered and the contributions these programs made to international best practice. It made recommendations about how Australia could improve its support for exporters.

Export research

The ECA has delivered many large-scale research projects, usually in collaboration with public bodies or private industry. We focus on both specific areas related to trade—such as free trade agreements and their impact—as well as broader topics, such as on market-based opportunities.

Non-tariff measure portal

The ECA is planning to develop a portal to help Australian exporters to overcome non-tariff measures (NTMs). As Australia's growing FTA network reduces tariffs, NTMs become more prominent barriers to trade. The NTM portal will collect and analyse data on the range and frequency of NTMs. It will provide Australian companies resources, information and linkages to help overcome NTMs, and allow government to prioritise which NTMs to address

Campaign promoting the importance of trade

In 2017, the ECA intends to launch a campaign to strengthen support in Australia for open trade. The campaign will highlight to everyday Australians how central trade is to their daily activities.



ⁱ Department of Industry, Investment, Science and Research, *Australian Industry Report 2016*, Chapter Five, <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/AustralianIndustryReport/index.html> (accessed 28 February)

ⁱⁱ DFAT STARS database, Australia's direction of goods and services trade calendar years

ⁱⁱⁱ UNCTAD, Key Statistics and Trends in International Trade 2016, p. 9, http://unctad.org/en/PublicationsLibrary/ditctab2016d3_en.pdf (accessed 28 February 2017)

^{iv} DFAT STARS database, Country and Commodity Pivot Table, 2005-06 to 2015-16

^v DFAT STARS database, Australia's direction of goods and services trade calendar years

^{vi} ABS, 5368055006 - Characteristics of Australian Exporters, 2013-14 (comparable data on the number of goods exporters are only available for 2006-07 to 2013-14, data on service exporters are not available)

^{vii} IMF, World Economic Outlook Database, October 2016,

<http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?pr.x=75&pr.y=7&sy=2005&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&c=548%2C518%2C516%2C522%2C924%2C566%2C576%2C578%2C534%2C536%2C544%2C582&s=NGDPD&grp=0&a=> (accessed 28 February 2017)

^{viii} IMF, World Economic Outlook Database, October 2016,

<http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?pr.x=71&pr.y=7&sy=2005&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&c=001%2C110%2C200%2C901%2C505%2C903%2C205%2C440%2C603&s=NGDPD&grp=1&a=1> (accessed 28 February 2017)

^{ix} According to the World Bank, in 2014 services accounted for 55% of the GDP of low and middle income countries. By contrast services accounted for 74% of the GDP of high income countries.

^x Quote attributed to David Ogilvy, who is known as the father of advertising

^{xi} A 1 October 2016 article in *The Economist* cited a study of 40 countries that found the richest consumers would lose 28% of their purchasing power if cross-border trade ended, but those in the bottom tenth would lose 63%