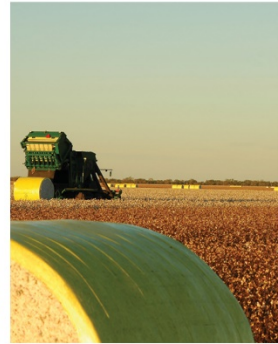


**The Voice for
Australia's exporters**



Submission to the Parliamentary Committee: Australia's Trade and Investment Relationship with the Countries of Africa

August 2017

Submission by the Export Council of Australia

About the Export Council of Australia

Evolving from the 60-year-old Australian Institute of Export (AIE), the Export Council of Australia (ECA) is the peak industry body representing Australia's international trade community. A not-for-profit organisation, the ECA is steered by a board of directors and owned by its members. The primary goal of the organisation is the development of Australia's resources via the promotion of Australian industry in international markets to help exporters and importers of all sizes achieve international success as well as to raise awareness of the benefits of trade to government and the broader Australian community.

ECA's principal activities are specifically targeted at promoting the development of Australian manufacturing, horticultural, industrial, agribusiness (including viticulture) and services resources through engaging companies in export.

The ECA's main activities include research, advocacy, events, and education, with the key objectives being to:

- Equip Australian business with the skills and capabilities required to effectively and efficiently conduct profitable international trade.
- Make representations to and on behalf of exporters to key decision makers.
- Undertake research to identify and quantify the issues affecting the development of profitable international trade activity by Australian companies.
- Interface with and provide support to sector specific associations and councils representing business engaged in international trade.
- Deliver activities that provide a forum for the exchange of ideas and knowledge, as well as events that reward excellence in export.

Through these activities, the ECA reaches over 20,000 exporters and importers across Australia with regular communication.

The ECA currently has roughly 1,000 members made up of companies from a wide range of industries including manufacturing, agriculture, mining (resources), engineering and construction, services and creative industries, as well as the services providers to the international trade community.

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Executive Summary

The Export Council of Australia firmly believes that now is the time for Australian businesses to capitalise on the opportunities present in Africa. This is particularly true for those companies that are looking to expand internationally, but have no appetite for doing business with Asia.

Throughout the continent we are seeing an increase in political and economic stability and an improvement in macroeconomic conditions, which in turn fosters productive business environments.

Australia has an untarnished reputation in Africa and Australian businesses do not tend to experience the level of distrust that those from ex-colonial countries can. Australia was also a champion of the anti-apartheid movement and hence Australian's are generally welcomed in most African nations.

Business simply can't afford to miss the **'Rise of Africa'**. The message is simple, if Australian businesses don't get a foot in the door, someone else will.

Submission

Background

To some 'Africa' is still synonymous with risk and uncertainty and there is a tendency to see the continent as one market and not 54 distinct, separate countries, each a market in its own right. There is no denying the continent has seen more than its fair share of turmoil but what many Australians don't often hear about—and even fewer ever see with their own eyes—is that many countries in Africa are thriving. Throughout the continent we are seeing an increase in political and economic stability and an improvement in macroeconomic conditions, which in turn fosters productive business environments.

There are certain countries in Africa that hold considerable opportunity for Australian businesses and which must not be ignored. Why? Because business simply can't afford to miss the **'Rise of Africa'**. The message is simple, if Australian businesses don't get a foot in the door, someone else will.

An opportunity lost may not be lost forever, but it's easier to get in before the competition than to battle for clients who have established relationships.

What's so hot about Africa?

Here are a few reasons why Australian companies should start paying attention to Africa:

- Sub-Saharan Africa is the second fastest-growing region of the world today, trailing only developing Asia;
- The World Bank shows three African countries in the top 10 fastest growing economies in 2017, with Ethiopia ranking number 1;
- Deloitte predicts that the African economy will grow 7.7% between 2014 and 2019, about double the rate of advanced economies;
- The continent is home to 1.251 billion people (Source: Worldometers), and by 2030, Over 500 million people will be in the middle class;

- African consumers are leapfrogging landline infrastructure and moving straight onto mobile technologies, with a predicted 97% of African consumers predicted to have a mobile subscription by the end of 2017, and 30% having a smartphone connection;
- Africa has the world's fastest growing population and the most youthful with under 20s constituting over half the total population – compared to only 28% in China;
- By 2030 it is forecast that 47% of Africans will live in urban centres;
- The continent's collective GDP was \$US1.8 trillion in 2008;
- Africa has 10% of the world's oil reserves, 40% of its gold ore and 80-90% of its chromium and platinum group metals.

But are Africa's long-term prospects viable?

The perception is that Africa's prospects are all tied to the resources sector, and that those opportunities have been tied up by the big mining companies for centuries. The reality is quite different. In 2013 the top three investment sectors were technology, media and telecoms (TMT), retail and consumer products, and financial services, accounting for over 50% of FDI that year. Mining and metal industries, by comparison, dropped out of the top 10 sectors. Africa is also increasingly tech savvy and poised to move straight into the digital age, embracing IoT and manufacturing 4.0, creating opportunities across the digital spectrum, from education to artificial intelligence, data and service provision.

In addition to the diversification of their economies, African countries are also instilling confidence in their long term prospects through:

- An increase in political stability and reduction in deadly hostilities;
- More sound economic policy decision making, including reducing budget deficits and trimming foreign debt;
- Several Governments implementing more market-friendly policies, which are attracting investment and fostering healthy competition.

Demographic and social trends also reinforce Africa's prospects for long term growth. The population is young and growing, people are moving to urban centres and the middle class is expanding.

In fact, by 2020 it is estimated that 128 million Africans will have disposable income.

The relationship between Africa and Australia

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In 2008 the Australian Government instituted a policy of broadening and deepening its engagement with Africa. We have MOUs with the African Union Commission; South Africa, Botswana, Mozambique, the Gambia and Nigeria. Australia has established ties with regional African organisations – we are now accredited to the African Union, the Economic Community of West African States, the Southern African Development Community the East African Community, the Intergovernmental Authority on Development, the International Conference for the Great Lakes Region, and the Common Market for Eastern and Southern Africa.

Austrade has a presence in South Africa. This covers Botswana, Mozambique, Namibia and Zambia, Mauritius, Kenya & Ghana (which opened in 2012 and covers Burkina Faso, Cote D'Ivoire, Nigeria and Senegal).

Bilateral merchandise trade with Africa has grown by around six per cent annually over the past decade, to some \$9.7 billion. It is estimated that there is well over \$AUD50 billion of current and prospective Australian investment in Africa, particularly in the resources sector. There are approximately 220 Australian mining and oil companies with some 700 projects across 42 countries in Africa.

Where are the opportunities for Australian Companies?

Africa is a natural destination for all the products and services related to mining and agriculture in particular. Australia also has other areas of expertise, namely infrastructure and construction and related services, financial and professional services, tourism, education, and advanced manufacturing.

Here are the top ten growth sectors in Africa:

1. Resources
2. Wholesale & Retail
3. Agriculture
4. Transport & Communications
5. Manufacturing
6. Financial Services
7. Public Administration
8. Construction
9. Real Estate & Business Services
10. Tourism

More specific to Australia and our core capabilities are the following areas of opportunity:

- Economical and efficient **tropical agriculture and horticulture**- the management of cattle, irrigation etc in tropical environments
- **Aquaculture**
- **Mining Engineering and Technology Services (METS)** – Given the prominence of Africa's resource sector, there are significant opportunities for Australian METS companies – some of whom don't realise yet that they are globally competitive. Many may have been so caught up with domestic demand for the past 5 years that they haven't needed to look offshore, but now they might need to start looking outwards and they may be well positioned to succeed in Africa.
- **Consultancy services** for Governments across a range of areas, particularly in efficient collection, for instance, of electricity tariffs, telephone bills, taxes etc.
- **Financial services**, including Fintech
- **Infrastructure solutions** to meet infrastructure needs – Aviation, logistics (roads in particular) and ports are key strengths. We need to look broader and deeper into this sector.
- Cybersecurity
- Blockchain technology
- E-Commerce services
- Smart materials and IoT technologies

On which markets should Australian companies be focussing?

That is not an easy question to answer as it will greatly depend on the product and/or service and the risk profile among other things. In regards to the above mentioned opportunities, and in terms of stability, the following markets hold a lot of promise for Australian companies:

- South Africa
- Ghana
- Kenya
- Nigeria
- Botswana
- Mauritius

Recommendations to ensure Australian success in Africa

As we are all aware there is a significant focus on Asia and the Asian Century, this is evidenced by both the level of Government support in market and the availability of funding to support the development of business ties with the region. This is perfectly understandable given the significant market opportunities the region presents; however, Asia is not the be all and end all. There are major opportunities in other emerging markets, particularly Africa, and the Australian business and Government would be doing themselves a fundamental disservice to ignore this opportunity.

It is essential for Australia to position itself in the Global Value Chain that includes Africa in the broadest context. We are already behind many of our major competitors in exploiting the African opportunity, most notably, China, with its “do good while doing right” strategy which has seen US\$60 billion in new investment in major capital investments in the continent since December 2015.

Australia is traditionally very slow to react to opportunities in frontier markets. Why? One can reasonably assume it comes down to an adversity to risk, perhaps a lack of foresight and/or a lack of Government support which is often required for smaller companies to access new market opportunities. Add to this the often archaic and ineffective investment models applied to Africa by traditional Australian banking and investment institutions, and potential double digit returns are ignored.

For Australian businesses to seize the opportunity and succeed in Africa, we need to demystify the market risks and look at Africa through new lenses. The keys to success are:

- Market research
- Education
- Exposure.

In the first instance a research study is needed to provide the information on Africa that is currently lacking for Australian businesses. Africa is a continent containing 54 countries, each with a distinct character, economy, opportunities and risks (business, sovereign and political). Information is needed that can then be used to inform Government policy and leveraged into education.

Through Australian Government investment in education programs, Australian businesses can identify and mitigate any incumbent risks and make informed decisions about available opportunities. Education programs can include:

- Detailed “warts and all” market briefings
- “How to do Business” seminars
- Investment information workshops
- Bilateral roundtable briefings
- Business coaching
- Mentoring by Australian businesses already trading in Africa

Australian companies need to be exposed firsthand to the African business environment, through:

- Government-led business missions
- On the ground business matching
- Facilitated access to Australian companies successfully doing business on the continent

Whilst the ECA understands that there are many behind the boarder issues that could be seen as prohibitive to doing business in the region, this is no different from the NTM issues that Australian companies experience in Asia. Australia should show leadership by working with our trading partners across Africa to identify and resolve NTMs which exist in our own country.

If we don't start taking the 'Rise of Africa' seriously, we will be scrambling to set in place a plan when our competitors have already stolen a march on us.

Some comments on Australia's “Aid for Trade” program:

Aid for Trade needs to expand beyond Asia Pacific to include more strategic economic initiatives in Africa that can facilitate trade and investment.

Australia has typically focused a majority of its aid for trade in Asia Pacific which has made sense in the past.

Australia's development assistance through *aid for trade* needs to be better incorporated strategically in the pursuit of Australia's foreign and trade agendas. Assistance to developing countries to enable them to trade can have a positive impact on the poor, and their prosperity can benefit Australia in terms of improved security and trade relationship.

Aid for trade investments in support of policy and regulatory reform in developing countries can help close the gap in rules, administration and standards between developing countries and developed countries. In doing so, it encourages trade and investment across borders. Aid for trade provides the necessary hand-up for entrepreneurs and new businesses in developing countries to grow and create new jobs. Their success provides opportunities for Australian firms to form partnerships with them, including through the provision of support services and a link in global value chains.

Aid for trade can also be a useful tool in encouraging developing country partners to continue their engagement in multilateral forums, undertake reforms for economic growth and advocate the benefits of trade. Aid for trade investments could provide reformist governments in developing countries with clear evidence of the positive impacts of trade-related reforms and capacity building, especially if those investments are targeted at relevant groups, such as small businesses and women. Such investments, which are able to deliver more immediate and measurable results, would be useful in advocacy efforts to counter protectionism.

Aid for trade partnerships between government agencies, and partnerships between the government and the private sector are encouraged. Each party has a knowledge and expertise to share that could contribute to identifying new and ground-breaking initiatives. Indeed, Australia has much to share with developing

country partners, in terms of our experience in undertaking regulatory reforms, such as in privatisation and competition policy, as well as private sector expertise that could assist in reducing the costs of trade.

Given the contribution made by SMEs to job creation, policies that foster their growth can help raise incomes and reduce poverty in developing countries. Supporting developing countries to trade and prosper will ultimately benefit Australia's trade and investment opportunities.

This can be supported by:

- Developing initiatives targeted at building the knowledge and capacity of entrepreneurs and SMEs in Africa to do business across borders.
- Facilitating engagement between the private sectors of Africa and Australia, particularly between SMEs, to enhance business connections and allow the sharing of expertise and good practice.
- Focusing on strengthening domestic champions of trade in Africa, including by building the capacity of relevant industry bodies to undertake research and engage their governments on the need for reform to encourage trade.