

Inquiry into access to free trade agreements by small and medium sized enterprises

Submission



Australian Government
Department of Industry,
Innovation and Science



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*Asialink Business is supported by the Commonwealth Government Department of Industry, Innovation and Science,
The University of Melbourne and The Myer Foundation.*

Asialink Business Submission

May 2018

Introduction

Asialink Business welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade concerning access to free trade agreements (FTA) by small and medium-sized enterprises (SME). In our capacity as the National Centre for Asia Capability, we are astutely aware of both the opportunities and challenges facing Australian export-orientated SMEs in terms of utilisation of freed trade agreements for the export of goods and services into Asia.

In particular, this submission responds specifically to the term of reference with regard to the *ongoing capacity building and capability development that is necessary to assist in creating opportunities and capturing more value from free trade agreements in the future.*

While FTAs can increase Australia's competitive trading advantage, businesses need a wide range of capabilities to succeed in international markets. For our Asian FTA partners, a high-level of Asia capability – a mix of critical skills, knowledge and networks – is required to achieve results and capture maximum value from free trade agreements.

Through its partnership with the Commonwealth Department of Industry, Innovation and Science, Asialink business has a national mandate to build these Asia capabilities across all sectors of the Australian workforce. Since its inception in 2013, Asialink Business has supported thousands of organisations around Australia, spanning large listed businesses, small and medium enterprises, industry bodies, agribusiness, local councils, state and federal government departments, and the education and not-for-profit sectors.

This support includes assisting organisations to develop an increased awareness of business opportunities with Asian markets, knowledge to assess opportunities appropriately and build capabilities to execute opportunities effectively. For instance, in 2017 alone, over 8000 individuals and organisations participated in Asialink Business' capability development programs or business forums, and many more accessed our practical research products.

Challenges faced by SMEs in accessing FTAs

As the only dedicated centre of excellence for Asia business capabilities in Australia, and indeed globally, Asialink Business is uniquely positioned to understand the challenges and complexities faced by business, especially SMEs, in accessing and leveraging trade agreements.

Based on Asialink Business' extensive experience in working with diverse SMEs to help these enterprises build awareness about the opportunities in Asia, access FTAs, and build the capabilities required for Asia growth and expansion, Asialink Business has identified the following themes and challenges for SMEs in accessing FTAs:

1. Awareness

A residual lack of awareness about FTAs amongst certain segments of the FTA market is an ongoing barrier to FTA utilisation. While the Government's trade agenda of recent years is helping to address this challenge, significant knowledge gaps remain, including amongst regional and rural business. These gaps include (but are not limited to); how to access the benefits of particular FTAs, access and utilise tariff reductions and other benefits, and what publicly available tools are available to assist. Initiatives such as the FTA Portal have helped expand the pool of available resources for SMEs, but the level of awareness about these tools remains mixed.

2. Complexity and internal capacity

FTAs are inherently complex, which can be a deterrent for SMEs. Within smaller businesses, internal trade and export knowledge and skills are often limited, with many employees and business owners expected to cover a number roles and functions that may be specialised in larger organisations. Even allocating time and resources to attend a short course or FTA seminar can be challenging for small businesses.

Understanding complex documentation requirement around 'Rules of Origin' (RoOs) can be especially cumbersome, time-consuming and a costly exercise for SMEs – as documented in other submissions made to this Inquiry. In some cases, small and medium-sized businesses have provided feedback to us (for instance, in the margins of capability development programs) that these documentation requirements deters them from seeking to apply a lower tariff rate on their exports as negotiated under an FTA.

3. Capability

While FTAs have made significant progress in removing tariffs on goods exports for key sectors, as well as expanded market access for service providers, there are a number of non-tariff barriers that continue to prevent many SMEs from accessing FTA-related export opportunities.

The Asialink Taskforce for an Asia Capable Workforce found that capability issues are among the greatest impediments to planned expenditure or expansion into Asia for Australian businesses.¹

Many Australian businesses are seeking information, resources and training to help them export goods and services. The lack of Asia capability can create barriers for Australian SMEs in accessing and utilising FTAs, limiting the ability to design and execute an effective Asia market strategy, a pre-requisite for the successful utilisation of the trade agreements.

For example, common capability challenges include:

- Challenges in identifying market opportunities, market entry strategies and appropriate distribution channels;
- Language barriers;
- Cultural understanding (e.g. basic business customs); and
- Navigating the regulatory environment.

¹ Asialink Taskforce for Developing and Asia Capable Workforce,
http://asialink.unimelb.edu.au/_data/assets/pdf_file/0008/619793/Developing_an_Asia_Capable_Workforce.pdf

As part of our national mandate, Asialink Business is working across the SME spectrum to provide tools, capability development and deep market insights to SMEs to help bridge these gaps. Examples are set out in the following section.

Asialink Business' role in encouraging the use of free trade agreements (FTAs) by small and medium-sized enterprises (SMEs)

Asialink Business has extensive experience in supporting SMEs to expand or enter new export markets or expand their existing interests in Asian markets. Asialink Business does this through a number of different channels. These are tailored to meet the diverse needs of SMEs, at all stages of the export journey, from exploration to market entry and expansion.

1. Capability Development

Asialink Business offers short courses, open programs and customised training programs to build Asia capability, training and upskilling SMEs in Asia-capabilities in real and practical ways. Asialink Business has an experienced team of learning and development experts, a strong background in program management, instructional design and facilitation, and subject matter experts with deep Asian knowledge and practical business experience.

The City of Sydney has engaged Asialink Business to design and deliver a series of Asia Insights Workshops, which will help SMEs looking to enter markets in Asia, expand existing networks and drive future success. The workshops aim to increase local companies' knowledge and understanding of Asian markets across a range of relevant themes covering business and cultural considerations, including doing business with China and India, how to enter and expand into Asian markets, and conducting negotiations in Asia.

In another example, Asialink Business worked with one of NSW's government departments to roll out a series of three half-day workshops with an ASEAN Export Focus to rural and regional clients in Byron Bay, Newcastle, Wagga Wagga, Tamworth and Wollongong.

2. Practical Asia market information: Country Starter Packs

Asialink Business has 16 highly-regarded Country Starter Packs which provide a comprehensive source of information and insights on how to capture opportunities in evolving and complex markets.² The Country Starter Packs cover some of the largest economies in Asia, as well as providing guides on key ASEAN markets. Specifically targeted at SMEs, these starter packs are a go-to guide that provides a practical and comprehensive roadmap to understand opportunities and navigate different business cultures and practicalities. For example, the China Country Starter Pack provides an overview of the China-Australia Free Trade Agreement (ChAFTA), what benefits it provides for Australian services firms and what tariffs/import duties there are under ChAFTA.

² Country Starter Packs can be downloaded from the Asialink Business website. <https://asialinkbusiness.com.au/country-starter-packs>

Over 12,000 Country Starter Packs have been downloaded from Asialink Business' website and Shareable App since 2015. The Country Starter Packs have also been incorporated into federal and state government trade missions as an essential reference for delegates.

3. Practical Case-Studies

By profiling Australian businesses engaging successfully with Asia, Asialink Business aims to motivate, inspire and support SMEs who are thinking about entering Asian markets. Businesses profiled in the case studies share their challenges, tips and stories.³ Each case study has key learnings from the profiled business and a specific story which practically narrates the successes and failures. The case studies often highlight how the business used and benefited from free trade agreements in their journey to success.

While success was not instantaneous for The Truffle & Wine Co., a farm based in Manjimup, 300 kilometres south of Perth, the company's focus on building product awareness, strong local relationships and smart negotiation over several years enabled it to grow Hong Kong into one of its largest export markets. Asialink Business highlights the support that FTAs with some of Australia's largest trading partners – China (ChAFTA), Japan (JAEPA) and the Republic of Korea (KAFTA) had on the success for The Truffle & Wine Co.

Another case study showcases Fibre King Oryx Automation's journey as it looked at expanding its manufacturing overseas to escape the effects of the global financial crisis and a strong Australian dollar. It was the Thailand-Australia Free Trade Agreement (TAFTA) that helped it settle on Thailand. "TAFTA was one of the main reasons we chose Thailand over somewhere like Malaysia or southern China," says managing director Suren Moodley. The case study highlights the importance of FTAs, and how leveraging the benefits of TAFTA allowed Fibre King Oryx Automation to become a success.

4. Market Development Planning

SMEs often require additional support in preparing cost-effective and highly impactful market entry strategies in order to extract maximum value from FTAs. In one example, Asialink Business partnered with a cosmeceuticals business to develop their international strategy, focusing on the market opportunity for their cosmeceuticals in Singapore, Hong Kong, China and Indonesia. This included a comprehensive analysis of market structures, industry size, consumer segments, supply chain and logistics issues, as well as insight and information on the regulatory environment.

5. In-Market Support

Local councils have engaged Asialink Business to provide practical insights, guidance and support to SMEs who are looking to pilot exports to Asia. Services have included; one-on-one guidance and support workshops to assist businesses in the implementation of market development strategies, profiling and screening of potential in-market partners, guidance on distribution channels, pricing and branding strategy, and support with in-market visits and negotiations with potential in-market partners, agents of distributors.

³ Public Case Studies can be downloaded from the Asialink Business website. <https://asialinkbusiness.com.au/case-studies>

6. Asia Gateway Voucher Program

As an example of our market development planning services and in-market support for SMEs, Asialink Business is a registered provider for the Victorian Government Asia Gateway Voucher Program, a program that helps small and medium Victorian businesses and organisations build their Asia capabilities and grow their export and market development skills. The program offers up to \$50,000 in funding (on a co-contribution basis) to assist SMEs to enter new export markets, develop and implement market development plans, and optimise and secure new growth opportunities. This innovative program is a best-practice model that may be suitable for rollout on a national scale.

7. Public outreach and events

Through Asialink Business' active agenda of public events and business forums, together with our media and digital outreach, we raise awareness about the opportunities and the skills, tools and capabilities needed to harness this growth. Recent notable examples include the 'State of the Nation ASEAN' series, in March 2018, which included seminars and events on topics such as 'Understanding the changing ASEAN consumer' or 'Innovation and the Digital Economy'. As part of these forums, SMEs shared their experiences and tips in accessing FTAs such as the AANZFTA, SAFTA, MAFTA and TAFTA. These forums were live-streamed around Australia and Asia, attracting nearly 3000 participants.

Recommendations

Based on the challenges we have identified for SMEs in accessing FTAs, along with our existing platform of Asia capability development, Asialink Business recommends the following actions to support the use of FTAs by SMEs:

1. Consider ways to build-in and better integrate Asia capability training into domestic trade advocacy and efforts to promote utilisation of FTAs by SMEs. In particular, integrating existing Asia capability programs into FTA outreach, with a holistic approach spanning the spectrum of knowledge acquisition, awareness and capability/action.
2. Building on the above, ensure ongoing capability and capacity development adopts a 'whole-of-export-journey' approach, in which FTA utilisation is contextualised within the broader journey from building awareness of international opportunities to successfully taking a product/service to a global market.
3. Consider undertaking detailed research and mapping into how SMEs access export opportunities, including where FTAs are not utilised, and the growing emergence of new and non-traditional export channels such as e-commerce. E-commerce platforms such as JD.com and Alibaba are becoming increasingly popular platforms for Australian SMEs to sell to major markets like China.
4. Continue to support an active trade advocacy agenda, focused on simplifying, clarifying, and reinforcing key messages across all communication channels. This should include tailoring communication strategies that use targeted communication channels to reach SMEs. For example, reaching SMEs via peak body or organisations that represent industry groups, and utilising compelling business case studies and examples.



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5. Translate awareness of opportunities in Asia into real business action and outcomes, including support to distil the complexity associated with understanding 'Rules of Origin' (RoO) requirements for products and consideration of new innovative and digital 'single window' options to ease the burden on SMEs.
6. Continue to strengthen and prioritise building an Asia capable Australian workforce, including continued support for Asialink Business to deliver on its national mandate to ensure that Australian SMEs are ready, and able to, engage with Asia and utilise free trade agreements.



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