

Inquiry into Access to Free Trade Agreements by Small and Medium Size Enterprises

Introduction

I am an Australian, having lived in Hong Kong for over 15 years.

In the last couple of years my business has been importing a range of Australian food products. Our goal is to assist small/medium sized Australian companies introduce their products into Asian markets through the various channels, including wholesale/retail, and through both bricks and mortar and e-commerce.

My interest in this inquiry revolves around understanding the various considerations from the vast opportunities and benefits that abound within the Asian market, to the barriers that can restrict access to these potential opportunities.

Larger Australian brands already have exposure, and it is the smaller/medium sized companies, which offer great variety and quality, that are finding it harder to translate initial exposure into ongoing success.

What is a Small/Medium Enterprise?

It is important to understand the classification of each, as the size of business has a significant effect on capacity to enter/trade in a market. If it can be assumed that business classifications can be:-

Small Business = 1-19 employees
Medium Business = 20-199 employees
Large Business = 200+ employees

or similar, it can also be assumed, even within a defined classification, there can be significant barriers/opportunities for entry. (eg. A company that employs 20 is significantly different in terms of capacity/resources etc., than one that employs 180.)

Terms of Reference

As a small business operator, ChAFTA has **never** been the primary focus of any discussion I have had relating to import of food products to China. For large companies there is considerable weighting towards the benefits that come from goods that have less duties applied, but that weighting is less for small business operators.

If an FTA is a tool within a toolbox, then of itself, it is not the driver of opportunity for small business. There are many tools within that box that are more useful, simply in view of the non tariff barriers to entry that an FTA does not deal with.

This is further expounded when considering China as an example:-

- China has free trade agreements (to varying levels) in place with / is negotiating / has under consideration agreements with over 30 countries (plus those grouped within an ASEAN FTA)
- Many of Australia's "competitors" for the China market also include China as their single largest market
- Free trade zones around China offer some clear benefits to CBT (Cross Border Trade) e-commerce . This is an evolving system with various regulations changing constantly.
- The Belt / Road initiative is at least in part promoted as a means of developing free trade

All this is evidence that while FTAs (and the gradual reduction of tariffs), may reduce the barrier to entry, they are by no means a selling point unique to Australian exporters and cannot be used in isolation.

My experience on the ground, both in terms of actual experience as well as from reports, studies, and discussions with others, has been:-

a) Government Involvement

- Government views opportunity at a macro level.

Success for government is defined as number of trade shows organized, number of trade delegations arranged and sit downs set up, amount of grants handed out, etc., all on a large scale.

Success for a small /medium business is defined by how much product they shipped and sold.

While planning at macro level is of course paramount, it is the soft skills that make all the difference for small/medium business, who need “on the ground” help.

Example - with seafood exports, Australia competes against numerous others countries when exporting to Asia, Chile being a good example. Chile has a lower tariff than Australia currently, with lower overall pricing. This can be overcome to an extent because Australia can have product delivered within a day, whereas product from Chile is routed through the USA taking several days.

- Different levels of govt. compete against one another

Each state is independent of the others, which is understandable given such things as funding and the need to promote constituents. What this does however is fragment the market and dilute the “Brand Australia” message.

It is the diversity of what Australia offers and the Australian lifestyle that is our brand - wine from WA, paired with fish from Tas. and vegetables from Vic, for example.

b) Small/Medium business

- Long Term Outlook

Developing a new market requires a long term outlook. Australian small business has traditionally been risk averse – concerned with resources employed, costs involved and time taken to become established.

Access to FTA’s and grants, while being positive, has also pushed companies to export for the wrong reasons. Attend any food/wine fair in Asia and many will tell you they are there because of the grants provided.

Wine Australia has done an exceptional job of putting Aussie wines into the international arena, part of which is the result of providing grants and subsidies. There are however many, many wineries who fail to get any traction at all, because, once the fair ends, that is also the end of their exposure to the market, or they partner with an importer out of desperation only to find nothing comes of it.

- Strategy

A Shanghai based food consultant once told me that companies without deep pockets shouldn't enter the China market, to which I replied, it would be a shame if consumers only ever had exposure to products from the multinationals. But there is some merit in what I was told.

All entrants can easily make the mistake that China is "the opportunity", but in fact there are several markets within Asia alone that are suitable to promote Australian products. Each is different, each has pros and cons. Even the market within China itself is by no means homogeneous.

Understanding the market is vital. That requires "on the ground" assistance either by way of local support in the intended market, or an overall level of govt. support in excess of or substituting for the monetary assistance that comes from the FTA or grants.

Example – A product/service may take in excess of 12 months to get to market when taking into account, market research, building on any sort of relationship, packing for the local market, meeting local regulations etc. A small company is often not resourced for that, meaning a consultancy doesn't have any incentive to be involved. End result is often a slap dash approach or reluctance to even try.

- Knowledge

Attending the fair, or promoting products/services online is only the first step in the cycle.

Then comes attracting importers, meeting the various import regulations, packaging those products to meet guidelines and attract local consumers and more.

This is daunting for a small business operator who has never done it before. The tendency may be to walk away rather than follow through, resulting in lost opportunity.

Example – many small businesses looking to export products don't realise what is required. On many occasions I have been told by attendees at fairs they only want to deal with those willing to buy container loads of their product. There is no understanding of the need to start small and build, and in some cases be involved in the local promotion and marketing. Plus they cannot always scale up to meet the additional supply even if they could sell the quantity envisioned.

All of the issues raised above, represent more important factors than the benefit small business gets from FTA's, and where the govt. has to be involved to offer assistance, not specifically financial.

Going Forward

Even with FTA's the target market for Australian small business is where sophisticated shoppers are, because Australian products can rarely compete on price alone. Those who are:-

- less price conscious
- consider quality, consistency and continuity of supply
- care about the origin of products and their environmental impact
- etc.

Australia is not the only one in this space , so it then becomes a matter of how we distinguish ourselves from the rest.

New Zealand has done a good job of getting small business on the radar by hosting small events that promote NZ foods. They hold events catering to those in the relevant industry and are extremely well attended.

The best way to keep in the mind of our intended market, both importers and consumers, is to be consistent in sending out the desired message.

This requires having an ongoing, both online and offline, resource whereby suppliers and service providers can showcase their products/services. Consumers can sample or even buy products, which in turn would be a factor in convincing importers/retailers/service providers to stock the products/services being offered.

Instead of individual grants, ongoing support is provided allowing for the marketing and testing to make sure products are suitable, but also are given a chance to get traction.

My experience is that the market (particularly in China) is constantly evolving and adapting to new trends rapidly. One of those trends is for consumers to buy based on their experience or that of their friend or trusted party or even based on the advice of KOL's (key opinion leaders).

Together with the combination of tools (FTA, grants, knowledgeable and experienced operators etc) a fluent marketing approach including both online and bricks & mortar is required to overcome all the noise of every other country trying to sell into the same market.

Summary

FTA's do reduce barriers to entry, but are by no means the only way, and in many cases are not even the most important way for small/medium business to enter foreign markets

Often it requires a combination of not only (or necessarily) financial provisions, but access to knowledgeable and experienced operators who can navigate the various local requirements, from laws and regulations, to developing relationships with the right people.

Australia is not the only country with FTA's, is not the only county that can deliver high quality and sustainable products, and is by no means able to compete on pricing alone. Non tariff barriers to trade need equal if not more consideration.

“Australian Made” products have a great reputation, the Australian lifestyle is viewed favourably. Both contribute towards the Brand Australia image