



## Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into the Strategic Effectiveness and Outcomes of Australia's Aid Program in the Indo-Pacific and its Role in Supporting Australia's Regional Interest

The Export Council of Australia (ECA) welcomes the opportunity to make a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's (the Committee's) inquiry into the strategic effectiveness and outcomes of Australia's aid program in the Indo-Pacific and its role in supporting Australia's regional interest.

The ECA is the leading industry body focused on Australia's international businesses, particularly SMEs. Our core activities include research, advocacy, skills development and events.

Our advocacy program aims to make it easier and less expensive for SMEs to engage internationally. To pursue this aim, each year we make trade policy recommendations to the Australian Government. We also make submissions to relevant Parliamentary inquiries. Our recommendations and submissions can be found at <https://www.export.org.au/trade-policy/trade-policy-recommendations>. We develop our policy positions in consultation with members, industry, and the ECA's network of trade policy experts.

We engage with government agencies—Commonwealth, state and territory—to advocate for our members and support SMEs. We sit on several Australian Government consultative committees and working groups, including the National Committee for Trade Facilitation.

Last year we delivered the 'Australia Awards: Women Trading Globally' training program to women from Pacific Island countries. The Department of Foreign Affairs and Trade funded the program. We will deliver four more Women Trading Globally programs across 2018 and 2019.

### Summary

The ECA strongly supports the aid-for-trade component of the Australian Government's aid program and believes the aid-for-trade program is delivering positive outcomes for recipient countries and Australia.

One of the most fundamental economic principles is that the economy of any country benefits when it engages in international trade. Using aid to stimulate trade is a valuable objective for Australia's aid program. It not only benefits the recipient country, but it also benefits the region and Australia.

Growing a country's international trade requires coordination and support across multiple different areas: infrastructure development, micro, macro and international economic policy, institutional capacity building and governance development, and firm-level support. Of these, providing the right support to the right businesses is critical for achieving the desired development outcomes.

Its aid program is not the only way the Australian Government is growing trade in developing countries. Multilaterally, Australia is helping to grow trade through its international advocacy for an open international trading system based on rules. Expanding Australia's free trade network also contributes to growing the trade of developing countries in the region.

### Recommendations

The ECA recommends that the Committee:

- note the benefits trade brings to developing economies
- recommend the Australian Government continue and expand its aid-for-trade program.

## The benefits of economic development through aid

The ECA's advocacy program aims to make it less complex and expensive for Australian businesses to engage in international trade. Our skills and training program aims to increase the capability and capacity of Australian businesses to trade internationally. Our research program gives Australian businesses better insights into international markets. And the Export Awards programs we run in NSW, Queensland and Western Australia celebrate the international success of Australian businesses. We do all these because we fundamentally believe that Australia's long-run economic prosperity can only be achieved through international trade.

This, of course, is not just the case for Australia. The economy of any country benefits when it engages in international trade. Japan, South Korea and China show the economic growth that countries can achieve when they pursue development through international trade.

Trade is an important tool for economic development, and we welcome the government's recent focus on stimulating trade through aid. The aid-for-trade agenda delivers benefits in three ways: it benefits the developing country, it benefits the region and it benefits Australia.

Using aid to stimulate trade delivers many benefits to the developing country. Facilitating imports increases choice for consumers and lowers costs. It gives businesses the ability to export, accessing dramatically bigger markets and often better margins. The increased competition from opening up to trade leads to creative destruction, which makes the economy more dynamic and productive. Trade is strongly linked to innovation and growth. The experience in Australia and other countries, is that companies that engage in trade grow faster, employ more people and pay them more. Trade through foreign affiliates—that is, through overseas companies setting up offices in developing markets—is particularly beneficial for economic development. In addition to the benefits of trade mentioned above, when foreign companies open an office in-market, they bring investment, new jobs and knowledge (both technical, and more general business administration, knowledge).

Regional benefits also flow from using trade to stimulate aid. In trade, the proximity and size of an economy matter. The 'gravity theory' of trade—one of economics' strongest empirical findings—holds that bilateral trade increases in proportion to the GDPs of two countries but decreases in proportion to the distance between them. This indicates that growing one economy in the region will stimulate trade between it and other countries in the region. Given Australia's aid program largely focuses on countries within particular regions, and most of those regions are near Australia, growing economies through trade will have a multiplier effect for other regional developing countries, as well as Australia.

Australia similarly benefits from the aid-for-trade agenda. In the short term, Australian businesses can better access the developing economy's market, and Australian consumers can access the imports from that economy. Longer term, a stronger economy in the developing market will increase its size as a market. With a growing economy and more competitive businesses, Australian businesses will have more options to partner with businesses in the developing country that provide complimentary goods or services. Australian companies will invest in that country, increasing wealth in both countries. A stronger economy will reduce the need for development assistance and increase regional stability.

## How to grow trade through aid

Contrary to public perceptions there is much more to trade than free trade agreements. Trade is complex, and policies to grow trade must be multifaceted. Each element of trade policy must act in concert with the others—getting too far ahead on one element will lead to bottlenecks in the others. The key elements of trade policy are summarised below.

*Macro-economic and international policy settings:* pro-trade policy settings, such low tariffs, public advocacy for trade and investment, and participation in bilateral, regional and WTO trade negotiations.

*Deregulation:* minimising the 'non-tariff measures' that affect impede trade, such as divergent standards, sanitary and phytosanitary regulations not based on science, and local ownership requirements.

*Transparency and predictability:* ensuring the rules that affect import from or export to a country are clear and changes occur with sufficient notice and consultation.

*Competent, professional institutions:* customs, quarantine and other border agencies have the proper governance, training and systems to administer trade effectively and efficiently.

*Infrastructure:* not just transport infrastructure (road, rail, ports and airports) but also the other infrastructure essential for international business, such as cheap, reliable energy and internet.

*Firm-level support:* helping businesses engage in international trade, ranging from advocacy of the benefits of engaging in international trade, support for skills development and help to connect with potential overseas partners.

Ultimately, aid-for-trade can only be effective if there are businesses that are able to take advantage of the opportunities it creates. This is the most important element of trade policy. It is only when businesses succeed that an economy will grow. Targeting the right businesses can compliment other aid objectives, such as gender equality and reducing inequality. Helping businesses engage in trade is the most important aspect of stimulating aid through trade, but it's also the most difficult. With its 61 years of experience in helping Australian SMEs understand how to export, the ECA is working with DFAT to help women entrepreneurs in developing countries expand internationally (see below).

It is important to recognise that the Australian Government is doing much to facilitate trade than directing aid to these areas. Just as important is Australia's work to promote free trade internationally and support the global trading system.

The World Trade Organisation (WTO) is a critical organisation for growing trade in developing countries. Most obviously, Australia is a party to the Trade Facilitation Agreement (TFA). As part of the TFA, Australia supports developing countries to improve their trade facilitation practices. Less obvious, but perhaps more important to growing trade, is Australia's work within the WTO to ensure that the global trading system is open, transparent and based on rules.

In addition, the free trade agreements (FTAs) Australia negotiates with developing countries should also be considered as tools for economic development. As well as expanding market access between parties, FTAs contain provisions which strengthen governance and prompt economic reform and deregulation. These can range from provisions to facilitate customs processes, promote competition, harmonise standards, recognise qualifications, and increase certainty for traders and investors.

## Australia Awards: Women Trading Globally

In November 2017, the ECA partnered with DFAT to deliver the *Australia Awards: Women Trading Globally* program. The program was offered to women from Pacific Island countries who owned their own businesses, or played a leading role in their business.

The ECA received applications from over 250 remarkable women from across the Pacific, from which 15 extraordinary women were selected to participate in this two-week program.

The program consisted of an intensive training course in Brisbane to help participants to develop an export strategy and business plan. This was followed by a week in Sydney that included a series of roundtable table events with trade experts and business leaders. The program included site visits with two of Australia's female leaders in international trade, Samea Maakrun (Managing Director of Sasy n Savy) and Jane Lu (Founder & CEO of Showpo). Participants also toured innovation hubs including Triangles XYZ, Tank Stream Labs and Fishburners, and attended Indigenous advocacy training at the University of NSW.

Participants learnt about doing business in and with Australia, connected with other women entrepreneurs from Australia and the Pacific, and gained the knowledge and skills to enable them expand their businesses internationally.

Feedback from participants in the *Women Trading Globally* program was extremely positive:

- *A great 2 weeks of learning. So much info and so much to put into practise in my business. Much gratitude to DFAT, Export Council and everyone involved*
- *The whole program was very successful and I learnt some important tips on doing business and taking my business to new heights*
- *It gives real life experience of what to expect especially as a woman entrepreneur trying to get into exporting*
- *[I would like] this program to continue for more women to be empowered from the Pacific*
- *Overall, a very powerful program*
- *Future programmes highly recommended*



Women Trading Globally participants and ECA staff at a networking event in Sydney, November 2017