



Inquiry into the Business Experience of Using Free Trade Agreements

**Submission to the Joint Select Committee on Trade and Investment
Growth**

26 June 2015



Australian Government
Department of Industry and Science



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MELBOURNE



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FOUNDATION

Introduction

Asialink Business welcomes Australia's Free Trade Agreements (FTAs) and in particular, the push to conclude the three new agreements with our largest North Asian trading partners – China, Japan and the Republic of Korea.

China, Japan and Korea already account for over 50 per cent of Australia's exports. Collectively, the new trade agreements with these countries will provide Australian business with preferential access to a market of 1.5 billion consumers.¹ These agreements deepen Australia's trade and investment links with Asia and build on the preferential market access achieved for Australian business in Asia with the existing trade agreements with ASEAN, Thailand, Malaysia and Singapore.

But while FTAs can increase Australia's competitive trading advantage, building the Asia capability of business – the critical skills, knowledge and networks needed to engage with Asia – is an essential ingredient for success.

Australian business is currently very under-represented in Asia, with less than ten per cent of businesses engaged in the region, according to recent research.² Many businesses, particularly small and medium enterprises, lack even a preliminary understanding of how to engage with Asian markets, including with those markets where FTAs are in place.

This lack of understanding, capability and confidence to engage with Asia is a barrier to many businesses that prevents them from utilizing and maximizing the FTAs. If businesses do not develop their Asia capabilities, they will struggle to fully harness and tap into the benefits of the FTAs.

This submission responds to the Committee's terms of reference to inquire into ways to boost Australia's trade and investment performance and business' experience utilizing FTAs. Building Asia capability is an important part of removing barriers to trade and maximizing the opportunities the FTAs can deliver for the Australian community.

Asialink has over twenty-five years of expertise in deepening Australia's engagement with Asia. Asialink Business, as the national centre for Asia capability, focuses on building an Asia capable Australian workforce.

¹ Department of Foreign Affairs and Trade (DFAT) (2015), Trade Statistics

² Pricewaterhouse Coopers (2014), *Passing us By* report

Recommendations

1. Enhance business experience in utilizing FTAs and maximizing the benefits of such agreements by continuing to **strengthen and prioritise building an Asia capable Australian workforce**.
2. Consider ways to build-in and **better integrate Asia-capability training into domestic trade advocacy** and efforts to promote utilization of the North Asia FTAs, in particular ways to integrate existing Asia capability programs that already receive government support.

Asia capability – an essential ingredient for successfully using FTAs

Many Australian businesses remain hungry for information, resources and training to help them move into Asia. This lack of Asia capability creates barriers for Australian business in utilizing the FTAs. Capability barriers prevent many businesses from harnessing the FTAs to their full potential. These capability barriers also often limit businesses, particularly small and medium enterprises, from designing and executing effective Asia market strategies, which are a pre-requisite for successful utilization of the trade agreements.

The Asialink Taskforce for an Asia Capable Workforce³ found that **capability issues are among the greatest impediments to planned expenditure or expansion into Asia for Australian businesses**. While research found that the higher the proportion of Asia capable leaders - those leaders with understanding of and experience with Asia - the more likely business performance will exceed expectations, the opposite was also true. The Taskforce identified a set of individual and organizational capabilities that are critical to success in doing business with Asia (see Figure 1 below).

Similarly, a 2014 major independent research study identified primary 'capability-based' challenges that can also create barriers for business in Asia.⁴ The survey found that the biggest gaps for Australian businesses in terms of their resources for engaging with Asia included a lack of country-specific information on how to start up operations in Asia, insufficient industry-specific data on Asian markets, and understanding of the differences between Australian and Asian business cultures and how to adapt. Addressing such gaps and building critical Asia capabilities is crucial to equipping business with the skills needed to harness Australia's FTAs with Asia.

³ 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

⁴ Independent research commissioned by Asialink Business, supported by the Business Council of Australia and the Australian Industry Group,
http://asialink.unimelb.edu.au/asialink_business/business_resources/research_reports/engaging_asia_challenges_for_australian_businesses

Figure 1: The Asia capabilities framework
Developed in conjunction with The Boston Consulting Group

INDIVIDUAL CAPABILITIES	ORGANISATIONAL CAPABILITIES
<p>Sophisticated knowledge of Asian markets/environments</p> <ul style="list-style-type: none"> In-depth understandings of the business, cultural, political, ethical and regulatory environments specific and unique to each Asian country of operation Understanding of the strength of local Asian competitors and of the importance of 2nd and 3rd tier cities 	<p>Leadership committed to an Asia-focused strategy</p> <ul style="list-style-type: none"> Engaged leadership with clear strategy for Asian operations and clear vision of how they fit within a more global business Leadership team of both expats and locals with experience gained through cross-cultural rotations
<p>Extensive experience operating in Asia</p> <ul style="list-style-type: none"> Extensive experience (>2 years) operating across a diverse range of Asian markets Successful experience managing risk (e.g. FX/I.P.), working with governments and regulators, and navigating market access hurdles 	<p>Customised Asian talent management</p> <ul style="list-style-type: none"> Customised local talent management strategies to attract, develop and retain local talent Fluid rotation of emerging leaders (both Asian and expatriates) to, from and within Asia
<p>Long-term trusted Asian relationships</p> <ul style="list-style-type: none"> Investment in, and the ability to develop and maintain, business networks and long-term relationships Ability to utilise long-term relationships to identify and select quality partners and/or acquisition targets Ability to deal and negotiate with Asian business executives, potential partners and acquisition targets 	<p>Customised offering / value proposition based on customer insights</p> <ul style="list-style-type: none"> Adaptation of offering, brand and value proposition to Asian market segments and preferences, informed by customer insights Global standardisation balanced with local customisation to optimise economies of scale and scope
<p>Ability to adapt behaviour to Asian cultural contexts</p> <ul style="list-style-type: none"> Sensitivity to the impact of culture on the process and content of business interactions Flexibility to adapt behaviours to specific Asian cultural and business contexts 	<p>Tailored organisational design with tendency to local autonomy</p> <ul style="list-style-type: none"> Tailored organisational structure to suit one's own business and the local market conditions Tendency toward local autonomy and country-specific organisational structure, providing flexibility to adapt to complex and rapidly changing Asian markets
<p>Capacity to deal with government</p> <ul style="list-style-type: none"> Ability to work with government entities, state-owned enterprises and government processes Ability to deal and negotiate with Asian political leaders and regulators in local markets 	<p>Supportive processes to share Asian learnings</p> <ul style="list-style-type: none"> Processes in place to ensure proactive and collaborative sharing of Asian learnings and best practice between business units, functions and countries
<p>Useful level of language proficiency</p> <ul style="list-style-type: none"> A useful level of proficiency in the local language(s), for better communication and to demonstrate commitment and cultural sensitivity 	

Using the FTAs to drive growth in services trade and create jobs

Services are a key element of Australia's trade with our Asian FTA partners. Maximizing use of the FTAs by business in the services sector can help ensure Australia leverages the growth opportunities presented by Asia's middle classes and their rising demand for services. **More effective use of the FTAs by businesses in the services sector will help create more and higher paying jobs for Australians.**

The demand in Asian economies for services is set to expand, as the middle classes burgeon from around 500 million today to 3.2 billion people by 2030. This transformation presents growing opportunities for Australian services firms and services exports to the region.

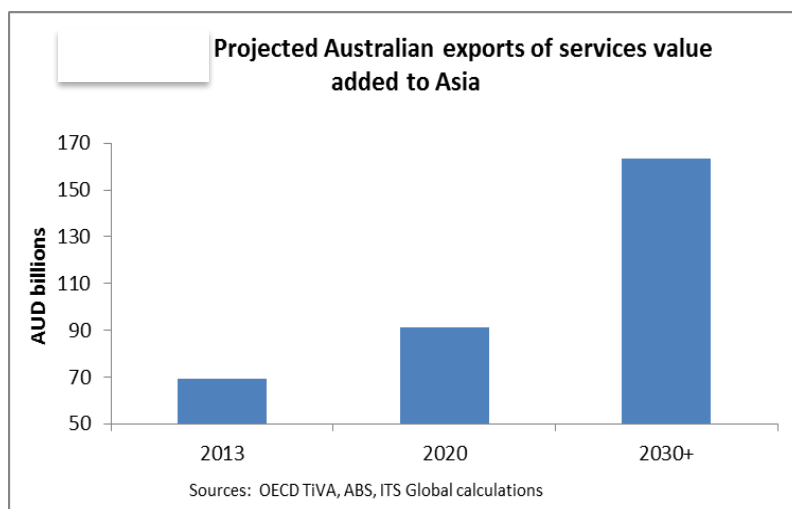
A 2015 study by Asialink Business, together with ANZ and PwC, found that Australia's services sector is well positioned to underpin future job growth in Australia by increasing its engagement in international trade – expanding exports of services, enhancing the competitiveness of goods exporters, and expanding the offshore operations of Australian services businesses.⁵ Value-added exports from the Australian services sector to Asia are on track to increase from \$69 billion in 2013 to \$91 billion in 2020, and to as much as \$163 billion over the longer term (i.e. beyond 2030) (see Figure 2 below). **Services could support a million Australian jobs by 2030, a more than 50 per cent increase from 2013.**

⁵ Australia's jobs future: The Rise of Asia and the services opportunity (2015), http://asialink.unimelb.edu.au/asialink_business/business_resources/research_reports/australias-jobs-future-the-rise-of-asia-and-the-services-opportunity

The recently signed FTAs with China, Japan and Korea make significant progress towards open services markets. It is important that the Australian government builds on these gains by advocating similar measures in future FTAs.

Similarly, as Australia's trade with Asia shifts increasingly towards the services sector, Australian businesses will be required to engage in much greater levels of face-to-face interaction with their Asian business counterparts than they would in the goods sector. This shift requires government, business and the education sector to increasingly work together to develop an Asia-capable workforce that will become **a service provider of choice in the Asian region.**

Figure 2: Projected growth in Australia's services exports to Asia



Building an Asia capable workforce

Equipping organizations with the right capabilities and knowledge to do business in Asia will enhance businesses experiences in utilizing the Asian FTAs.

As Australia's national centre for Asia capability, Asialink Business is **mandated by the Commonwealth Government** (Department of Industry and Science) to support Australian businesses operating in all sectors to develop the critical skills needed to do business with Australia's Asian FTA-partner countries, and throughout the region.

Asialink Business delivers a suite of high-caliber, market-relevant capability development programs, research and advocacy to help businesses build the Asia capabilities of their staff. We do this by:

- offering a suite of public training programs, online courses and tailored in-house learning, including the flagship Asialink Leaders Program;



- delivering high-quality analysis and research to help business understand Asian markets, for example, our comprehensive Country Starter Packs are an informative and practical 'go-to' guide for businesses wanting to expand into Asia; and
- driving public debate on Asia capability through advocacy and a portfolio of prominent events.

Ongoing and robust support for initiatives to build an Asia capable Australian workforce as a matter of priority will enhance business experience in utilizing FTAs and maximizing the benefits of these agreements. Asia capability is therefore an important element of the government's domestic trade advocacy and efforts to promote utilization of the new North Asia FTAs.

Stronger integration of existing Asia capability programs (particularly initiatives that are already supported by government) into the Government's trade advocacy and FTA promotion activities will help ensure the FTAs deliver the maximum benefits to the Australian community.

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