



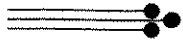
Submission No 18

Inquiry into Australia's Relationship with Malaysia

Organisation: Australia's ICT, Electronics and Electrical
Manufacturing Industries - AEEMA

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**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND
TRADE**

**FOREIGN AFFAIRS SUB-COMMITTEE
AUSTRALIA'S RELATIONSHIP WITH MALAYSIA**

**COMMENTS BY AUSTRALIAN ELECTRICAL AND ELECTRONIC
MANUFACTURERS' ASSOCIATION (AEEMA)**

INTRODUCTION

AEEMA welcomes this opportunity to provide industry input on behalf of its members for the review of Australia's relationship with Malaysia. We note the terms of reference below and will address them briefly in this response. At the outset however, AEEMA wishes to bring to the Sub-committee's attention the fact that current negotiations into a Free Trade Agreement with Malaysia have largely set the background against which AEEMA members have provided comments on relationships with Malaysia. While FTAs and the like are designed to liberalise trade, the reality is that the Australian manufacturing industry is competing with overseas industries from many nations that support low-cost labour regimes, and some of whom provide substantial government funding for market access development. AEEMA members remain concerned, notwithstanding recent upward trends in the sector, that manufacturing in Australia continues to face unrelenting competition from economies where costs are lower and investment environments are far superior to those facilitated by the Australian government.

AEEMA is an active participant in DFAT's industry consultative group on all current FTA's, including negotiations with Malaysia. Our members' key concerns with all current FTA negotiations is the appropriate protection of their intellectual property, the robust handling of behind-the-border issues, low cost labour and manufacturing competition, and government procurement.

While AEEMA is in favour of relationship strengthening with our trading partners, there remain concerns among some sectors of the industry represented by our constituency. These concerns are based on perceived abilities, or lack thereof, to meet fierce competition from lower cost jurisdictions while sustaining a place in an increasingly global market. AEEMA members undertake some trade with Malaysia and this will increase as the trade relationship improves. Malaysia represents a key trading partner with Australia, ninth overall and fourth in the ASEAN group. Efforts to focus on key trade relationships can only assist with the future success of an FTA and AEEMA supports government efforts in this space.

THE CHALLENGES

The manufacturing sector in Australia is facing new challenges as well as opportunities from heightened global competition. Already, competitive pressures from low cost countries such as China and India have caused the sector to adopt and adapt; in future years, as those low cost markets move up the innovation path, greater competition can be expected for high value, elaborately transformed manufactures. Important questions about the role of domestic manufacturing activity, the ability of the sector to meet global competition head-on and the critical role that government policy can play, must be answered. Externalities eroding our members' ability to face-off global competition include the high exchange rate, high oil prices, the rise of China and India (and other vigorous Asian economies) and the everyday issues of market access, skills shortages, logistics, the need to innovate, and overall product trade promotion.

BACKGROUND

The Australian Electrical and Electronic Manufacturers' Association Ltd (AEEMA) is the peak national, industry body in Australia representing some 400+ infrastructure providers for Australia's ICT, electronics, and electrical manufacturing industries. AEEMA is organised in three principal divisions (electrical, electronics and 'ICT Australia[®]'); member companies belong to some 16 industry forums and provides secretariat services for three other associations, the Armed Forces Communications and Electronics Association and IES The Lighting Society. AEEMA also supports industry-led clusters linked to national strategic development.

AEEMA's policy platform is based on adherence to competitive market principles, removal of trade barriers including non-tariff barriers, reduced red tape, regulation only where required, equitable tax treatment for business and the removal of impediments to Australian manufacturing that harm its international competitiveness.

TERMS OF REFERENCE

- **bilateral relations at the parliamentary and government levels**

AEEMA notes that current economic links and complementary trading relationships between Australia and Malaysia are underpinned by close cooperation between the two governments, as well as strong private sector contact and 'cultural' people-to-people links. There is substantial cooperation in areas such as education, defence, counter-terrorism, policing and immigration. Both governments participate in regional trade bodies such as WTO and APEC.

- **economic issues, including trade and investment**

AEEMA notes that Malaysian investment in Australia puts it at the 13th largest investor here, while Australia has not invested heavily in Malaysia since the financial crisis in 1997. Some AEEMA members doubt the efficacy of high investment in offshore economies by Australian manufacturers. There may be some benefit to shareholders but the value added from a domestic manufacturing industry goes well beyond the interests of shareholders. Demand for supplier industries, technology and skills development and employment, gained from a domestic industry can be more valuable to Australia than returns on investments for shareholders. AEEMA members query any view that represents a mere "throwing in of the towel" to the assumed relocation of manufacturing off-shore.

While Australia now has one of the most open economies in the world, with average tariffs sitting around 3.5%, many of our trading partners maintain high tariff and non-tariff protection. Offshore markets for our manufactured products and services must be further liberalised so manufacturers can compete – the recent failure of the Doha round of trade negotiations has delivered a severe blow to hopes for such liberalisation. Regional and bilateral negotiations must continue so that market access is more readily available, and the range of non-tariff barriers currently preventing or limiting successful trade should be addressed. Key among these is intellectual property protection in foreign markets, as well as technical and standards barriers.

- **cultural and scientific relations and exchanges**

AEEMA members have commented that cultural and business exchanges have, for the most part, been positive and productive. While direct business outcomes may not be always readily apparent, the relationship-building necessary as preliminary to successful business can be conducted relatively easily.

- **defence cooperation and regional security**

Some AEEMA members are involved in supply to support defence cooperation in the region and further evidence about the issues surrounding these activities can be provided during AEEMA's appearance before the Sub-committee.

CONCLUSION

Against the new landscape of emerging economies and liberalised trade with lower cost jurisdictions, industry and government must revisit policy settings and increase economic reform so that manufacturers can adapt to the new challenges arising from global competition and complex trading relationships. Manufacturing firms now operate in one of the most competitive markets in the world. Industrialised countries are competing on high value, innovative products and groundbreaking new processes and services. Developing nations are driving costs down and penetrating traditional markets with competitive imports. Australia's current wealth creation arising from the resources boom provides us with an ideal opportunity to invest now before capacity is lost to other markets, and so as to provide a sound basis upon which manufacturing industry can indeed exploit the growing opportunities presented by liberalised trade.