

INQUIRY INTO DIVERSIFYING AUSTRALIA'S TRADE AND INVESTMENT PROFILE

July 2020



Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to participate in the Inquiry into diversifying Australia's Trade and Investment Profile. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 448,000 Queensland small and medium businesses who employ 66% of Queenslanders working in the private sector.
2. On Wednesday, 26 February 2020, the Joint Standing Committee on Trade and Investment Growth resolved to inquire into the 2018-19 annual reports of the Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade). The focus of the Committee's inquiry will be to understand whether there is a need for Australia to diversify its trade markets and foreign investment profile. The inquiry is being conducted under the following terms of reference:
 - a) Consider if Australia is too reliant on any one market for exports. If so, what factors are contributing to this dominance;
 - b) The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on any one market;
 - c) Consider if Australia is too reliant on foreign investment. If so, what factors are contributing to this dominance;
 - d) The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on foreign investment, especially foreign investment by state-owned enterprises;
 - e) The impact of global crises including trade disputes and political disputes on Australia's relationship with countries we are reliant upon for trade and investment purposes;
 - f) The impact of bilateral trade agreements on Australia's exports and whether they contribute to concentrated export markets;
 - g) The impact of bilateral trade agreements on Australia's domestic market and whether they contribute to an over reliance on foreign investment;
 - h) Analysis of industry and government preparations to diversify its trading partners and secure new markets for Australia's exports, including through further free trade agreements; and
 - i) Analysis of industry and government preparations to ensure the Australian economy is not overly reliant on foreign investment

CCIQ Approach

CCIQ will take a Queensland-centric view in this submission, with brief references to Australia-wide trends and data. Our approach will focus on concentration of export markets because of the value of exports for Queensland’s economy. CCIQ will not dwell on investment because, although the USA is Australia’s biggest source of investment, it is not unduly dominant in this regard. Furthermore, Australia’s recent move to objectively assess investment projects using the national interest test will help to effectively manage major risks from inward investment.

CCIQ will focus on the elements of greatest relevance to exports in the terms of reference while steering away from broad foreign policy positions that are outside our area of expertise. This will lead us to address four of the nine elements in the terms of reference.

Background - Australia’s goods and services export profile

Australia’s goods and services export basket is highly concentrated, with a major focus on commodities such as iron ores and concentrates, coal and natural gas. In terms of services, education services (primarily international students studying at Australian tertiary institutions) and personal travel services (mainly tourism) are the largest components.

Top 10 exports of goods & services (e)									
March quarter 2020	2014	2015	2016	2017	2018	2019	2019 share	2019 growth	5-year trend
	\$b	\$b	\$b	\$b	\$b	\$b	%	%	%
1 Iron ores & concentrates	66.0	49.1	53.8	63.1	63.3	96.2	19.5	51.8	8.3
2 Coal	38.0	37.0	42.3	57.1	66.8	64.0	13.0	-4.3	14.3
3 Natural gas	17.7	16.4	17.9	25.6	43.3	48.7	9.9	12.4	26.8
4 Education services (f)	19.8	22.7	25.8	30.3	35.2	40.3	8.2	14.5	15.4
5 Gold	13.5	14.5	18.9	17.6	19.1	23.4	4.7	22.1	10.6
6 Personal travel services (g)	17.2	19.8	21.2	21.3	22.2	22.6	4.6	1.5	5.1
7 Beef f.c.f.	7.8	9.3	7.4	7.5	8.7	10.8	2.2	24.8	4.3
8 Aluminium ores & conc (incl alumina)	6.3	7.5	6.5	8.4	11.3	9.8	2.0	-13.3	11.2
9 Crude petroleum	10.6	6.0	4.8	5.2	8.1	9.5	1.9	17.4	1.3
10 Copper ores & concentrates	5.4	4.8	4.7	4.8	6.1	6.2	1.3	0.6	4.2
Total	332.3	323.3	337.1	387.0	438.4	492.6	100.0	12.4	9.0

Source: Department of Foreign Affairs and Trade (DFAT)

Background - Australia's goods and services export destinations

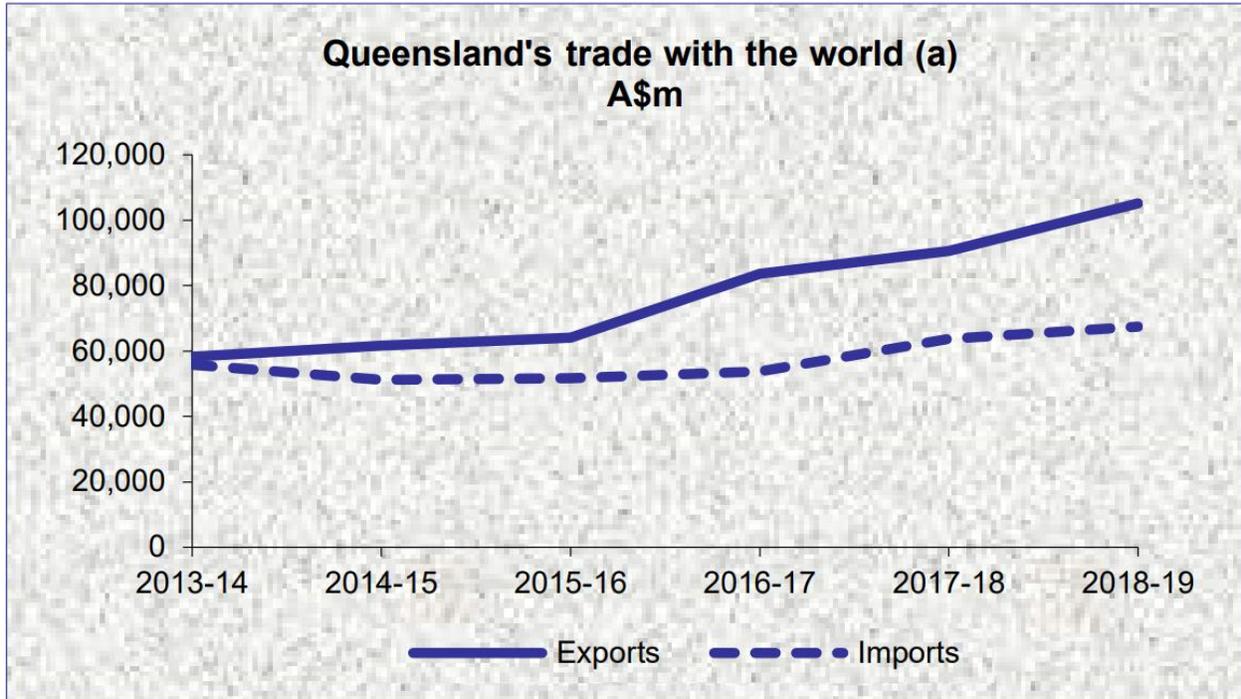
Australia's export destinations are also highly concentrated, with China holding a dominant position. According to DFAT, China received over \$153 billion of Australian goods and services exports in 2018-19, equal to the next four export destinations combined.

Top 10 export destinations (goods & services)									
March quarter 2020	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 share	2018-19 growth	5-year trend
	\$b	\$b	\$b	\$b	\$b	\$b	%	%	%
1 China	100.0	85.1	87.8	110.0	123.6	153.2	32.5	23.9	10.5
2 Japan	51.0	46.4	38.0	44.5	51.3	61.7	13.1	20.4	4.1
3 Republic of Korea	22.7	20.6	20.0	22.8	23.7	27.8	5.9	17.1	4.6
4 United States	17.2	20.5	21.9	20.7	21.4	24.7	5.3	15.7	5.5
5 India	10.6	12.9	13.3	19.3	21.1	22.8	4.9	8.1	17.6
6 New Zealand	11.8	12.7	13.2	13.7	14.3	16.0	3.4	11.8	5.6
7 Singapore	11.2	12.4	10.1	11.3	13.1	16.0	3.4	21.5	6.1
8 Taiwan	8.3	7.9	7.7	10.0	11.0	13.9	2.9	26.4	11.5
9 United Kingdom	8.4	9.1	12.6	12.8	11.8	13.5	2.9	14.8	9.4
10 Malaysia	7.5	8.4	7.7	8.4	8.9	11.5	2.5	29.4	7.1
Total	336.3	324.7	319.7	373.8	403.4	470.7	100.0	16.7	7.4

Source: Department of Foreign Affairs and Trade (DFAT)

Queensland trading profile

Queensland is an export-driven economy responsible for 23% of Australia's total trade. While goods and services import values have held steady, export values have been on a sharp, upward trajectory, growing from nearly \$60 billion in 2013-14 to \$105 billion in 2018-19. The graph below summarises Queensland's goods and services trade:



Source: Department of Foreign Affairs and Trade (DFAT)

Given that Queensland's Gross State Product (GSP) was approximately \$350 billion in 2019, these figures underscore the value of international trade to Queensland's economy and the value of Queensland's participation in this inquiry.

Queensland trading partners

DFAT data confirms that Queensland's export destinations are also highly concentrated. China has a dominant role, taking in nearly \$29 billion or 32% of Queensland's merchandise exports in 2018-19. This was nearly the same proportion as the next three highest export destinations (Japan, India, Republic of Korea) combined. Queensland's services exports, primarily education and training and tourism are also dominated by China.

Reasons for single-market dominance

The primary driver for an exporter is the presence of a market in a recipient economy. China has the world's largest population and, according to the World Bank, has experienced average economic growth of nearly 10% per annum since economic reforms were initiated in 1978. China also has a massive and fast-growing urbanised middle class driving the consumption of high-quality food products and education and tourism.

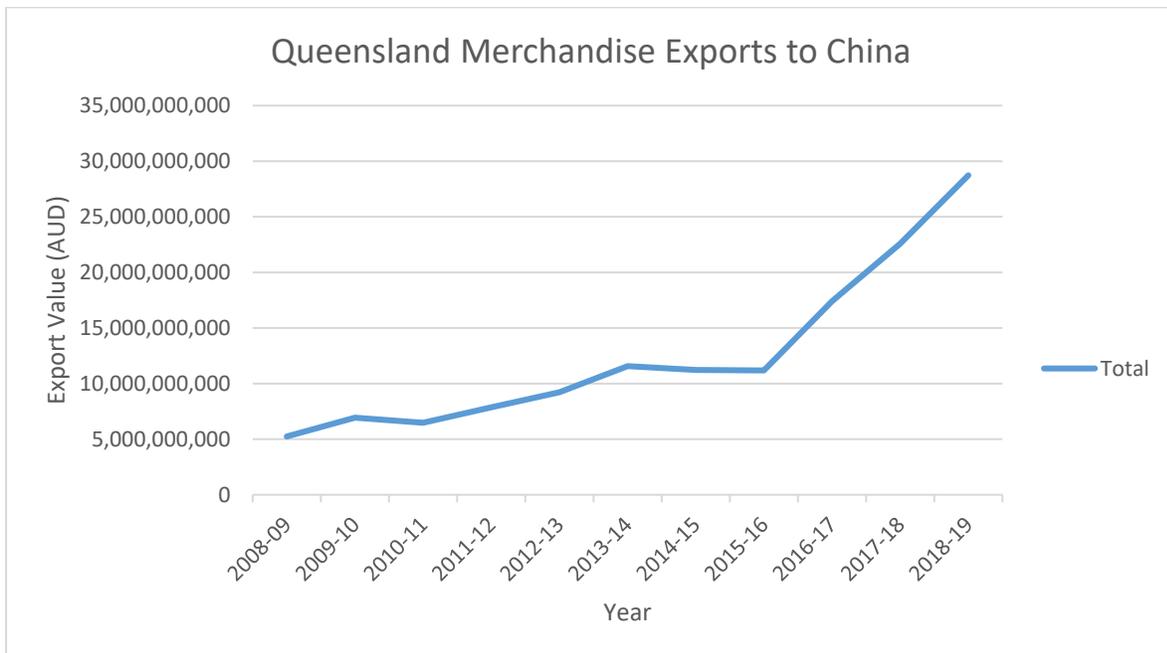
Additionally, economic complementarity and geographic proximity are major export drivers. Australia, and Queensland in particular, is a major producer of coal (43% of Queensland's 2018-

19 export value) and Liquefied Natural Gas (approximately 18% of Queensland’s 2018-19 export value), while China is the world’s largest consumer of both. Given that Australia is geographically closer to China than other major producers of coal and LNG, with Queensland being particularly close, there is major trade complementarity with China. Chinese middle-class demand for international education and tourism also complements Australia’s strength and reputation as a high-quality provider of these services.

After China, Japan, India and South Korea are Queensland’s next four largest trading partners and their trade with Australia is also driven by market size, trade complementarity and geographical proximity. This makes these factors the baseline for exploring export market diversification.

Analysis of Queensland’s reliance on one market

Queensland’s exports to China have shown exponential growth, bringing in billions of dollars of revenue into the state. The graph below shows the upward trajectory of Queensland’s exports to China over the last decade and encapsulates the enormous direct benefit of linking our economy to a massive, growing economy. The huge increase in direct export revenue from \$5 billion in 2008-09 to nearly \$28 billion in 2018-19 was immensely beneficial to the Queensland economy, even before considering the downstream benefits such as jobs created, royalties paid, investment attracted and the economic multiplier effects thereof.



Source: CCIQ calculations from Queensland Government Statistical Office (QGSO) data

Conversely, the dominance of a single market amplifies Queensland's susceptibility to economic and international trade shocks. When the COVID-19 virus outbreak in China resulted in the collapse of Chinese demand, Queensland-based lobster exporters saw their markets effectively disappear overnight. Furthermore, the current trade issues between China and Australia on beef and barley will have a massive impact given that beef is Queensland's largest manufacturing sector and largest non-commodity export, with a value of about \$5 billion a year. Queensland is less dominant as an exporter of barley, but this is still a valuable export commodity impacted by the current trade issues with China.

Impact of global crises

Global crises are an international trade and investment reality. The COVID-19 crisis demonstrated the disruption that can occur to world trade and investment as a result of events originating in one country. Australia managed the public health response to COVID-19 in exemplary fashion and ameliorated the worst of the economic impact. However, the effects of COVID-19 on demand in overseas markets and on international supply chains and freight costs are impossible for a single government to influence.

Trade disputes are also an international trade and investment reality. CCIQ is supportive of the Australian Chamber of Commerce and Industry's (ACCI) work with the Australian government to address the issues with Chinese imports of Australian beef and barley. Despite speculation on the link between these two trade disputes and political issues, CCIQ contends that dialogue with trading partners is the best way to resolve trade disputes.

Australia is also an active and respected participant in the multilateral trading system, underpinned by the World Trade Organisation (WTO) dispute settlement system. Despite the effective crippling of the WTO's dispute settlement system, Australia is one of 15 signatories to the temporary dispute settlement mechanism designed to preserve the WTO as a rules-based organisation. This commitment to a rules-based multilateral trading system is to Australia's benefit and is a critical way of managing the risk of trade disputes.

CCIQ therefore submits that political, trade and other crises are an unavoidable part of doing business and that dialogue and continued support of the global rules-based system is the best way forward.

The impact of bilateral trade agreements

Bilateral trade agreements are an important and valuable part of the Australian trade and investment landscape. If a current or potential market exists, bilateral trade agreements can play a pivotal role in reducing barriers to market entry, improving Australian product competitiveness and potentially reducing regulatory barriers in services sectors. Although attribution is often difficult, it is logical to infer that trade agreements have had a positive effect

on Queensland's exports to different markets. The China Australia Free Trade Agreement (CHAFTA) came into force in December 2015 and CCIQ saw a significant increase in the number of Certificates of Origin issued for exports into China. Certificates of origin issued by CCIQ and destined for China jumped by 16% in the year immediately after CHAFTA's entry into force and by nearly 40% in the subsequent year.

CCIQ supports the Australian government's negotiation and conclusion of comprehensive bilateral trade agreements and submits that, while they do influence trade and investment flows between Australia and trading partners, they are not the biggest influence and should not be regarded as a risk factor. This is particularly pertinent, given that Australia has a stated goal of covering 90% of two-way trade with FTAs by 2022. The high proportion of trade covered by FTAs will further reduce the risk of excessive market concentration.

Diversifying Australia's trading partners

CCIQ supports efforts to diversify Australia's export markets. Market diversification is a critical element of risk management and will help to reduce the economic impact of any political, economic or public health shock emanating from one country. It is, however, critical to assert the following principles.

- The existence and size of a market is the primary driver in any export decision and outcome. This means that Queensland's current export markets are likely to remain important and that any attendant market concentration risk should be managed rather than avoided or abruptly curtailed.
- Market development takes time, resources and effort. CCIQ's interactions with small and medium enterprises highlight the fact that market development is a time and resource-intensive exercise with an uncertain outcome, even for highly experienced exporters. Market diversification strategies should take this into account when considering diversification timelines and resource allocation. Expanding and simplifying current initiatives such as Export Market Development Grants should remain a priority as they help bridge the resources gap that potential exporters often face.
- Small and medium enterprises (SMEs) constitute nearly 98% of Queensland's economy and employ 66% of Queenslanders in the private sector. This sector should be actively supported in any trade and investment diversification strategy. CCIQ conducted a poll of export impediments amongst Queensland's SME community. Supply-side constraints (access to finance, access to information and supply chain costs) featured prominently in this list and underscored the importance of addressing these issues in Australia before considering exports. The post-COVID reform agenda proposed by the business

community, including CCIQ, will help to address these supply-side constraints and place SMEs in a better position to either begin, expand or diversify exports.

- For export-ready companies, one major impediment is the lack of destination market expertise. The Australian and Queensland governments need to increase collaboration with the business community by investing in country markets specialists with knowledge and contacts in overseas markets. These specialists will play a huge role in supporting Queensland's exporters take the next step between identifying a new market and entering it.
- Trade and Investment Queensland (TIQ) and Austrade are already working closely with CCIQ to help companies to begin exporting or expand current export capability. CCIQ supports this collaboration and submits that continued close cooperation between government agencies and business associations should be at the core of this long-term effort.

CCIQ fully supports efforts to diversify Australia's trade and investment profile and remains keen to work with all relevant stakeholders to achieve this goal. However, a realistic approach acknowledging the drivers of market concentration, the need to manage, rather than avoid risk and the extensive time and resources required to achieve diversification is necessary.

Conclusion

CCIQ thanks the Joint Standing Committee on Trade and Investment Growth for the opportunity to make a submission into this Inquiry. If there are any questions in relation to the submission, please contact Gus Mandigora (Senior Policy Advisor) at gmandigora@cciq.com.au