

The Australian Industry Group

Trade and migration

Post pandemic policy

August 2020



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About Ai Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Ai Group is **genuinely representative** of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for **thriving industries and a prosperous community**. We offer our membership strong advocacy and **an effective voice at all levels of government** underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the **resources and the expertise** to meet the changing needs of our membership. We provide the **practical information, advice and assistance** you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as **Australia's leading industrial advocate**. We **listen** and we **support** our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We **provide solution-driven** advice to address business opportunities and risks.

Australian Industry Group contact

Louise McGrath – National Manager Business & International Advisory Services
Tel: 03 9867 0158 louise.mcgrath@aigroup.com.au

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Executive Summary



Trade liberalization has made a significant contribution to the strength of the Australian economy. The commitment to remaining an open economy and advocate for globalisation has meant that Australia's GDP is 8.1% higher and real exports 34% higher than they would have been if we had remained a closed economy with barriers to imports, investment and migration.

According to DFAT one in five Australian jobs are trade-related, and according to the Foreign Investment Review Board, foreign direct investment supports one in ten jobs and 40% of exports. Trade and an open investment regime will be an essential element in rebuilding Australian industry and the economy as we emerge from the COVID-19 Great Lockdown.

However, we should not underestimate the challenges facing global businesses in dealing with this new world in which old battles remain and the World Trade Organisation (WTO) estimates that world trade could decline by between 13% and 32% in 2020.

While trade is an important component of global growth, events in the USA and UK have brought to light the negative impact of globalization and economic structural changes on segments of their respective populations. Similar demographics can also be found in Australia. If we believe in the economic and political value of an open and connected economy, we should welcome the opportunity to defend these principles and be a global advocate for the benefits of Trade. However, we also need to ensure that our companies are competing on a level playing field and be actively defending their interests when our trading partners increase their protectionist activities.

Migration has also been critical to Australian prosperity. The pandemic has necessarily constrained inward migration, but Australia would need to think long and hard before any decision to sustain lower levels over the longer term. That would require extensive changes to our growth model and much more.

Against this background, Ai Group's policy recommendations for a post-COVID-19 world are

- Use the tools and mechanisms available under various international agreements and multilateral fora to defend the economic interests of Australian companies.
- Proactively advocate for global digital trade rules that position Australian companies to be globally competitive.
- Encourage and support Australian Global Value Chains.
- Build the capabilities of Australian exporters to adjust to post-pandemic exporting.
- Resume pre-pandemic migration levels as soon as practicable.
- Implement a development agenda that improves the governance and administration capabilities of economies in our region.

A handwritten signature in black ink that reads "Innes Willox". The signature is written in a cursive style and is positioned above a horizontal line.

Innes Willox

Chief Executive

Australian Industry Group

1. Multilateral agenda

Australia prides itself in being an open economy and Australian companies are meeting the challenge of increased competition by improving productivity, investing in product development and expanding into international markets. However, our commitment to these rules must extend to ensuring that the markets in which our companies trade use the same rules. Australia's participation in WTO disputes has increased from a low base, however greater engagement with Australian industry is required to ensure that their interests are being advocated, particularly in other bodies such as the World Health Organisation (WHO). Confidence in Free Trade Agreements and multilateralism rise when Australia's economic interests are defended. This requires adequate resourcing of DFAT to initiate and join disputes and a proactive strategy to address emerging issues such as increased regulation on food manufacturing from the WHO.

Australia has completed a number of high-profile trade agreements, and is continuing to negotiate agreements with important trading partners. Now work is needed to ensure that Australian companies are in a position to fully engage with the opportunities available to them and improve their understanding of the inbuilt mechanisms that will protect their interests.

Recommendations

- **Ensure DFAT has sufficient funds to become more proactive in promoting compliance among our competitors and trading partners in the rules of WTO and relevant FTAs**
- **Conduct outreach activities among Australian exporters and investors to ensure that they understand their rights under Australia's international agreements and provide a contact point for companies facing non-tariff barriers.**

2. Protecting our Digital Future

We are signing Free Trade Agreements today that are setting trade rules for technology that hasn't been invented yet.

Digital technology has revolutionized modern trade and the products and services that we are able to sell to the world. Cloud computing, Industrial Internet of Things (IIoT) and electronic communications (TLC) are all essential elements of a globally competitive industry, where cybersecurity is a precondition for ensuring trust in digital transformation as well as for protecting citizens, businesses and entire states.

A common characteristic of successful businesses is their ability to harness the benefits of digital technology to support their strategic goals. Digital technologies have created a new world where data is both a product itself and an enabler to improve international trade transactions that rely on the free movement of data across borders using interoperable systems. Data localisation rules do not necessarily ensure protection of data, and the scope of application of any data localisation requirements by the state could be restricted to the protection of national security.

Unfortunately, our multilateral rules bodies have not kept up with the changes that digital technology has wrought on the international trade landscape, particularly when faced with protectionist barriers.

“Trade in the 21st century goes well beyond the cross-border flow of physical goods to include a large number of previously unforeseen services as well as goods that are digitally delivered.”

Transactions and business integrations are also being made possible through data flow. Trade rules created under the umbrella of the World Trade Organisation and complemented on national and regional level must be developed to reflect this new reality.

The democratizing nature of the Internet has reduced the barriers that previously excluded small to medium enterprises (SMEs) from participating on global markets. While global interconnectedness enables SMEs to participate it also exposes them to greater opportunities and risks. The Internet gives SMEs, including those from low-income economies, enhanced scalability and better access to markets, financing, labor, skills, as well as new services and products, increasing their productivity and reach.

We require global cooperation on data stewardship to restore citizens' confidence in the digital information economy. Australian companies struggle with the consequences of a fragmented internet ecosystem caused by the lack of cooperation in privacy and data security regulations.

We welcome the start of negotiations on electronic commerce within the WTO and applaud Australia's leading role in the initiative and encourage multilateral bodies and standards organisations to swiftly address digital trade barriers and create digital trade rules for the 21st century.

Cyber-attacks are a risk for innovation and investment. They require a global response and local action involving companies and governments. However, cyber-security and privacy laws should neither curtail innovation, nor put an unjustified burden on companies and individuals, nor entrench the global digital divide.

Recommendations

- **Create a digital business advisory group to guide DFAT's advocacy in global digital trade rules.**

3. Encouraging Global Value Chains

Global Value Chains (GVCs) are at the heart of modern trade, with 75% of trade consisting of intermediate goods and services. While Austrade has a strategy to encourage greater Australian participation in GVCs, there is little support for companies looking to build an Australian centric GVC. Participation in GVCs contributes to a country's investment attractiveness and means that economies are more interconnected and can specialize in specific activities rather than industries.

As a significant exporter of mineral products, Australia's role in GVCs can look high, however the GVC export participation rate among Australian manufacturers is among the lowest in the OECD. What is missing in the Australian trade narrative is the important role that imports and overseas investment can have on improving competitiveness and gaining control of GVCs. While successive Government policies have reduced Australia's tariffs, improving access to the Australian market for imports, we do very little to support Australian companies who wish to invest offshore to take ownership of their supply chains. Time and distance are contributing factors to GVC participation that do not work in Australia's favour and Australian companies must expand their footprint closer to their customers and suppliers. Support for companies setting up offshore manufacturing or distribution facilities is limited as most trade services are focused on transactional exports. To expand the services that will serve the widest number of Australian companies, we recommend the establishment of a new Business Advisory Board to guide Austrade's development of services and markets of focus.

Multilateral Free Trade Agreements that have modern and comprehensive rules of origin and cumulation rules provide the architecture that supports GVCs. More effort should be spent on explaining the benefits of these agreements to exporters and outbound investors as well as defending their interests if members are not compliant with the terms of the FTA.

The Australian Trusted Trader Scheme was a welcome initiative that will ensure that Australian exporters and importers who already comply with the rules can focus their attention on building their businesses rather than being caught in a web of red tape. With our major trading partners already employing such a scheme, Australian companies can now realise the productivity gains across their supply chain that their competitors already enjoy. The Program that has been deployed is a good example of government working with industry to design a regime that is both business friendly and meets government compliance requirements. Priority should now be given to negotiating Mutual Recognition Arrangements with our key GVC trading partners such as China, Japan and the US.

Recommendations

- **Prioritise multilateral Free Trade Agreements that have modern rules of origin that support GVCs.**
- **Establish a Business Advisory Group to guide Austrade’s service direction.**
- **Celebrate the success of Australian companies that expand their businesses through overseas investment by introducing a new award category at the Australian Export Awards**
- **Provide more support to companies who undertake international expansion, including advice on local regulations, introductions to local officials and political risk insights.**

4. Building Exporter Capability

It is easy for observers to advise Australian exporters that they must be agile and adaptable to survive the new operating environment, and while online tools and communication can be useful in maintaining business relationships, we shouldn’t assume that they will be enough to counteract the limitations caused by our national border closure. International trade is not just a new way of doing business, it is a different way of looking at business. The economic environment both here and overseas and disrupted supply chains will introduce complexities to companies already struggling with reduced stores of resilience.

Emerging Exporters are often exporting through opportunistic means and are not equipped to develop new markets or successfully manage current sales in usual conditions. These accidental exporters are often the least successful in developing long term sales. SME’s particularly find it difficult to sustain new exporting responsibilities while maintaining domestic activities. One of the particular failings for this group is the Market Visit, necessary to maintain business relationships and to monitor changes in the market. This important activity has often been ignored or poorly planned, however, in the medium term market visits will not be possible for most exporters. They will require tailored coaching or access to assistance in developing new skills to meet the challenge of remotely or virtually maintaining relationships, finding alternative means to launching into new markets than traditional tradeshows or trade missions. Austrade and State Government offshore staff will be important allies for exporters, however they too will need new skills to find scalable models to support as many companies as possible.

Regional exporters often face particular disadvantages in both their export market development activities and their logistics and supply arrangements. These include lack of access to specialist advice and services, difficulties particularly with cargo booking and receival arrangements due to the longer inland transport task and the unique demands of their products limiting options for flexibility in packing and timing. Lack of contact with other exporters, and less access to practical export education.

The International Freight Assistance Mechanism (IFAM) has been an important and welcome program to support the exports of high value Agri-goods and it is acknowledged as a temporary solution to the shortage of airfreight caused by our closed borders. What concerns Ai Group is lack of guidance to Australian businesses on how to re-engineer their business models and adjust to a new and tougher trading environment created by COVID-19. At the time of writing we are aware of only Sth Australia offering grants to businesses who seek advice and training on:

- Understanding customer needs and educating customers on higher freight prices
- Managing internal cost drivers
- Managing production scheduling
- Pricing and positioning of products
- Transparency of supply chain/freight
- Alternative market opportunities

- Enhancing product shelf life.
- Ecommerce options for business to business sales.
- Improving online presence and utilizing online tools.

Recommendations

- **Release funding to industry associations and training organisations to deliver training and advice on adjusting to remotely managing export markets, virtual business development and ecommerce.**
- **Support offshore Austrade staff in developing product displays or virtual trade missions to support Australian exporters.**
- **State or Federal funding options for companies to investigate alternative strategies to air freight for imports or exports.**

5. Enhancing Australia's skilled migration program

Addressing the immediate risks of the COVID-19 pandemic has deeply and unavoidably impacted international travel and migration to Australia. These impacts will take time to unwind in any case, and there is considerable uncertainty over the timing and extent of the resumption of immigration. Australians need to think long and hard about the risks of more constrained immigration.

The changed outlook for immigration has huge implications for many industries, especially in housing and construction which have been fueled by high levels of permanent and temporary migration. The skills that migrants have brought to Australia have been critical drivers of economic growth. The longer the wait for migration to resume and the lower the new normal level, the more we will need to adapt our growth path around lower net inflows.

Ai Group has strongly and consistently supported Australia's permanent migration program and its focus on skilled migration. Skilled migrants generate the greatest benefits to the Australian community, since they contribute directly to our national employment and skills base. Many also bring specialist knowledge that provide even bigger benefits, by deepening our entrepreneurship, innovation and international linkages. Those that enter via the 'demand-driven' streams such as employer sponsored migration experience a better skills match and faster entry to the labour market – therefore utilising more of their skills more quickly on arrival in Australia – than those who arrive independently to seek work.

Even before the pandemic, Ai Group was disappointed with the reduction to a maximum of 160,000 places in annual permanent migration that was announced in the Federal Budget in May 2019. This reduction did not accord with recent trends in economic or population growth.

Growth in Australia's Estimated Resident Population (ERP) had already slowed slightly before this announcement, to 388,000 or 1.6% p.a. over the year to Q1 of 2019, from 395,000 and 1.60% in Q4 of 2018 (and a recent peak of 415,000 and 1.72% p.a. in Q1 of 2017). Population growth slowed further through 2019, to 371,100 additional people (1.5 p.a. %) over the year to Q3 of 2019. This slowing in population growth was a contributing factor to Australia's slow GDP growth during 2019.

The monthly arrivals and departures data indicate that this reduction in the total quota on permanent migration visas has contributed to a growing reliance on temporary migration flows, with more people arriving as non-residents for long-term stays (12 months) in 2019 and fewer arriving as permanent settlers (Figure 1). The majority of these long-term but temporary arrivals are students and backpackers. These groups make enormous contributions to the economy and the labour market, but they are not necessarily the best fit for addressing Australia's future skill shortages, which will rise in industrial sectors and particularly in the infrastructure and engineering construction fields as Australian businesses and government seek to rebuild. For these industries, permanent skilled migration and/or employer sponsored skilled migration are a better solution.

Australia’s largest recent review of Australia’s migration program (the Productivity Commission, April 2016) concluded that the greatest benefits to the community come from younger, highly skilled migrants. In the long-term, the PC found that immigration delivers a measurable ‘demographic dividend’ which will raise output and incomes for everyone:

“Continuing [Net Overseas Migration] NOM at the long term historical average rate [of 0.6% of the population] and assuming the same young age profile as the current intake is projected to increase GDP per person by around 7 per cent (equivalent to around \$7000 per person in 2013 14 dollars) in 2060 relative to a zero NOM scenario. Increasing or decreasing the level of NOM from this rate is projected to have a corresponding impact on GDP per person, all other factors equal.

The results reinforce the importance of age and skills in the migrant intake. Increasing the average age structure of NOM to reflect that of the Australian population is projected to reduce real GDP per person, while increasing the share of migrants entering in higher skilled occupations is projected to lead to an expansion in real GDP per person.” (PC, p. 15).

The benefits of migration – and especially permanent and long-term skilled migration - to national per capita output and income present a compelling argument for restoring the annual migration intake to its previous cap of 190,000 as soon as practicable and for strengthening the focus on skilled migration categories.

In the longer term, the benefits of skilled migration to local labour market developments should be enhanced by moving to an annual growth rate target for annual permanent migration that is linked to national labour market growth, instead of a fixed annual quota number.

The implications of the COVID-19 pandemic and the associated recession do not change the underlying case for migration, but they do require adjustment and response.

The health risks associated with international movement of people, including for temporary or permanent migration, need to be effectively managed. Australia’s biosecurity screening and quarantine measures will need to continue to be enhanced, adapted and effectively administered as the COVID-19 pandemic evolves and other threats present themselves. This should not present a barrier to the resumption of migration, though it will take public investment and coordination between border control, health agencies and our ports of entry. Recent biosecurity improvements were notionally to be funded by a now-shelved levy on bulk international trade that should not be revived. Any new measures should be funded from general revenue.

The growth-enhancing impact of migration will be even more important as Australia seeks to recover from the economic impacts of the COVID-19 pandemic. Any further retreat from globalisation and from the global skills market would be even less appropriate. Current high levels of unemployment in Australia may serve to reduce our attractiveness as a migration destination (though we are doing better than most countries). Nonetheless a greater emphasis on employer demand and sponsorship may be appropriate for the migration program. And the timetable for returning to pre-pandemic migration target levels should be graduated based on progress in bringing unemployment down.

If there is nonetheless a decision to keep migration lower for longer, this will need to go hand in hand with a broader realignment of our growth model, skills system and a wide range of other policies and practices that are currently built around the skilled and temporary migration arrangements. The damage of a retreat from migration would otherwise be even more serious.

Recommendations:

- **The permanent migration planning level should be restored to the previous cap of 190,000 places per year as soon as practicable.**
- **Within this total, greater priority should be given to the skilled migration stream and especially to the demand-driven components of skilled migration.**
- **In the longer term, Australia should move to a growth rate target for annual permanent migration that is linked to national labour market growth, instead of a fixed annual number.**

- An extended delay in returning to the previous permanent migration planning level, or abandonment of it, would require a wider review of implications for policy on economic management, skills, industry development and more.

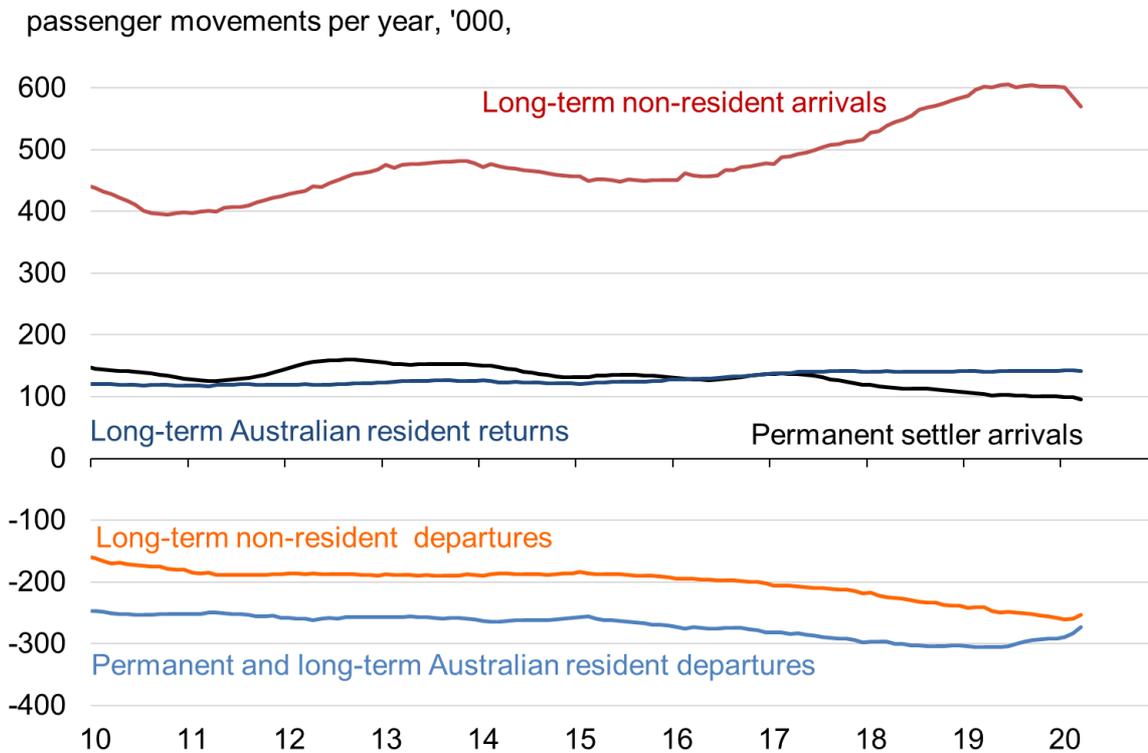


Figure 1 - permanent and long-term passenger movements, 2010 to March 2020

Source: ABS arrivals and departures, March 2020, (released 12 May 2020).

6. Maintaining Foreign Aid program

Foreign Aid is an important function of Australia’s soft power and ability to productively engage with our neighbours. There may be a temptation to reduce our Aid program as we address budget shortfalls, however as a member of the G20, we have a responsibility to share our wealth and expertise with less developed countries in our region.

While other countries take a transactional view to Foreign Aid; building infrastructure that requires the purchase of materials and expertise from the donor country, Australia focuses on capacity building that will make a material difference to transforming the recipient’s economy. Ai Group understands and supports this view, however we ask that priority be given to supporting the agencies that regulate the industries that are in Australia’s economic interest. This will assist in removing the behind the border barriers that limit the success of Australian exporters and investors and local companies, which in turn prevent developing economies from reaching their potential.

Priority areas for training and capacity building:

- Minerals extraction governance and regulation
- Industrial and food standards development and administration
- Customs and Border control administration
- Health Administration

- **Water and environment regulation and administration**
- **Financial Services governance.**
- **Digital Economy governance and regulation**

The experience of our members with investments in countries such as Indonesia, demonstrate that there are significant barriers to trade that limit the ability of local SMEs to fully engage with the global economy or facilitate the local economic inclusion that is the basis of many of our Foreign Aid initiatives.

Local exporters allow two weeks to apply for and receive the necessary documentation to use Indonesia’s Free Trade Agreements, in Australia it takes just two hours. This excessive red tape discourages Australian companies with operations in Indonesia to use Indonesia’s FTAs, despite the apparent sophistication in international trade, we assume that local SMEs are similarly disengaged. While there is an economic impact, companies that export generally employ more people and pay higher salaries, it can also feed protectionist campaigns, which again, is not in Australia’s best interest as a trading nation.

Global value chains have become more important in the 21st century. Global trade is no longer characterised by the import/export from one country to another of raw materials and finished manufactured products, but rather vast webs of trade in intermediate products, across different sectors, and often involving numerous countries, business trips and data exchanges. Recent estimates show that 60% of global commerce involves intermediate products, and 30% of the total is conducted between affiliates of the same multinational corporation . This raises the importance of trade transaction costs including burdensome border administration which increase the costs of trade, particularly where products must travel through numerous countries before the final good can be sold. Broadly defined, trade facilitation is any measure that contributes to lowering trade transaction costs and creating standard efficiencies. There are numerous costs to inaction on trade facilitation including the:

- direct and administrative costs to traders;
- direct administrative cost to governments;
- time lost, which results in higher working capital needs; and
- uncertainty.

Among the many ways to enable trade, reforming border administration requires relatively little money and can be done quickly. Unlike tariffs, which do provide revenue for governments, all the resources spent on overcoming administrative barriers are lost. According to Zaki’s (2014) estimates halving trade facilitation costs could deliver nearly ten times the benefit of halving tariffs.

A country like Indonesia relies on Global Value Chains, 10 % of their exports to China are inputs into exports to the USA. Improving their border and customs procedures will assist Australian exporters, but more importantly, will also assist Indonesian companies in becoming more international competitive. This will support Australia’s efforts to diversify our own supply chains and market reliance.

