

# Inquiry into the Proposed Comprehensive and Progressive Agreement for Trans-Pacific Partnership

Submission to the Senate Foreign Affairs,  
Defence and Trade References Committee

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**Australian Government**  
Department of Industry,  
Innovation and Science



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# Inquiry into the Proposed Comprehensive and Progressive Agreement for Trans-Pacific Partnership

## Submission to the Senate Foreign Affairs, Defence and Trade References Committee

### Introduction

Asialink Business is pleased to provide a submission to the Foreign Affairs, Defence and Trade References Committee on the proposed Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (TPP-11). This submission addresses the inquiry's first term of reference, (a) The TPP-11 "*with reference to Australia's economy & trade.*" Whilst recognising the broad-ranging potential outcomes of the TPP-11 for Australia's economy, this submission has a particular focus on benefits of the Agreement in terms of **services exports** and access to **global value chains** for Australian businesses.

As Australia's National Centre for Asia Capability, Asialink Business welcomes the signing of the TPP-11 and congratulates the Australian Government for its regional leadership and initiative in achieving these outcomes in a challenging global trade environment.

The TPP-11 will be a valuable addition to Australia's international trade architecture. Collectively, the bilateral and plurilateral agreements that form the backbone of this architecture play a strong role in expanding opportunities for Australian business in international markets and enhancing Australia's competitive advantage in key sectors. More generally, these agreements also help raise the level of business awareness about global trade opportunities.

As the only dedicated centre of excellence for Asia business capabilities in Australia and globally, Asialink Business is uniquely positioned to understand the economic and trade benefits of agreements such as the TPP-11, as well as the challenges and complexities for business, especially SMEs, in accessing and leveraging these agreements. Through a partnership with the Commonwealth Department of Industry, Innovation and Science, Asialink Business actively works with business, government, industry, and the education and not-for-profit sectors to support organisations across Australia enter new markets and expand their Asia business interests. We do this by delivering on our national mandate to build Asia Capabilities – the critical skills, knowledge and networks needed to succeed in the region – at all levels of the workforce.



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Since its inception in 2013, Asialink Business has supported thousands of organisations around Australia with access to practical Asian market information, customised research, capability development and public forum offerings. For instance, in 2017 alone, over 8000 individuals and organisations participated in Asialink Business' capability development programs or business forums, and many more accessed our practical research products.

## TPP-11: Economic and trade outcomes

Australia's economic prosperity is inherently interlinked with the Asia-Pacific. The TPP-11 will open-up new market opportunities and help create a 'level playing field,' a common platform of rules across the eleven member countries. It will complement Australia's successful negotiation of free trade agreements with our biggest north Asian trading partners, China, Japan and Korea. Modelling undertaken by the Peterson Institute for International Economics (PIIE) has calculated that TPP-11 will lead to an increase in Australia's national income by 0.5 per cent by 2030 (DFAT, 2018). This is a conservative estimate as it is primarily focused on tariff reductions (not other outcomes such as services market access or improved customs procedures).

The TPP-11 members already include several of Australia's key trade partners in Asia, such as Japan, Malaysia, Singapore and Vietnam. The Agreement is a platform that is open for other countries to join in the future if they meet high standards. As such, the TPP-11 will help deepen Australia's integration in the region, create jobs and drive economic growth. The broad-ranging outcomes of the TPP-11 for Australian exporters of goods and services, as well as Australian investors, have been well documented on the Department of Foreign Affairs and Trade (DFAT) [website](#).

## Creating Australian jobs through services trade & the knowledge economy

The outcomes of the TPP-11 for **Australian exporters of services** are noteworthy and deserve strong public recognition. The TPP-11 will enhance the level of transparency and predictability for Australian services exporters and reduce some of the regulatory challenges Australian services business face in the Asia-Pacific. This supports the growth of a strong and vibrant services sector in Australia.

Research undertaken by Asialink Business, with ANZ and PwC, in 2015 found that that by 2030, services had the potential to become **Australia's number one export to Asia** in terms of total value added, in the process supporting **one million Australian jobs** ([Australia's Jobs Future](#), 2015). Demand in Asian economies for world-class services is expanding exponentially, as these economies mature and the region's burgeoning middle classes continue to grow from around 500 million today to 3.2 billion people by 2030.



Yet while demand across the Indo-Pacific is rising, Australia’s services exports to Asia have historically lagged services exports to western trading partners. Asialink Business’ *Australia’s Jobs Future* research found that significant jobs growth could be achieved by closing just half of the gap between our current level of services engagement with our Asian regional neighbors and our traditional western trading partners. These new jobs could be generated through increases in direct exports of services from Australia, expansion of offshore operations by Australian services businesses, and services industries supporting growth in Australian exports of goods.

However, jobs growth through enhanced services trade with Asia will not be automatic. Seizing the services opportunity requires dedicated strategy, commitment and coordination on behalf of the public and private sector. **Asialink Business’ 2015 research identified that the liberalisation of international trade in services, and of foreign direct investment, in both bilateral and regional free trade agreements, was an essential ingredient in securing this growth in Australian jobs.** In this regard, the TPP-11 can make a valuable contribution to Australia’s long-term economic prosperity and the creation of high-paying jobs through international services trade.

**Table 1: TPP-11 – Summary of benefits for Australian services exporters**

<p>Benefits for Australian exporters of services</p> <ul style="list-style-type: none"> <li>• <b>recent reforms in the professional services</b> sector in the TPP-11 countries, for example in legal, architectural, engineering and surveying services, will be legally guaranteed and enforceable;</li> <li>• <b>mining equipment services and technologies and oilfield</b> service providers will benefit from energy sector reforms in Mexico and Vietnam, and new rules on large State-Owned Enterprises, which will help Australian providers to compete on an equal footing;</li> <li>• <b>financial services</b> companies may provide the following cross-border services in Parties' markets: (i) investment advice and portfolio management services to a collective investment scheme; and (ii) insurance of risks relating to maritime shipping and international commercial aviation and freight, and related brokerage;</li> <li>• <b>preferential temporary entry arrangements</b> for Australian business people (and their spouses) into key markets, including provision for the waiving of work permits and work rights for spouses in Brunei Darussalam, Canada and Mexico;</li> <li>• <b>universities and vocational education</b> providers will have legally guaranteed access to Brunei Darussalam, Japan, Malaysia and Mexico, and will be able to supply online education services across the region;</li> <li>• the phasing out of foreign equity limits in Vietnam's <b>telecommunications</b> sector five years after the entry into force of the Agreement and the ability to apply to wholly-owned telecommunications ventures in Malaysia;</li> <li>• providers of <b>private health and allied services</b> will benefit from greater certainty regarding access and operating conditions in Malaysia, Mexico and Vietnam; and,</li> <li>• new opportunities for Australian businesses to bid for <b>government procurement</b> services contracts.</li> </ul> <p>Source: DFAT, <a href="#">TPP Outcomes at a glance</a></p>
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## TPP-11 and global values chains

Another important outcome of the TPP-11 that requires strong recognition by business and industry is the Agreement's potential to expand access for Australian exporters and service providers to global value chains (GVCs).

Global value chains are transforming trade and investment across the Indo-Pacific, by interlinking goods and service providers into dynamic international trading networks that are not bound by national borders. By participating in GVCs, countries trade more than products - they **trade know-how, innovation and expertise**, through which process the knowledge of lead firms is integrated with suppliers of key components along all stages of the production process. The [World Bank](#) has found that participation in GVCs can lead to increased job creation and economic growth. Enhanced access to GVCs enables Australian businesses to play to their key strengths and **specialise in niche activities** within a chain, when entering or expanding into new markets.

**The TPP-11 will help create a favorable environment for Australian businesses to participate more actively in global value chains by establishing and harmonizing common trade rules** (including around rules of origin and documentation requirements) across all member countries. Common rules help nurture GVCs by reducing the number of different regulatory considerations businesses must navigate when they trade with multiple TPP-11 countries. By helping to integrate Australian businesses into the regional and global economies and providing a platform of common rules, the TPP-11 will create multiple longer-term benefits for business, industry, exporters and consumers. Many of these benefits go beyond the outcomes that can be achieved on a bilateral basis. For example, under the TPP-11, exporters will be able to count inputs sourced from any of the TPP-11 countries when calculating if a good can be traded under the TPP-11 preferential trading arrangements, meaning lower tariffs on the final product (DFAT, 2018).

## Fostering Asia capabilities and building the environment for success

While the TPP-11 has strong potential to increase Australia's trading advantage, expand market access, and create Australian jobs, **businesses need a wide range of capabilities to succeed in competitive international markets.**

When doing business with Australia's Asian trading partners (including those TPP-11 members: Japan, Singapore, Malaysia, Brunei and Vietnam), Australian businesses require a high-level of Asia capability in order to maximise the benefits of trade agreements. These capabilities include a mix of critical skills, knowledge and networks, developed at both individual and organisational levels. To effectively utilise trade agreements like the TPP-11, **businesses need to first transition through the export journey process**, spanning the spectrum of knowledge, awareness and capability/action: From seeking information about international opportunities, to building awareness and new skills, to acting on these insights and implementing a go to market strategy.



The TPP-11 makes significant progress in reducing tariffs on key goods exports, enhancing market access for services, facilitating participation in GVCs, and helping to liberalise foreign investment, amongst other outcomes. However, as with all trade agreements there are a number of **non-tariff barriers and capability challenges that can continue to prevent many businesses from accessing the full benefits of such agreements**. For example, in regards to trade in services, a 2016 study by Asialink Business and Austrade found that while free trade agreements can address some of the major legal and regulatory barriers associated with services exports, there are many other non-tariff barriers and non-regulatory transaction or establishment costs that can also present a significant barrier to entering an international market ([Growing Knowledge Economies, Asialink Business & Austrade, 2016](#)).

Similarly, the [Asialink Taskforce for an Asia Capable Workforce](#) identified that capability issues are among the greatest impediments to planned expenditure or expansion into Asia for Australian businesses. To maximise the outcomes of the TPP-11 (and other trade agreements) Australian businesses need to invest in developing sophisticated market insights, as well as the skills needed to navigate global supply chains and manage cross-cultural and virtual teams, for example. In Asialink Business' experience working with diverse businesses and organisations, common challenges to FTA utilisation include:

- Challenges in identifying market opportunities, market entry strategy and appropriate distribution channels;
- Language barriers;
- Cultural understanding (e.g. basic business customs); and
- Navigating the regulatory environment.

These challenges are often most acute for small and medium business, as we have documented in a separate recent submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade [inquiry into access to free trade agreements by SMEs](#). As part of our national mandate, Asialink Business is working across all sectors of the economy to provide tools, capability development and deep market insights to SMEs and organisations or all sizes to help bridge these gaps.

## Recommendations

1. Consider ways to build-in and better integrate Asia capability training into domestic trade advocacy and efforts to promote utilisation of the TPP-11 and other FTAs
  - In particular, consider how to integrate existing Asia capability programs into FTA outreach, with a holistic 'whole of export journey' approach spanning the spectrum of knowledge acquisition, awareness and capability/action.



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2. Maximise the services outcomes of the TPP-11, including by supporting:
  - initiatives that develop holistic market entry skills and Asia capabilities in Australian businesses, particularly around market knowledge and understanding local business environments, cultures and practices
  - market entry programs that educate Australian services firms on how to appropriately customise, position and price their offerings in the region, with a focus on TPP-11 markets
  - advocacy and public awareness raising of the value of Australia's services trade with TPP-11-member countries, especially the contribution of this services trade to jobs and economic growth.
  
3. Maximise the global value chain outcomes of TPP-11, including by supporting:
  - advocacy to increased public awareness of these benefits, including the transfer of know-how, skills and innovation
  - assistance for Australian businesses to identify, develop and tailor their niche area of speciality, to more actively participate in GVCs and enter new markets.
  
4. Continue to strengthen and priorities building an Asia-capable and internationally oriented workforce to ensure Australia receives maximum benefit from the TPP-11 and other plurilateral and bilateral trade agreements, including through ongoing support for Asialink Business to deliver its national mandate.



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