

Business
Council of
Australia



Business Council of Australia

**Submission to the
Review of Export Policies and Programs**

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Declaration of interest

The Business Council of Australia (BCA) represents the Chief Executives of 100 of Australia's leading companies. The BCA's objective is to develop and advocate, on behalf of its Members, public policy reform that positions Australia as a strong, vibrant and globally engaged economy and society. The companies that our Members lead are responsible for a significant share of Australia's domestic and overseas business activity. They therefore have a significant interest in government policy, including trade, investment and global engagement policies, the direction and scope of economic and other policy reform and Australia's future prosperity.

CONTENTS

Overview	4
Introduction	12
Changes in Global Commerce	13
What objectives should Australia have for trade and investment	15
Why is global engagement so important?	16
How is Australia performing?	17
1. The level of our global economic engagement	18
2. The need for an international investment framework	19
3. Australia's global integration capabilities	20
4. Domestic Policy settings	20
Potential consequences of inaction	21
Reinforcing Australia's strengths	21
1. International engagement	21
2. Inwards and outwards foreign direct investment	22
3. Domestic economic strengths	24
What is required to meet the three key objectives?	24
Role and responsibilities of governments	24
Role and responsibilities of business	25
Key public policy priorities	26
Contributing to further international economic integration	26
Building Australia's global engagement capabilities	27
Strengthening domestic competitiveness	29
Conclusion	30
Appendix: Summary of key recommendations	32

Attachments: Policy papers prepared by ITS Global titled, *Developing Trade and Investment Policy Settings for Australian Business* (Attachment A) and *Improving International Competitiveness in Australian Business* (Attachment B).

Overview

There are clear economic and social benefits to all countries from greater levels of global economic integration. This principle has underpinned much of the opening of the global economy so that world trade as a proportion of GDP has increased from 42.1 percent in 1980 to 62.1 percent in 2007 and foreign direct investment from 6.5 percent of world GDP in 1980 to 31.8 percent in 2006.¹

Australia has been at the forefront of global market liberalisation in recent years, which has been beneficial to our economy. Market liberalisation has provided Australian enterprises with the opportunity to enter new markets, grow their businesses and contribute to higher levels of domestic growth and higher living standards. However, it is the submission of the Business Council of Australia (BCA) that there is more we could be doing as a nation to capitalise on the opportunities created by recent and continuing global integration. One indicator of higher levels of integration is the increase in the trade-to-GDP ratio of all Organisation for Economic Cooperation and Development (OECD) nations, which rose from 32 percent in 1990 to 45 percent in 2005. In comparison, Australia has recorded a lower rate of growth, with our own trade-to-GDP ratio going from around 16 percent in 1990 to 21 percent today. For Australia to achieve higher productivity and living standards into the future, it will be necessary to increase the level and effectiveness of our global engagement.

The integration of national economies, based on policy decisions by governments to reduce entry and exit barriers into markets across the world, has played a crucial role in providing an environment that enables global commerce to develop and expand. As a result, growth in international trade and investment has been driven, in large measure, by the global integration of business organisations and the networks they have established with other enterprises. Increasingly integration has involved businesses locating specialised activities across the world linked to global supply chains. Continuing global integration offers substantial opportunities for Australian business organisations to become engaged in international trade in new ways. The challenge we have as a nation to put in place the policy settings that will ensure

¹ IMF Staff, *Globalisation: a Brief Overview*, May 2008,

Australian organisations have both the capabilities and the genuine opportunities to become globally engaged or to build on their presence in existing international markets. Both governments and business have critical roles in this endeavour.

The assessment of the BCA is that in key areas Australian businesses are not taking up new opportunities to the extent that might be expected, and they continue to face significant barriers to investment. These areas of concern include:

- the fact that the nation's market share of international services exports has declined since the start of the decade;
- while outwards direct investment has grown rapidly, there is a need to address continuing barriers to investing in fast growing markets in our more immediate region;
- there is scope to increase the proportion of employing businesses in Australia that are engaged in exporting; and
- there should be a focus on growing export volumes where growth has slowed since the start of this decade.

Australia must make certain that in giving consideration to trade and investment objectives, we reinforce domestic competitiveness in industries where we have key strengths. Australian industry has well developed international markets, and extensive knowledge and capabilities in the areas of resources, agriculture and other primary industries. Australia also has important capabilities in key manufacturing and services industries.

Fundamentally it is the role of business to identify and capitalise on the best profit-making opportunities that, in turn, grow national income, wherever they occur in the world. But doing business across borders can be quite a different proposition to doing business within Australia with its own set of associated trade barriers, uncertainties, unknowns, risks and other factors that can inhibit engagement. Government can play a key role in overcoming these barriers to engagement through its international representations and domestic policies and programs.

The BCA proposes that Australia's strategy for trade and investment should include three objectives, each aimed at increasing the level and effectiveness of global

engagement by Australian organisations, while reinforcing our strengths. These are as follows:

- to contribute to greater international market liberalisation and economic integration;
- to lift Australia's global engagement capabilities; and
- to improve Australia's domestic capabilities that underpin international trade and investment.

In order to meet overall aim of lifting Australia's global engagement, a broad based policy approach is required, with outcomes aligned to these three objectives. A complete summary of the BCA's proposed approach is contained in the introduction that follows and in the attached policy papers prepared by ITS Global.

From across this comprehensive agenda, the BCA has identified eight key policy initiatives that should be afforded the highest priority. These are summarised in Box 1 and discussed in turn below.

Box 1

The BCA's eight priorities for Australia's trade and investment policy

Contributing to further international economic integration

1. A greater role in multilateral and regional economic integration
2. A new inward and outward investment policy framework

Building global engagement capabilities

3. An improved approach to identifying and developing global business opportunities
4. A whole of government strategy to grow Australia's global engagement capabilities
5. Undertake an assessment of Australia's participation in global supply chains

6. Raise community awareness about the importance of Australia being a trading nation

Strengthening domestic competitiveness

7. A strategy to increase services exports
8. Continue to lift the productive competitiveness and capacity of the Australian economy through the implementation of key domestic reform agendas

Contributing to further international economic integration

The BCA proposes, as the first of the key priorities that, Australia further extend its role in contributing to the integration of economies through international institutions and negotiations. The multilateral trading system is the institution with the greatest potential to achieve integration. Over the medium to long term the World Trade Organization (WTO) multilateral negotiations have the potential to generate lasting economic benefits for the vast majority of all nations. Increasingly, behind the border barriers to trade based on regulation are becoming more important to enabling global commerce and investment to grow. Addressing behind the border barriers centred around domestic regulation such as licensing, registration and project approvals, needs to be a key priority for multilateral negotiations, as well as within regional and bilateral trade and investment frameworks.

Second, a new international investment policy framework is required to underpin greater global engagement by business. Such a framework should apply to both outwards direct investment and foreign direct investment into Australia. An effective approach to investment policy will need to address behind the border barriers to trade. In addition to these, the most important requirements for an effective investment policy are:

- open markets where participants are subject to the same requirements and have access to the same information;
- minimal investment restrictions, and where restrictions exist they are transparent, linked to clear objectives and provide a high degree of predictability;

- adequate protections for investors; and
- access to finance through a competitive financial services sector.

Building global engagement capabilities

Third, the BCA proposes that an improved approach to better identifying and enabling the take up of new and emerging opportunities around the world is needed. This priority requires a joint approach from governments and business to monitoring and exchanging information. By way of example, BCA Member Companies have identified potential opportunities for Australia in some nations in Asia, Africa and South America. For this reason, business regards future resourcing of the Department of Foreign Affairs and Trade (DFAT) as a vital element of Australia's future global engagement prospects. Through government to government relationships the department can make a pivotal contribution to realising new investment opportunities. Austrade provides a valuable service to business in providing information and advice about entering markets in a large number of countries. However, there are issues that extend beyond potential commercial opportunities and requirements for entering into business transactions. Business, for example, anticipates an increasing need to further develop the effective cooperation between DFAT and business in the area of risk management with respect to expatriates and temporary visitors engaged in business activities in countries where there are new or emerging risk factors.

Fourth, business proposes that a new strategy should be developed to build Australia's global engagement capabilities. We regard the need for these capabilities as a gap in the current policy framework. A federal inter-departmental committee should be tasked with developing and overseeing the strategy. Such a strategy should take account of a wider set of barriers such as different government systems, information and awareness deficiencies. Similarly, cultural issues and the lack of existing relationships or networks make it more difficult to engage externally relative to participating in the domestic economy.

Improving Australia's global engagement capabilities depends, among other things, on the people to people links that organisations can draw on. One area where Australia should be improving these links is through our role as one of the world's leading providers of international education. A new strategy for global engagement

should focus the relationships and networks that are part of this area of interaction. A related issue is the need improve the level of knowledge and understanding of Asian languages and culture by Australian students, through Australia's education system and the countries of Asia. Policies should also aim to improve the quality and availability of information about foreign markets and what is required to do business in countries where there are new or emerging market opportunities.

In this way, Australia needs to look beyond only trade and investment policymaking in order to enable global engagement. A whole of government approach is needed that involves harnessing a wide range of domestic policy settings to support increased trade and investment. Portfolios and agencies other than DFAT and Innovation and Industry, should consider how any new policies or changes to existing policy might influence Australia's global engagement. Furthermore, new or revised policies should be, whenever practicable, linked to trade and investment policy goals. An example of such a linkage is to improve the way in which the regulation of international education services is linked to future skilled migration policies. Business regards trade and investment policies as being too compartmentalised, with wider consideration given to global outcomes only in the context of specific negotiations or agreements.

We therefore recommend that a federal government inter-departmental committee should be given responsibility for providing advice to the government on the development and implementation of a strategy to lift Australia's global engagement capabilities.

Effective global engagement needs to extend to all transactions in global markets. Taking up new opportunities to increase both the volume and value of exports is the most common example of transactions that are in Australia's economic interest. At the same time, businesses that have effective global sourcing arrangements in place also make an important contribution to the competitiveness of the Australian economy. This is because the importation of globally sourced inputs can allow additional value to be derived from a product or service.

Fifth, Australia needs to undertake a thorough assessment of participation in global supply chains for the purpose of informing an appropriate role for government policy aimed at boosting participation. This assessment should consider the extent to which Australian businesses are involved in global supply chains compared to

businesses in other nations. A study such as this would make a valuable contribution to the available knowledge and understanding of global supply chains from an Australian perspective. Many larger Australian businesses are already heavily engaged in supply chains. But small and medium sized businesses tend to have less direct involvement in global networks.

Sixth, governments and business should, through a cooperative endeavour, raise awareness in the wider Australian community about the important opportunities and benefits of global engagement and the fact that we are a successful trading nation. Furthermore, an initiative such as this should emphasise that our future economic prosperity depends on continuing to open up our markets and to be recognised throughout the world as a globally integrated nation. For this reason we must, as a nation, resist the temptation to return to the protectionist approaches of the past.

Strengthening domestic competitiveness

Seventh, priority should be given to developing and implementing a strategy to enable Australia's services sector to increase its market share of exports. The further development of skills and innovation capabilities relevant to services industries would make an important contribution to lifting global engagement. In particular, we recommend that greater recognition be given to the importance of scientific research and teaching in services disciplines.

A strategy for services should also aim to utilise and build domestic strengths by, for example, enabling the growth of services hubs. This approach will require the removal of barriers and access to high level skills reliant on the movement of people. It will also require highly effective regulation and governance that achieves a balance between providing confidence for investors while not imposing unnecessary restrictions.

Finally, Australia needs to continue to lift the productive and competitive capacity of its domestic economy by implementing an economic reform agenda. This agenda should focus on policies that make an essential contribution to the competitiveness of the economy. These policies include regulation, taxation, fiscal policy, infrastructure, workplace relations, education and training, innovation and workforce participation.

The objectives and corresponding policy priorities outlined will require a broadening of Australia's trade and investment strategy so that it is central to the policy deliberations of all Australian governments. Business recognises that we have an ongoing role in contributing to the outcomes described.

Introduction

Australia has always drawn heavily on its international economic relationships to achieve growth and prosperity. It was the wealthiest nation in the world at the beginning of the twentieth century, principally on the back of exports of primary goods. Following a long post-war period of protectionism, in which we slipped in terms of our output per head relative to other advanced nations, economic reforms over the last twenty five years have again opened up the Australian economy to international commerce and investment. Australia has also taken a leading role in multilateral and regional trade liberalisation. These forward looking reform agendas have made an essential contribution to our relatively high living standards today, and we are once again in the top ten OECD nations for GDP per capita.

But we cannot rest on our record of achievements, especially with the rapid pace of change in the global commercial environment. Notwithstanding the fact that Australia has a relatively open economy, the level of global engagement is not as high as it could or should be. Our trade-to-GDP ratio has increased from around 15 percent in 1980 to 21 percent today. This is well short of the level and rate of growth of world trade-to-GDP which has increased from 42.1 percent to 62.1 percent over the same period.

Furthermore, while outwards investment from Australia has grown strongly it is mostly directed towards the United States, the United Kingdom and New Zealand. Although Australia's economy has benefited from and continues to be strengthened by trade and investment, global commerce is rapidly expanding and new challenges and opportunities are emerging in our more immediate region.

If Australia is to continue to share in economic gains from international trade and investment, it will need to lift its level of global engagement. It will also need to make a more effective contribution to ensuring that other nations improve their level of economic integration.

Both governments and business have crucial roles if these objectives are to be met. Improving the nation's performance in the area of global engagement will require that domestic policy settings have a greater focus on international economic integration. Governments will also need to ensure that all policies with the potential to influence trade and investment are utilised and that objectives and implementation strategies

are coordinated. For its part, business must continue to increase its capabilities and be in a position to take advantage of new and emerging global opportunities, including those provided by global supply chains and the process of integration at the business level. Governments and business need to make sure that their respective objectives and plans each complement the other wherever this is feasible and appropriate.

The potential consequences of not taking these steps are that the nation will forgo the opportunity to achieve higher levels of productivity and living standards in the first half of the 21st century.

Changes in global commerce

Global business integration has been driven by a number of factors including:

- technology advances in information processing, communications and in transport;
- government policy changes that enable increased economic integration;
- businesses and other commercial organisations competing and utilising innovation to create new and improved products and services, and organising production in new ways, in response to market demand and opportunities provided by policy;
- investment growth in the form of both inwards and outwards foreign investment flows underpin increased global integration by businesses and other organisations involved in commercial transactions. In turn, this is resulting in national economies becoming more economically integrated over time; and
- rising incomes from economic growth that result in larger and more sophisticated markets with corresponding increases in demand for new products and services.

Ensuring that businesses and other organisations involved in commercial transactions are able to operate in open and competitive markets is the key to achieving the most substantial economic and social returns from effective global engagement over the medium to long term. For this reason, policies need to have a

particular focus on providing an environment to enable increasing and effective global engagement.

Governments and commercial organisations each have vital and complementary roles. Policies that have enabled global economic integration support a cycle of growth and investment that flow from policy improvements.

The most significant change in global business has been the increasing number of organisations or networks that divide their operations into specialised activities in different locations throughout the world. This involves the global fragmentation of production and supply chains. Specialised operations are located where businesses assess they can derive additional value whether from reducing costs or accessing expertise and know how. These specific activities are typically linked to other inputs as part of a global or regional production network. The establishment of global networks of specialised activities linked by information and communications technology and international transportation is what is typically understood by global business integration. The networks established through global integration often involve a large number of businesses organised into relationships through supply chains. Global supply chains involve large, medium and small businesses. The cross-border trade that they conduct is mostly in the form of inputs rather than finished products or services.

At the same time, there continue to be many businesses that adhere to what is viewed as the traditional model of international business organisation where businesses have a range of activities located together for the purpose of preparing a final product. The final product is then exported to one or more foreign markets. This form of global engagement continues to be a very important model for Australia. These businesses are often linked to networks of other globally engaged businesses. Typically, such networks will import key inputs, and rely on the provision of vital services in the exporting of products. As a result, the integration of global supply chains contributes to the productivity of business operations that more closely resemble the traditional model.

Although information and communications technology has enabled the production process to be fragmented to a greater extent than ever before, this process has led to a parallel increase in the temporary movement of people travelling between the locations. The ability of people to travel at a lower cost makes a vital contribution to

linking the different parts of the production process. The movement of people is also vital to supporting the business models of many professional services companies that depend on personnel engaging face to face with clients.

It is important to recognise that while there are different models for engaging in international commerce, all models rely to some extent on global supply chains, whether they are internal to a large company or operating through a network of external businesses. Therefore, global economic integration provides benefits to all the business models.

Furthermore, organisational and network structures are an important form of innovation. The global fragmentation of activities represents an increasing emphasis, particular by larger global businesses, on this form of structural innovation.

Public policy settings that are flexible and responsive to changes and to enabling the development of different approaches to global engagement are required. It is essential that in developing public policy, governments are provided with current information about developments in global commerce and the factors that influence those developments. This is necessary in order to make sure policy settings continue to improve the integration of national and regional economies, and in doing so enable further engagement and innovation at the business level. By integration, it is meant that economies are able to facilitate commercial transactions at the level of the individual firm or organisation, particularly with respect to domestic or 'behind the border' barriers.

Global engagement extends across a wide range of areas. In an economic sense it offers Australia the means to identify new economic opportunities.

For these reasons, it is necessary to consider how domestic policies as well as specific trade and investment policies can enable more effective trade and investment outcomes for Australia.

What objectives should Australia have for trade and investment?

The Business Council of Australia proposes that Australia's strategy for trade and investment should have three objectives.

The central aim of these objectives must be to lift the level and the effectiveness of global engagement by Australian organisations involved in international commerce in order to maximise the economic benefits from globalisation.

The first objective is to make further progress in reducing barriers to trade and improving wider international economic integration in areas that open up new or increased commercial opportunities for Australian businesses.

Second, deepening our understanding of the ways in which Australian organisations undertake global engagement and the wider issues that need to be considered other than trade and market access barriers. This objective demands the development of effective engagement capabilities through government policy and business strategies.

Third, a competitive domestic economy that provides the basis for Australian businesses to engage in international commerce.

Australia should also increase its contribution to global economic integration as a means of lifting the performance of the economies of other nations and to lifting global living standards. It is in Australia's interest for all nations, developed and developing alike, to participate in and benefit from increased global trade and investment. Increased global integration and economic development provides greater opportunities for Australian businesses and benefits for Australian consumers.

Why is global engagement so important?

Global engagement takes various forms. These include exporting, importing, global sourcing, establishing operations in foreign markets or a combination of these activities. Organisations involved in these activities have been shown in research by the Organisation for Economic Cooperation and Development (OECD) to achieve higher levels of productivity².

² OECD, *Moving Up the Value Chain: Staying Competitive in the Global Economy (Main Findings)*, p. 16, (2007)

At a broader level, global engagement also includes the migration and movement of people, the dissemination and sharing of knowledge, and cross-border collaboration in any number of forms between government, industry, individuals and research institutions.

Increasingly, businesses are developing and participating in global supply chains. One of the benefits of these networks is that they allow businesses to engage in global sourcing of inputs to reduce costs. But this is not the only reason organisations pursue global integration. Such an approach allows businesses to grow and to increase their stability. Importantly, global engagement provides new learning opportunities, technologies, ideas, access to expert skills and creative ways to lift capabilities and capacity. Businesses also cite the value to be gained from innovation in business processes as a benefit of global networks.

Global commerce allows Australian organisations to innovate, engage in business and contribute to the growth of the economy and, through higher productivity, to contribute to raising living standards. At a broader level, global engagement contributes to a higher quality of life through interesting careers, the exchange of ideas and the sharing of knowledge.

The business environment of the 21st century is a global one. Technological advances have made it possible for businesses to establish new ways of operating and competing on a global basis. Australian businesses need to ensure they are both competitive in the current environment and assessing opportunities for future growth.

How is Australia performing?

Australian businesses have strong track record of success in agricultural products and resources. The nation also has important strengths in a number of manufacturing and services industries.

But despite Australia having relatively open markets and a substantial level of global engagement, there are areas of Australia's trade and investment performance where we are not performing as well as we might expect.

As a nation, we are at risk of entering an era where we mainly concerned with trading and investing only in traditional export sectors and, as a result, slow to

develop markets for other domestic industries in which we are internationally competitive. This is characterised by a heavy reliance on resource exports to Asia and other traditional forms of engagement such as agricultural exports. One potential outcome of the current rise in the terms of trade for the export from Australia of resources is that these revenues will mask areas of underperformance in our global engagement.

The consequences of this could be that in the future Australia's living standards do not increase at the level they might have if, as a nation we do address areas of underperformance.

The Business Council of Australia's assessment is that there are a number of areas where Australia needs to improve its performance in order to enable greater levels of global engagement by business and organisations engaged in commercial activities. There are four key areas of underperformance.

1. *The level of economic engagement*

While there have been increases in the number of exporting businesses in recent years, the proportion of businesses that are directly involved in exporting or are engaged in global sourcing for inputs could be higher. There are about 42,000 businesses in Australia that export goods or services from Australia for delivery in one or more foreign countries. This is from a total of more than 840,000 businesses that have one or more employees³.

Furthermore, since the start of the decade, growth in export volumes has slowed, and has been considerably lower than the growth recorded during the 1990s. This is despite the demand for Australian resources and energy in Asia.

In relation to the services sector, over the last eight years, Australia has not achieved the growth in services exports that other developed nations have recorded. This has resulted in Australia's share of global services exports declining from the level

³ ABS 5368.0 - Number and Characteristics of Australian Exporters, 2006-07. Note, the figure referred to does not include businesses that provide services to visitors and tourists, such as accommodation and hospitality services in Australia, even though the sale of these services is classified as export income.

attained in the mid 1990s. It has occurred despite global services trade growing rapidly since that time. In addition, services have become considerably more important in global supply chains. Services are increasingly bundled with goods in the form of design, engineering, market research, financial, logistics and transportation and other distribution services. Information and communications technology services are a critical enabler of business production and almost all forms of commerce, as well as forming a major industry. Stand alone services such as travel, hospitality, education and professional services are also growing rapidly in global terms.

Furthermore, Australia has a strong domestic services sector, accounting for most of our domestic economic activity. Therefore, the BCA regards the slowing of growth in the export of services as a significant issue for the continuing development and competitiveness of Australia's economy. It is an area that should be a source of future competitive strength.

2. *Need for an international investment framework*

In recent years, some regional and bilateral trade agreements have included frameworks to facilitate and protect private foreign investment. The North American Free Trade Agreement is one example of an agreement that includes a comprehensive chapter on investment.

The provision of robust and effective arrangements for private investment are seen as vital to driving trade that contributes to sustainable economic development and growth.

The BCA argues that Australia should continue to develop its approach to investment arrangements with respect to Free Trade Agreement negotiations and also within the World Trade Organization once the Doha Round is concluded.

We envisage a new investment framework that strikes a balance between innovative policy approaches to encouraging global investment and substantial protections for private investors.

3. *Australia's global integration capabilities*

Australia lacks a detailed analysis of how domestic businesses or Australian owned global businesses are performing with respect to entering and becoming integrated into global supply chain in both products and services. This is despite the growing importance of international supply chains with respect to global commercial engagement.

Similarly, Australia does not have a comprehensive analysis of new and emerging opportunities in parts of the world that are not part of Australia's traditional focus including nations in Asia, Africa, and South America. Despite the importance of trade with Asia, we could also benefit from deepening our knowledge and understanding of commercial and investment opportunities in the wider Asian region.

4. *Domestic policy settings*

Australia lacks a coordinated approach to policies and programs, especially between the federal and state and territory governments. The establishment of a Ministerial Council on International Trade and Investment should contribute to improving coordination in the future. However, currently there are not ongoing direct linkages between domestic policy settings and trade and investment objectives, despite the importance of domestic policy to improved trade and investment performance.

Many areas of domestic policy and planning directly impact on global commerce. For example, infrastructure such as ports, road and rail transport, water, energy, and fast, accessible broadband are essential for business competitiveness and global engagement. Without proper planning for renewal they can and do become a constraint on enterprises seeking to grow their business within existing markets or to take up new opportunities.

At the same time, there is a lack of information on how Australia is performing in establishing hubs where we have particular strengths, for example, in financial services. Hubs are important because they are one of the factors that global businesses and networks take into account when determining the location of specialised activities, or where they might source inputs.

Potential consequences of inaction

If these issues are not addressed, the potential consequences are that Australia will forgo opportunities in key economic areas. Ultimately this could mean that national living standards will not be as high as they might have been during the first half of the 21st century.

In order to address these areas of underperformance, a coordinated approach to policymaking is required.

Reinforcing Australia's strengths

It will also be important to consider Australia's strengths and to reinforce and develop these further. Addressing problems with Australia's performance in the areas outlined above must not compromise any aspect of Australia's strengths.

Australia has strengths in key areas. Some examples include:

1. *International engagement*

Australian industry has well developed international markets, and extensive knowledge and capabilities in the areas of resources, agriculture and other primary industries. Australia also has important global capabilities in key manufacturing industries, and in some services industries.

The Australian Government has a strong and longstanding commitment to the multilateral trading system overseen by the World Trade Organization (WTO). Australia has also prioritised the negotiation and implementation of Free Trade Agreements that are consistent with the nation's economic interests.

Australia's alliance with the United States, combined with very good relations among Asia Pacific nations, makes an important contribution to supporting greater commercial engagement through trade and investment.

As the attached paper by ITS Global, *Developing Trade and Investment Policies for Australian Business*, makes clear, economic growth in China, and increasingly India, is having a far reaching impact on global trade and investment. Currently, Australian businesses in a number of sectors are engaged in trade within industries based in China and India. The emergence of this new centre of growth in trade, builds on

longstanding relationships with Japanese industries, and with industries in South Korea, Taiwan, Hong Kong and Singapore.

The changing dynamics of Australia's commercial relationships within Asia are demonstrated by the fact that China now rivals Japan as our largest trading partner. Furthermore, India has recently been Australia's fastest growing major export market. This will require Australian businesses and governments to make certain that our priorities and approaches to engagement evolve as these relationships develop.

2. Inwards and outwards foreign direct investment

Australia's economy has experienced high levels of foreign direct investment which has contributed to sustained growth over a number of decades. Similarly there has been strong growth in outwards investment to the extent that Australian businesses and investors now have a significant stake in the growth of other economies which diversifies and strengthens our economy for the future.

Outwards investment

The value of Australia's outward foreign investment, or investment by Australian organisations abroad has grown rapidly since the early 1990s. This is shown in Table 1 below.

TABLE 1: AUSTRALIA'S CHANGING INTERNATIONAL CIRCUMSTANCES

	June 1992	June 1997	June 2002	June 2007
Exports to GDP ratio	16.8%	19.4%	21.2%	20.8%
Imports to GDP ratio	16.6%	19.1%	21.1%	21.6%
Level of Australian investment abroad (in current prices and as a percentage of GDP)	\$120b 29%	\$222b 41%	\$497b 67%	\$917b 87%
Level of foreign investment in Australia (in current prices and as a percentage of GDP)	\$326b 78%	\$512b 93%	\$861b 117%	\$1,572b 150%
Level of Australian <i>direct</i> investment abroad (in current prices and as a percentage of GDP)	\$45b 11%	\$89b 16%	\$193b 35%	\$315b 58%
Level of foreign <i>direct</i> investment in Australia (in current prices and as a percentage of GDP)	\$105b 25%	\$151b 28%	\$226b 41%	\$331b 61%

Source: ABS Catalogue No. 5302.0, *Balance of Payments and International Investment Position*, Australia, December 2007.

The substantial growth in outwards direct investment by Australian organisations reflects the high degree to which some industry sectors have engaged in global integration. This has been driven in large measure by organisations establishing local operations in foreign markets, whether through stand alone or joint ventures. Often these arrangements allow businesses to add to or complement export markets. These investments are now generating considerable offshore earnings for Australian businesses. In turn, this contributes to the productivity and growth of these businesses which contribute to growth and higher living standards within Australia.

While it will be important to continue to enable growth in outwards direct investment, the regions and nations to which that investment is directed requires particular attention. There are businesses and trading organisations such as resources companies, professional services firms and universities that are investing in non-traditional markets, i.e. markets other than the United States (US), the United Kingdom (UK) and New Zealand. But these are the exception. About three quarters of outward direct investment from Australia is currently being invested in the US, the UK and New Zealand.

Given the significant growth taking place in Asia we would expect that an increasing proportion of investment opportunities will be emerging in Asia, and in other non-traditional markets. Therefore, if barriers to investing in these nations are not addressed, Australia might in future forgo the opportunity to achieve higher returns from its outwards foreign direct investment.

Barriers to investment identified by business include both regulatory and non-regulatory matters. They encompass a lack of information about investing in particular foreign markets and the prevailing economic conditions, combined with regulatory systems which are unfamiliar to Australian organisations. They also extend to a lack of knowledge about foreign cultures and practices.⁴

The other side to the investment issue involves foreign direct investment (FDI) into Australia. FDI underpins investment in existing and new industries, boosting the

⁴ Export Finance and Insurance Corporation, *Global Readiness Index, National Results Report*, Canberra, April 2008.

level of capital available to develop new operations, undertake innovation and increase competition. In this way, FDI makes a vital contribution to Australia's exports, our wider global engagement and to sustaining economic growth.

In giving consideration to policy settings that more effectively enable outwards investment, the importance of continuing to attract FDI will need to also be addressed.

Domestic economic strengths

The Australian economy is relatively open, reflecting, in large part, the policy reforms of the 1980s and 1990s. Nevertheless, there is a need to continue to reform domestic regulatory systems.

The services sector, reflecting the wider domestic strength of the Australian economy has achieved substantial growth over recent decades and now employs almost four out of every five Australians within the domestic economy.

Australia has a very good education system based on international comparisons of student results, notwithstanding the need for improvements in key areas.

The BCA emphasises that the basis for effective global engagement by Australia continues to be the competitiveness of our domestic economy. It is the platform from which commercial organisations enter and build global commercial engagement.

What is required to meet the objectives?

The central challenge is to determine how the objectives of contributing to increased international integration, building Australia's global engagement capabilities and continuing to lift Australia's domestic competitiveness are to be achieved.

Governments, businesses and other organisations involved in global commerce all have roles and responsibilities.

Role and responsibilities of governments

Governments have a number of critical roles, starting with responsibility for determining and enforcing rules under which businesses engage in markets. More broadly, there is the related responsibility of market design.

There is also the important contribution that governments can make to improving the effectiveness of Australia's global engagement, particularly through the provision of information, investing in the development of capabilities and making the people to people links that are vital to building effective relationships.

In addition, governments are responsible for policies that make an essential contribution to the competitiveness of the economy. These policies include regulation, taxation, fiscal policy, infrastructure, education and training, innovation and workforce participation.

Energy security and climate change represent an immediate policy challenge for both government and business. This will require close cooperation in order to implement the most effective arrangements for meeting both emissions reduction and energy security objectives, which need to be considered in the context of future global competitiveness.

It is essential that governments and business work together to make sure that all policy settings are aligned with the best possible economic outcomes for the wider community. This needs to involve adjusting policy settings to enable businesses to pursue new and innovative business practices, provided that they are consistent with open and competitive markets.

Role and responsibilities of business

Private businesses drive global commerce by both responding to existing market opportunities and by building or creating new markets, usually in response to the demands of customers or potential customers and clients.

Businesses need to develop their capabilities in their area of global engagement, including in the following areas:

- investing in innovation and adapting new technologies; and
- undertaking assessments of potential global investments, taking account of the opportunities for participation or integration into regional and global supply chains.

It is incumbent on business to provide information to governments about new business models and opportunities, and the challenges and barriers that they face. Only through effective cooperation and the appropriate sharing of information between government and business can Australia develop the most effective policy settings to enable increased global engagement.

Key public policy priorities

In order to meet the overall aim of lifting Australia's global engagement, a broad based policy approach is required, with outcomes aligned to the three objectives listed above. A summary of the BCA's proposed approach is contained in the appendix that follows. A more detailed description of the policy recommendations is contained in the attached policy papers prepared by ITS Global; *'Developing Trade and Investment Policy Settings for Australian Business'* and *'Improving International Competitiveness in Australian Business'*.

From across this broad-based agenda, the BCA has identified eight key policy priorities that should be afforded a high priority.

Contributing to further international economic integration

First, Australia should take a leading role in contributing to the further integration of economies through international institutions and negotiations. The multilateral trading system is the institution with the greatest potential to achieve greater global integration. Over the medium to long term the World Trade Organization (WTO) multilateral negotiations have the potential to generate lasting economic benefits for the vast majority of all nations. Increasingly, behind the border barriers to trade based on regulation are becoming more important to enabling global commerce and investment to grow. Addressing behind the border barriers centred around domestic regulation such as licensing, registration and project approvals, needs to be a key priority for multilateral negotiations, as well as within regional and bilateral trade and investment frameworks.

Second, a new investment framework to underpin greater global engagement by business is required. Such a framework should apply to both outwards direct investment and foreign direct investment into Australia. An effective approach to investment policy will need to address behind the border barriers to trade. In

addition to these, the most important requirements for an effective investment policy are:

- open markets where participants are subject to the same requirements and have access to the same information;
- minimal investment restrictions, and where restrictions exist they are transparent, linked to clear objectives and provide a high degree of predictability;
- adequate protections for investors; and
- access to finance through a competitive financial services sector.

Building Australia's global engagement capabilities

Third, the BCA proposes that an improved approach to better identifying and enabling the take up of new and emerging opportunities around the world is needed. This priority requires a joint approach from governments and business to monitoring and exchanging information. By way of example, BCA Member Companies have identified potential new opportunities for Australia in some nations in Asia, Africa and South America. For this reason, business regards future resourcing of the Department of Foreign Affairs and Trade (DFAT) as a vital element of Australia's future global engagement prospects. Through government to government relationships the department can make a pivotal contribution to realising new investment opportunities. Austrade provides a valuable service to business in providing information and advice about entering markets in a large number of countries. However, there are issues that extend beyond potential commercial opportunities and requirements for entering into business transactions. The BCA, for example, anticipates an increasing need to further develop the effective cooperation between DFAT and business in the area of risk management with respect to expatriates and temporary visitors engaged in business activities in countries where there are new or emerging risk factors.

Fourth, business proposes that a new strategy should be developed to build Australia's global engagement capabilities. We regard the need for these capabilities as a gap in the current policy framework. A federal inter-departmental committee should be asked to develop and oversee the strategy. Such a strategy should take account of a wider set of barriers such as unfamiliar infrastructure, a

lack of knowledge and information. Similarly, cultural issues and the lack of existing relationships or networks make it more difficult to engage externally compared to participating in the domestic economy.

Improving Australia's global engagement capabilities depends, among other things, on the people to people links that organisations can draw on. One area where Australia should be improving these links is through our role as one of the world's largest providers of international education. A new strategy for global engagement should focus the relationships and networks that are part of this area of interaction. There is a need improve the level of knowledge and understanding of Asian languages and culture by Australian students, through Australia's education system and our links with educational institutions in Asia. Policies should also aim to improve the quality and availability of information about foreign markets and doing business in countries where there are new or emerging market opportunities.

In this way, Australia needs to look beyond only trade and investment policymaking in order to enable global engagement. A whole of government approach is needed that involves harnessing a wide range of domestic policy settings to support increased trade and investment. Portfolios and agencies other than trade, should consider how any new policies or changes to existing policy might influence Australia's global engagement. Furthermore, new or revised policies should be, whenever practicable, linked to trade and investment policy goals. An example of such a linkage is to improve the way in which the regulation of international education services are linked to future skilled migration policies. Business regards trade and investment policies as being too compartmentalised, with wider consideration given to global outcomes only in the context of specific negotiations or agreements.

The objectives and policy priorities outlined will require a broadening of Australia's trade and investment strategy beyond the traditional focus of international and industry policies. Business recognises that we have an ongoing role in contributing to the outcomes described.

In preparing this strategy, an inter-departmental committee should undertake wide ranging consultations with business and commercial organisations involved in international trade and investment or with the potential to enter global markets.

Consideration of effective global engagement needs to extend to all transactions in global markets. Taking up new opportunities to increase both the volume and value of exports is the most common example of a category of transactions that is in Australia's economic interest. At the same time, businesses that have effective global sourcing arrangements in place make an important contribution to the competitiveness of the Australian economy. This is because the importation of globally sourced inputs can allow additional value to be derived from a product or service.

Fifth, Australia needs to undertake a thorough assessment of the nation's participation in global supply chains. This assessment should consider the extent to which Australian businesses are involved in global supply chains compared to businesses in other nations. A study such as this would make a valuable contribution to knowledge and understanding of global supply chains from an Australian perspective. Many larger Australian businesses are already heavily engaged in supply chains. But small and medium sized businesses tend to have less direct involvement in global networks.

Sixth, governments and business should, through a cooperative endeavour, raise awareness in the wider Australian community about the important benefits and opportunities of global engagement and the fact that we are a successful trading nation. Furthermore, this initiative would need to emphasise that our future economic prosperity depends on continuing to open up our markets and to be recognised throughout the world as globally integrated nation. For this reason, all sectors must resist the temptation to return to the protectionist approaches of the past.

Strengthening domestic competitiveness

Seventh, a whole of government strategy to enable Australia's services sector to increase its market share of exports is required. The further development of skills and innovation capabilities relevant to services industries would make an important contribution to lifting global engagement. In particular, we recommend that greater recognition be given to the importance of research and teaching in service science disciplines.

A strategy for services should also aim to utilise and build domestic strengths by, for example, enabling the growth of services hubs. This approach will require the removal of barriers and access to high level skills reliant on the movement of people. It will also require highly effective regulation and governance that achieves a balance between providing confidence for investors while not imposing unnecessary restrictions.

Finally, Australia needs to continue to lift the productive and competitive capacity of its domestic economy by implementing a broad based economic reform agenda. This agenda should focus on policies that make an essential contribution to the competitiveness of the economy. These policies include regulation, taxation, fiscal policy, infrastructure, workplace relations, education and training, innovation and workforce participation.

Conclusion

Australia needs to look beyond only trade and investment policies when developing a new strategy to increase Australia's level of global engagement. In order to meet the objectives of greater global engagement by Australian businesses and increased economic integration between nations a whole of government approach to trade and investment is required.

In the past Australia has been a world leader in opening up our economy to international commerce and investment.

The nation was one of the founding signatories to the first General Agreement on Tariffs and Trade that came into force in 1948. In the 1980s and 1990s a series of reforms were implemented that opened up the Australian economy to the world.

This has made an essential contribution to our relatively high living standards. But we cannot rest on our record of achievements.

As a nation we need be prepared to take creative and forward looking approach to increasing our global engagement, primarily through growth in the level of our trade and investment. This should include a focus on gaining a better understanding of what organisations require in order to take advantage of new global opportunities or to expand existing levels of engagement. It will be important that what is learned from this is translated into the development of capabilities by both governments and

business. The BCA regards the need to improve our global engagement capabilities as a gap in our current approach to doing business outside Australia. But addressing this gap on its own will not be enough. Business urges the Australian Government to continue to take a leading role in working with other governments to continue the process of international economic integration, especially in addressing behind the border barriers to trade and investment. Finally, both governments and business have important responsibilities when it comes to further improving the competitiveness of the Australian economy. A broad-based and cooperative strategy, encompassing each of these objectives, will provide the foundation for ensuring that Australia continues to benefit from international trade and investment in the decades ahead.

Appendix to introduction

Summary of recommendations

Outlined below is a summary of the policy recommendations contained in the two attached papers, '*Developing Trade and Investment Policy Settings for Australian Business*' and '*Improving International Competitiveness in Australian Business*' prepared for the BCA by ITS Global. The recommendations are listed under the three broader objectives.

1. Contribute to greater international economic integration through international agreements

Continuing to extend international integration in the context of international agreements remains an important issue for business. The traditional approach is to address at the border barriers through negotiations. There are two ways that domestic policy settings are addressed. One is in the context of negotiating or developing international agreements. The second is through unilateral initiatives on the part of governments.

A more detailed description of the priorities and recommendations outlined under this first section is provided in the accompanying paper *Developing Trade and Investment Policy Settings for Australian Business (Attachment A)*.

Multilateral trade negotiations

1.1 The BCA recommends that international negotiations in which Australia is involved should focus on reforming 'behind the border' barriers, especially regulatory restrictions on open trade and investment.

1.2 The BCA recommends that the Australian Government continue to work for a liberalising outcome from the Doha round which delivers tangible commercial benefits to business.

1.3 The Australian Government should take a leading role in establishing a review of decision making processes in the World Trade Organization (WTO).

1.4 The BCA recommends the Australian Government support the creation of a special standing body in the WTO to address the liberalisation of agriculture in view

of the difficulties in making progress in this area which have been evident throughout the Doha Round.

1.5 The WTO dispute settlement system should also be reviewed with a view to minimising the risk that it will take on too much of the legislative function of the WTO's executive bodies.

Current and Future Free Trade Agreements

1.6 Australia should seek to enter into Free Trade Agreements (FTAs) that build on the APEC Principles for best practice FTAs to ensure consistency.

1.7 Liberalisation of goods, services and investment across agreements should be deepened to extend beyond WTO commitments, while remaining consistent with key WTO principles.

1.8 The BCA recommends that FTAs address behind the border barriers and encourage pro-competitive regulatory frameworks; including in areas not currently addressed.

Asia Pacific Regional Economic Integration

1.9 The BCA recommends that Australia take a leading role in achieving greater economic integration in the Asian Pacific region. Australia should also encourage active engagement by all parties in that process.

1.10 The BCA supports a strategic goal of building an effective APEC regional FTA.

1.11 Australia should consider taking a leading role in building regional agreements out of existing bilateral agreements.

New and alternative approaches to economic integration

1.12 The BCA recommends that Australia pursue new approaches to international economic integration outside traditional trade and investment negotiations. The current discussions taking place between the United States and Australia over the potential mutual recognition agreement of financial securities regulation represents a possible new model for advancing economic integration outside the usual trade negotiation framework.

The movement of people

1.13 The BCA recommends that all international negotiations should attach a high priority to improving arrangements for the global movement of people who are travelling for commercial purposes, or who are temporarily visiting for business reasons.

International investment

Continued growth in both inward and outward foreign direct investment is crucial if Australia is going to make progress with lifting global engagement to the next level.

Investment is providing the basis for extending trade, especially through the facilitation of exports. It underpins entry into new markets through the establishment of marketing and sales offices and other supporting operations in overseas markets.

In recent years, some regional and bilateral trade agreements have included frameworks to facilitate and protect private foreign investment. The North American Free Trade Agreement is one example of an agreement that includes a comprehensive chapter on investment.

Robust and effective arrangements for protecting private investment are an important consideration for investors, and make a valuable contribution to both attracting and sustaining funds.

The BCA argues Australia should continue to develop its approach to investment arrangements with respect to Free Trade Agreement negotiations and within the WTO once the Doha Round is concluded. We envisage a new investment framework that strikes a balance between innovative policy approaches to encouraging global investment and protections for private investors.

1.14 A key requirement for investment is information about foreign markets and the environment in which they operate. For this reason, the BCA proposes that the Australian Government seek agreement from other national governments, as part of negotiations, to greater transparency with respect to the disclosure of all requirements, obligations and protections for investors.

1.15 A new Australian investment framework should include improved protections for private investors.

1.16 The BCA recommends improved data collection and reporting by the Australian Bureau of Statistics in relation to offshore investment levels and revenue from offshore investment in order to better inform future policy development.

Intellectual Property Protection

Ensuring the protection of IP (intellectual property) rights is an important priority for many Australian businesses. These rights provide an incentive for organisations to invest in innovation and the development and marketing of new products and services. Effective IP enforcement encourages greater investment and underpins increased trade and economic growth. If there are problems with the implementation of commitments to protect these rights, this can reduce confidence and deter businesses from making new or additional investments.

1.17 The BCA recommends that the Australian Government continue to negotiate international agreements that provide robust intellectual property (IP) rights, and the implementation of effective enforcement arrangements that uphold these rights for commercial entities.

2. Improving Australia's Global Engagement Capabilities

Global supply chains

The potential to improve integration into global supply chains would provide valuable opportunities for Australian business.

2.1 The BCA proposes that a broad based analysis be undertaken of the level and effectiveness of participation in global supply chains and networks by Australian businesses of all sizes. This should include a focus on lessons learned from the experiences of business. The findings should be used to inform an appropriate role for government to help raise Australia's effectiveness in this area.

Establishing hubs

2.2 The BCA supports formulating a strategy to enable the establishment of hubs in Australia which serve the region and other global markets, recognising that they facilitate global engagement through the development of expertise and innovation. An example of a hub that would promote substantial global engagement is the proposal for Australia to be a global financial services centre.

A key priority must be to support the development of hubs through a regulatory environment that is balanced and effective and does not impose unnecessary burdens.

Taking up new global opportunities

2.3 The BCA recommends that the federal government and business cooperate on identifying significant new and emerging economic opportunities for Australia, and ensure that there are strategies in place to fully explore the viability of future trade and investment. There are significant new and emerging opportunities in regions where Australia needs to improve its engagement capabilities, including Asia, Africa and South America.

Resourcing of the Department of Foreign Affairs and Trade and other key departments involved in the development of trade and investment policies

2.4 The BCA proposes that a new effectiveness model be developed to guide strategic decision making about the future structure and resourcing of the Department of Foreign Affairs and Trade (DFAT).

A new effectiveness model for DFAT should focus on innovative and flexible ways to address the needs of stakeholders/customers, including business interests or potential business interests in foreign markets.

The experience of BCA Members is that there are very important roles fulfilled by DFAT officials beyond formal government representation and the negotiations of specific agreements. First, there is the potential for the department through government to government relationships to make an important contribution to realising new investment opportunities, including by establishing connections on behalf of Australian business. Second, there is the economic intelligence and expertise that DFAT provides in relation to foreign markets and the corresponding political and economic circumstances. Third, the department provides a crucial service in supporting the movement of people for business purposes. Business anticipates an increasing need to further develop the effective cooperation between DFAT and business in the area of risk management with respect to expatriates and temporary visitors engaged in business activities in countries where there are new or emerging risk factors.

2.5 In addition, the level of expertise within DFAT on international economic integration should be increased. This should be achieved through a combination of recruitment and formal training within the department.

Broader global engagement initiatives

2.6 Federal Government portfolios other than the lead departments on trade and investment policy - the Department of Foreign Affairs and Trade and the Department of Innovation, Industry, Science and Research - should also consider the effect on Australia's global engagement of key domestic policies when developing new policies or when reviewing existing policy settings.

2.7 A federal inter-departmental committee with broad-based membership should be tasked with developing and implementing a strategy for improving Australia's global engagement capabilities and monitoring progress.

2.8 The BCA also recommends that the new Ministerial Council on International Trade and Investment should attach a high priority to supporting a national strategy for improving Australia's global engagement capabilities.

2.9 The Australian Government and business should contribute to further improving the level of knowledge and understanding of Asian languages and culture, utilising the education systems of Australia and the countries of Asia.

2.10 Both the Australian Government and business should also improve the level of knowledge within Australia of political and economic systems in Asia.

Deepening relationships through people to people links

The relationships that Australia builds between governments, businesses and other organisations are valuable to developing trade and investment. This is already an important consideration in Asia.

Policies should aim to improve the people to people links Australia has with other nations. A coordinated approach to establishing connections through government embassies and consulates together with Australian organisations and institutions should be developed.

An area where Australia can build effective people to people links for the future is by taking up more of the opportunities provided by our involvement in international education, and better utilising the relationships and networks that are part of this area of interaction.

2.11 The BCA recommends that aim to improve the quality and availability of information about foreign markets and doing business in countries where there are new or emerging market opportunities.

2.12 The federal and state and territory governments should formulate a joint strategy to make the best use of Ministerial overseas visits to promote Australia's trade and investment interests.

2.13 Governments should promote a positive image of Australia in overseas markets as a globally integrated, technologically advanced and competitive economy which is an excellent place to do business.

Trade facilitation

2.14 The BCA supports the role of targeted trade facilitation programs, including the Export Market Development Grants scheme.

2.15 The BCA recommends the establishment of a consistent set of external engagement policies and programs across the federal, state and territory governments that are aligned to national policy objectives. The establishment of a Ministerial Council on Trade and Investment is a welcome step towards addressing this issue.

2.16 The BCA supports the role of Austrade, and recommends that the agency contribute to an analysis of global supply chains (recommendation 2.1) and to identify new and emerging opportunities for Australian businesses (recommendation 2.3).

2.17 In order to reduce time and costs for foreign businesses, it is desirable that a system be developed so that there is one point of contact for all levels of government.

3. Improving Australia's domestic competitiveness

The following priorities summarise key parts of the BCA's broader agenda for raising the competitiveness of Australian business. A more detailed description of the issues and recommendations is provided in the accompanying paper *Improving International Competitiveness in Australian Business* (attachment B).

Services industries

3.1 The BCA recommends that governments attach a high priority to policies that support improvements in productivity within the services sector, including through:

- the development of high quality skills through education and training, with a system that extends to allowing employees to update and build on their skills;
- a focus on lifting innovation capabilities in the services sector by strengthening science and research in services and encouraging increased links between research bodies and industry; and
- an improved understanding of how services businesses are taking up new opportunities within global supply chains, and the capabilities required.

3.2 The BCA also recommends that the Australian Government improve the measurement and reporting of trade and investment by Australian services businesses, at least to a level of detail similar to that provided for the mining and manufacturing sectors.

Regulation

The BCA has urged COAG create a seamless economy for business across all Australian states and territories by the end of 2010.

In addition, reforms to Australia's regulatory environment must be aimed at providing balanced and effective regulation, and the removal of unnecessary regulatory requirements. Inefficient and costly regulation imposes an unnecessary burden on business.

Taxation

If we are to meet the challenges of globalisation head-on we must ensure the tax system

supports businesses and individuals looking to capture new opportunities in global markets. In other words, our tax system must be competitive.

This means that our international taxation focus must be similar to our domestic focus: encouraging economic growth and activity that expands our domestic tax base. This includes bringing greater foreign investment into Australia, and creating an environment that encourages internationally successful Australian companies to bring their profits, as well as the other benefits of global engagement, back home.

This is not an argument for always having the lowest tax rates or tax burden. It is an argument for understanding how the tax system impacts Australia's productivity performance and our ability to attract and retain investment, skills, and ideas. It is also about ensuring that we do not create or maintain tax barriers that undermine the capacity of businesses to expand into overseas markets, including through investment.

The tax system can contribute to improvements in the competitiveness of Australia's business environment, by increasing the attractiveness of Australia as a location for investment and decreasing the cost of capital for business investment in Australia. It can also increase the level and efficiency of investment within Australia, whether in housing, physical business assets, infrastructure, human capital or the other intangible assets that play a major role in a modern knowledge-intense economy. All of these things can contribute to productivity growth over the longer term.

Building stronger domestic foundations, including through a world-leading tax system, will better position Australian businesses to compete in global markets.

The tax system also improves incentives for Australians to save and invest in Australia and contributes to the drive to grow the population, by increasing Australia's attractiveness to internationally mobile skilled labour.

3.3 The Australia's Future Tax System Review which is currently underway should focus on improving the efficiency and effectiveness of the tax system, and supporting growth and productivity.

Infrastructure

3.4 The BCA recommends that markets for infrastructure services need to be national in scope, rather than state-based, and subject to national regulation. A national approach should include:

- prices for infrastructure services that are market-based;
- public investment processes that are transparent, well-coordinated by governments, based on a consideration of all feasible options, and must favour the options with the highest net economic benefits;
- there should be effective competition in all the contestable (or non-network) segments of the market for infrastructure services;
- private ownership of infrastructure is to be preferred in contestable market segments; and
- regulation of infrastructure should not discourage investment to meet expected demand.

Fiscal policy

Macroeconomic priorities should continue to focus on the restraint of government expenditures and spending priorities, tighter spending controls, and restoring greater accountability for and transparency in policy outcomes.

Taxation and regulatory barriers that adversely affect Australia's ability to attract permanent and temporary workers should be addressed.

Workplace relations

In increasingly competitive and dynamic global markets and in the face of rapidly evolving consumer expectations and demands, uniform conditions are less likely to be able to address the requirements and circumstances of individual enterprises or their employees. In this environment, productivity in the workplace depends on businesses having flexibility in terms of how they employ their workforce, structure their operations, and are able to reward employees for contribution and effort.

The BCA supports:

- enterprise-based agreement making as the core of the workplace relations system;
- the availability of a wide range of options for agreeing employment terms and conditions, including statutory individual contracts;
- a national system of workplace relations regulations;
- the adoption of an appropriate safety net of minimum conditions and allowable matters; and
- a simplified and rationalised system of awards.

Workplace relations reforms should streamline administrative processes, minimise costs for government, employers and employees, and remove barriers and disincentives to workforce participation and skill development.

Innovation policy

All governments should cooperatively work towards strengthening the national innovation system by agreeing a national innovation policy framework that provides the best possible environment to enable innovation to occur.

3.5 The objective of enabling innovation should be supported by investing in Australia's innovation capacity, including improved education and skills training, by supporting collaborative research and development involving higher education, business and government participants. It should also extend to the development of broader collaboration capabilities.

Workforce participation

3.6 The BCA recommends that the federal government comprehensively address barriers to workforce participation and employment.

Skilled migration

3.7 Skilled migration is also a critical policy for ensuring that Australian businesses are able to access skills in high demand but in short supply in Australia. The BCA

welcomes steps taken by the federal government to improve the temporary skilled visa process to lift the level of permanent skilled migration.

Education and training

3.8 The BCA recommends improving the quality of school education as the foundation for further education and training and in attaining the knowledge and skills required for entry into the workforce.

3.9 A further priority must be to reform Australia's vocational education and training (VET) system so that it is flexible enough to respond to skills needs as they emerge in different parts of the economy.

3.10 It will also be necessary to strengthen Australia's university and VET teaching and research capabilities in order to ensure both young people and those already in the workforce can obtain the knowledge and skills required by businesses competing in global markets.

3.11 Both participation and completion rates in both vocational education and training and higher education should be increased, with a focus on future skills needs.

Energy Security and Climate Change

An important consideration for international trade and investment policy in the coming years will be the implementation of new climate change policy settings. The introduction of an Emissions Trading Scheme (ETS) together with the further implementation of renewable energy policies requires careful consideration of how these arrangements will impact on the global competitiveness of Australian businesses.

The criteria for the successful introduction of an ETS should include:

- preserving the competitiveness of Australian industry and ensuring that the risk of carbon leakage is properly addressed;
- an approach where Australia "moves with the pack" on measures to abate emissions, in order to ensure Australian business is not made uncompetitive in global markets;

- in developing the arrangements for the introduction of an ETS, Australia must adhere to the core principles of the open multilateral trading system created by WTO;
- in the first iteration of the ETS, Australia should set a low cap so any risks of loss of competitiveness and carbon leakage will be small;
- the early years of the ETS should be recognised as an introductory phase with an opportunity to test what will work in the longer run;
- the introduction of the ETS should include a review date so the effectiveness and efficacy of this measure can be assessed before a long term commitment is made to make the arrangements a permanent feature of Australian measures to mitigate greenhouse gas emissions;
- flexibility should be a guiding principle for the introduction of an ETS. Trade exposed emissions intensive industries should be relieved from competitive pressures through the granting of free permits to emit, or by being subject to other tools where increased charges for reducing carbon can be rebated from exports; and
- measures to restrain emissions other than an ETS should be considered if they are the only practicable option at this stage.

Further information

Contact Patrick Coleman, Director Policy, Business Council of Australia on 03 8664 2609 or Simon Pryor, Senior Economist on 03 8664 2616.