PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

Pivot

Diversifying Australia's Trade and Investment Profile

Joint Standing Committee on Trade and Investment Growth

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CANBERRA

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Contents

Chair's Foreword

As trade and political tensions with the People's Republic of China escalate, one thing is clear: Australia needs to pivot.

It is true that trade and investment have long supported Australia's economic growth and that we have historically relied on a major trading partner for our exports.

Originally it was the United Kingdom, then the United States of America, then Japan and most recently China. Some may argue that the dominance of a single country as an export market provides stability in trade relations but recent events have thrown this theory into doubt.

Rising trade tensions and the COVID-19 pandemic have created or emphasised weaknesses in many countries' approach to trade. In Australia, the combination of these disruptions has led many to question whether we are too reliant on China as our major export market, and whether this has unnecessarily exposed Australia to security and economic risks. Many now concede that the race for the highest export dollar (or yuan) has caused both industry and the nation to be exposed to the highest risk, and that, as a nation, we are all the more vulnerable when we put too many of our economic eggs into the one basket. That vulnerability is exacerbated when the basket is woven by a totalitarian communist state that uses trade as a political weapon.

This inquiry began in February 2020, before the full impact of the COVID-19 pandemic on Australia's trade, and economy more generally, was known. COVID-19 was not the impetus for this inquiry, but the Committee found that the pandemic threw into stark relief some concerning trends in Australia's trade and investment profile.

With this global context in mind, the Committee has considered opportunities for Australia to diversify its export markets. India, Vietnam and Indonesia in particular present valuable opportunities for Australian businesses. As such, ensuring access to these markets should continue to be a priority for the Australian Government.

The Committee has also made recommendations aimed at protecting Australia's national interest and national security, particularly in sensitive and critical sectors. Notably, there are recommendations that go to serious concerns regarding state-owned enterprises and state-linked enterprises funding our universities and owning or leasing our strategic infrastructure, including the port of Darwin. Given the ongoing tensions with China, it is an unacceptable national security risk to have Chinese state-owned and state-linked enterprises involved in our universities (including Confucius Institutes) and our strategic infrastructure.

The Committee has also put forward recommendations regarding the need for foreign investment to be in the national interest. Much foreign investment into Australia merely displaces Australian capital rather than growing the economy by creating new jobs and business opportunities for Australians. This is not investment that is in the national interest and is not considered by the bulk of the Australian population to be in the national interest. The Committee is of the view that there needs to be a clear definition of 'national interest' for the purposes of the national interest test for foreign investment and that our foreign investment regime needs to be more in line with community concerns.

As well as looking to new opportunities abroad, Australia should also develop its domestic sources of investment and production. Greater support for future focused, innovative industries and Australia's manufacturing capabilities will assist in diversifying the range of goods and services Australia exports, while also ensuring Australia has the supply capabilities necessary in times of crisis. Domestic sources of investment, such as a national development bank and also incentivising domestic investment of Australian superannuation savings, will further insulate Australia from the impact of international trade tensions and disruptions, and provide an alternative to international investment that may pose a potential risk to national security.

The Committee's recommendations aim to position Australia so it emerges from the COVID-19 pandemic in a more secure, stable, and profitable position than before. These recommendations were informed by a range of stakeholders who provided evidence on the opportunities and challenges related to diversification. On behalf of the Committee, I would like to thank the individuals, businesses, peak bodies and government agencies that assisted the inquiry. I would also like to thank my Committee colleagues for their contribution to this inquiry and acknowledge their commitment particularly in the uncertain and evolving context of the COVID-19 crisis.

The onus is now on the Australian Government to urgently consider each of these recommendations and implement necessary changes to secure our nation's future. In doing so, the government should be mindful of the consequences for both national security and the national interest if we fail to pivot.

Mr George Christensen MP
Chair

Members

Chair

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Terms of Reference

Pursuant to the Committee's resolution of appointment, the Joint Standing Committee on Trade and Investment Growth resolved to inquire into the 2018-19 annual reports of the Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade). DFAT's and Austrade's annual reports stand referred to the Committee under the Schedule presented by the Speaker. The focus of the Committee's inquiry will be to understand whether there is a need for Australia to diversify its trade markets and foreign investment profile including:

- Consider if Australia is too reliant on any one market for exports. If so, what factors are contributing to this dominance;
- The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on any one market;
- Consider if Australia is too reliant on foreign investment. If so, what factors are contributing to this dominance;
- The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on foreign investment, especially foreign investment by state-owned enterprises;
- The impact of global crises including trade disputes and political disputes on Australia's relationship with countries we are reliant upon for trade and investment purposes;
- The impact of bilateral trade agreements on Australia's exports and whether they contribute to concentrated export markets;
- The impact of bilateral trade agreements on Australia's domestic market and whether they contribute to an over reliance on foreign investment;

- Analysis of industry and government preparations to diversify its trading partners and secure new markets for Australia's exports, including through further free trade agreements; and
- Analysis of industry and government preparations to ensure the Australian economy is not overly reliant on foreign investment.

Abbreviations

ABS	Australian Bureau of Statistics
ACBC	Australia China Business Council
AFPA	Australian Fresh Produce Alliance
AIC	Australian Investment Council
AMGC	Advanced Manufacturing Growth Centre
AMIC	Australian Meat Industry Council
ANU	Australian National University
ASMC	Australian Sugar Milling Council
ASPI	Australian Strategic Policy Institute
ATO	Australian Taxation Office
ATT	Australian Trusted Trader
Austrade	Australian Trade and Investment Commission
CCIQ	Chamber of Commerce and Industry Queensland
CCP	Chinese Communist Party
ChAFTA	China-Australia Free Trade Agreement
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAWE	Department of Agriculture, Water and the Environment
DFAT	Department of Foreign Affairs and Trade
ECA	Export Council of Australia
EU	European Union

FDI	Foreign direct investment
FIRB	Foreign Investment Review Board
FPI	Foreign portfolio investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GPA	Grain Producers Australia
GTA	Grain Trade Australia
GVC	Global Value Chain
IIER-A	Institute for Integrated Economic Research - Australia
IIT	Institute for International Trade
IGEA	Interactive Games and Entertainment Association
INC	Infant Nutrition Council
MCA	Minerals Council of Australia
MENA	Middle East and North Africa
MIC	Mercury International Consulting
MRA	Mutual Recognition Arrangements
NCC	National Civic Council
NFF	National Farmers' Federation
NTB	Non-tariff barrier
NTM	Non-tariff measure
PC	Productivity Commission
PCA	Property Council of Australia
SBAA	Small Business Association of Australia
UK	United Kingdom
US	United States of America
USSC	United States Studies Centre
VC	Venture capital

List of Recommendations

Recommendation 1

3.92 The Committee recommends that the Australian Government develop and release a plan for trade diversification, which includes:

- a focus on maintaining relationships with existing close trading partners as well as expanding trade with other countries;
- a plan for diversifying Australia's range of export goods and services; and
- enhanced diplomatic capability to identify and secure new supply chains and markets.

Recommendation 2

3.93 The Committee recommends that the Australian Government continue its plan to create greater trade opportunities for Australian exporters, including through:

- delivering on its India Economic Strategy;
- encouraging Australian businesses to make greater use of free trade agreements that are currently underutilised;
- developing an Enhanced Economic Engagement Strategy with Vietnam; and
- working with our trading partners to eliminate non-tariff barriers.

Recommendation 3

3.94 The Committee recommends that the Australian Government commit to building the Asia-capability of Australian exporters and investors, including:

- greater development and/or utilisation of programs to boost Asia-literacy of businesses and training for jobs of the future;
- promotion of outward investment in Asia; and
- a post-COVID-19 international education plan.

Recommendation 4

3.95 The Committee recommends that the Australian Government increase its encouragement of key Asian languages and cultures for K-12 students, to create better understanding and Asia-capability for future generations.

Recommendation 5

3.96 The Committee recommends that the Australian Government:

- promote to Australian businesses the benefits of the Regional Comprehensive Economic Partnership (RCEP) (signed 15 November 2020), to ensure businesses are equipped to utilise the agreement; and
- continue to provide support to Australian businesses who wish to take advantage of the RCEP.

Recommendation 6

3.97 The Committee recommends that the Australian Government, including intelligence agencies, take steps to increase industry awareness of national security and national interest risks in relation to trade and investment, particularly for sensitive and critical sectors.

Recommendation 7

3.98 The Committee recommends that Austrade work with Australian exporters to help them:

- factor into their planning the market risks associated with economic slowdowns of key trading partners, natural disasters and trade challenges; and
- identify risks in relation to trade and investment.

Recommendation 8

3.99 The Committee recommends that the Australian Government provide further guidance to all board members of exporting businesses to ensure that they are aware of their obligations under the Corporations Act, to exercise a reasonable degree of care and diligence when deciding to undertake international trade.

Recommendation 9

3.100 The Committee recommends that the Australian Government:

- work with the states and territories, industry and university sector to investigate new options to increase domestic funding for universities and university research;
- in consultation with the states and territories, require universities to publicly disclose the receipt of funding (including for research) from foreign state-linked bodies or individuals; and
- if the veto powers contained in the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020* allow, consider restrictions on foreign state-linked funding to Australian universities where such funding is considered to not be in the national interest.

Recommendation 10

3.106 The Committee recommends that the Australian Government:

- encourage the Productivity Commission to research international best practice regarding government support for innovation and industry;
- build links with other national bodies that are tasked with this mission; and
- adapt and apply these learnings to Australia's circumstances.

Recommendation 11

3.107 The Committee recommends that the Australian Government:

- develop an industry and university engagement strategy to foster innovation and the commercialisation of research; and
- partner with industry members and universities to implement the strategy, by providing adequate funding, guidance and support.

Recommendation 12

3.108 The Committee recommends that the Australian Government in partnership with the university sector seek to take advantage of our low COVID-19 risk to further engage with new and emerging education markets and promote Australian universities as high quality, safe institutions.

Recommendation 13

3.109 The Committee recommends that the Australian Government work with industry, unions and universities to significantly increase Australia's sovereign manufacturing capacity.

Recommendation 14

3.110 The Committee notes the Productivity Commission's current review of Australia's resilience to global supply chain disruptions, and further recommends that the Australian Government ensure that Australia has adequate domestic supplies of key resources, such as fuel and medical supplies, to lessen the impact of global supply chain disruptions in the event of a crisis.

Recommendation 15

3.111 The Committee recommends that the Australian Government:

- provide incentives to stimulate the growth of 'industries of tomorrow' including inter alia Australia's video game development industry; and
- provide similar support to that which it provides to Australia's film and television industry.

Recommendation 16

4.102 The Committee recommends that the Australian Government establish a clear, consistent definition of national interest for the purposes of foreign investment. The Committee further recommends that the Australian Government issue clear guidance on how the national interest test is applied, to provide confidence to investors and the community that it is being applied consistently and in a way that meets community expectations and creates opportunities for Australian workers, businesses and communities. This could include specific guidance for foreign investment in property, business and strategic assets, and how the Foreign Investment Review Board considers investment from entities where the ultimate beneficiary is or has links to a foreign state.

Recommendation 17

4.103 The Committee recommends that the Australian Government consider implementing the international standards for measuring foreign direct investment, to ensure both the 'immediate' and 'ultimate' owners of an investment are recorded.

Recommendation 18

4.104 The Committee recommends that the Australian Government increase the quality and timeliness of economic intelligence, both in terms of domestic production and foreign trade markets.

Recommendation 19

4.105 The Committee recommends that the Australian Government provide a report on whether the 99-year lease of the Port of Darwin to a foreign company will be subject to the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020* (the Act) and if so, consider taking measures to have the Port of Darwin brought back under Australian ownership if current arrangements are not deemed to be in the national interest. Further, the Committee recommends that other ports and strategic infrastructure owned by, or leased to, foreign corporations also be reviewed under the Act.

Recommendation 20

4.106 The Committee recommends that the Australian Government investigate ways to incentivise domestic investment from Australian superannuation funds.

Recommendation 21

4.107 The Committee recommends that the Australian Government consider the establishment of a national development bank to assist in the development of Australian manufacturing capacity.

1. Introduction

Australia's trade profile

1.1 Trade has long been a driver of Australia's prosperity. The Department of Foreign Affairs and Trade (DFAT) outlined that the Australian economy has been trade-oriented since its beginnings, and that 'without trade, our standard of living would be substantially lower, the prices we pay would be significantly higher, and our choices of goods and services would be more limited.'[1]

1.2 The Perth USAsia Centre also emphasised the value of Australia's trade and stated:

> In 2018, Australia conducted $853 billion of two-way trade with foreign partners, equivalent to 46 percent of Gross Domestic Product (GDP). This was composed of $662 billion of merchandise trade and $190 billion of services trade.[2]

1.3 The Minerals Council of Australia outlined wider benefits of trade and said that:

> Australia has benefitted from the opportunities created by trade and investment liberalisation. Trade boosts growth, supports jobs, improves living standards and forges more competitive local industries. Trade accounts for 42 per cent of Australia's economic output and one in every five jobs relies on trade.[3]

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1 Department of Foreign Affairs and Trade (DFAT), *Submission 43*, p. 4.

2 Perth USAsia Centre, *Submission 45*, p. 4.

3 Minerals Council of Australia, *Submission 68*, p. 5.

Australia's export sectors

1.4 DFAT described Australia's trade profile as reflective of Australia's 'comparative advantages', and as such was 'weighted towards resources, energy and agriculture.'[4] DFAT further explained that Australia exports:

> … certain products, particularly mineral and other raw materials, often at lower cost and more reliably than our competitors. Other products (including some agricultural and food products) are competitive in export markets at higher prices because consumers value their quality or environmental or ethical production attributes. These advantages stem from our geographic location, resource endowments, specialised knowledge base and skilled labour force.[5]

1.5 As well as outlining Australia's comparative advantages, DFAT stated that 'Australia has a comparative disadvantage in the production of mass-produced consumer goods as a whole ([due to] relatively high labour costs, [and a] small domestic market).'[6]

1.6 The Chamber of Commerce and Industry Queensland (CCIQ) observed that Australia's exports are 'highly concentrated, with a major focus on commodities such as iron ores and concentrates, coal and natural gas.'[7] The Minerals Council of Australia highlighted that 'in 2019, the resources sector generated $289 billion of export revenue (59 per cent of total export revenue)'.[8]

1.7 Australia's agricultural sector is also highly export-oriented. The Department of Agriculture, Water and the Environment (DAWE) advised that approximately 70 per cent of the value of Australian agricultural, fisheries and forestry production was exported in 2018-19, which was worth over $54 billion. DAWE added that this reliance on exports differs to other countries and stated:

> Unlike other traditional competitors with large domestic markets, such as the United States of America (US) and the European Union (EU), Australian [agricultural, fisheries and forestry] producers rely on exports, meaning they

4 DFAT, *Submission 43*, p. 4.

5 DFAT, *Submission 43*, p. 4.

6 DFAT, *Submission 43*, p. 4.

7 Chamber of Commerce and Industry Queensland, *Submission 53*, p. 2.

8 Minerals Council of Australia, *Submission 68*, p. 3.

> are particularly exposed to global price movements and trade distorting practices.[9]

1.8 DAWE noted, however, that there is significant variation between the export profiles of different agricultural commodities, and that:

> … over the three years to 2016-17, exports accounted for 98 per cent of wool and cotton, 76 per cent of beef, 71 per cent of wheat, 41 per cent of dairy and 18 per cent of horticultural earnings … In 2017-18 half of the total value of Australia's seafood production was exported, however the proportion is much higher for some seafood products, such as rock lobster.[10]

1.9 In addition to energy, resources and agriculture, Australia also has a significant services export sector. This was led (prior to the disruptions of the COVID-19 pandemic) by the education and tourism sectors, as well as business and professional, financial and communications services.[11]

Table 1.1 Australia's top 10 exports (2019), A$ million

Rank	Commodity	Value	Per cent share
1	Iron ores and concentrates	96 173	19.5
2	Coal	63 956	13.0
3	Natural Gas	48 654	9.9
4	Education-related travel services	40 336	8.2
5	Gold	23 372	4.7
6	Personal travel (excl education) services	22 580	4.6
7	Beef	10 809	2.2
8	Aluminium ores and conc (inc alumina)	9830	2.0
9	Crude petroleum	9505	1.9
10	Copper ores and concentrates	6161	1.3

Source: DFAT, Submission 43, p. 5.

9 Department of Agriculture, Water and the Environment, *Submission 14*, p. 3

10 Department of Agriculture, Water and the Environment, *Submission 14*, p. 3.

11 DFAT, *Submission 43*, p. 4.

1.10 The Department of Home Affairs highlighted the value of Australia's education and tourism exports and stated that:

> International education is Australia's fourth largest export. In 2018-19, Australia's international education sector employed 250 000 people and was worth $37.6 billion to the Australian economy. Tourism provides a major economic contribution to Australia, with 8.7 million international visitors injecting $45.4 billion into the economy in the year ending December 2019.[12]

1.11 Asialink Business also advised that Australia's services sector ranks highly in terms of value added and stated:

> Australia's largest export category in terms of value-added is the services sector. These exports deliver substantial returns to Australian companies, and to the government in the form of tax revenue. Few Australians realise the importance of services exports, and traditional trade statistics tell only part of the story.[13]

1.12 The United States Studies Centre at the University of Sydney pointed out that while tourism and education dominate services exported to East Asia, service exports to the US were more 'future-focused':

> … unlike Australia's Asian trading partners, with whom services trade is dominated by foreign students and tourism, US services trade with Australia is dominated by future-orientated industries, most visible in three key areas: intellectual property charges (the use of patents, trademark and copyrights); other business services (comprised of Research and Development services, professional and management consulting services and technical, trade-related services); and telecommunications, computer and information services.[14]

Australia's export markets

1.13 As a consequence of Australia's economic liberalisation and its increasing integration with the global economy, recent market trends in Australia have been shaped by global economic forces.

1.14 In previous decades, the United Kingdom (UK), US and Japan have all been significant trading partners for Australia.[15] In recent years, the growth of

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12 Department of Home Affairs, *Submission 115*, p. 4.

13 Asialink Business, *Submission 60*, p. 6.

14 United States Studies Centre, *Submission 116*, p. 8.

15 China Policy Centre, *Submission 3*, p. 2.

East Asian economies has seen increasing demand for Australian exports, particularly the rise of the Chinese economy and its growing middle class. As outlined in the table below, 32.6 per cent of Australia's exports went to China in 2018-19, while the next four countries received 29.2 per cent combined.

Table 1.2 Australia's Top 10 Export Markets 2018-19

		($ billion)			
Rank	Markets	Goods	Services	Total	Per cent share
1	China	134.7	18.5	153.2	32.6
2	Japan	59.1	2.6	61.7	13.1
3	Republic of Korea	25.6	2.2	27.8	5.9
4	United States	14.7	10.0	24.7	5.3
5	India	16.2	6.6	22.8	4.9
6	New Zealand	10.0	6.0	16.0	3.4
7	Singapore	10.6	5.4	16.0	3.4
8	Taiwan	12.4	1.5	13.9	2.9
9	United Kingdom	7.9	5.6	13.5	2.9
10	Malaysia	8.9	2.6	11.5	2.5
	Total top 10 markets	300.1	61.1	361.1	76.8
	Total exports	373.1	97.1	470.2	100.0

Source: DFAT, 'Trade and Investment at a Glance 2020', p. 16.

1.15 The Department of Industry, Science, Energy and Resources highlighted how international demand has driven Australia's export profile and stated that:

> While much of Australia's increasing specialisation in minerals exports is due to strong demand from China for Australian ores and minerals, the proximity

to the Asia-Pacific region has also been beneficial and a key driver in developing Australia's comparative advantage in mineral exports.[16]

1.16 The Export Council of Australia similarly noted that Australia's trade is demand driven, reflecting the realities of the market:

> … the current situation reflects the reality of the global marketplace. We sell our products to markets where there is demand. With China's annual real GDP growth averaging 9.5 per cent between 1979 and 2018 (and still performing strongly), and a GDP representing more than 11 per cent of the global economy, it is a market we cannot ignore.[17]

1.17 DFAT explained that Australia is far from alone in its reliance on China as a trading partner, pointing out that at least 60 countries counted China as their main merchandise trading partner in 2018 and that the growth in China's demand for resources in the last two decades had been 'unparalleled'.[18]

1.18 Representative bodies for the cotton[19], fresh produce[20], infant formula[21], wool[22], barley[23] and education[24] sectors, for example, all highlighted the dominance of the Chinese market for their exports. Factors driving this demand included Australia's reputation as a producer of safe, high quality food[25] and 'world class' educational services.[26]

1.19 The CCIQ elaborated on the drivers of China's demand for Australian goods and services and stated:

> China has the world's largest population and, according to the World Bank, has experienced average economic growth of nearly 10 per cent per annum

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16 Department of Industry, Science, Energy and Resources, *Submission 118*, p. 5.

17 Export Council of Australia, *Submission 50*, p. 4.

18 DFAT, *Submission 43*, p. 6.

19 Australian Cotton Shippers Association, *Submission 41*, pp. 2-4.

20 Australian Fresh Produce Alliance, *Submission 56*, p. 3.

21 Infant Nutrition Council, *Submission 55*, p. 1.

22 WoolProducers Australia, *Submission 23*, p. 1.

23 GrainGrowers, *Submission 21*, p. 3.

24 The Hon Phil Honeywood, Chief Executive Officer, International Education Association of Australia, *Committee Hansard*, Canberra, 4 September 2020, p. 24.

25 Australian Fresh Produce Alliance, *Submission 56*, p. 3.

26 Department of Education, Skills and Employment, *Submission 38*, p. 4.

since economic reforms were initiated in 1978. China also has a massive and fast-growing urbanised middle class driving the consumption of high-quality food products and education and tourism.

Additionally, economic complementarity and geographic proximity are major export drivers. Australia, and Queensland in particular, is a major producer of coal ... and Liquefied Natural Gas (LNG) ... while China is the world's largest consumer of both. Given that Australia is geographically closer to China than other major producers of coal and LNG, with Queensland being particularly close, there is major trade complementarity with China.[27]

Australia's foreign investment profile

1.20 As outlined in Table 1.3, the US is Australia's largest source of foreign investment by a wide margin, followed by the UK. DFAT explained that historically, 'Australia's need for foreign investment arises from a gap between national investment and national savings', while also noting that since the June quarter in 2019, Australia has run a current account surplus.[28]

Table 1.3 Australia's Top 10 Investment Sources 2018 ($ million)

Rank	Country	Direct investment	Total investment
1	United States	214 291	939 476
2	United Kingdom	98 747	574 788
3	Belgium	5380	316 902
4	Japan	105 898	229 346
5	Hong Kong	16 350	118 761
6	Singapore	28 025	85 402
7	Netherlands	49 262	81 491
8	Luxembourg	8918	78 439
9	China	40 105	63 588
10	France	28 741	50 193

Source: DFAT, 'Trade and Investment at a Glance 2020', p. 40.

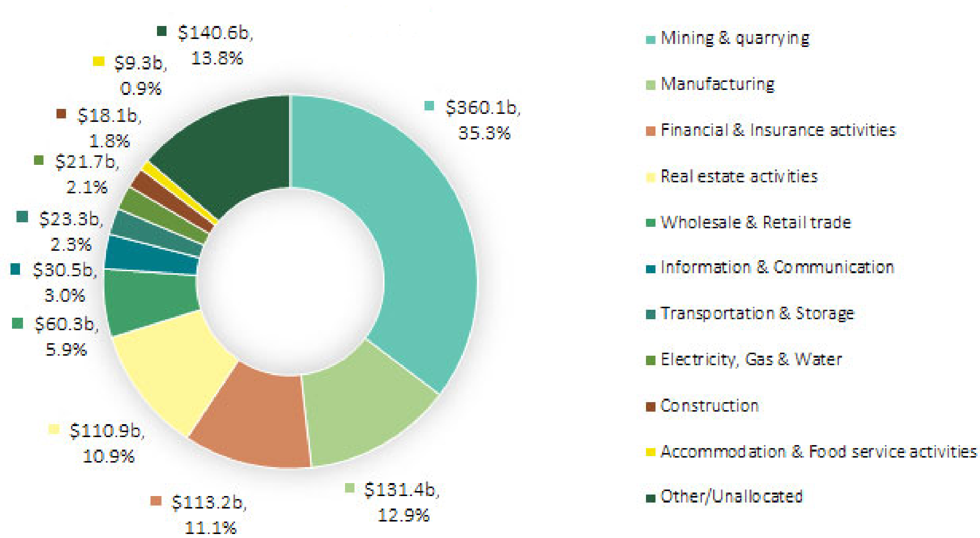
27 Chamber of Commerce and Industry Queensland, *Submission 53*, pp 4-5.

28 DFAT, *Submission 43*, p. 9.

1.21 As outlined in Figure 1.1, the resources sector attracted the largest proportion of foreign direct investment. DFAT outlined the role that foreign investment has had in supporting a range of industry sectors in Australia and stated:

> Foreign capital is an essential source of investment financing, including enabling Australia's surplus endowment of resources to be extracted and exported. Foreign investment also brings knowledge and relationships that allow our agricultural, manufacturing and services sectors to expand to cater for international customers as well as domestic customers.[29]

Figure 1.1 Foreign direct investment in Australia – by selected industry (2019)



Source: DFAT, 'Australian industries and foreign direct investment', *www.dfat.gov.au/trade/resources/investment-statistics/Pages/australian-industries-and-foreign-investment*

1.22 DFAT outlined that foreign investment generally falls into two categories:

- **Foreign Portfolio Investment** — the purchase of equity (such as shares) and debt securities (such as bonds), where the foreign investor does not have any controlling interest or influence in the asset or company; or
- **Foreign Direct Investment** — investment in an enterprise or asset where the foreign investor has control or a significant degree of influence over management. Generally, investment is considered to be 'direct' when an

29 DFAT, *Submission 43*, p. 3.

investor has 10 per cent or more of the voting power in the company. Direct debt investment is debt between related parties.[30]

Global context for trade and investment

1.23 International trade and investment flows, as well as domestic economies around the world, have been severely impacted by the COVID-19 pandemic and the associated economic and health effects throughout 2020 and into 2021. DFAT advised that the impact on Australia's tourism industry has been 'extremely serious', having lost an estimated $10 billion a month in revenue. DFAT further explained that since Australia's international borders closed on 20 March 2020, international travel has been 'reduced to almost zero.'[31]

1.24 Australia's international education sector has been similarly impacted by the border closures. As at 21 June 2020, DFAT advised that 20 per cent of the total number of student visa holders were outside of Australia.[32]

1.25 Notwithstanding these impacts, DFAT also advised that Australia's trade has remained 'resilient', and that Australia 'recorded its two largest monthly trade surpluses in March and May 2020.'[33] More broadly, the pace of recovery for Australia's exports and investment will largely depend on the level of success of international recovery from COVID-19.

1.26 Other factors that have also influenced the trade and investment environment include rising trade tensions. The Tasmanian Government outlined recent geopolitical tensions and stated:

> The so-called 'US-China trade war' and drawn out Brexit negotiations are just two of the major economic tensions of 2019; add to this the broader growing geopolitical tensions - particularly within the Indo-Pacific region – all of which has underpinned growing economic uncertainty and instability globally.[34]

1.27 The Cognoscenti Group stated that the COVID-19 pandemic has exacerbated US-China tensions.[35] MUSIAD Sydney stated that these tensions have put

30 DFAT, *Submission 43*, p. 9.

31 DFAT, *Submission 43*, p. 13.

32 DFAT, *Submission 43*, p. 13.

33 DFAT, *Submission 43*, p. 3.

34 Tasmanian Government, *Submission 63*, p. 2.

35 The Cognoscenti Group, *Submission 34*, p. 1.

'Australia in a challenging position', as it balances its economic and security relationships with the two nations.[36]

1.28 The PerthUSAsia Centre added that 'geopolitical disputes are escalating the implementation of trade protectionist policies, and increasing the imposition of punitive trade measures.'[37] The Institute for International Trade also noted that trade disputes are common, and pointed to multiple examples of countries using trade terms as part of political disputes.[38]

About the inquiry

Objectives and scope

1.29 On 26 February 2020, the Joint Standing Committee on Trade and Investment Growth (the Committee) resolved to inquire into the 2018-19 annual reports of DFAT and the Australian Trade and Investment Commission. The focus of the inquiry, entitled the *Inquiry into Diversifying Australia's Trade and Investment Profile,* was to understand whether there is a need for Australia to diversify its trade markets and foreign investment profile.

1.30 Issues considered by the Committee as part of its inquiry included:

- Australia's level of reliance on any one market for exports and foreign investment, and the associated benefits and challenges of these arrangements;
- the impact of global crises (including trade and political disputes, as well as the COVID-19 pandemic) on Australia's trade and investment; and
- the roles and preparedness of industry and the Australian Government in assessing and managing risks, securing new markets, and ensuring the Australian economy is not overly reliant on foreign investment.

Inquiry conduct

1.31 The Committee issued a media release on 28 February 2020 launching its inquiry and calling for submissions addressing the terms of reference. The

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36 MUSIAD Sydney, *Submission 35*, p. 3.

37 Perth USAsia, *Submission 45*, p. 3.

38 Institute for International Trade, *Submission 120*, p. 2.

Committee also invited relevant government agencies, industry and peak bodies, and businesses to make submissions.

1.32 The Committee received 164 submissions and ten exhibits. These are listed at Appendix A and B respectively.

1.33 Reflecting the high level of community interest in this inquiry, the Committee received 5638 form submissions, approximately two thirds of which contained additional comments. While the Committee was unable to publish them all, one form submission was published as an example, alongside a sample of ten which included additional text.

1.34 The Committee held seven public hearings between July and October 2020, which are listed at Appendix C. These hearings were held either in Canberra or via teleconference, due to travel restrictions and social distancing considerations associated with COVID-19.

Report structure

1.35 Chapter 2 examines the level of diversity in Australia's export markets, and the range of goods and services that it exports.

1.36 Chapter 3 looks at the opportunities and challenges of diversifying Australia's export profile, and suggests possible pathways towards diversification.

1.37 Chapter 4 provides an overview of foreign investment in Australia, the associated advantages, disadvantages and concerns related to this investment, and options for improvement to Australia's investment mix.

2. Export concentration in Australia

Overview

2.1 Australia is a trading nation, and in recent decades its exports have been driven by growth in demand from East Asia and particularly China. This growth has significantly contributed to Australia's prosperity. At the same time, the concentration of Australia's export markets may reduce economic resilience and could also expose Australia to political and security risks.

2.2 Australia has capitalised on its natural advantages to grow its exports, particularly in the resources and agricultural sectors. While this has been highly profitable, a low level of economic diversity in Australia's exports may create longer-term challenges for economic growth.

Concentration of Australia's export markets

2.3 The Department of Foreign Affairs and Trade (DFAT) outlined how China had become a prominent trading partner for many countries, including Australia, in the past 20 years:

> Over the past two decades the biggest trade opportunities for many countries, including Australia, have been with China, driven by the size of its population, favourable demographics and its rapid economic development (starting with its opening up to foreign investment in the late 1970s and underpinned by its accession to the World Trade Organization in 2001). At least 60 countries in 2018 counted China as their number one merchandise trading partner. For most of this century China's growth in demand for resources has been unparalleled.[1]

[1] Department of Foreign Affairs and Trade (DFAT), *Submission 43*, p. 6.

2.4 DFAT further advised that Australia's exports to China have been assisted by the China-Australia Free Trade Agreement (ChAFTA), which entered into force in December 2015:

> The value of Australian goods exports to China grew by 98 per cent in the four years following entry into force, compared to growth of 56 per cent in overall goods exports. Over the same period the value of Australian services exports to China grew by 76 per cent, compared to growth of 40 per cent in overall services exports.[2]

2.5 The Perth USAsia Centre advised that 'most of Australia's export industries rely on a single large market', with the average market share (weighted) of the largest buyer being 49 per cent.[3] The Centre further outlined aspects of the concentration of Australia's export markets, including that:

- China is the top market for fourteen of Australia's leading export industries, far more than any other partner;
- Several exporters face monopsony conditions: where a single buyer accounts for the majority of sales. In thirteen industries, the top market is larger than the next four largest markets combined;
- Single market dependence is most pronounced in mining, particularly for iron ore, gold, bauxite, and nickel. By contrast, the agriculture and manufacturing sectors generally have more diversified markets, albeit with some sub-sector exceptions (such as aircraft parts, wool and cotton); and
- Only five industries – coal, beef, wheat, medical instruments and precious metals – have genuinely diverse markets without a clear dominant player.[4]

2.6 Professor James Laurenceson also pointed out that over the last decade China had been responsible for 60 per cent of the $180 billion increase in Australian exports. Professor Laurenceson explained that this boom was due to the growing Chinese middle class, which was willing to pay a premium price for high quality Australian exports such as wool, wine and education.[5]

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2 DFAT, *Submission 43*, pp 6-7.

3 Perth USAsia Centre, *Submission 45*, p. 7.

4 Perth USAsia Centre, *Submission 45*, p. 7.

5 Professor James Laurenceson, *Submission 20*, p. 4.

2.7 In describing Australia’s trade profile, the Small Business Association of Australia highlighted Australia’s extensive trade relationships, as well as the relative dominance of a few trading partners:

> Australia's trade profile is quite extensive. We trade with some 100 countries of which many are minor players. The dominant export partners (top 15) represented 73 per cent of our export income in 2019 and 80 per cent by value came from Asian countries. … China and Japan [are clearly] the dominant players with the bulk of our exports going to China.[6]

2.8 The China Policy Centre noted that, throughout its history, Australia has often had a single trading partner dominate it exports:

> … having one country dominating its international trade is nothing new for Australia. It is not an anomaly. The United Kingdom (UK), the United States (US) and Japan have all played that role vis-a-vis Australia in the past.[7]

2.9 Professor Laurenceson was of the view that market concentration has arisen as a result of market forces:

> The current pattern of Australia’s trade markets and foreign investment profile stems from decisions made by hundreds of thousands of businesses spread right across the economy – agriculture, manufacturing and services – evaluating and weighing the opportunities and risks they face. Businesses are incentivised to carefully judge these opportunities and risks because it is their money, time and good-will on the line. This market-driven, outward-looking engagement overwhelmingly serves the national interest.[8]

2.10 The China Policy Centre also stated that the significant market concentration of trade has given rise to mutual dependence, at least to some degree:

> While Australia is less relatively important to China than the other way around, Australia supplies goods that are essential for China’s continued development. Seen from the perspectives of policymakers in Beijing, China is also reliant on Australia.[9]

2.11 An example of market concentration was provided by Australian Grape and Wine, which advised that the wine industry’s export profile was dominated by a few partners:

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6 Small Business Association of Australia, *Submission 6*, p. 2.

7 China Policy Centre, *Submission 3*, p. 2.

8 Professor James Laurenceson, *Submission 20*, p. 7.

9 China Policy Centre, *Submission 3*, p. 2.

> In the past 12 months to March 2020, the Australian wine sector exported around 728 million litres of wine valued at $2.67 billion. This wine was shipped to 119 different export markets around the world. … Australia's top five markets in value: China, US, UK, Canada, and Singapore account for around 82 percent of the total value of these exports at almost $2.2 billion. This means that the remaining $470 million is split amongst the remaining 114 export markets. Further to this point the top two markets of China and the US account for over half of the total value of all exports at around 55 percent.[10]

2.12 International education is also reliant on the Chinese market. In May 2020, 26 per cent of Australia's international students came from China, followed by India (17 per cent), Nepal (eight per cent), Vietnam (four per cent) and Brazil (three per cent).[11] The Department of Education, Skills and Employment further stated that:

> Like the US and the UK, Australia's largest cohorts of students come from China and India. However students from China make up a larger proportion of Australia's total number of international students, indicating a greater reliance on this market in Australia than in the US or the UK.[12]

Economic benefits of market concentration

2.13 Dr Scott Waldron pointed out an obvious benefit of market concentration for Australian businesses – it has been profitable:

> China has been Australia's top export destination for agriculture, forestry and fisheries products since 2010–11 and the sector was worth $17 billion in 2019 … through exports of 60 products. Tens of thousands of Australian farmers and agribusiness firms have benefited from the trade due to underlying complementarities that thrive under stable conditions.[13]

2.14 Similarly, MUSIAD Sydney noted a large reason market concentration has arisen is because it has led to greater profits:

> Many argue that [the] Australian economy is too reliant on China, because China's net trade with Australia provides tens of billions of 'profit' each year of

10 Australian Grape and Wine, *Submission 39*, p. 4.

11 Department of Education, Skills and Employment, *Submission 38*, p. 5.

12 Department of Education, Skills and Employment, *Submission 38*, p. 5.

13 Dr Scott Waldron, *Submission 30*, p. 1.

exports over imports. As a booming economy, China has been willing to pay more for Australia's commodities than any other country.[14]

2.15 Along the same lines, the Australian Fresh Produce Alliance (AFPA) said that concentration can arise simply because one customer is willing to pay more for a product:

> Diversification is not always the most profitable approach if a particularly large customer pays a premium – as has often been the case in trade with China.[15]

2.16 The Australian Cotton Shippers Association acknowledged that cotton exporters are reliant on China, but that market concentration had delivered benefits for the sector in the form of higher prices:

> Without a doubt, Australian cotton exports are reliant on our major market China. For the past 10 years China has been the single largest buyer of Australian cotton. This demand has been welcomed by the Australian cotton industry. It has resulted in higher prices for raw cotton, improved net farm incomes, improved the wealth of local farming communities, and played a part in increasing land and water values.[16]

2.17 The Department of Agriculture, Water and the Environment (DAWE) advised that many agricultural products attract premium prices in China:

> … in relation to China, the price premium for many agricultural products is so high that it's led to many agribusinesses making the judgement that the risk [of market concentration] is worth taking.[17]

2.18 The Institute for International Trade (IIT) pointed to the benefits that East Asian markets (especially China) have generated for Australia's resource exports, as well as the economy more broadly:

> Resource exports, particularly coal and iron ore, have been central to Australia's economic success and wealth creation, with East Asian economies in general, and Chinese demand in particular as a crucial driver of that success. The benefit of this latter relationship has been its scale, stability (until

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14 MUSIAD Sydney, *Submission 35*, p. 2.

15 Australian Fresh Produce Alliance, *Submission 56*, p. 10.

16 Australian Cotton Shippers Association, *Submission 41*, p. 4.

17 Mr David Hazlehurst, Deputy Secretary, Agriculture Trade and ABARES Group, Department of Agriculture, Water and the Environment (DAWE), *Committee Hansard*, Canberra, 14 July 2020, p. 3.

recently) and growth over time, with exports reaching a record $153 billion AUD in 2018-19, and two-way trade reaching $253 billion AUD.[18]

2.19 Mercury International Consulting (MIC) described Australia's exports to China as the 'bright spot in an otherwise bleak outlook for the Australian economy', and that it expected exports to China 'to continue to surge.'[19]

Long term trading relationships

2.20 The Australian Meat Industry Council (AMIC) stated that market concentration enables producers to develop longstanding relationships, which can make it easier to preserve trading relationships in the face of difficult external circumstances:

> Trade concentration is often a reflection of the deep and longstanding relationships that industry participants have forged with customers in-market, which demonstrates Australian exporters are long-term, reliable suppliers that consistently deliver a safe, wholesome and quality product, regardless of short-term trade disruptions or price fluctuations.[20]

2.21 In addition, concentration can offer considerable business benefits. AMIC said that accessing a single market consistently can give meat producers operational benefits (e.g. standardised packaging and cuts of meat, consistent storage and transport requirements) as well as allowing producers to focus finite business development funds and activities in one market. Concentration may also allow greater market penetration, which could provide a better return on sector-wide marketing efforts. Finally, concentration in a given market can help producers make a stronger case to government for assistance in reducing barriers to trade in that market.[21]

2.22 GrainGrowers further noted that Australian grain growers have built a reputation for high quality and reliable supply within key markets:

> A key advantage in predominately supplying a single market is a greater ability to communicate Australia's value proposition. With relatively few

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18 Institute for International Trade, *Submission 120*, p. 3.

19 Mercury International Consulting (MIC), *Submission 54*, p. 2.

20 Australian Meat Industry Council, *Submission 51*, p. 7.

21 Australian Meat Industry Council, *Submission 51*, p. 7.

> major destinations, the value proposition for Australian grain can be communicated and reinforced, allowing deep market penetration.[22]

2.23 Mr Simon JianDan also pointed to the benefits of country reliance 'where there is longstanding trust and cooperation' between the countries:

> To a business person, trade between Australia and New Zealand, or between Canada and the US lacks the complexity often associated with international trade. The ability to use the laws of the nation you are trading with, to remedy a dispute is relatively straightforward, and politics is unlikely to lead to any effect on business.[23]

Challenges associated with market concentration

Reduced resilience

2.24 The Perth USAsia Centre characterised Australia's trade relationships generally as 'deep but narrow' and stated that this concentration had made the country vulnerable to economic shocks.[24] The Centre outlined the potential impact of this, in addition to Australia's dependence on a limited number of industry sectors for exports, on the economy and stated:

> By their nature, all open economies are exposed to external shocks. However, a lack of diversity exacerbates this effect. When external economic ties are heavily dependent on a small number of countries and/or sectors, any immediate shocks that occur in those markets have an outsized influence on the economy as a whole.[25]

2.25 The Perth USAsia Centre went on to highlight that Australia is particularly exposed to trade fluctuations in China:

> Australia's concentrated export portfolio makes it uniquely exposed to trade shocks emanating from China. China not only accounts for 38 percent ($150 billion) of its exports, but is also the top market for fourteen of its top-30 export products. Most of Australia's leading export sectors – including iron

22 GrainGrowers, *Submission 21*, p. 5.

23 Simon JianDan, *Submission 17*, p. 2.

24 Perth USAsia Centre, *Submission 45*, p. 3.

25 Perth USAsia Centre, *Submission 45*, p. 9.

ore, coal, natural gas, base metals, education, tourism, beef, horticulture, seafood and cereals – rely heavily on the Chinese market.[26]

2.26 DAWE outlined how COVID-19 had highlighted the disadvantages of market concentration and stated:

> The key disadvantage of trade concentration is that it sharpens the consequences of a disruption in a key market, such as increased competition, a down-turn in demand or changes in government policy. The impact of COVID-19 has highlighted the vulnerabilities from reduced demand and disruptions to global supply chains. It is also possible that concentration may lead to a commodity becoming the target of trade distorting measures by a trading partner wishing to apply pressure on government decision making.[27]

2.27 DAWE added that these risks are minimised when mutual dependence is a factor and explained:

> The likelihood of a targeted trade disruption is reduced where there is mutual dependence, such as Australia's live cattle exports to Indonesia and Vietnam or in the case of a range of Australia's exports to China.[28]

2.28 The Tasmanian Government noted that while the state has benefited extensively from international trade, it is aware that concentration is not without risk:

> … Tasmania has benefitted - and continues to benefit - from trade with China: this is not expected to change into the future, however growing geopolitical tensions within our region and the onset of COVID-19 has brought to the fore an awareness to both businesses and governments alike that the need to maintain a broad field of trade partners offers the best insurance against shocks to the global economic order.[29]

2.29 The Chamber of Commerce and Industry Queensland (CCIQ) also noted that Australia's reliance on China as an export market exposes industries to risk in the event of market shocks or disruptions:

> … the dominance of a single market amplifies Queensland's susceptibility to economic and international trade shocks. When the COVID-19 virus outbreak in China resulted in the collapse of Chinese demand, Queensland-based

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26 Perth USAsia Centre, *Submission 45*, p. 15.

27 DAWE, *Submission 14*, p. 6.

28 DAWE, *Submission 14*, p. 6.

29 Tasmanian Government, *Submission 63*, p. 3.

lobster exporters saw their markets effectively disappear overnight. Furthermore, the current trade issues between China and Australia on beef and barley will have a massive impact given that beef is Queensland's largest manufacturing sector and largest non-commodity export, with a value of about $5 billion a year. Queensland is less dominant as an exporter of barley, but this is still a valuable export commodity impacted by the current trade issues with China.[30]

2.30 AFPA advised that the impact of having a single large market is something businesses need to consider:

> The reliance on one market or customer, at a national or individual business level, presents a range of risks which need to be managed. If a key primary customer is not able to maintain a level of demand it will have a supplier seeking other customers.[31]

2.31 AMIC also took the view that market concentration exposed exporters to the risk of losses should access to that market be disrupted, which would then have serious flow-on effects:

> … there is still the potential for significant systemic shocks and financial loss that can arise from a market suddenly closing, as product produced specifically for one market is often not easily diverted to another market without incurring heavy costs … it can result in a short to medium term glut of Australian meat on the international market, which will result in heavy discounting, reduced processing in Australia and severely reduced farm gate returns.[32]

2.32 Similar concerns were raised by Australian Grape and Wine, which noted that planning for and managing the risks of market concentration should be a key focus for its industry:

> This trade uncertainty is centred upon Australia's key wine export markets, highlighting the need to not only capture the export opportunities that exist today, but to plan for and manage the potential for shocks to export markets in the future. Diversifying Australia's export footprint in a strategic and considered way will be a critical part of this future planning. … We have had clear warnings for some time that relying too heavily on a single market with

30 Chamber of Commerce and Industry Queensland (CCIQ), *Submission 53*, p. 6.

31 Australian Fresh Produce Alliance, *Submission 56*, p. 10.

32 Australian Meat Industry Council, *Submission 51*, pp 7-8.

> limited ability to shift is a highly risky strategy for business in the current trade environment which can see countries close or slow trade overnight.[33]

2.33 The Export Council of Australia (ECA) similarly emphasised that:

> Exporters need to factor into their planning risks associated with the economic slowdown of key trading partners, natural disasters occurring—whether environment related or health related—and the fallout from trade wars.[34]

2.34 The China Policy Centre argued that working with risk is up to the management of individual businesses:

> If individual businesses wish to rely on China for supply or demand, then it is up to the individual businesses to manage these risks. Business failures are part and parcel of doing business.[35]

2.35 However, Dr Scott Waldron pointed out that such a risk-management process is unrealistic for many businesses, and that instead there is a vital role for peak industry bodies and governments in helping Australian businesses navigate international trade:

> It is of course impossible for individual managers or many thousands [of] farmers to individually accurately assess risks from China, or to negotiate access to Chinese markets. The actors rely on a thick institutional environment for these services. These include: peak farmer bodies and industry bodies funded from levies and matching public sources; state government (agriculture, trade, development, that have whole units dedicated to promoting trade and investment); and federal government departments in Canberra and overseas (Austrade, embassy and agricultural attaches, DAWE, [Australian Bureau of Agricultural and Resource Economics]).[36]

Political and security risks

2.36 The Institute for Integrated Economic Research - Australia (IIER-A) noted that in pursuing export opportunities, Australia may be exposed to political and security risks:

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33 Australian Grape and Wine, *Submission 39*, p. 5.

34 Mr Arnold Jorge, Executive Director, ECA Edge, Export Council of Australia (ECA), *Committee Hansard*, Canberra, 15 July 2020, p. 1.

35 China Policy Centre, *Submission 3*, p. 5.

36 Dr Scott Waldron, *Submission 30*, p. 4.

> In the case of exports, we find ourselves in a position where our largest trading partner, China, is also the main security concern for our nation. … If we are to maintain an acceptable balance between our sovereignty, security and economic wellbeing, then we must recognise firstly that economic over-dependence on any one country in terms of exports or imports is a risk to our sovereignty and security.[37]

2.37 MIC similarly stated that:

> The long-anticipated tension between having the same country as Australia's main economic partner and primary security concern has become a reality. The Chinese Communist Party (CCP) sees its imports from Australia as leverage. Leverage it is not afraid to use. The last few years have seen disruptions to Australian exports to China of coal, beef and wine, tariffs on barley and CCP warnings about Australia to Chinese tourists and students.[38]

2.38 The IIT also considered that economic decisions made over many years have left Australia in a high-risk position:

> Reliance on the Chinese market has baked in a set of strategic dependencies that Australia's political leadership, as well as security analysts and agencies increasingly view as a high-risk liability in a context of growing US-China geopolitical competition; a position which has been amplified by China's recent willingness to apply economic pressure in response to Australian political positions on matters that Beijing disapproves of by blocking Australian exports into its domestic market.[39]

2.39 Professor Clive Hamilton stated that Australia's trade exposure to China is already having real-world consequences:

> Ambassador Cheng Jingye's brazen threat of 28 April to punish Australia economically over a political disagreement was a stark warning that Australia's high level of economic reliance on China exposes us to Beijing's use of 'sharp power' to pursue its political and geo-strategic ends.[40]

2.40 Professor Laurenceson further highlighted the 'genuine risks' for Australia's economic engagement with China, which included that 'Australian companies could find themselves the targets of economic coercion

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37 Institute for Integrated Economic Research - Australia, *Submission 42*, p. 1.

38 MIC, *Submission 54*, p. 2.

39 Institute for International Trade, *Submission 120*, p. 1.

40 Professor Clive Hamilton, *Submission 19*, p. 1.

orchestrated by the Chinese government in retaliation for political disagreements with the Australian Government.'[41]

2.41 At the same time, Professor Laurenceson also considered that risks associated with Australia's economic engagement with China, such as a downturn in China's economy or businesses being targets of political coercion, were 'frequently overblown.' Professor Laurenceson added that 'there are likely to be more effective ways of managing [these risks] and at a lower cost than forcing a diversification in economic ties away from China.'[42]

2.42 In a similar vein, ITS Global emphasised that trade disruptions will occur every now and again as part of a normal trading relationship:

> Trade is not simple and easy. If it were, free trade agreements would not help or be needed. It is not possible to avoid all trade disruptions. Exporters and politicians cannot expect zero problems in the trading relationship. This is something that must always be navigated, regardless of the market.[43]

2.43 Professor Rory Medcalf noted that measures the government has implemented since 2017 in the areas of countering foreign influence and interference had made it easier 'to sustain a trading relationship with China'. Professor Medcalf further stated that there is:

> … a broad recognition that, on the whole, [countering foreign interference legislation] positions Australia to have a sustainable trading relationship with China and to resist economic coercion … because that coercion can no longer be amplified through political influence.[44]

Challenges for the international education and training sectors

2.44 Universities Australia highlighted that international students are a huge benefit to the Australian economy and a key part of Australia's international soft power efforts:

> International education delivers huge benefits to Australia. It is now our nation's fourth-largest export sector, after iron ore, coal and natural gas, contributing $40 billion to the economy in 2019. The benefits are not just

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41 Professor James Laurenceson, *Submission 20*, p. 6.

42 Professor James Laurenceson, *Submission 20*, p. 6.

43 ITS Global, *Submission 48*, p. 3.

44 Professor Rory Medcalf, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 55.

> economic. International education enriches our campuses and delivers a worldwide network of informal ambassadors for Australia. It enables us to build enduring relationships both within our region and further abroad, acting as a really important conduit of soft power.[45]

2.45 The National Tertiary Education Union highlighted research from the Scanlan Foundation Research Institute, which identified that reductions in Australian Government funding for tertiary institutions has meant that universities have come to regard foreign students (especially those from China) as a means of recovering lost revenue:

> Since the partial de-regulation of university funding in the 1980s, overseas students are no longer tools of diplomacy but revenue sources for higher education institutions. This is especially the case with People Republic of China students, whose numbers have grown exponentially.[46]

2.46 Professor Hamilton was of the view that Australian universities had become reliant on revenue from China, which had 'compromised the fundamental principle of western universities—that is, academic freedom.'[47] Professor Hamilton further stated that the CCP in particular has used its financial influence over Australian universities to promote its ideas and discourse and that:

> … universities are a special target of CCP influence operations because the party places an enormous emphasis on the struggle over ideas, perhaps attaches more importance to the struggle over ideas than we in the West do. The CCP believes it can achieve global pre-eminence only if it wins this battle of ideas, and to this end it's developed a vast program aimed at what it calls discourse control, a large part of which is directed at Western universities.[48]

2.47 Professor Hamilton also raised Confucius Institutes as a particular area of concern. Confucius Institutes have been established in many universities in Australia, through partnerships between Australian and Chinese universities.[49] Professor Hamilton advised that these institutes are 'run by

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45 Ms Catriona Jackson, Chief Executive, Universities Australia, *Committee Hansard*, Canberra, 4 September 2020, p. 7.

46 National Tertiary Education Union, *Submission 142*, p. 1.

47 Professor Clive Hamilton, private capacity, *Committee Hansard,* Canberra, 1 October 2020, p. 28.

48 Professor Clive Hamilton, *Committee Hansard,* Canberra, 1 October 2020, p. 28.

49 Australian universities with Confucius Institutes include the University of New South Wales, University of Melbourne, University of Adelaide, University of Sydney, Griffith University,

people appointed by the Hanban—that is, the agency in China that runs Confucius Institutes around the world', and that they teach programs that are 'consistent with the CCP view of the world, of history and of Chinese culture'.[50] Further, he stated that 'universities have found excuses not to place their Confucius Institutes on the register of foreign influence organisations.'[51]

2.48 When asked about why Confucius Institutes have not been registered under the Australian Government's *Foreign Influence Transparency Scheme*, Universities Australia stated:

> Universities have looked very diligently and very carefully at the regulations underneath the … *Foreign Influence Transparency Scheme,* and the Confucius Institutes do not seem to fall under the regulations in that legislation. If they did, they would be declared as such. … I understand that my members have looked very carefully into whether they should be declaring Confucius Institutes under those laws. The advice they have is that they are not covered under those laws.[52]

2.49 The case of Drew Pavlou, a student who had been suspended from the University of Queensland and had also been publicly critical of the CCP, was highlighted as a possible example of Australian universities' aversion to the expression of anti-Chinese sentiment.[53]

2.50 The International Coalition to End Transplant Abuse in China noted that some of Australia's medical institutions and universities have provided training to Chinese surgeons from hospitals implicated in the forced transplant system[54], and that financial incentives may be causing institutions to turn a blind eye to forced transplants:

> … at the University of Sydney, fees from Chinese students totalled $500 million dollars in 2017, representing 20 per cent of its total annual revenue. Protecting these relationships may impose significant conflicts of interest for

University of Queensland, Charles Darwin University, University of Western Australia, La Trobe University, and the University of Newcastle.

50 Professor Clive Hamilton, *Committee Hansard,* Canberra, 1 October 2020, p. 30.

51 Professor Clive Hamilton, *Committee Hansard,* Canberra, 1 October 2020, p. 28.

52 Ms Catriona Jackson, Universities Australia, *Committee Hansard,* Canberra, 4 September 2020, p. 11.

53 Jon Smithson, *Submission 15,* p. 1; Drew Pavlou, *Submission 164,* p. 1.

54 International Coalition to End Transplant Abuse in China, *Submission 151*, p. 8.

Australian universities. Specifically, these lucrative relationships may be compromised if there is honesty and candour in addressing ongoing crimes perpetrated by the CCP, leading to a reluctance to criticise or even investigate allegations of human rights abuses.[55]

Challenges for the agricultural sector

2.51 DFAT outlined the impact that recent rising trade tensions between Australia and China have had on some agricultural exports:

> … the imposition of antidumping and countervailing duties on barley have effectively closed that market for the majority of Australian exports of barley. … In relation to impacts on our meat establishments: in May there were four establishments that were suspended due to some technical noncompliances and a further establishment was suspended in August. Reports from the meat industry are that, with those establishments being suspended, they anticipate that trade is now down 46 per cent year-on-year. So that has had an impact on those establishments and the overall trade with China.[56]

2.52 DFAT advised that China's Government is able to bear losses in the course of trade tensions. Specifically, in relation to China's ban on imports of Australian barley, it said that:

> In relation to malting barley, the Chinese maltsters had quite a heavy reliance on Australia for that malt. They now need to source malt from other countries. Most of those countries don't have a free trade agreement so they'll be buying barley at a higher price and they'll probably be getting it at a lower quality as well.[57]

2.53 Dr Waldron stated that recent trade measures implemented by China 'can be interpreted as "messaging" or "warnings"'. Dr Waldron added that economic coercion can be difficult to prove conclusively, but that it is nonetheless a real phenomenon:

> It is of course very difficult to substantiate claims of economic coercion, because plausible deniability … can be maintained. However there is broad

55 International Coalition to End Transplant Abuse in China, *Submission 151*, p. 5.

56 Ms Amy Guihot, Assistant Secretary, Agriculture and Non-Tariff Barriers, DFAT, *Committee Hansard*, Canberra, 1 October 2020, p. 3.

57 Ms Amy Guihot, DFAT, *Committee Hansard*, Canberra, 1 October 2020, p. 3.

> correlation between Australian government policy, and Chinese economic policy toward Australia.[58]

2.54 Dr Waldron further noted that the tariffs imposed on barley by China in 2020 'stopped a $1.4 billion trade for five years with net losses of $250 million by 2025.'[59]

Concentration of Australia's export of goods and services

2.55 Some witnesses[60] highlighted Harvard research which indicated Australia has a low level of 'economic complexity', which is measured based on the diversity of a country's exports.[61] The ECA stated that this reflects Australia's reliance on resource and agricultural exports:

> … the Harvard Growth Lab ranks Australia poorly in its economic complexity ranking. In this list Australia ranks 87th, just ahead of Burkina Faso and Paraguay. This aligns with feedback we have received from some members about the continuing overseas perception of Australia being primarily an exporter of rocks and crops.[62]

2.56 Similar sentiments were expressed by Titomic:

> Australia is in a precarious position due to its significant sovereign dependency on export of coal, [Liquefied Natural Gas], mineral resources and agriculture, where greater transparency is urgently needed to create sustainable value chains for Australia's future strategic growth sustainability.[63]

2.57 The Australian National University (ANU) Energy Change Institute agreed and noted that while Australia's reliance on a few commodity exports may be advantageous in the short term, it is 'detrimental to long-term growth

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58 Dr Scott Waldron, *Submission 30*, p. 3.

59 Dr Scott Waldron, *Submission 30*, p. 3.

60 Australia Citizens Party, *Submission 59*, p. 2; Asialink Business, *Submission 60*, p. 2, United States Studies Centre, *Submission 116*, p. 2.

61 Harvard University defines economic complexity as 'a measure of the knowledge in a society as expressed in the products it makes. The economic complexity of a country is calculated based on the diversity of exports a country produces and their ubiquity, or the number of the countries able to produce them (and those countries' complexity).' Harvard Atlas of Economic Complexity, *Glossary*, https://atlas.cid.harvard.edu/glossary, Accessed 13 January 2021.

62 Mr Arnold Jorge, ECA, *Committee Hansard*, Canberra, 15 July 2020, p. 1.

63 Titomic, *Submission 69*, p. 8.

prospects' as 'economic complexity (diversity) is one of the best predictors of underlying economic growth.'[64] The ANU Energy Change Institute added that Australia's reliance on resource exports could leave it vulnerable if international demand for these commodities reduced in line with climate change commitments:

> The heavy reliance on iron ore, coal and gas exports leaves Australia vulnerable to negative economic effects arising from climate-change related policy changes in overseas markets. The EU's proposed carbon border tariff adjustment is an example of a policy that could have major consequences for the competitiveness of Chinese steel, and hence demand for Australian iron ore and coking coal.[65]

2.58 The United States Studies Centre (USSC) argued that not only is Australia exposed by its market concentration, but that its mineral exports have served to conceal underlying economic weaknesses:

> With mining and energy exports accounting for 58 per cent of Australia's exports in 2018-2019, Australia is arguably more over-exposed by its reliance on exporting natural resources than it is on a single trading partner. …The recession-free economy Australia enjoyed for nearly three decades hid a less than rosy economic picture: even before the recent economic downturn, economic trends in Australia were not headed in the same direction as the future global economy.[66]

2.59 The Cognoscenti Group cautioned that China may decide to reduce its reliance on Australia's resources:

> … China is already developing strategies to lessen its reliance even on iron ore and coal. I think in three to five years' time it may well have other options. I think for your worst case in this you would have to look at the possibility that a vast majority of the exports we send to China may be at risk if China decided to put them at risk. You can argue about how long it would take to develop iron ore mines in West Africa et cetera but that's where China is clearly wanting to go, because it doesn't want to have to be dependent on Australia for iron ore and coal in the future. … China needs our resources—yes, it needs some of our resources now like iron ore; there's no alternative right at the

64 Australian National University (ANU) Energy Change Institute, *Submission 46*, p. 4.

65 ANU Energy Change Institute, *Submission 46*, p. 4.

66 United States Studies Centre, *Submission 116*, p. 2.

> moment. But for a lot of the other products we sell to China there are alternatives, and China is going to look to those other countries.[67]

2.60 The National Civic Council also noted Australia's low level of economic complexity and that it 'indicates the hollowing out of Australia's manufacturing sector over the past 50 years.'[68]

2.61 The USSC raised similar concerns and added that Australia faces challenges in terms of innovation, research and development:

> … Australia appeared to lack many of the advantages of other advanced economies. For example, Australia ranks behind Uzbekistan, Uganda and Tanzania in global economic complexity ratings. In the Global Innovation Index, Australia's ranking has fallen from 17th in 2015 to 22nd in the world in 2019. Indeed, whether it is Australia's business expenditure on research and development, the level of Australia's high-tech exports, or its business-research collaboration — Australia ranks near the bottom of Organisation for Economic Cooperation and Development countries, if not last.[69]

2.62 Asialink Business stated that the resource and complementarity advantages Australia shares with its main trading partners are not enough to explain its low levels of economic complexity:

> It is not enough to cite Australia's strengths as the reason for our lack of diversification. Most notably, Canada, Brazil and Russia also have significant export markets based on their natural resources and are Australia's primary competitors in China; however, rank much higher in economic complexity. All three countries have much larger advanced manufacturing sectors than Australia, including in aerospace and automotive.[70]

Global supply of critical goods and inputs

2.63 The Cognoscenti Group explained that the COVID-19 crisis 'has exposed the fragility of just-in-time supply chains and the folly of relying upon a single country for critical goods and infrastructure.'[71]

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67 Dr Alan Dupont, CEO, Cognoscenti Group, *Committee Hansard*, Canberra, 14 September 2020, p. 33.

68 National Civic Council, *Submission 62*, p. 8.

69 United States Studies Centre, *Submission 116*, p. 2.

70 Asialink Business, *Submission 60*, p. 2.

71 Cognoscenti Group, *Submission 34*, p. 1.

2.64 In particular, the COVID-19 pandemic has highlighted the vulnerability of medical supply chains and challenges Australia may face in a future medical crisis. Arrotex Pharmaceuticals stated that:

> The Coronavirus brutally underscored just how exposed Australian patients are to the mass disruption of the global supply of medicines. The rapid virus spread caused factory and border closes across our key source countries of China, the US and India. It has exposed our over reliance on China and India for the importation of 90 per cent of our medicines.[72]

2.65 The IIT also noted that being dependent on a single country for essential goods was 'risky', and that 'currently a large proportion of global supplies and intermediate and final goods are concentrated in China.' The IIT added that the COVID-19 pandemic had 'raised awareness of the need to reassess national supply chain risks.'[73]

2.66 In terms of agriculture, the IIT noted that while Australia produces large amounts of food, parts of the industry are dependent on inputs (such as fertilisers and pesticides), which are often sourced internationally:

> … a weak point in Australia's food production supply chain became visible during March 2020. After drought-breaking rains across the country generated a spike in demand for essential farm inputs, such as chemicals for pestilence control and fertiliser, this demand was met with diminishing supply from China due to the latter's virus lockdown.[74]

2.67 Grain Producers Australia also drew attention to its industry's various import dependencies:

> It is also important to understand the import vulnerabilities should we be too reliant on any one source of input for grain production:
>
> - Fuel – diesel price fluctuations and supply issues;
> - Fertiliser; [and]
> - Chemicals/chemical actives.[75]

2.68 The Cognoscenti Group highlighted Australia's dependence on global supply chains for a range of critical products – especially liquid fuel:

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72 Arrotex Pharmaceuticals, *Submission 157*, p. 6.

73 Institute for International Trade, *Submission 120*, p. 8.

74 Institute for International Trade, *Submission 120*, p. 9.

75 Grain Producers Australia, *Submission 119*, p. 1.

> Our dependence on global supply chains for critical commodities and manufactured goods pre-dates, and is more serious, than the shortages of medical equipment and pharmaceuticals illuminated by the pandemic. Liquid fuel is a prime example. COVID-19 has driven home Australia's dependence on overseas supplies of crude oil and a range of critical, refined products. Although the government has taken steps to reduce that dependence by establishing a sovereign petroleum reserve in the US, we are a long way from where we should be.[76]

2.69 The IIER-A argued that an exclusive focus on economic efficiency and profitability has led Australia into a state of dependence:

> … we have incrementally defaulted to the cheapest cost with the result that today we import, for example, 90 per cent of our liquid fuels, 90 per cent of our medicines and rely upon foreign-owned/flagged ships for 98 per cent of our trade. The import dependency is further compounded by the failure of successive Governments to mandate any stockholding levels for these critical imports, unlike most other developed countries.[77]

2.70 The IIT recommended a strategic approach to supply chain resilience:

> Supply chain assurance for critical enablers of Australia's security, such as food, medical and defence-related items, requires a strategy for supply chain robustness. This should include supply chains composed of more than one supplier and located in more than one national territory, meaning that concentrated domestic supply is also undesirable.[78]

2.71 The IIER-A recommended that Australia map out its supply chains and capabilities, so they can be better understood. The IIER-A further stated that domestic supply industries will require support, and provided an example in the COVID-19 context:

> We've had a lot of [small and medium sized enterprises (SMEs)] step up to the mark and start producing masks and other components for [Personal Protective Equipment], but when they talked to me they said … 'We invested and produced it and that was fantastic. But, now that we've found the global market's opening up again, there is no policy,' according to these SMEs, 'for

76 Cognoscenti Group, *Submission 34*, p. 7.

77 Institute for Integrated Economic Research - Australia, *Submission 42*, p. 1.

78 Institute for International Trade, *Submission 120*, p. 9.

hospitals funded by the government or government entities to mandate that a proportion of those goods come from Australian industry.'[79]

2.72 DFAT stated that COVID-19 had highlighted 'potential vulnerabilities' in critical supply chains and explained that it was exploring opportunities to make supply chains more resilient through the Australian Government's $107.2 million *Supply Chain Resilience Initiative*.[80] The initiative is designed to 'build a comprehensive understanding of critical supply chains' and to 'identify supply options to address vulnerabilities in domestic and international supply chains for identified critical products.'[81]

Drivers of market concentration

2.73 There are a range of factors that shape Australia's current trade profile, which is highly dependent on a single market for exports. These include:

- the lack of alternative markets for some goods;
- the complexity of modern production chains;
- the cost of entry into new markets; and
- non-tariff barriers to trade.

Lack of alternative markets

2.74 Several submitters pointed to the lack of a replacement market to explain export concentration and Australia's reliance on China, highlighting that the Chinese economy is unique in its size and level of demand. ITS Global stated that:

> One executive recently stated, 'It's very well to talk about diversification, but there aren't three more Chinas out there.' Every exporting country has a biggest customer. It will take some time for other markets to reach the size and sophistication of the Chinese market.[82]

2.75 This sentiment was echoed by Professor Laurenceson, who argued that:

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79 Air Vice-Marshal John Blackburn AO, Board Chair, Institute for Integrated Economic Research—Australia, *Committee Hansard*, Canberra, 14 September 2020, p. 22.

80 DFAT, *Submission 43:1*, p. 1.

81 Department of Industry, Science, Energy and Resources, 'Meeting our needs in times of crisis', www.industry.gov.au/news-media/meeting-our-needs-in-times-of-crisis, viewed on 3 November 2020.

82 ITS Global, *Submission 48*, p. 2.

> Engaging with giant markets other than China would be wonderful – if only they existed. In the real world, Australia does not get to choose where the demand for its goods and services comes from. That depends on which countries want and have the purchasing power to pay for them.[83]

2.76 In relation to the lack of alternative markets for Australian iron ore, the Productivity Commission (PC) highlighted that:

> We have benefited enormously from China's transition, and it is far from clear that we could have otherwise shifted that additional supply to another country. For example, to maintain China's share of our iron ore exports at its 2005 level, and yet keep the overall level of iron ore exports in 2018, Australia would have to find markets for an additional $22 billion of iron ore. Given it's unlikely that either the Japanese or South Korean markets - other major destinations for iron ore - would be able to expand greatly, that would require an increase in demand from the rest of the world for these resources of more than 600 per cent over current levels of demand.[84]

2.77 The IIT similarly noted that there is simply not another market of China’s size to act as an alternative export destination:

> Reducing China-dependence in Australia’s export mix is a highly challenging proposition. Outside of India, there is no single national market of equivalent potential size that could demand Australian primary commodities on a comparable scale. Furthermore, Australian businesses, exporters in particular, are relatively familiar with other substantial east and Southeast Asian markets, none of which offers a ‘silver bullet’.[85]

2.78 MUSIAD Sydney argued that export diversification will be difficult for Australia because of its reliance on mineral and raw material exports, demand for which is concentrated:

> The challenge of finding trading partners for Australian exports has been partly caused by Australia’s over reliance on the mining sector, whose products are only in high demand by countries with manufacturing bases so large that their internal mining resources are not able to supply them. There is a small club of countries that fall into that category.[86]

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83 Professor James Laurenceson, *Submission 20*, p. 3.

84 Mr Jonathan Coppel, Commissioner, Productivity Commission (PC), *Committee Hansard*, Canberra, 1 October 2020, p. 24.

85 Institute for International Trade, *Submission 120*, p. 3.

86 MUSIAD Sydney, *Submission 35*, p. 3.

2.79 MIC advised that replacing the value of exports to China 'is at best a long term prospect', and will take a significant amount of time given the market's size:

> … Australia sells as much to China as its next five biggest export markets combined. To meaningfully reduce the share of exports to China—from say, from 33 per cent to 25 per cent— Australia would need to find new markets for $36 billion in exports. This is about the value of Australian exports to South Korea (third-largest export market) plus Indonesia (12th- largest)…. While exporting to China carries the risk of economic coercion, it's better to wear that risk than not earn the revenue at all.[87]

2.80 The CCIQ acknowledged the need for Australian export diversification, but also noted that China's unique size and economic demand poses challenges:

> … diversification is something we fully support, but … it is a long-term, resource intensive exercise with an uncertain outcome. … there just aren't that many markets which have the profile of China that makes it so dominant in our export profile in particular.[88]

2.81 Professor Medcalf similarly recommended a realistic approach to the time and effort it will take to achieve reasonably significant levels of economic diversification:

> We should be encouraging government to look for every opportunity to assist Australian exporters and investors [to] turn their attention to our diverse neighbours in the Indo-Pacific region and our diverse Asian neighbours—for example, Indonesia, Vietnam, Japan, India, South Korea and so forth. We should also, though, be very realistic about the prospect of dramatic and rapid gains in those markets, particularly given the short-term havoc that COVID-19 has brought. This really needs to be a long game, and the argument that there's no easy substitute for the Chinese market is obviously a compelling one.[89]

2.82 Dr Adam Triggs pointed out that attempts to diversify exports might impact Australia's standard of living:

> … the Chinese market is so large that even if you could diversify to some extent to other countries you still would suffer a loss as a consequence of that,

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87 MIC, *Submission 54*, p. 3.

88 Mr Gus Mandigora, Senior Policy Adviser, CCIQ, *Committee Hansard*, Canberra, 14 September 2020, p. 8.

89 Professor Rory Medcalf, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 50.

> because you simply couldn't make up that level of demand … the key question when people advocate that sort of diversification is: how are you going to fill that gap in terms of making sure we don't see a big drop in the standard of living for Australians and solvencies for the businesses which are in those industries as well?[90]

2.83 Dr Shiro Armstrong similarly stated that cutting off trade with China would be 'a path to a poorer Australia and a less influential Australia, and one that creates uncertainty for other countries dealing with Australia.'[91]

Complex global production chains

2.84 The complexity of globalised production systems also makes the process of diversifying Australia's trade links a difficult task. Global value chains (GVCs) are production processes that might involve components from several countries undergoing various value-adding processes before final production or assembly in another. GVCs can be hard to trace and disruptions to them can have unpredictable results.

2.85 ITS Global used the example of the automotive industry to illustrate the connectedness of many countries through GVCs, where changes in one country can have effects on others:

> South Korea imports most of its iron ore from Australia. One third of South Korean steel is used in the automotive industry. Two-thirds of Korean cars are exported. Around half of Korea's exported cars go to North America. Demand for Korean cars in the US therefore has a material impact on Australian iron ore exporters.[92]

2.86 Professor Peter Drysdale advised that decoupling from the Chinese economy will affect trading relationships with many others as a result of complex GVCs:

> … you can't think of cutting trade with China independently of our whole relationship with our Asian partners … On average—this is right across the whole range of Australian imports from China—about one-fifth of the total value of those imports is drawn from other countries through the value chain through which they come, through the investments of the Japanese and the

90 Dr Adam Triggs, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 8.

91 Dr Shiro Armstrong, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 7.

92 ITS Global, *Submission 48*, p. 2.

> Koreans, and through South-East Asia and so on. This is not a relationship that's separable from all our other relationships in the region.[93]

2.87 An additional factor is the complex ownership and varied national bases of the multinational corporations who participate in these GVCs:

> Further complicating matters is that locational decisions in GVCs are made by multinational companies, most of which are headquartered overseas and beyond the direct reach of Australian policy-makers.[94]

Time, uncertainty and costs

2.88 Pursuing export diversity by entering new markets is a gradual process that brings with it a range of costs and risks for business. DFAT described this issue:

> Seeking to develop a new market (or importing from a new supplier) has additional time and monetary costs. Businesses need to gather information, develop business relationships, tailor product specifications to the market preferences and regulatory requirements, and arrange transport, finance and insurance. Sometimes an additional cost of advertising is needed to build consumer awareness and demand. For almost 10 000 Australian exporters accessing Austrade's Export Market Development Grants scheme over the last 10 years, the average expense in developing new markets for export was almost 15 per cent of the value of annual exports. Once trade is established and volumes grow, the ratio of transaction costs to sales declines rapidly. It is this fixed cost in establishing new markets that makes businesses reluctant to leave a market if they think that a disruption is temporary.[95]

2.89 Dr Armstrong similarly noted the risks associated with diversification of Australia's export markets:

> Australian policymakers can choose to reduce trade with China by impeding exports and imports, or they can reduce the share of trade with China by intervening in the market to expand trade with other countries, including by diverting trade away from China. But these policy strategies necessarily incur costs.[96]

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93 Professor Peter Drysdale, private capacity, *Committee Hansard*, Canberra, 30 September 2020, pp 7-8.

94 Professor James Laurenceson, *Submission 20*, p. 5.

95 DFAT, *Submission 43*, pp. 15-16.

96 Dr Shiro Armstrong, *Committee Hansard*, Canberra, 30 September 2020, p. 2.

2.90 Dr Armstrong further outlined potential costs of diversification:

> If government policies are to make it difficult for businesses to engage in the Chinese market, or any other market, they will make businesses worse off and it is a pathway to lower incomes, smaller government budgets and the start of other countries losing confidence in Australia as a reliable economy with which to engage.[97]

2.91 AMIC pointed out that even with new trade agreements coming into force, diversification is a slow, costly and risky process:

> It must be recognised that diversification through further free trade agreements and breaking down of non-tariff barriers often occurs over protracted time periods, and pivoting an entire industry's major trade reliance to other market/s can be challenging and costly, with no guarantee of success.[98]

2.92 The IIT noted that in terms of some services exports, finding suitable markets can be challenging:

> It is evident that commercial presence, or investment, requires relatively friendly host-country environments with an institutional environment not too dissimilar to Australia's. Not surprisingly, therefore, Australia's services suppliers predominantly locate in New Zealand, the UK, and the US. Diversifying away from these traditional markets presents challenges.[99]

2.93 The PC added that diversifying the range of goods and services Australia exports may also carry costs for the Australian economy:

> We've got a very strong comparative advantage at the moment, and a whole lot of resource endowments, and we've become much richer as a consequence of them. We've looked at the benefits of the terms-of-trade improvement for Australia's national disposable income, and they are sizeable. To shift away from those into complex goods, if that were to have the consequence of reducing those resource exports, we'd actually be worse off.[100]

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97 Dr Shiro Armstrong, *Committee Hansard*, Canberra, 30 September 2020, p. 3.

98 Australian Meat Industry Council, *Submission 51*, pp 10-11.

99 IIT, *Submission 120*, p. 6.

100 Dr Ralph Lattimore, Executive Manager, Canberra Office, PC, *Committee Hansard*, Canberra, 1 October 2020, pp 26-27.

Non-tariff barriers

2.94 In many markets, 'non-tariff barriers' (NTBs) or 'non-tariff measures' (NTMs) may serve to limit or close markets to Australian products. DFAT defined NTBs as:

> … any kind of 'red tape' or rule that unjustifiably restricts the flow of goods and services and is inconsistent with international trade rules … The removal or reduction of these barriers helps maintain access to existing markets and creates opportunities to diversify into new markets … Ultimately, resolution relies on trading partners removing the measures, and progress can be slow, given that NTBs are often applied for political or protectionist goals.[101]

2.95 As an example, CBH Group highlighted NTBs imposed by the Indian government on Australian grains:

> A recent example of an NTM that the Australian grains industry has encountered is the introduction by India of a list of weed seeds that are prohibited on import. That is, a nil tolerance, for the import of grain from Australia. The list of weed seeds includes weeds that are present in India, highlighting that this is not a phytosanitary issue, but an NTM. DAWE is currently assisting industry in seeking to have this list amended or a tolerance allowed in the future.[102]

2.96 AMIC pointed out that a single meat carcass can be processed in such a way that parts of it might be exported to 100 different markets. The range of differing regulatory requirements in those various markets can be challenging for exporters:

> Each of those markets have specific requirements and, in many cases, that's where those NTBs can arise … For example, overall, the burden of NTBs we estimated in 2017 to be about $3.4 billion, and they're in various categories. Some of those are in sanitary requirements, specifically for things like animal health; they may require a certain category of animal. In some markets there are shelf-life restrictions—products can only be packed for certain periods—allowable veterinary treatments, things like maximum permitted residue levels, and there are operational requirements, like processing standards.[103]

101 DFAT, *Submission 43*, p. 18.

102 CBH Group, *Submission 2*, pp. 2-3.

103 Dr Mary Wu, General Manager, Processing Group, Australian Meat Industry Council, *Committee Hansard*, Canberra, 14 July 2020, p. 32.

2.97 The Infant Nutrition Council stated that 'complex import regulations and market access rules provide a challenge for Australian exporters'. It noted that even with the existence of trade agreements, the resolution of NTB problems requires the agreement of both trading nations:

> Whilst industry and government work closely with trade market authorities to navigate these complexities, and whilst there are provisions within ChAFTA for addressing NTBs when they arise, addressing market access issues (whether they be considered NTBs or not) requires good will on both sides.[104]

2.98 In the fresh produce sector, complex protocols for securing export market access can be a significant burden on industry. AFPA stated that:

> … more than 100 different products are grown in Australia. The challenge is that each product often needs a specific technical market access protocol from our export markets in order to trade … there is a different citrus, table grape, mango, and cherry protocol for each product and each product following requires a new protocol. The development of each new technical market access protocol is a long-term investment by both government and industry.[105]

2.99 AFPA recommended that the Australian Government:

> Adopt a whole of government approach to Technical Market Access, and share our expertise with key trading partners. The future growth of the fresh produce industry is dependent on technical market access into key export markets, this must be a priority for the Australian Government's international engagement.[106]

2.100 Similarly, GrainGrowers recommended that DAWE and DFAT develop:

> … a strategic, targeted and well resourced, long-term approach to addressing persistent NTBs restricting grains exports, including Minimum Residue Levels.[107]

2.101 The National Farmers' Federation (NFF) cautioned that 'Australia's trade profile is determined primarily by factors which are not the outcomes of strategic or public policy decisions'. As such, the NFF recommended the

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104 Infant Nutrition Council, *Submission 55*, p. 2.

105 Australian Fresh Produce Alliance, *Submission 56*, p. 7.

106 Australian Fresh Produce Alliance, *Submission 56*, p. 4.

107 GrainGrowers, *Submission 21*, p. 2.

Government continue to focus on eliminating tariff barriers and NTBs, but that it was also:

> … important to acknowledge the limits of these adjustments and to recognise that attempts to direct Australian trade away from those markets which have natural complementarities will result in inefficiencies, making Australian industry worse-off.[108]

Committee comment

2.102 Export concentration is a result of many factors, including East Asia's economic growth, the growth in international trade facilitated by multilateral and bilateral trade agreements, Australia's unique resource endowments and other comparative advantages, and its geographical proximity to high-growth markets. These circumstances operated to concentrate a large proportion of Australian exports towards high demand, high profit markets, the largest of which is China.

2.103 Market concentration can bring real benefits to Australian exporters. Australia's high standard of living and national prosperity are in no small part due to its successes in developing longstanding trading relationships and partnerships in China. Stable trading relationships allow exporters to lower overheads by reducing costs in areas like regulatory compliance, packaging and market research, and frequently offer a price premium. Exporters sell their products where there is the most demand and where they can expect the best return. For many industries this has meant concentrating their exports in China.

2.104 However, market concentration also carries elements of risk. The Committee is concerned that Australia's reliance on a small number of markets, particularly China, has left it exposed to economic, political and security risks. Taking greater steps to diversify markets for Australia's exports will help to mitigate this risk, as well as opening up new opportunities for business.

2.105 The risk of foreign influence was highlighted as an area of particular concern in the university sector, which has become more reliant on revenue from international students enrolments, the largest proportion of which come from China. Diversification of funding options for universities should be

108 National Farmers' Federation, *Submission 65*, pp 8-9.

considered, as well as further measures to lessen the university sector's potential exposure to foreign influence.

2.106 Non-tariff barriers (NTBs) may also be contributing to market concentration, particularly in the agricultural sector, by impeding businesses from entering new markets. NTBs to trade should be a matter of priority for the Australian Government, so that market access for Australian exporters is not unduly impacted.

2.107 The Committee also heard that a large proportion of Australia's exports come from a small range of sectors. Like market concentration, export concentration may reduce Australia's economic resilience in the case of market disruptions or shocks. Identifying opportunities for diversity in our export goods and services, particularly in the technology and manufacturing sectors, will help Australia withstand any disruptions in a particular market or economy, and continue its trajectory of economic growth.

3. Supporting export diversification

Overview

3.1 This chapter considers questions regarding diversification, both in relation to export markets and the range of goods and services that Australia exports. It considers whether diversification is needed, how it might be realised, and steps the government should take to ensure appropriate levels of export diversification.

The need for diversification

3.2 The Perth USAsia Centre stated that trade diversification must be a priority for government, particularly in light of the evolving global environment:

> … as immediate external shocks bring into sharp focus the economic risks associated with concentrated trade and investment relationships, diversification policies should now be accorded a much higher priority … diversification is not simply desirable, but essential for Australia to both weather existing external economic shocks, and build trade and investment relationships for sustained longer-term prosperity.[1]

3.3 The Chamber of Commerce and Industry Queensland (CCIQ) similarly outlined the benefits of diversification in managing economic risks:

> Market diversification is a critical element of risk management and will help to reduce the economic impact of any political, economic or public health shock emanating from one country.[2]

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1 Perth USAsia Centre, *Submission 45*, p. 18.

2 Chamber of Commerce and Industry Queensland (CCIQ), *Submission 53*, p. 7.

3.4 Similarly, Australian Grape and Wine said that:

> We have had clear warnings for some time that relying too heavily on a single market with limited ability to shift is a highly risky strategy for business in the current trade environment which can see countries close or slow trade overnight. A flexible diverse array of market options would prove a more sustainable option.[3]

3.5 The Infant Nutrition Council stated that while China will remain a key market for its industry, diversification is also important:

> Given the size of the market and strength of the Australian 'clean, green, safe' brand, China will realistically continue to be Australia's key trading partner in the region. However, the ability for industries such as ours to be agile and able to establish brand recognition and sales channels in other high growth markets will be critical to long-term stability and viability.[4]

3.6 Along the same lines, Grain Producers Australia said that:

> Market diversification reduces the vulnerability of the Australian grains industry should there be a break down in the relationship with any single market. Current export vulnerabilities have been highlighted by the:
>
> - Imposition of considerable tariffs on the sale of barley into China;
> - Imposition of significant tariffs on the sale of lentils, chickpeas into India;
> - Increasing environmental requirements for the importation of canola into the European Union (EU); [and]
> - Changing chemical residue requirements (Indonesia, Vietnam).[5]

Paths to diversification

3.7 The evidence to this inquiry highlighted a range of options for Australia to move towards more diversified export markets, including:

- Taking a strategic approach to diversification;
- Seeking out new markets, particularly through trade agreements;
- Capturing greater value from the products Australia produces through value adding and advanced manufacturing;

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3 Australian Grape and Wine, *Submission 39*, p. 5.

4 Infant Nutrition Council, *Submission 55*, p. 2.

5 Grain Producers Australia, *Submission 119*, p. 2.

- Adapting to a changing political and national security environment, and its implications for the Australia-China trade relationship in particular; and
- Reassessing advice and assistance the Australian Government provides to exporters to facilitate diversification and better prepare them for the ongoing risks of doing business internationally.

A strategic approach to diversification

3.8 Dr Shumi Akhtar advised that COVID-19 had triggered an impetus to rethink Australia's trade and investment relationships:

> There's no better time than now to rethink, re-strategise and revise our existing rules and policies on foreign investment and trade. In order to safeguard Australia's continued economic prosperity and prevent the emergence of a vast threat to our sovereignty, we have to take decisive actions and make informed decisions on how we view our long-term bilateral and multilateral trade relations.[6]

3.9 Similarly, the Cognoscenti Group stated that 'narrow, market-based calculations should be replaced by a more strategic approach that takes better account of the need for sovereign capabilities to improve national resilience'.[7]

3.10 Other submissions to the inquiry likewise argued that changes in the global geopolitical environment should bring with them a reassessment of our trading strategies. The Institute for International Trade (IIT) stated that:

> … political risk must now be integrated into the thinking around supply chain risk management in the context of the Australia-China trade relationship. Notwithstanding the obviously beneficial impacts this complementary trading relationship has had on Australia's economy and economic development, the geopolitical sands have shifted decisively, and a more adversarial, bilateral trading relationship is in the early stages of unfolding.[8]

3.11 Mercury International Consulting (MIC) noted that, while the Government has taken steps to help businesses diversify (including through negotiating

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6 Dr Shumi Akhtar, Associate Professor, Business School (Finance), University of Sydney, *Committee Hansard*, Canberra, 30 September 2020, p. 19.

7 The Cognoscenti Group, *Submission 34*, p. 6.

8 Institute for International Trade (IIT), *Submission 120*, p. 2.

trade agreements), its efforts 'appear to be ad hoc and there is no sign of any coherent strategy.' MIC outlined that a strategic approach could combine:

> … high-level settings with significantly scaled-up services to businesses in target markets. This would involve increased resources for agencies like the Department of Foreign Affairs and Trade (DFAT), Austrade and Tourism Australia to grow the profile of Australia in-market, and make it easier for businesses to enter those markets. It should also look at working with like-minded countries to leverage emerging technologies to streamline processes and strengthen the rules of the trading system.[9]

3.12 Similarly, the Institute for Integrated Economic Research – Australia (IIER-A) advocated for a comprehensive strategy for trade and foreign investment:

> Australia's approach to trade and foreign investment has focussed on efficiency rather than a comprehensive strategy. The result of a short-term policy focus has left Australia increasingly vulnerable to foreign economic influence. In particular, the scale of our economic reliance on trade with China is leaving us vulnerable to Chinese economic policy manipulation. … We have, in effect, left our resilience, and therefore our sovereignty and security, to the largely foreign-owned market.[10]

3.13 DFAT outlined what it saw as the respective roles of government and business in facilitating diversified trade relationships:

> The government's contribution is to facilitate open trade and investment; to negotiate agreements to liberalise market access; to set rules and assist exporters and foreign investors to understand the market opportunities; and to provide sound governance and a trusted legal system … It is the role of business to make commercial decisions. They will seek to maximise their profits and manage their risks. In doing so, they'll consider a wide range of issues, which could include relative revenue, costs between different markets, the diversity of buyers and suppliers within and across markets, and the security of demand and supply and other sovereign and political risks.[11]

3.14 Similarly, the Australian Trade and Investment Commission (Austrade) argued that it is not the government's role to provide direction to Australian businesses in relation to diversification:

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9 Mercury International Consulting (MIC), *Submission 54*, p. 5.

10 Institute for Integrated Economic Research – Australia (IIER-A), *Submission 42*, p. 2.

11 Dr Jennifer Gordon, Chief Economist, Office of the Chief Economist, Department of Foreign Affairs and Trade (DFAT), *Committee Hansard*, Canberra, 1 October 2020, p. 2.

> Ultimately … the government does not direct businesses to diversify. The decision about what product to sell and which consumers to pursue is a commercial matter determined by each individual exporter.[12]

3.15 The Department of Agriculture, Water and the Environment (DAWE) expressed similar sentiments in relation to agricultural exports:

> Rather than a lack of options for exporters, in most cases market concentration is the result of commercial decisions by individual exporters. Exporters seek the best returns available for their products in the knowledge that an overreliance on any one market could sharpen the consequences if there's a disruption. While we as a department recognise the commercial imperatives, we will continue to work on behalf of exporters and agricultural producers to help them reduce risk.[13]

3.16 The Australian Strategic Policy Institute (ASPI) highlighted its concerns with this approach:

> … [corporate decision makers will] just follow the money of the faster recovering economies and operate as if the previous global economy was in place. For Australia and South-East Asia and some European countries, this would mean increasing exposure to the Chinese economy, but that would simply create greater risk in the medium term, perhaps in quite nasty ways.[14]

Box 3.1 'China And' strategy for diversification

A number of witnesses put forward the concept of a 'China And' or 'China Plus' strategy as a viable path for diversification. This refers to Australia continuing to export to China while actively exploring opportunities to build new trade relationships and gradually increasing exports to other countries.[15]

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12 Ms Sally-Ann Watts, Acting Deputy Chief Executive Officer (CEO), Global Client Services, Australian Trade and Investment Commission (Austrade), *Committee Hansard*, Canberra, 1 October 2020, p. 2.

13 Mr David Hazlehurst, Deputy Secretary, Agriculture Trade and ABARES Group, Department of Agriculture, Water and the Environment (DAWE), *Committee Hansard,* Canberra, 14 July 2020, pp 1-2.

14 Mr Michael Shoebridge, Director, Defence, Strategy and National Security Program, Australian Strategic Policy Institute (ASPI), *Committee Hansard*, Canberra, 14 September 2020, p. 2.

15 Professor Rory Medcalf, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 53; Professor Laurenceson, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 51;

Dr Shiro Armstrong explained this concept and stated that:

> … it's not China or other countries; its China and other countries. … that's the policy we should be pursuing, of expanding trade with other countries in a way that does not purposefully intervene and divert trade away from China.[16]

Asialink Business similarly stated that 'a "China plus" or a "China and" strategy is essential to underpin any national narrative related to diversification.'[17] The Australia China Business Council (ACBC) expressed similar sentiments:

> … [Australia's] national interests are best served by adopting a China-plus strategy—that is, a strategy where we reaffirm our existing trade relationship with China and at the same time actively seek diversification into new markets to respond to the changing economic environment. We believe that this diversification reflects an informed assessment of risks and returns and makes sense for both governments and business.[18]

Trade agreements and deeper relationships with growing markets

3.17 DFAT took the view that furthering Australia's trade liberalisation agenda is an effective way to encourage diversity in exports:

> The government's active free trade agreement (FTA) agenda will result in greater trade diversification in the future. Australia is currently in FTA negotiations[19] with the EU, the Pacific Alliance (Chile, Colombia, Mexico and Peru), Regional Comprehensive Economic Partnership countries, and the United Kingdom (UK). In addition the Australian and Indian Prime Ministers have agreed to re-engage on FTA negotiations. Should all these negotiations result in FTAs coming into force, along with the [Pacific Agreement on Closer Economic Relations] Plus FTA … Australia's FTAs will cover a further 39

Asialink Business, *Submission 60*, p. 5; Mr David Olsson, National President and Chairman, Australia China Business Council (ACBC), *Committee Hansard*, Canberra, 15 July 2020, p. 15.

16 Dr Shiro Armstrong, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 10.

17 Asialink Business, *Submission 60*, p. 5.

18 Mr David Olsson, ACBC, *Committee Hansard*, Canberra, 15 July 2020, p. 15.

19 Since DFAT's evidence to the inquiry was received, a number of FTA negotiations were progressed. On 13 December 2020, the Pacific Agreement on Closer Economic Relations (PACER) Plus came into force. In addition, on 15 November 2020 Ministers from 15 countries signed the Regional Comprehensive Economic Partnership (RCEP) Agreement.

> economies, bringing the proportion of Australia's two-way trade (goods and services) with FTA partners to around 89 per cent (based on 2019 trade). This compares to 70 per cent of trade in 2019 with current FTA partners and 27 per cent of trade in 2013 with FTA partners at that time.[20]

3.18 The Productivity Commission (PC) explained that multilateral trade agreements are regarded as the best way to reduce barriers to trade, but are also the most difficult to achieve:

> … multilateral agreements … are the way we should be proceeding. But practically speaking, in the last decade it's been very difficult to negotiate multilateral agreements. So, you're left in a second-best world.[21]

3.19 The Infant Nutrition Council similarly stated that multilateral agreements are preferable in that they may facilitate access to smaller markets that would otherwise not be a priority for individual FTA negotiations:

> … the pursuit of broader multilateral agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership will have the added benefits of diversification of exports, including to smaller and emerging markets not otherwise covered by bilateral agreements.[22]

3.20 The Australian National University (ANU) Energy Change Institute argued that multilateral agreements are a preferable way to pursue trade diversification, as FTAs can function to concentrate trade by way of preferential liberalisation:

> Trade agreements which preferentially liberalise trade in certain sectors, with certain partners, run a risk of increasing the concentration of export markets. This is particularly true if the preferential liberalisation applies to partners and/or sectors which are already major components of trade flows. Non-discriminatory liberalisation through regional or multilateral trade agreements can, however, be a powerful force for diversification.[23]

3.21 The Northern Territory Government pointed to the benefits of FTAs:

> Current FTAs provide Territory businesses with a platform to engage foreign markets and improve access to a wider range of products. The Northern

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20 DFAT, *Submission 43*, p. 20.

21 Dr Ralph Lattimore, Executive Manager, Canberra Office, Productivity Commission (PC), *Committee Hansard*, Canberra, 1 October 2020, p. 26.

22 Infant Nutrition Council, *Submission 55*, p. 3.

23 Australian National University (ANU) Energy Change Institute, *Submission 46*, p. 7.

Territory Government leverages FTAs to diversify and grow trade, noting the continued need to promote these opportunities to small and medium sized businesses.[24]

3.22 In a similar vein, the Tasmanian Government noted that it:

> … continues to support the Australian Government's efforts to grow trade and investment opportunities with both existing and emerging trading partners around the world. In particular, we strongly support its agenda to progress FTA negotiations, such as the one underway with the UK, along with multilateral agreements with trading blocs.[25]

3.23 Grain Trade Australia (GTA) expressed support for trade agreements in the following terms:

> GTA supports bilateral trade agreements and considers them an effective trade policy tool. GTA acknowledges the achievements of Governments in both regional and bilateral trade agreements. We believe it is important these trade agreements continue to remain in place to:
>
> - provide a framework for trade,
> - continue to focus on improving market access,
> - reduce the impact of Non-Tariff Measures, and
> - foster tariff reductions.[26]

3.24 Australian Grape and Wine pointed to a number of potential new markets into which Australia's winemakers might diversify, but stated that Government assistance in accessing them would be a necessary first step:

> … there are a number [of markets] which show a lot of potential as future high value or high demand wine markets, including India, Mexico, Russia, parts of South-East Asia and a number of the African nations. While there is significant potential for future growth in many of these markets it will require sustained effort and investment, and an improved trading environment (e.g. FTAs and improved regulatory arrangements) before this potential can be realised.[27]

3.25 Canegrowers noted that the exclusion of export sectors from FTAs can cause market concentration elsewhere:

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24 Northern Territory Government, *Submission 9*, Attachment A, p. 2.

25 Tasmanian Government, *Submission 63*, p. 1.

26 Grain Trade Australia, *Submission 26*, p. 3.

27 Australian Grape and Wine, *Submission 39*, p. 5.

> Unfortunately, sugar has been excluded from the trade agreements Australia has reached with the United States of America (US) and China. The exclusion of sugar from these trade agreements limits Australia's access to these markets and has contributed to the increase in concentration of Australian sugar exports that has occurred in recent years.[28]

3.26 Grain Producers Australia noted that given Australia's already liberalised economy, it lacked much by way of leverage when negotiating new agreements, which makes them less likely to be effective:

> There has been little transparent reporting regarding the success of these agreements or whether the promised tariff reductions have actually been achieved within the 'agreement' timeframes. Due to being one of the first countries in the world to deregulate our agricultural industries and remove production supporting subsidies and tariffs, Australia has had very little to negotiate with.[29]

3.27 The Perth USAsia Centre cautioned that Australia shouldn't wait for a trade agreement to come into force to drive new trade relationships, and noted that Australia's 'major economic relationships – Japan, Korea and China – were all developed without bilateral FTAs.'[30]

3.28 The CCIQ highlighted countries that should be prioritised for diversification:

> After China, Japan, India and South Korea are Queensland's next [three] largest trading partners and their trade with Australia is also driven by market size, trade complementarity and geographical proximity. This makes these factors the baseline for exploring export market diversification.[31]

3.29 The ACBC highlighted the opportunities of trade with Asia:

> … the single greatest opportunity for the Australian economy lies in Asia. Even allowing for the impact of COVID-19, Asia remains on track to top 50 per cent of global Gross Domestic Product by 2040 and drive 40 per cent of the

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28 Canegrowers, *Submission 32*, p. 2.

29 Grain Producers Australia, *Submission 119*, pp. 2-3.

30 Mr Hugo Seymour, Program Coordinator, Perth USAsia Centre, *Committee Hansard*, Canberra, 14 September 2020, p. 39.

31 CCIQ, *Submission 53*, p. 5.

world's consumption, representing a major shift in the world's economic centre of gravity.[32]

3.30 The Perth USAsia Centre argued that there are a number of countries in the region that Australia should work with to develop deeper trading relationships:

> … to face these challenges, we must diversify our relationships. We must reorient our trade and investment relationships with the growing economies in our region, particularly India, Indonesia, Vietnam and across South and South-East Asia. COVID has delayed but not disrupted the major drivers of economic growth in those major economies—that is, young, large, urbanising populations—that all fed into forecasting predictions that India, by the middle of this century, would be the second-largest economy in the world, Indonesia would be the fourth-largest economy in the world and Vietnam in the top 20.[33]

3.31 The Perth USAsia Centre also highlighted that the recent Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) created significant opportunities for trade diversification, although it will require additional bilateral diplomacy to have full effect.[34] DFAT similarly stated that Indonesia presents strong potential for Australia's trade, and that the IA-CEPA 'ensures that Australia is well-placed to deepen economic cooperation and share in Indonesia's growth.'[35]

3.32 Vietnam was also highlighted as an ideal candidate for increased economic ties. The Perth USAsia Centre stated that Vietnam has 'complementary economic needs, a stable business environment, and a high growing economy driven by a large population, youthful demographics, and rapid urbanisation and industrialisation.'[36] In relation to the opportunities for Australia in Vietnam, DFAT stated that:

> In August 2019, the Prime Ministers of Australia and Vietnam agreed to develop an Enhanced Economic Engagement Strategy, with the aim of becoming top ten trading partners and doubling bilateral investment. The

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32 Mr David Olsson, ACBC, *Committee Hansard*, Canberra, 15 July 2020, p. 15.

33 Mr Hugo Seymour, Perth USAsia Centre, *Committee Hansard*, Canberra, 14 September 2020, p. 35.

34 Perth USAsia Centre, *Submission 45*, p. 18.

35 DFAT, *Submission 43*, p. 14.

36 Perth USAsia Centre, *Submission 45*, p. 18.

> Strategy is being developed in consultation with industry over the next 12 to 18 months.[37]

3.33 India was highlighted as potentially the most significant option for trade diversification. DFAT stated:

> The 2018 *India Economic Strategy* observed that there is no single market with more growth opportunities for Australian business to 2035 than India, which is projected to become the world's third largest economy by 2030. On 4 June, Prime Minister Morrison and Indian Prime Minister Modi … announced elevation of the bilateral relationship to a Comprehensive Strategic Partnership (CSP). As part of the CSP, the Prime Ministers decided to re-engage on a bilateral Comprehensive Economic Cooperation Agreement.[38]

3.34 The Perth USAsia Centre also referenced the Australian Government's *India Economic Strategy*, and recommended the implementation of the strategy's recommendations 'as a priority.'[39]

3.35 The IIT stated that India had 'high potential' as an option for Australia's trade diversification. The IIT noted that trade between the two countries has increased substantially in recent years, that Australia and India share many trade complementarities, and that while India should not be regarded as the 'next China', there are strong economic, security and geopolitical factors that will likely make it one of Australia's key partners in the future.[40]

3.36 The Australia Arab Chamber of Commerce and Industry pointed out that Australia was underrepresented in markets in the Middle East and North Africa (MENA) region:

> In 2018-2019 total exports to the MENA region [were worth] A$11.2 billion accounting for only 2.7 per cent of Australian exports. In an export market worth in excess of A$1 trillion, Australia is significantly underrepresented.[41]

3.37 Agsecure put forward the concept of 'regional self-reliance', which would involve 'the creation of a much closer working relationship between Australia and our nearest neighbours.' Such an agreement could involve

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37 DFAT, *Submission 43*, p. 14.

38 DFAT, *Submission 43*, pp 14-15.

39 Perth USAsia Centre, *Submission 45*, pp. 18-19.

40 IIT, *Submission 120*, pp 10-11.

41 Australia Arab Chamber of Commerce and Industry, *Submission 66*, p. 6.

New Zealand, Pacific nations, Papua New Guinea, East Timor, Indonesia and Singapore.[42] Agsecure outlined why this arrangement was beneficial:

> Now more than ever it is in Australia's strategic interest to draw its nearest neighbours closer to increase regional stability and security, and by supporting each other's common drive toward increased prosperity. Together, the population of this region exceeds 325 million people, it's projected to reach 365 million within a decade and we are richly diverse. We are a group of nations that can complement each other's needs and achieve economic efficiencies at a regional level – relying less on other, more volatile relationships and supply chains further abroad.[43]

3.38 ASPI suggested that Australia prioritise:

> … relationships that are strategic, technological and economic with the Quad Nations—that is, India, Japan, the US and Australia—with the Five Eyes, with the EU, and with Indonesia, South Korea, Singapore and Vietnam.[44]

Commercial and workforce capability

3.39 Asialink Business noted that Australia lacks an 'Asia capable' workforce of sufficient size, arguing that capability issues are 'among the greatest impediments to planned expenditure or expansion into Asia for Australian businesses'.[45] Asialink Business stated that:

> Critical individual capabilities include a sophisticated understanding of the markets in our region, extensive experience operating in Asian markets (at least two years), long-term trusted relationships, proficiency in one or more Asian languages, the capacity to deal with government, and cross-cultural competencies. Organisational capabilities include a leadership team committed to an Asia strategy, customised products and services, a tendency towards local autonomy in organisational design, customised Asian talent management, and platforms to share learnings.[46]

3.40 Asialink Business went on to note that there is 'a significant dearth of the critical capabilities in the Australian workforce', stating that 'over 90 per

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42 Agsecure, *Submission 49*, p. 1.

43 Agsecure, *Submission 49*, p. 2.

44 Mr Michael Shoebridge, ASPI, *Committee Hansard*, Canberra, 14 September 2020, p. 2.

45 Asialink Business, *Submission 60*, p. 6.

46 Asialink Business, *Submission 60*, pp. 6-7.

cent of boards and senior executive teams in the ASX 200 lack the critical individual Asia capabilities to do business with the region.'[47]

3.41 ITS Global pointed out that the trade relationships on which exporters depend do not arise quickly or easily:

> Understanding an export market's complex political and business culture, gaining the trust of business partners, and – most importantly – businesses spending time and resources in those economies is what makes trade relationships work, and will have a measurable impact on successful exports.[48]

3.42 The CCIQ recommended that in-country expertise be a key area of investment for governments in order to facilitate export relationships in countries into which Australia may wish to diversify:

> … when you actually physically enter a market, having somebody on the ground who the Australian government is working with and who can form those high level business connections makes a huge amount of difference, particularly since in many of those markets you form a relationship first before you start doing business. So investing in that kind of expertise and looking at it as a long game is really the one area that I would say we could focus on for practical, low-hanging fruit.[49]

3.43 Dr Armstrong explained that the Government has a significant role to play in supporting the development of critical workforce skills and capabilities:

> … where there are barriers to doing business in these countries, where there's a lack of understanding from Australian businesses and consumers about our South-East Asian or South Asian neighbours, I think there's a big role for government to help overcome those barriers and upskill our businesses and population to engage more with our neighbours.[50]

Value adding and on-shore manufacturing

3.44 A criticism of Australia's current export profile is that it fails to adequately capture value from Global Value Chains (GVCs). Australian exporters are instead concentrated in primary materials in the lower-value, or 'upstream',

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47 Asialink Business, *Submission 60*, p. 7.

48 ITS Global, *Submission 48*, p. 3.

49 Mr Gus Mandigora, Senior Policy Adviser, CCIQ, *Committee Hansard*, Canberra, 14 September 2020, p. 12.

50 Dr Shiro Armstrong, *Committee Hansard*, Canberra, 30 September 2020, pp 9-10.

parts of the value chain. This can provide short-term benefits but may not support longer-term national prosperity. As Dr Emma Aisbett from the ANU stated:

> In the short term, allowing the market to decide what we export is the quickest way to raise national income. However, export profiles dominated by primary, upstream industries—like Australia's current one—fail to capture much value add and tend to be associated with longer term, lower growth prospects and the generation of fewer high-quality jobs.[51]

3.45 The Advanced Manufacturing Growth Centre (AMGC) made a similar point, noting that Australia's participation in GVCs is at the low-value end. The AMGC said that Australia's levels of the more profitable 'backward' GVC linkages – in which Australian exporters use foreign inputs to create higher value products for export – are amongst the lowest globally.[52]

3.46 The ANU Energy Change Institute likewise said:

> While participation in global supply chains supports economic growth, they do so more for countries downstream than they do for countries at the very upstream (raw material) end. Australia with its dependence on raw-material exports currently sits at the very upstream end of many important global supply chains … Growth prospects improve when countries can successfully diversify and move downstream in global supply chains.[53]

3.47 Asialink Business argued that even when compared with countries with similar resource endowments such as Canada, Brazil and Russia, Australia has not developed much advanced manufacturing capability.[54] Asialink Business added that 'growing value-added manufacturing in Australia will be essential', and pointed to value-added food and agriculture, e-commerce with key Asian markets, and a continued growth in service exports to Asia as areas of focus.[55]

3.48 The AMGC pointed out that manufacturing was often described as a sector, when in fact it is a capability which 'cuts across every other sector in which

51 Dr Emma Aisbett, Associate Director (Research) ANU Grand Challenge, Zero-Carbon Energy for the Asia-Pacific; and Fellow, School of Regulation and Global Governance ANU, *Committee Hansard*, Canberra, 12 August 2020, p. 18.

52 Advanced Manufacturing Growth Centre (AMGC), *Submission 67*, p. 11.

53 ANU Energy Change Institute, *Submission 46*, p. 6.

54 Asialink Business, *Submission 60*, p. 2.

55 Asialink Business, *Submission 60*, p. 6.

something is being made.'[56] The AMGC further stated that manufacturing 'is the whole value chain, starting with research and development then design, logistic production, distribution, sales and services'. The AMGC advised that for Australia's long term economic growth, it needed to 'have a strategy to be a smart country which can make more complex things.'[57]

3.49 National resilience is another reason to focus on redeveloping onshore manufacturing capability. As the China Policy Centre stated:

> On strategic goods such as medical supplies, recent events have shown that trade diversification would not help Australia. Countries after countries, including Australia's allies and partners, have restricted exports of essential medical supplies as the COVID-19 crisis unfolded. In this type of situation, Australia cannot rely on other countries, even those that have close bilateral and economic relations with Australia. National stockpiles and domestic manufacturing are more effective ways to address this issue than trade diversification.[58]

3.50 The ACBC cautioned that:

> If [the] government does decide to implement policies to support the development of domestic industries and capabilities in strategic sectors, we believe it should do so having regard to the fact that any restriction of the free flow of goods and services will always entail costs to Australian consumers and, thus, should be kept to the essential minimum level. Australia's economic prosperity as we emerge from hibernation will continue to rely on a strong and open global trading environment underpinned by the Australian government's strong commitment to the World Trade Organisation and its framework of rules.[59]

3.51 The IIT expressed similar hesitation in relation to efforts to boost Australia's domestic manufacturing capabilities:

> … rebuilding manufacturing capacity in Australia … is a challenging proposition, and one not obviously supported by comparative advantage.

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56 Dr Jens Goennemann, Managing Director, AMGC, *Committee Hansard*, Canberra, 12 August 2020, p. 7.

57 Dr Jens Goennemann, AMGC, *Committee Hansard*, Canberra, 12 August 2020, p. 10.

58 China Policy Centre, *Submission 3*, p. 6.

59 Mr David Olsson, ACBC, *Committee Hansard*, Canberra, 15 July 2020, pp 15-16.

> Assuming it could be done, markets will still need to be found in which Australian manufacturing exports would be competitive.[60]

3.52 Even in areas as critical as national security, Australia's relative lack of advanced manufacturing capability can present problems. Titomic noted:

> Titanium is a critical material used in aerospace, defence, nuclear, marine and medical industries. However, the current titanium supply poses national security risks for the US and the Western world. Japan, Russia and China are the largest suppliers of titanium metal to the US and other developed nations. Australia has an untapped role to play in offsetting those national security risks. We have the largest reserves of raw input titanium feedstock mineral sands in the world, a 280 million tonne resource that can create a commercially high value and sustainable value chain of pre-production input and post-production output.[61]

3.53 Titomic argued that the development of a critical minerals capability in Australia would:

> … deliver significant advancements across higher education, resource management, mining, emerging advanced technologies, rare earth industry development, hydrogen, space industry development, plastic repurposing, start-up and early-stage small and medium enterprises (SMEs), grants and government funding, and mostly importantly jobs. We also know the return on this investment will be significant; in terms of sovereign independence, economic prosperity, new value-add export opportunities, and importantly job security for the next generation of young Australians.[62]

3.54 Submissions also noted that emerging industries offer some of the best opportunities for the development of domestic manufacturing and export. The ANU Energy Change Institute argued that:

> Given the climate-related policies being introduced in many countries, demand for 'green' products is growing in many markets. Given Australia's large land mass, and bountiful sun and wind, these markets provide an excellent opportunity to diversify Australia's export base. In addition to green steel, green hydrogen and ammonia are realistic opportunities for Australia.

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60 IIT, *Submission 120*, p. 5.

61 Titomic, *Submission 69*, p. 3.

62 Titomic, *Submission 69*, p. 4.

> Federal and state governments are beginning to realise these opportunities and act on them.[63]

3.55 Dr John Pye from the ANU noted the prospect of foreign investment from European countries like Germany or Sweden in the development of 'green steel' production facilities, and the potential benefits this could offer for Australia:

> I wanted to highlight the rapid activity and investment … in the space around green steel production in Europe at the moment. This is being rapidly accelerated in Sweden and Germany especially. They're developing this technology and prototyping systems. They even have their eyes on developing next-stage systems in Australia, because they see the huge potential for Australia to bring together the iron ore resources and the amazing renewable energy resources that happen to be in the same place. We're probably unique in the world for having those two things together, and there's perhaps a really big future competitive advantage that we might have in that space.[64]

3.56 ASPI considered that Australia's industry sectors needed to adapt to a changing world, especially by entering growing and data-enabled industries like biotechnology:

> … Australia needs to get into the data and technology game. Large-volume resource and energy trade will continue as a source of wealth, but it will be a diminishing one and it will need to be enabled by data as well. One big area of trade and investment diversification for Australia is in biotechnology.[65]

3.57 Similarly, the Interactive Games and Entertainment Association (IGEA) stated that Australian Government industry policy should focus more on industries with emerging growth potential. The global video games market was expected to be worth more than $250 billion in 2020, an annual increase of nearly 10 per cent.[66] IGEA recommended that, at a minimum, current support from Austrade for the sector continue and in addition recommended:

> … that the Government increase its resourcing of Austrade to enable them to expand its programs and partnership not only with our industry, but with other 'industries of tomorrow' that alongside games will collectively carry the

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63 ANU Energy Change Institute, *Submission 46*, p. 8.

64 Dr John Pye, Senior Lecturer, ANU, *Committee Hansard*, Canberra, 12 August 2020, p. 21.

65 Mr Michael Shoebridge, ASPI, *Committee Hansard*, Canberra, 14 September 2020, p. 2.

66 Interactive Games and Entertainment Association, *Submission 27*, p. 2.

burden of driving Australia's export growth in the future, as Australia's traditional legacy industries inevitably slow or decline.[67]

3.58 IGEA further noted that digital industries such as video game development are free from many of the concentration and disruption risks faced by more established Australian industries:

> As video games are largely developed, published, and distributed digitally, they are a true weightless commodity that do not need to be shipped and are exported directly and instantaneously to their customers all around the world…. Unlike many of Australia's other industries, [Australia's video games exports are] not reliant on just one or two segments of the world, and the high diversification of our game exports reduces market and trade risks.[68]

3.59 Even in traditionally concentrated sectors, opportunities exist to diversify exports in innovative ways. METS Ignited argued that Australia has the opportunity to diversify its exports in the mining sector by focussing on:

> … the commercialisation of our technology capability across integrated technology value chains - an innovation-led ecosystem that comprises a unique and differentiated skills capability that we have yet to fully capitalise upon.[69]

3.60 Along similar lines, the Resource Industry Network advised that:

> The Australian mining industry is probably amongst the most advanced in the world. The technologies that we are dealing with are industry best practice. Other countries around the world are looking to those sorts of technologies to create that step-change forward for their industries and to move them into the levels that we have in Australia … The technologies that are coming into the industry at the moment are strongly identifying with safe practices, with safe environmental practices, and better and more productive mining methodologies. Once you add to that the factors of automation, data collection for improvement of that equipment, and autonomy—so, moving humans away from dangerous situations—I think the market is absolutely phenomenal, with opportunities for Australian businesses to move forward

67 Interactive Games and Entertainment Association, *Submission 27*, p. 5.

68 Interactive Games and Entertainment Association, *Submission 27*, p. 3.

69 METS Ignited, *Submission 4*, p.1.

> with that, not only on the equipment side of things but also on the services side of things.[70]

Adjusting Australia's trade mindset

3.61 The linkages (and sometimes conflicts) between trade, political issues and national security considerations were explored by some inquiry participants. ITS Global stated:

> Foreign affairs cover broader political relationships between countries. Trade relations cover any number of technical issues, from customs and quarantine to tariffs and regulatory arrangements that impact on businesses engaged in economic exchange. Conflation of the two issues by policymakers, officials, think-tanks and news media, is not helpful for exporters that are focused on moving their goods and services across borders in the most economically efficient way.[71]

3.62 Industry representatives made similar points. The Minerals Council of Australia, for example, stated that commenting on national security was not part of its role, and that national security was 'a matter for government.'[72] Grain Trade Australia similarly advised that national security was not its domain.[73]

3.63 In relation to the management of risks associated with Australia's trade relationship with China, DFAT stated that it was:

> … working generally to analyse our risks. We are very much committed to continuing the trade relationship, which is to our mutual benefit, and we are working through those trade issues … Of course, other agencies are involved in defence planning and updating the defence review, but we see these issues as separate.[74]

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70 Mr Dean Kirkwood, Manager, Mackay-Isaac-Whitsunday Mining Equipment Technical Services Export Hub, Resource Industry Network, *Committee Hansard*, Canberra, 12 August 2020, p. 34.

71 ITS Global, *Submission 48*, p. 4.

72 Mr Sid Marris, General Manager, Strategy, State and Territory Relationships, Minerals Council of Australia, *Committee Hansard*, Canberra, 4 September 2020, p. 33.

73 Mr Pat O'Shannassy, CEO, Grain Trade Australia, *Committee Hansard*, Canberra, 14 July 2020, p. 29.

74 Ms Alice Cawte, Acting First Assistant Secretary, China Economic and Engagement Branch, North Asia Division, DFAT, *Committee Hansard*, Canberra, 1 October 2020, p. 4.

3.64 Similarly, the Department of Education, Skills and Employment stated that 'broader strategic and geopolitical tensions' were beyond its role.[75]

3.65 Many witnesses, however, took the view that Australia should adjust its approach to trade to recognise that security and sovereignty are tied up in trade relationships as much as in foreign affairs. This is especially the case as Australia's major trading partner does not treat these issues separately. The Cognoscenti Group argued that:

> … China doesn't see trade as somehow hermetically sealed or separated from geopolitics and politics. It sees it in its totality ... If the political relationship is now under real pressure then it follows that the trade relationship is going to be very difficult to maintain at its current levels.[76]

3.66 The Cognoscenti Group continued:

> … when we look at risk in Australia, it's been too narrowly defined … it's all about the risk to the bottom line. That's a reasonable response from a commercial point of view. But what the argument is now about is: is that a sufficient definition of risk at the national level? My argument is that, no, it's not, because it doesn't take into account broader questions of the national interest.[77]

3.67 The Perth USAsia Centre noted that the COVID-19 pandemic demonstrated that the interactions between trade and foreign policy were increasingly acute, and that as a consequence Australia 'can no longer divorce [its] strategic and political relationships from [its] economic relationships.'[78]

3.68 The Export Council of Australia emphasised that:

> Exporters need to factor into their planning risks associated with the economic slowdown of key trading partners, natural disasters occurring—whether environment related or health related—and the fallout from trade wars.[79]

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75 Mr Rob Heferen, Deputy Secretary, Higher Education, Research and International, Department of Education, Skills and Employment, *Committee Hansard*, Canberra, 4 September 2020, p. 4.

76 Dr Alan Dupont, CEO, Cognoscenti Group, *Committee Hansard*, Canberra, 14 September 2020, p. 33.

77 Dr Alan Dupont, Cognoscenti Group, *Committee Hansard*, Canberra, 14 September 2020, p. 28.

78 Mr Hugo Seymour, Perth USAsia Centre, *Committee Hansard*, Canberra, 14 September 2020, p. 35.

79 Mr Arnold Jorge, Executive Director, ECA Edge, Export Council of Australia (ECA), *Committee Hansard*, Canberra, 15 July 2020, p. 1.

3.69 The IIER-A stated that a strategy was needed to manage changing conditions and respond to shocks:

> To address the risks and vulnerabilities … we need an integrated national sovereignty / resilience framework, strategy and action plan. We need to determine how we better react, prepare for, adapt to changing conditions and, where feasible, prevent disasters and crises. Of course, our resilience is interdependent with that of our regional neighbours. We need to also address how we can assist them to improve their resilience as well; an interdependent partnership will be a foundation for building resilient and trusted supply chains.[80]

3.70 ASPI similarly stated that 'economic success isn't now going to be all about being able to offer the lowest cost and most efficient centres of production'.[81] ASPI further noted that the Australian Government has already taken steps to override purely economic considerations in areas like telecommunications, and that similar changes in other areas are likely:

> The steps we've seen so far with this from Western governments have been on the protective side. The state steps in to say what it doesn't want … The flipside hasn't started to happen yet, with us saying, 'Actually, if we don't want Chinese tech firms in our core digital infrastructure, which are the jurisdictions that we trust and which are the trusted partners and jurisdictions with which we will actively welcome and encourage investment?' … There needs to be a flip away from relying on FTAs to a trusted-partnership approach that's based around confidence out of the pandemic and an alignment of values and interests—both those things.[82]

3.71 Professor Medcalf stated that 'prosperity and security are interdependent over the long term.' Professor Medcalf further argued that the Australian Government should be preparing for changes that are likely to occur over the next two decades, which may include a greater role for government in the economy:

> … we need to be ambitious in trying to develop a vision of … the Australia of, say, 2045—and the extent to which it's still going to be reliant on resources dominated trade and have a dependence on China, and, of course, on a carbon economy. Should we be preparing for a more diversified and resilient economic future, a future propelled by emerging and critical technologies, the

80 IIER-A, *Submission 42*, p. 4.

81 Mr Michael Shoebridge, ASPI, *Committee Hansard*, Canberra, 14 September 2020, p. 2.

82 Mr Michael Shoebridge, ASPI, *Committee Hansard*, Canberra, 14 September 2020, pp 3-4.

very technologies that will be at the core of US-China rivalry and decoupling? And, if that is the case, we're going to need to accept a greater role for government and national security considerations broadly defined in shaping that economy.[83]

3.72 Professor Medcalf also advised that 'the business community generally does not perhaps yet appreciate that it is, in fact, the front line of a lot of the national security tension with China.' Professor Medcalf added that Australia 'was beginning to make progress' in terms of the government sharing security assessments with the private sector.[84]

3.73 Similarly, Dr Akhtar stated that:

> Government will sometimes have far more insight and information than the general public has, especially if it is in relation to a national security threat. In that event, I think it is quite plausible for government to intervene and perhaps even take the opportunity to alert some of our businesses in the community to the risks they are likely to face and how it is going to impact the rest of society in Australia.[85]

3.74 Professor Laurenceson agreed and added that:

> … that there has to be a willingness on the part of government to understand that it's a two-way dialogue. So, yes, businesses do need to be informed about those national security risks, and risks emerging from shifts in the strategic environment, but it is also the case that oftentimes business people have access to information that the Australian government doesn't, so it needs to be a two-way street.[86]

3.75 MIC argued that the Government must be more honest with exporters about the risks and threats that they face:

> While ministers have made statements addressing economic coercion, we have not been able to find any other mention on trade portfolio websites. The 'doing business in China' sections of the Austrade and DFAT websites do not appear to mention the trade disruptions, nor does EFIC's [now Export Finance Australia] 'world risk development' publication. … the Defence Strategic Update 2020, which does mention economic coercion, does not link it to China. If the government feels it cannot speak openly about the risks of doing

83 Professor Rory Medcalf, *Committee Hansard*, Canberra, 30 September 2020, p. 50.

84 Professor Rory Medcalf, *Committee Hansard*, Canberra, 30 September 2020, pp 53-54.

85 Dr Shumi Akhtar, *Committee Hansard*, Canberra, 30 September 2020, p. 25.

86 Professor James Laurenceson, *Committee Hansard*, Canberra, 30 September 2020, p. 54.

> business in China for fear of upsetting the Chinese Communist Party, it should establish an independent agency that is capable of delivering arms-length assessments (something like the PC or Parliamentary Budget Office).[87]

Adjusting government support for exports

3.76 The Australian Government already provides many forms of support that could help exporters to diversify. In relation to agriculture, DAWE said:

> … awareness of alternative market opportunities and strategies to manage dependence risks are being supported through government efforts. This includes activities to open new markets, raise awareness of alternative opportunities through market information and analysis, and support for trade development and promotion activities by both government and industry in alternative markets.[88]

3.77 DAWE went on to point out that its efforts to overcome barriers in agricultural markets provided great value to exporters:

> Tariff elimination and reductions through FTAs are complemented by the department's work to negotiate technical market access requirements. … Technical market access covers all non-tariff and non-quota related regulatory requirements imposed by governments on imports such as biosecurity, food safety and traceability requirements. … Technical market access needs to be negotiated separately based on science and risk-based decision making. The process can be lengthy requiring a commitment of specialist resources to complete the risk assessment for imported goods, consult with domestic stakeholders and negotiate with trading partners.[89]

3.78 DAWE also drew attention to its network of overseas agricultural counsellors in promoting trade in diverse markets:

> The department's network of overseas agricultural counsellors plays an important role in opening, improving and maintaining Australia's agriculture trade in a diverse range of markets and meeting the challenges of the global trading environment. … The counsellor network supports agricultural export industries' commercial priorities, provides in-market intelligence and works

87 MIC, *Submission 54*, p. 5.

88 DAWE, *Submission 14*, p. 7.

89 DAWE, *Submission 14*, p. 8.

closely with other Australian Government agencies and Australian exporters to develop and consolidate market access opportunities and relationships.[90]

3.79 The Department of Home Affairs likewise drew attention to the Australian Trusted Trader (ATT) program, which streamlines export arrangements:

> The ATT program, managed through the [Australian Border Force], is a trade facilitation and compliance program open to Australian businesses involved in the international supply chain … The program offers a continually expanding suite of benefits that facilitate trade diversity. Benefits include the removal of non-tariff barriers in over 90 per cent of export markets globally, streamlined import processes and recognised Trusted Trader status through Mutual Recognition Arrangements (MRAs) … Australia has signed MRAs with Canada, China, Japan, Korea, Hong Kong, New Zealand, Singapore, and Taiwan. Negotiations are underway with several other major trading partners.[91]

3.80 Simon JianDan stated that the Australian Government acts as a 'cheerleader' for Australian exporters, but should do more:

> Austrade should cease to be primarily a trade cheerleader and add to its role, liaison with industry about impending risks, e.g. informing grain producers well ahead of crop planting that China is likely to impair the market access for barley, and they should consider options like planting wheat or forward selling barley to a trading house that can themselves plan ahead and employ risk management strategies.[92]

3.81 Dr Scott Waldron stated that government resources that have been used in the past to facilitate trade with China could now be diverted towards developing access to other markets, and to 'improving Australia's capacity to understand and forecast risks from China through market and policy intelligence.' At the same time, Dr Waldron cautioned that 'even a well-resourced and coordinated system cannot foresee the many risks that emanate from China.'[93]

3.82 GrainGrowers supported increased funding for government research agencies, such as the Australian Bureau of Agricultural and Resource Economics, to support industry efforts to develop market intelligence,

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90 DAWE, *Submission 14*, p. 9.

91 Department of Home Affairs, *Submission 115*, pp. 5-6.

92 Simon JianDan, *Submission 17*, p. 4.

93 Dr Scott Waldron, *Submission 30*, p. 5.

including forecasts of demand in key existing and potential markets. GrainGrowers also called for government support for the grain industry to establish new, and consolidate existing, trade relationships.[94]

3.83 In order to support SMEs in COVID-19 recovery efforts, the Export Council of Australia called for the Australian Government to:

- Increase funding assistance to support SMEs to explore new markets and alternative supply chains and undertake research and development;
- boost information-sharing channels about opportunities arising from FTAs;
- expand international development assistance 'so that developing country partners can implement and consistently apply their commitments to trade agreements'; and
- 'add export training to domestic programs designed to boost entrepreneurships and livelihoods, including those targeted at remote communities and disadvantaged groups'.[95]

3.84 Professor Clive Hamilton suggested that there should be a reassessment of the kind of industry and political support offered to exporters who choose to operate in a given market in spite of known risks:

> If Australian companies, Australian industries … are going to put all their eggs or a large number of them in [the] China basket then they have to take the risk. They have to absorb the penalty that might come with it either by taking out insurance or by taking other measures to protect themselves. But it's down to them and they should not expect and nor will they ever be given political concessions or compensation if they take a risk that they know about - sovereign risk - which then comes back to bite them.[96]

3.85 The Cognoscenti Group emphasised the importance of government policy being holistic and integrated.[97] The Independent Tertiary Education Council Australia similarly stated that, in relation to international education:

> The coordination across government hasn't always been there … There is one thing that Australia doesn't have that the main competitor nations … do have. That is a single agency that is responsible for not only the marketing aspects but also the lead engagement aspects as well as engagement and liaison within

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94 GrainGrowers, *Submission 21*, pp. 1 and 6-7.

95 Mr Arnold Jorge, ECA, *Committee Hansard*, Canberra, 15 July 2020, p. 2.

96 Professor Clive Hamilton, *Committee Hansard*, Canberra, 1 October 2020, p. 32.

97 The Cognoscenti Group, *Submission 34*, p. 7.

> the community. … Other nations have bodies like that that are the single peak agency for international education. Australia really doesn't have that. Austrade fulfils some of those roles and Education fulfils some of those roles. A range of bodies across the Commonwealth fulfil different aspects of those roles, but there's no single body.[98]

Committee comment

3.86 Australia is and will remain a trade-focused country with an open market economy. Australia's export relationship with China is important, and will continue to provide great value to the national economy for the foreseeable future. That being the case, however, a wide range of stakeholders, including individual businesses, industry groups, academics and the Australian Government itself, have identified increased diversification of Australia's exports as a priority for the country's ongoing economic and strategic interests.

3.87 Trade diversification should be a national priority for Australia. Where possible Australia should seek to diversify its exports through growth – that is by maintaining existing trade relationships while seeking out new markets. Doing so will enable Australia to reduce its vulnerability to economic coercion without unduly sacrificing its standard of living. A necessary component of any Australian strategy to diversify its exports is improved market access. To that end, the Australian Government should seek to lower barriers to trade for Australian exporters.

3.88 It is in Australia's interest to support and promote open, transparent and rules-based global trade, particularly through multilateral trade agreements. Where circumstances do not permit effective multilateral trade agreements, bilateral agreements should be pursued in key export markets. To the maximum extent possible Australia should seek to lower barriers to trade in new markets, particularly with those countries within our region that possess the potential for future growth and trade complementarity such as India, Indonesia and Vietnam.

3.89 Australia should also take additional steps to help exporters capitalise on opportunities in markets with strong growth potential in Asia. Language skills and personal familiarity with growing export markets in the region are

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98 Mr Felix Pirie, Director, Policy and Research, Independent Tertiary Education Council Australia, *Committee Hansard*, Canberra, 4 September 2020, p. 30.

a key mechanism by which Australian businesses can capitalise on export opportunities. As such, the Australian Government should explore ways to strengthen Australian capabilities in this area.

3.90 COVID-19, rising geopolitical tensions and the increasing overlap between trade and security concerns, have changed the global trading environment. As such, the Committee believes that 'business as usual' is no longer an option for Australia, if it is to maintain its prosperity and security. This is particularly the case for sectors with higher levels of exposure to risks of foreign influence, such as the university sector, which was outlined in Chapter 2.

3.91 In the future, Australian governments will need to consider Australia's aggregate export relationships in the context of current political and strategic conditions, and adjust the guidance they provide to the private sector accordingly. This will allow both exporters and governments to improve the way they assess and manage risk.

Recommendation 1

3.92 The Committee recommends that the Australian Government develop and release a plan for trade diversification, which includes:

- **a focus on maintaining relationships with existing close trading partners as well as expanding trade with other countries;**
- **a plan for diversifying Australia's range of export goods and services; and**
- **enhanced diplomatic capability to identify and secure new supply chains and markets.**

Recommendation 2

3.93 The Committee recommends that the Australian Government continue its plan to create greater trade opportunities for Australian exporters, including through:

- **delivering on its India Economic Strategy;**
- **encouraging Australian businesses to make greater use of free trade agreements that are currently underutilised;**

- **developing an Enhanced Economic Engagement Strategy with Vietnam; and**

- **working with our trading partners to eliminate non-tariff barriers.**

Recommendation 3

3.94 The Committee recommends that the Australian Government commit to building the Asia-capability of Australian exporters and investors, including:

- **greater development and/or utilisation of programs to boost Asia-literacy of businesses and training for jobs of the future;**

- **promotion of outward investment in Asia; and**

- **a post-COVID-19 international education plan.**

Recommendation 4

3.95 The Committee recommends that the Australian Government increase its encouragement of key Asian languages and cultures for K-12 students, to create better understanding and Asia-capability for future generations.

Recommendation 5

3.96 The Committee recommends that the Australian Government:

- **promote to Australian businesses the benefits of the Regional Comprehensive Economic Partnership (RCEP) (signed 15 November 2020), to ensure businesses are equipped to utilise the agreement; and**

- **continue to provide support to Australian businesses who wish to take advantage of the RCEP.**

Recommendation 6

3.97 The Committee recommends that the Australian Government, including intelligence agencies, take steps to increase industry awareness of national security and national interest risks in relation to trade and investment, particularly for sensitive and critical sectors.

Recommendation 7

3.98 **The Committee recommends that Austrade work with Australian exporters to help them:**

- **factor into their planning the market risks associated with economic slowdowns of key trading partners, natural disasters and trade challenges; and**
- **identify risks in relation to trade and investment.**

Recommendation 8

3.99 **The Committee recommends that the Australian Government provide further guidance to all board members of exporting businesses to ensure that they are aware of their obligations under the Corporations Act, to exercise a reasonable degree of care and diligence when deciding to undertake international trade.**

Recommendation 9

3.100 **The Committee recommends that the Australian Government:**

- **work with the states and territories, industry and university sector to investigate new options to increase domestic funding for universities and university research;**
- **in consultation with the states and territories, require universities to publicly disclose the receipt of funding (including for research) from foreign state-linked bodies or individuals; and**
- **if the veto powers contained in the** ***Australia's Foreign Relations (State and Territory Arrangements) Act 2020*** **allow, consider restrictions on foreign state-linked funding to Australian universities where such funding is considered to not be in the national interest.**

3.101 Australia should also pursue diversification by increasing its national manufacturing capability. Exporting a greater variety of products with an emphasis on future market trends will enable exporters to access new markets, thereby ensuring Australia is able to weather both changing trends and future crises in a more resilient way.

3.102 A diverse advanced manufacturing base will help exporters capture more value from global production chains they are part of, and increase Australia's resilience to future crises. The COVID-19 pandemic has demonstrated the risks of over-reliance on the global economy for manufactured goods, particularly in the health and biotechnology sectors. Increased manufacturing capability in critical sectors of the economy will be central to Australia's resilience in the case of future crises.

3.103 Australia is a small country, and cannot expect to manufacture everything it needs. It is also a comparatively high-cost country, which means its manufacturing sector must seek to compete on value rather than cost. As such, Australia should work harder to enable its manufacturing sector to produce export goods that capture more from the manufacturing value chain, from research and development to design, production, distribution, sales and services. Opportunities and national advantages exist in a range of markets, particularly advanced manufacturing, critical minerals, additive manufacturing, emerging technologies, interactive entertainment, biotechnology, data and professional services.

3.104 The Committee considers that the Government's October 2020 manufacturing strategy represents a significant and important first step toward a reinvigorated national manufacturing base. Australia must also develop a comprehensive and integrated framework to assess its trade vulnerabilities and determine how investment in national manufacturing capability might mitigate them.

3.105 A greater focus on innovative and emerging sectors will also support Australia's long term economic growth. This Committee has previously recommended greater support for the development of a video games industry in Australia[99], for example, and support for this and other future-focused industries should be prioritised. The growth of Australia's services industry would also serve to diversify Australia's export offerings.

Recommendation 10

3.106 The Committee recommends that the Australian Government:

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99 The Committee's 2020 report *Trade Transformation: Supporting Australia's exports and investment opportunities* recommended that: the Australian Government introduce a refundable tax offset for video game development, similar to offsets provided to the film and television production industries.

- **encourage the Productivity Commission to research international best practice regarding government support for innovation and industry;**
- **build links with other national bodies that are tasked with this mission; and**
- **adapt and apply these learnings to Australia's circumstances.**

Recommendation 11

3.107 The Committee recommends that the Australian Government:

- **develop an industry and university engagement strategy to foster innovation and the commercialisation of research; and**
- **partner with industry members and universities to implement the strategy, by providing adequate funding, guidance and support.**

Recommendation 12

3.108 The Committee recommends that the Australian Government in partnership with the university sector seek to take advantage of our low COVID-19 risk to further engage with new and emerging education markets and promote Australian universities as high quality, safe institutions.

Recommendation 13

3.109 The Committee recommends that the Australian Government work with industry, unions and universities to significantly increase Australia's sovereign manufacturing capacity.

Recommendation 14

3.110 The Committee notes the Productivity Commission's current review of Australia's resilience to global supply chain disruptions, and further recommends that the Australian Government ensure that Australia has adequate domestic supplies of key resources, such as fuel and medical supplies, to lessen the impact of global supply chain disruptions in the event of a crisis.

Recommendation 15

3.111 The Committee recommends that the Australian Government:

- **provide incentives to stimulate the growth of 'industries of tomorrow' including inter alia Australia's video game development industry; and**

- **provide similar support to that which it provides to Australia's film and television industry.**

4. Diversifying Australia's Foreign Investment Profile

Overview

4.1 Attracting foreign investment has been vital for Australia's economic development.[1] Australia has historically been a net capital importer,[2] and many Australian businesses have relied on foreign investment to support their ventures.[3]

4.2 Australia's 'open, well-regulated and stable economy and sound institutions' have traditionally attracted foreign investment.[4] In 2018, total foreign investment hosted by Australia equalled $3.5 trillion. Australian investment abroad reached $2.5 trillion at the end of 2018.[5]

4.3 This chapter outlines Australia's foreign investment profile, including the advantages and disadvantages of foreign investment and whether Australia is too reliant on foreign investment. The chapter also provides an overview of the foreign investment framework, with a focus on recent changes to the foreign investment screening process. Given the scope of the inquiry's terms

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1 Mr Jonathan Coppel, Commissioner, Productivity Commission (PC), *Committee Hansard*, Canberra, 1 October 2020, p. 23.

2 Property Council of Australia (PCA), *Submission 117*, p. 1; United States Studies Centre (USSC), *Submission 116*, p. 13.

3 Australian Investment Council (AIC), *Submission 47*, p. 1.

4 Department of Foreign Affairs and Trade (DFAT), *Submission 43,* p. 10.

5 DFAT, *Trade and Investment at a Glance 2020*, www.dfat.gov.au/sites/default/files/trade-investment-glance-2020.pdf, Accessed 14 January 2021.

of reference, this report does not consider Australia's foreign investment abroad.

Foreign investment trends

4.4 The Department of Foreign Affairs and Trade (DFAT) described Australia's sources of foreign direct investment (FDI) as 'diverse with investors from a wide range of regions', and that they reflect 'those countries which are the main exporters of capital globally.'[6]

4.5 The United States Studies Centre (USSC) outlined that Australia has benefited from 'successive waves of foreign investment':

> Before the [Second World] War, the United Kingdom (UK) was the big power. Since the second war, we've had successively the United States (US), Japan and China. Each wave has been controversial with strong opposition as it rises and then dissipates and falls.[7]

4.6 The US is Australia's current largest investor by a wide margin, followed by the UK.[8] Asialink Business outlined that Australia's strong historical and cultural ties with these countries had resulted in these higher levels of overall foreign investment.[9]

4.7 Asialink Business commented on common perceptions about investment in Australia from China and stated that:

> Despite perceptions about an overwhelming level of Chinese investment in Australia, including by State Owned Enterprises, 2019 data shows that investment from China represents about 2.0 per cent with Hong Kong about 3.7 per cent, in contrast to the US at 25.6 per cent.[10]

4.8 At the same time, the Productivity Commission (PC) noted that the speed at which China's investments in Australia have grown over the past decade is a 'significant development', and that China is currently Australia's fifth

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6 DFAT, *Submission 43*, p. 10.

7 Mr David Uren, Non-resident Fellow, USSC, University of Sydney, *Committee Hansard*, Canberra, 30 September 2020, p. 27.

8 DFAT, *Trade and Investment at a Glance 2020*, https://www.dfat.gov.au/sites/default/files/trade-investment-glance-2020.pdf, Accessed 18 January 2021.

9 Asialink, *Submission 60*, p. 3.

10 Asialink, *Submission 60*, p. 3.

largest source of FDI.[11] The USSC stated that this rise 'has paralleled the growth of our economic engagement [with China], particularly in resources, tourism, education and food processing.' The USSC added that 'Australian companies have about the same amount invested in China as Chinese companies have invested in Australia.'[12]

4.9 The PC also explained that investment from China may be even higher, if the 'ultimate beneficial owner' was considered when measuring FDI, as well as the 'immediate owner':

> The international standards for measuring FDI have been revised so that in future both concepts of ownership are recorded, but national statistical agencies have yet to implement the standard. [The PC's] foreign investment report considered alternative datasets that attempt to trace the ultimate owner. They are illustrative and no substitute for official statistics. Moreover, the estimates we reported vary in both methodology and what they measure. But they do suggest that inflows into Australia, with ultimate beneficial ownership by an investor in China, could be averaging about three times larger over recent years as inflows from China measured by immediate ownership.[13]

4.10 The Department of the Treasury (Treasury) and the Foreign Investment Review Board (FIRB) explained that the PC's concerns regarding a data gap between the immediate and ultimate owners, as identified in the PC's report on foreign investment released in June 2020, related to the data and methodology used by the Australian Bureau of Statistics (ABS).[14] The FIRB advised that it used a different dataset to the ABS when assessing foreign investment proposals and that it undertook complex research to identify the ultimate owner of the investment.[15]

4.11 DFAT commented on the different methodologies used to measure foreign investment, and noted that:

> Some might measure investments that are approved in a particular year, and others might measure investments that actually take place in a particular year.

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11 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 23.

12 Mr David Uren, USSC, *Committee Hansard*, Canberra, 30 September 2020, p. 27.

13 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 24.

14 Mr Roger Brake, Division Head, Foreign Investment Division, Department of the Treasury; and Executive Member, Foreign Investment Review Board (FIRB), *Committee Hansard*, Canberra, 1 October 2020, p. 22.

15 Mr David Irvine, Chair, FIRB, *Committee Hansard*, Canberra, 1 October 2020, pp. 21-22.

> They'll all generate different numbers, depending on those different methodologies.[16]

4.12 The USSC explained that foreign investment datasets were 'too infrequent and too broad', advising that:

> … the ABS provides data on the economic activity of foreign affiliates in Australia and Australian affiliates abroad only once every 15 years. Even then, the ABS is only able to provide that data when extra funding is allocated from DFAT. Australian policymakers cannot enact informed economic and national security policies if the underlying government statistics are unavailable or out of date. The future economy will be knowledge-intensive and, as such, Australia should take a knowledge-intensive approach to ensuring it is best prepared.[17]

Impact of COVID-19 on investment

4.13 DFAT explained that due to the economic impact of COVID-19, global FDI was expected to drop by 40 per cent in 2020.[18] Recognising this, DFAT noted that 'attracting and retaining FDI will be challenging', but that:

> The government's public health measures to slow the spread of the virus, economic stimulus packages to support businesses and consumers, and strong messaging that Australia remains 'open for business', demonstrates Australia continues to offer a safe, stable and welcoming environment for international investors.[19]

4.14 The Australian Investment Council (AIC) similarly stated that COVID-19 had 'already begun to have an impact on the outlook for new investment capital flowing into venture from domestic and international sources.' The AIC expected to see increased risk aversion from investors (including superannuation funds) and a fall in investment in innovation and research.[20]

4.15 The Australia China Business Council commented that the economic crisis caused by the pandemic had led to a:

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16 Mr Jonathan Kenna, Assistant Secretary, Investment Branch, Trade, Investment and Business Engagement Division, DFAT, *Committee Hansard,* Canberra, 1 October 2020, p. 5.

17 Mr Jared Mondschein, Senior Adviser, USSC, University of Sydney, *Committee Hansard*, Canberra, 14 September 2020, pp. 13-14.

18 DFAT, *Submission 43*, p. 12.

19 DFAT, *Submission 43*, p. 12.

20 AIC, *Submission 47*, p. 4.

> … slowdown in foreign investment coming into Australia, particularly out of China. That's consistent right around the world. … That's largely because of what's happening within China. They've reset their domestic policy settings, so they're focused more on supporting the domestic consumption market as opposed to overseas foreign investment. Where there is foreign investment, they're diverting that or pushing it more towards countries that are aligned particularly under the Belt and Road Initiative they've established.[21]

4.16 Asialink Business explained that competition for foreign capital will increase as the world recovers from COVID-19:

> Of the top 5000 multinational enterprises worldwide, research suggests that their expected earnings for this year are likely to be revised down by 40 per cent. This means that there will be even greater competition for reinvested earnings that are then going to flow from multinational enterprises as capital into countries, including countries such as Australia. So we very much recommend a risk-adjusted return lens, rather than a pure lens of risk, in evaluating foreign investments, because we are going to be competing for foreign capital in an even more competitive global environment.[22]

4.17 The Minerals Council of Australia (MCA) also expressed concern regarding the impact of the pandemic on the level of foreign investment. The MCA explained how vital foreign investment was for Australia's economy and the resource sector in particular. Describing the rise of protectionist sentiments and measures across the globe, the MCA stated that it was critical that the government to continue to support and promote foreign investment.[23]

Foreign investment framework and reforms

4.18 DFAT outlined Australia's foreign investment framework and stated:

> Foreign investment in Australia is regulated by a framework that welcomes investment that is not contrary to Australia's national interest. The Government, through the FIRB, reviews foreign investment to ensure consistency with the national interest.[24]

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21 Mr David Olsson, National President and Chairman, Australia China Business Council (ACBC), *Committee Hansard*, Canberra, 15 July 2020, p. 19.

22 Mr Mukund Narayanamurti, Chief Executive Officer, Asialink Business, *Committee Hansard*, Canberra, 30 September 2020, p. 14.

23 MCA, *Submission 68*, p. 12.

24 DFAT, *Submission 43*, p. 10.

4.19 Treasury advised that, on 5 June 2020, the Government proposed 'major reforms' to the *Foreign Acquisitions and Takeovers Act 1975*.[25] These reforms took effect on 1 January 2021, after the evidence for this inquiry was received. DFAT explained that the changes were expected to support 'Australia's attractiveness' to foreign investors; 'maintain public confidence in the integrity' of the foreign investment framework; and protect Australia's national interest and security.[26]

4.20 Treasury further outlined the reforms:

> The reforms update the framework in three broad ways. They address national security risks; they strengthen the existing system; including with regard to compliance; and they streamline investment in non-sensitive businesses. The underlying principles of our system remain the same: that Australia welcomes foreign investment for the significant benefits it provides but that we need to ensure investments are not contrary to the national interest, including national security.[27]

4.21 The FIRB explained that the need for reform had been driven by changes in the foreign investment environment in recent decades, including the privatisation of some critical infrastructure and developments in digital technology upon which critical infrastructure now relies. The FIRB advised that these factors had:

> … increased the vulnerability of critical infrastructure and aspects of national security, including the protection of data, and has required the government, not just the FIRB, to look much more closely on a case-by-case basis at investments where there is a possibility that our critical infrastructure or our other national security assets might be at risk in ways that they weren't before the advent of technology and privatisation.[28]

4.22 The FIRB continued and outlined that previously, some investments with national security implications may not have been subject to federal scrutiny:

> … with the imposition of previous thresholds, we never looked at any investment that might have had an impact on national security if it was valued

25 Ms Roxanne Kelley, Deputy Secretary, Corporate and Foreign Investment Group, Department of the Treasury, *Committee Hansard*, Canberra, 1 October 2020, p. 16.

26 Mr Jonathan Kenna, DFAT, *Committee Hansard*, Canberra, 1 October 2020, p. 4.

27 Ms Roxanne Kelley, Department of the Treasury, *Committee Hansard*, Canberra, 1 October 2020, p. 16.

28 Mr David Irvine, FIRB, *Committee Hansard*, Canberra, 1 October 2020, p. 17.

> at less than $274 million or $1.2 billion by a company from a country with whom we had a free trade agreement. They were simply escaping, as it were, the net. A principal intent of these reforms is to reduce the threshold so that the government, through the agency of the Treasury and the FIRB advising the Treasurer, can look at these cases to determine whether they should go ahead.[29]

4.23 Treasury added that the reforms will enable it to ensure the conditions associated with a foreign investment approval are being adhered to.[30]

4.24 While confirming that the FIRB's function is to 'facilitate investment while protecting the national interest', the FIRB advised that there was no specific definition of what the 'national interest' was.[31] Instead, the FIRB and Treasury advised a 'common sense judgement' is made based on criteria including: national security, competition, other government policies (including tax), impact on the economy and the community, and the character of the investor.[32]

4.25 The PC stated that 'the scrutiny of investment applications against the national interest test lacks clarity around how it is interpreted from case to case, stirring investor uncertainty.' The PC recommended greater transparency in this regard and stated:

> While some discretion is understandable, potential investors would benefit from more certainty from the process. We considered that there is scope to lower compliance costs and lift investor certainty and transparency—for example, by routinely publishing reasons for decisions to block proposals, while recognising that national security and commercial confidentiality may limit the detail or timing of publication, and also by publishing more detailed information on the timeliness of decisions each year and giving early advice to investors where standard timelines will not be met.[33]

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29 Mr David Irvine, FIRB, *Committee Hansard,* Canberra, 1 October 2020, p. 17.

30 Mr Tom Hamilton, First Assistant Secretary, Foreign Investment Division, Department of the Treasury, *Committee Hansard,* Canberra, 1 October 2020, pp 17-18.

31 Mr David Irvine, FIRB, *Committee Hansard,* Canberra, 1 October 2020, p. 17, 19.

32 Mr David Irvine, FIRB, and Mr Roger Brake, Department of the Treasury and FIRB, *Committee Hansard,* Canberra, 1 October 2020, p. 19.

33 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 23.

National security considerations

4.26 The Department of Defence acknowledged the potential risks associated with foreign investment, particularly in relation to critical infrastructure, and stated:

> Foreign investment is critical to the continued prosperity of the Australian economy, supporting growth and innovation into the future. The future sales of significant assets, and in particular critical infrastructure, will likely involve elements of foreign investment. However … foreign investment may sometimes provide other countries with access and control over Australian organisations and assets that may not be otherwise attainable.[34]

4.27 The PC highlighted the rising investment from China in Australia, and noted that 'for the first time, one of our largest sources of investment is not a democracy or a military ally'.[35]

4.28 The PC further outlined concerns regarding investment from state owned enterprises and particularly from China:

> One of the risks with state owned enterprises is that the motivation for an investment may go beyond purely commercial interests. There are concerns that it may be used in a more strategic way or in a way that could conceivably, in some instances, be against our national interests. That's because the profit motive isn't necessarily the driving motive of those investment decisions.
>
> We also make the point, particularly with the rise of the share of inward investments in Australia being from China, that under their laws there is an obligation on all businesses, whether they're state owned or not, to maintain and support Chinese national security.[36]

4.29 Professor Clive Hamilton added that the Chinese Communist Party 'uses economic relations in order to extend its political influence and dominance in other countries', which makes it different to Australia's other major investment partners.[37] To mitigate this risk, Professor Hamilton pointed to a

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34 Department of Defence, *Submission 61*, p. 2.

35 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 23.

36 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 24.

37 Mr Clive Hamilton, *Committee Hansard*, Canberra, 1 October 2020, p. 32.

proposal for the development of a 'green list' of safe goods and services that can be traded with China, and a similar list for investments.[38]

4.30 DFAT advised that all investments from state owned enterprises are screened, to 'ensure that [Australia's] national interests and national security interests are fully taken into account.'[39]

4.31 The USSC was concerned that national security was 'becoming a barrier to foreign investment':

> New foreign investment rules calling for investment in sensitive sectors, requiring FIRB approval regardless of the amount is, I think, an indication of the much tougher national security approach that's being taken, as is the revelation recently that 80 per cent of foreign investments last year had conditions imposed. There is a global trend here, and Australia has gone further than most. It's part of a global backlash against globalisation that threatens to choke the flow of investment. So I think it's important that there remains a strong economic focus on the benefits of investment in the FIRB process.[40]

4.32 The AIC stated that it was crucial that Australia remain an attractive destination for foreign investment, especially to bounce back from the impact of COVID-19.[41]

4.33 Asialink Business agreed and stated that it was 'important in the current environment to not just take a pure risk-focus lens in attracting foreign investment.' Asialink Business put forward an alternative approach:

> We recognise the thresholds that have been put in place by the FIRB, where the monetary threshold has been reduced to zero over this COVID period. We recommend that perhaps there is an opportunity to have an alternative approach to risk, publishing a negative list of sensitive or national interest sectors that attract a different level of screening or have more restrictions on FDI.[42]

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38 Mr Clive Hamilton, *Committee Hansard,* Canberra, 1 October 2020, p. 31.

39 Mr Jonathan Kenna, DFAT, *Committee Hansard*, Canberra, 1 October 2020, p. 5.

40 Mr David Uren, USSC, *Committee Hansard,* Canberra, 30 September 2020, p. 27.

41 AIC, *Submission 47*, p. 6.

42 Mr Mukund Narayanamurti, Asialink Business, *Committee Hansard,* Canberra, 30 September 2020, p. 14.

4.34 The Australian Chamber of Commerce and Industry similarly suggested that a 'negative list' could be used, to prevent international investment in certain assets or classes of investment, but recommended such a list should not target any particular country.[43]

4.35 Dr Triggs also recommended that the government focus on particular risks rather than particular countries, and that any restrictions be made clear to avoid investor uncertainty. Dr Triggs stated:

> The focus really needs to be on what risks we want to mitigate rather than on particular countries. If we do identify particular industries and particular assets where we simply wouldn't want to tolerate any foreign investment, then the goal is to make that as clear and predictable as possible. In terms of the cost of restrictions on foreign investment, the major cost that we impose is via creating more uncertainty. When we create a lot of uncertainty, or if we allow, for example, retrospective changes to previous investments that were approved, the consequence of that is that people will stop investing.[44]

4.36 In contrast, Mr Simon JianDan noted that some countries carry more risks than others, and that 'post COVID, the threshold for FIRB scrutiny should either be lower for all foreign investors or lower for foreign investors from specific countries deemed high risk.'[45]

4.37 The FIRB explained that, in assessing foreign investments, it focused more on 'the areas where the investment occurs' and 'the nature of the investment', rather than the investment's country of origin.[46]

Box 4.1 Port of Darwin

In 2015, the Northern Territory Government sold a 99 year lease on the Port of Darwin to a privately-owned Chinese company. The PC's 2020 report on *Foreign Investment in Australia* stated that there were concerns from the US about the sale, which were 'were attributed to the surveillance and espionage capabilities presented by the port's close proximity to Australian and US Defence facilities, as well as concerns

43 Mr Bryan Clark, Director, International Chamber of Commerce, Australian Chamber of Commerce and Industry, *Committee Hansard*, Canberra, 15 July 2020, p. 14.

44 Dr Adam Triggs, private capacity, *Committee Hansard*, Canberra, 30 September 2020, p. 6.

45 Mr Simon JianDan, *Submission 17*, p. 6.

46 Mr David Irvine, FIRB, *Committee Hansard*, Canberra, 1 October 2020, p. 19.

about the strategic purpose of China's investment in the region as part of its Maritime Silk Road.'[47]

The USSC stated that:

> US national security officials have not forgotten Australia's surprise announcement about leasing the Port of Darwin to a Chinese company in 2015. With foreign investment facing unprecedented pressure from nationalist and protectionist forces, it is more important than ever for close allies to seek to align, or at least maintain a dialogue, on restrictions of foreign entities in their respective countries.[48]

The FIRB stated that, at the time, the leasing of the Port of Darwin occurred outside of the FIRB's purview. The FIRB continued that 'as a result of that, the government has since introduced changes to the *[Foreign Acquisitions and Takeovers Act 1975]'* to enable it to intervene in similar situations in the future.[49]

The Institute for Integrated Economic Research - Australia (IIER-A) added:

> … the scale of our economic reliance on trade with China is leaving us vulnerable to Chinese economic policy manipulation. This vulnerability is compounded by the scale of foreign investment in our nation's critical infrastructure and industries that occurred prior to increasing vigilance by the FIRB.[50]

Foreign investment benefits

4.38 Foreign investment has permitted Australian businesses to benefit from additional capital to grow their commercial enterprise, access global supply chains, and finance infrastructure. It has also encouraged 'competition and increased innovation by bringing new technologies and know-how to Australia, which boosts productivity and jobs'.[51]

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47 PC, *Foreign Investment in Australia,* PC Research Paper, June 2020, p. 16.

48 USSC, *Submission 116,* p. 14.

49 Mr David Irvine, FIRB, *Committee Hansard,* Canberra, 1 October 2020, p. 21.

50 Institute for Integrated Economic Research - Australia (IIER-A), *Submission 42,* p. 2.

51 DFAT, *Submission 43,* p. 9.

Additional capital and increased employment

4.39 DFAT explained that a key benefit of foreign investment has been in 'providing capital to finance new businesses and enhance existing businesses.'[52] Other witnesses similarly emphasised the benefits of foreign investment for Australia's development,[53] including through raising tax revenue.[54] Some emphasised the importance of ensuring Australia is an attractive destination for foreign investment, provided that such investment was not contrary to the national interest,[55] or national security.[56]

4.40 The Committee heard evidence that foreign investment provided vital capital to support Australian businesses' investment needs that could not be met by the domestic savings pool,[57] especially in the agriculture, mining, manufacturing and services sectors.[58] The Perth USAsia Centre emphasised that inward foreign investment contributed to building Australia's export capability on a global scale and stated that:

> Australia's largest export industries – across the resources, technology, education, agriculture and services sectors – have been necessarily underpinned by foreign investment.[59]

4.41 The Infant Nutrition Council similarly explained that 'European, North American and more recently Asian investment has underpinned the growth

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52 DFAT, *Submission 43*, p. 9.

53 Mr Mukund Narayanamurti, Asialink Business, *Committee Hansard,* Canberra, 30 September 2020, p. 14; Mr Mark Barber, Director, Agribusiness Australia, *Committee Hansard,* Canberra, 14 July 2020, p. 8; AIC, *Submission 47,* p. 1.

54 PCA, *Submission 117*, p. 2; MCA, *Submission 68:1*, p. 1.

55 National Farmers' Federation (NFF), *Submission 65*, p. 15; Department of Agriculture, Water and the Environment (DAWE), *Submission 14*, p. 3; AIC, *Submission 47,* p.6; WoolProducers Australia, *Submission 23*, p. 10.

56 Department of Defence, *Submission 61*, p. 2; MCA, *Submission 68*, pp 11-12.

57 Dr Adam Triggs, private capacity, *Committee Hansard,* Canberra, 30 September 2020, pp 3-4; Mr Ken Morrison, Chief Executive, PCA, *Committee Hansard,* Canberra, 12 August 2020, p. 13.

58 Australian Dairy Products Federation, *Submission 52,* p. 8; NFF, *Submission 65*, p. 15; Dr Jennifer Gordon, Chief Economist, Office of the Chief Economist, DFAT, *Committee Hansard,* Canberra, 1 October 2020, p. 1; CaneGrowers, *Submission 32*, p. 1; MCA, *Submission 68,* p. 11; Australian Fresh Produce Alliance, *Submission 56*, p. 4; Australian Pork Ltd, *Submission 40*, p. 11.

59 Perth USAsia Centre, *Submission 45*, p. 3.

of many of Australia's industries', particularly in the agricultural and manufacturing sectors.[60]

4.42 Several witnesses also emphasised the benefits of foreign investment in creating employment, driving income and standards of living upwards, and stimulating competition and productivity.[61]

4.43 Austrade highlighted the contribution made by foreign investment to Australian workers:

> FDI supports 1.2 million or one in 10 jobs in Australia. These companies contribute one-quarter of total Australian business output. They pay wages and salaries to workers in Australia valued at $82 billion, and they contribute around 14 per cent of Australia's total tax revenue from business.[62]

4.44 DFAT added that 'direct investment in Australia from the European Union (EU) (including the UK) and the US contributed to employing over 680 000 Australians in 2017.'[63]

4.45 The Australian Sugar Milling Council (ASMC) and the Property Council of Australia (PCA) similarly described how foreign investment had boosted jobs in their sectors.[64]

Access to new technology and skills

4.46 The PC highlighted how important FDI was for innovation and upskilling:

> FDI is also a conduit for knowledge transfers, innovation, better management practices, linkages into supply chains, and, less tangibly, the creation of business networks.[65]

4.47 The USSC expressed similar sentiments:

> … it's not just foreign capital that's coming in; it's foreign expertise. Australia has a lot of natural partnerships in the technology space on things like critical

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60 Infant Nutrition Council, *Submission 55*, p. 2.

61 MCA, *Submission 68*, pp 10-11; PCA, *Submission 117*, p. 2; DFAT; *Submission 43*, p. 9.

62 Ms Sally-Ann Watts, Acting Deputy Chief Executive Officer, Global Client Services, Austrade, *Committee Hansard*, Canberra, 1 October 2020, p. 3.

63 DFAT, *Submission 43*, p. 9.

64 Australian Sugar Milling Council, *Submission 8*, p. 2; Mr Ken Morrison, PCA, *Committee Hansard*, Canberra, 12 August 2020, p. 13.

65 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 23.

> minerals. There's also the US example on space where US investment is not just capital but actually some of the essential knowledge that Australia needs to develop its own native capacity in those areas.[66]

4.48 The Australian National University (ANU) Energy Change Institute suggested encouraging foreign investment from 'technology-leading countries such as Germany and Japan' to assist in capturing more value from Australia's natural resources.[67]

Facilitating foreign investment flows

4.49 To maximise these benefits, some submitters called for the government to explore opportunities to facilitate foreign investment. This was considered particularly important in a post-COVID-19 environment.[68]

4.50 The AIC advised that addressing regulatory 'barriers, blockages, and bottlenecks' to investment was:

> … an especially important element to help revitalise the economy given the limited scope for fiscal stimulus. There are several areas of policy where targeted reforms could potentially unlock billions of dollars of private capital annually for investment into Australian businesses.[69]

4.51 The Financial Services Council put forward recommendations to increase investment in Australia, which included: 'streamlining foreign investment processes, reducing [Australia's] company tax rate and boosting superannuation savings.'[70]

4.52 Dr Shumi Akhtar noted that Australia's net position in regards to FDI has barely changed over the last 30 years, and encouraged the Australian Government to stimulate foreign investment, including through reviewing Australia bilateral agreements and tax treaty terms.[71]

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66 Mr Elliott Brennan, Research Associate, USSC, University of Sydney, *Committee Hansard*, Canberra, 14 September 2020, p. 15.

67 Australian National University (ANU) Energy Change Institute, *Submission 46*, p. 6.

68 PCA, *Submission 117*, p. 2; AIC, *Submissiom 47*, p. 4.

69 AIC, *Submission 47*, p. 9.

70 Mr Michael Potter, Senior Policy Manager, Economics and Tax, Financial Services Council, *Committee Hansard,* Canberra, 4 September 2020, p. 44.

71 Dr Shumi Akhtar, *Submission 37*, pp 4-5.

4.53 To facilitate foreign investment, Asialink Business recommended:

> … streamlining the processes for inward investment with the creation of a one-stop-shop approach, similar to Singapore's Economic Development Board; reduction in corporate taxes to benchmark against major competitors; and provide sector-specific incentives.[72]

4.54 The ASMC highlighted that foreign investment in its industry from businesses from Belgium, Singapore, China, Thailand, Germany and Pakistan had benefitted workers and the economy. The ASMC stated that there had been '$7 billion invested to purchase and operate, maintain and run [sugar] mills since 2006.'[73]

4.55 The USSC commented on the benefits of venture capital (VC) to assist businesses to 'scale globally' and 'access world-leading expertise.' The USSC referred to Israel's Yozma program, a government initiative designed to create a competitive VC industry in the 1990s, and resulted in Israel becoming the world leader for VC investments as a percentage of Gross Domestic Product (GDP). The USSC said that the Australian Government could learn from this example, and that its *Early Stage Venture Capital Limited Partnerships* program could do more to attract foreign VCs (particularly from the US).[74]

4.56 The Commonwealth Scientific and Industrial Research Organisation (CSIRO) also commented on Australia's VC system. While noting the significant increase in Australia's VC system since the late 1990s, CSIRO also advised that 'there is still a lack of willingness to engage in high-risk areas', especially in terms of funding early-stage initiatives.[75]

Level of reliance and concentration of foreign investment

4.57 The PC addressed the question of whether Australia was too reliant on FDI overall, and stated that according to its analysis 'Australia is not excessively reliant on FDI in aggregate.'[76]

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72 Asialink Business, *Submission 60*, p. 4.

73 Australian Sugar Milling Council, *Submission 8*, pp 1-2.

74 USSC, *Submission 116*, p. 13.

75 Ms Judith Zielke, Chief Operating Officer, Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Committee Hansard*, Canberra, 1 October 2020, p. 46.

76 Mr Jonathan Coppel, PC, *Committee Hansard*, Canberra, 1 October 2020, p. 23.

4.58 Dr Akhtar expressed similar sentiments and stated that 'Australia doesn't seem to be overly reliant on foreign investment, either inbound or outbound.' In fact, Dr Akhtar found that in comparison to countries such as Hong Kong and Singapore, 'if we compare the need for FDI to GDP, Australia is consistently and significantly lagging behind'.[77]

4.59 In contrast, Dr John Coyne highlighted that 'Australia's north is far too reliant on foreign investment for its development', and as a result 'northern development is being driven by foreign economic visions and investments.'[78]

4.60 Grain Producers Australia was concerned that relying too much on foreign investment could restrict the scope of research investment 'to only those areas, technologies or issues of broad importance to the world market in general, or those fields with potential international commercialisation prospects.'[79]

4.61 The Perth USAsia Centre highlighted that 'Australia's investment relations are highly concentrated in a small number of foreign partners', with the US and the EU accounting for the majority of Australia's two way investment. Perth USAsia attributed this to 'longstanding corporate connections' between Australia and the UK, US and the EU.[80] Professor Medcalf did not see the dominance of the US as a trading partner as a concern, stating that Australia and the US 'have a strategic alignment of interests and political values' which makes for a 'trust based set of investment relationships.'[81] Mercury International Consulting similarly stated that the US and the UK have been Australia's largest trading partners for many years and that 'this has not been a cause for concern.'[82]

4.62 Others, while also supporting foreign investment, recommended some level of diversification. In relation to investment in critical infrastructure, the Department of Home Affairs advised that it targeted 'like-minded

77 Dr Shumi Akhtar, Associate Professor, Business School (Finance) University of Sydney, *Committee Hansard*, Canberra, 30 September 2020, pp 19-20.

78 Dr John Coyne, *Submission 1*, p. 4.

79 Grain Producers Australia, *Submission 119*, p. 3.

80 Perth USAsia Centre, *Submission 45*, p. 8.

81 Professor Rory Medcalf, *Committee Hansard*, Canberra, 30 September 2020, p. 53.

82 Mercury International Consulting, *Submission 54*, p. 5.

international partners.'[83] The PCA stated that 'investors with a long-term focus and deep capital pools, such as pension funds and sovereign wealth funds are the most suitable.'[84] Dr Akhtar advised that diversification was important as 'not all investment types provide the same investment return at the same time'.[85]

4.63 The USSC outlined that diversification should always be a priority and stated:

> I don't think anyone should not try to diversify investment markets. I think everyone should continue to attract as much investment from abroad as possible, especially from reliable investment and trading partners. I don't think that US and European ties somehow preclude ties to other countries, especially in South-East Asia.[86]

4.64 Asialink Business suggested that 'deepening our engagement with Japan, India, the Republic of Korea, and South-East Asia will reduce our reliance on traditional western sources' of investment.[87] The Perth USAsia Centre similarly advised that FDI from Australia's traditional partners was likely to 'plateau' in coming decades, and that Australia will need to find new sources of investment.[88]

4.65 The MCA highlighted the value of foreign investment despite the current geopolitical concerns, and said:

> While it may be tempting to respond to protectionist sentiments through more stringent foreign investment screening, trade barriers or weakening efforts to negotiate international agreements, it is essential to Australia's strategic interests that government continues to support and promote strong investment, open markets and free trade while building enduring relationships with all nations.[89]

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83 Department of Home Affairs, *Submission 115*, p. 3.

84 Mr Ken Morrison, PCA, *Committee Hansard*, Canberra, 12 August 2020, p. 13.

85 Dr Shumi Akhtar, *Committee Hansard*, Canberra, 30 September 2020, p. 20.

86 Mr Jared Mondschein, USSC, *Committee Hansard*, 14 September 2020, p. 15.

87 Asialink Business, *Submission 60*, p. 3.

88 Perth USAsia, *Submission 45*, p. 16.

89 MCA, *Submission 68*, p. 12.

Community concerns about foreign investment

4.66 In its June 2020 report on foreign investment in Australia, the PC noted that:

> Many Australians express concerns about the effects of foreigners purchasing Australian residential real estate (especially in Sydney and Melbourne) and farming land (including investment in the broader agriculture sector).[90]

4.67 The Committee received submissions from individuals expressing similar concerns. Foreign investment in these sectors, and related community concerns, are outlined below.

Foreign investment in farmland

4.68 The Australian Tax Office (ATO)'s *Register of Foreign Ownership of Agricultural Land* stated that as at 30 June 2019, the estimated proportion of agricultural land in Australia with a level of foreign interest was 13.8 per cent. The ATO explained that this rate had remained 'relatively stable over the past four years.' The ATO's report also outlined that:

> Aggregating total freehold and leasehold foreign ownership interests, China and the UK have ownership interests in the largest area of total Australian agricultural land (each having 2.4 per cent), followed by the Netherlands (0.7 per cent) and the US (0.6 per cent).[91]

4.69 Professor Laurenceson emphasised that these figures account for leaseholds as well as ownership, and that '80 percent of agricultural land held by foreign interests are leasehold, meaning they do not own the underlying land asset.'[92] Professor Laurenceson further stated that:

> … the definition of a 'foreign interest' is a corporate entity with just 20 per cent foreign ownership. By far the largest agricultural land holdings with 'Chinese interests' are those held by Australian Outback Beef Ltd, totalling 7.92 million hectares, or 86 per cent of total Chinese agricultural land holdings. But, in fact, Outback Beef only features a 33 per cent Chinese ownership share. A 67 per cent share is held by Gina Rinehart's Hancock Prospecting.[93]

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90 PC, *Foreign Investment in Australia,* PC Research Paper, June 2020, p. 71.

91 Australian Tax Office, *Register of Foreign Ownership of Agricultural Land: Report of registrations as at 30 June 2019*, p. 5.

92 Professor James Laurenceson, *Submission 20*, p. 3.

93 Professor James Laurenceson, *Submission 20*, p. 3.

4.70 ITS Global highlighted the China-Australia Free Trade Agreement (ChAFTA), which it described as 'China's first comprehensive trade agreement.' ITS Global stated that the ChAFTA has 'liberalised Chinese inward investment,' and noted:

> Chinese investment in Australia means orientation towards Chinese markets. Chinese companies such as New Hope and Mengniu have invested in beef and dairy production in Australia. The relationship is not simply about trade; it is about broader economic integration.[94]

4.71 The PC described the value of foreign investment in Australian agriculture as being 'relatively small.' The PC stated that the stock of FDI in Australian agriculture, forestry and fishing represented only 0.3 per cent of inward FDI. In 2015, the screening threshold for agricultural land was decreased from $252 million to $15 million, and a register of foreign owned agricultural land was created to further protect Australia's national interest.[95]

4.72 The Small Business Association of Australia recommended the Australian Government undertake 'a review of the policies which allow for direct foreign ownership of valuable Australian resources such as agricultural land, water rights and other large- scale developments which may be exported to the detriment of Australian production.'[96]

4.73 Dr Akhtar considered that Australia should remain alert to the potential national security impacts of foreign ownership and stated:

> As an example, [Australia] sold valuable land and water rights to some foreign investors. While foreign capital inflow is vital for the development of our country, we must also be alert to the reality that our national security may be compromised when too much control is given to foreign nations through ownership.[97]

4.74 The Committee received submissions from individuals concerned about foreign ownership of agricultural assets. Kristy Goldstraw, for example, considered that:

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94 ITS Global, *Submission 48*, p. 2.

95 PC, *Foreign Investment in Australia,* PC Research Paper, June 2020, pp 77-78.

96 Small Business Association of Australia, *Submission 6*, p. 4.

97 Dr Shumi Akhtar, *Committee Hansard,* Canberra, 30 September 2020, p. 19.

> No country should be able to purchase farms, water, transportation hubs, [or] dairy. This is jeopardising our food security as well as our national interest. I am all for foreign investment, but not foreign ownership.[98]

4.75 The FIRB acknowledged a concern within the community relating to foreign investment, including the sentiment that 'foreigners are buying up the farm'.[99] In relation to how community concerns inform its advice, the FIRB stated:

> When I say that we take community attitudes into account, we certainly would be advising the Treasurer that there have been objections to a particular proposal from one area or the other. And we make sure that the Treasurer, in making a final decision, is aware of potential issues that could arise within the community if the proposal is approved or, indeed, if the proposal is not approved.[100]

4.76 The FIRB added that part of its role is to 'provide a partial assurance to the Australian community that foreign investment proposals are being looked at closely and that the national interest is being taken into consideration.'[101]

Foreign investment in real estate

4.77 FDI in real estate activities made up 10.9 per cent of total FDI in Australia in 2019, equal to approximately $110.9 billion.[102]

4.78 Some inquiry participants raised concerns regarding the impact of foreign investment on housing affordability. One submitter, for example, stated that 'due to foreigners being able to buy prime real estate in Australia, property prices have sky rocketed.'[103] Another recommended Australia 'prevent foreign investors from purchasing Australian real estate'.[104]

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98 Kristy Goldstraw, *Submission 135*, p. 2.

99 Mr David Irvine, FIRB, *Committee Hansard*, Canberra, 1 October 2020, p. 20.

100 Mr David Irvine, FIRB, *Committee Hansard*, Canberra, 1 October 2020, p. 20.

101 Mr David Irvine, FIRB, *Committee Hansard*, Canberra, 1 October 2020, p. 20.

102 DFAT, 'Australian industries and foreign direct investment', https://www.dfat.gov.au/trade/resources/investment-statistics/Pages/australian-industries-and-foreign-investment, Accessed 15 January 2021.

103 Name withheld, *Submission 13*, p. 3.

104 Name withheld, *Submission 11*, p. 1.

4.79 The PCA explained that foreign investment contributes to both commercial and residential real estate. In relation to residential real estate, the PCA clarified that:

> … the Australian controls and laws are quite clear that foreign people aren't allowed to invest in existing housing; they're only allowed to invest in newly constructed housing. The logic of that is that that helps stimulate economic activity and jobs.[105]

4.80 In its recent report on foreign investment in Australia, the PC observed that:

> … consternation about foreign investors [in real estate] tends to become louder during periods of rapid house price growth. … Critics of foreign investment are correct to observe that the timing of the investment coincided with the most recent house price boom. The number of FIRB residential real estate approvals quadrupled during the latest boom, from less than 10 000 in 2011-12 to over 40 000 in 2015-16, with most of the growth in foreign investment applications appearing to have come from China. Application numbers then fell to about 13 000 in 2016-17, likely due in part to the introduction of a range of new federal and state taxes on foreign property investors and the introduction of fees on FIRB applications in December 2015. [106]

4.81 The PC further noted that 'the effect of foreign investment on house prices is difficult to quantify.'[107]

Building domestic investment capacity

4.82 The AIC advised that Australia has a $2.9 trillion superannuation industry, and recommended the government 'consider the role of superannuation funds in supporting patient capital in Australia.'[108]

4.83 The USSC similarly noted that Australia had significant domestic savings through its superannuation system, but that the superannuation funds were 'looking overseas' to invest. The USSC explained the reasons for this:

> [Superannuation funds] want to have a diversified portfolio. That's why, as much as the US is the largest source of investment into Australia, it's also the largest destination of Australian foreign investment. Most of our

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105 Mr Ken Morrison, PCA, *Committee Hansard,* Canberra, 12 August 2020, p. 14.

106 PC, *Foreign Investment in Australia,* PC Research Paper, June 2020, pp. 71-2.

107 PC, *Foreign Investment in Australia,* PC Research Paper, June 2020, p. 74.

108 AIC, *Submission 47*, p. 9.

> superannuation here in Australia is tied up in US investments, and it definitely has changed the nature of Australia's economy in many ways, and I think it's made it better and healthier for it.[109]

4.84 The Association of Superannuation Funds of Australia highlighted the importance of superannuation in 'providing an ongoing pool of capital to the economy', with 60 per cent of regulated superannuation fund investments being invested domestically.[110]

4.85 The Financial Services Council commented that Australia has moved into a current account surplus, which meant that Australia was 'a net investor into the rest of the world'. The Financial Services Council indicated that:

> If we continue on this path for quite a while, we'll end up in a net asset position, and Australia will be quite resilient to any future financial shocks. It will basically be the super. It will largely be because of super. If the super system grows to a sufficient size then we'll be able to source a lot of our investment money domestically.[111]

4.86 The National Civic Council (NCC) recommended that, in order to reduce reliance on foreign investment, 'incentives and/or mandates should be applied to Australian superannuation funds to encourage investment in domestic industries', particularly strategic industries such as pharmaceuticals and medical supplies; defence; transportation; agriculture; telecommunications; manufacturing; essential consumer goods; and energy.[112]

4.87 Dr Triggs cautioned that the idea that domestic investment would step in if levels of foreign investment were reduced was a misconception. Dr Triggs outlined the potential impact of Australia not having foreign investment:

> If we didn't have foreign investment, Australians would have to save more, which would mean consuming less and a higher cost of living. We'd have higher interest rates, we'd have higher interest rates on our mortgages and more expensive government debt as a consequence of that. And,

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109 Mr Jared Mondschein, USSC, *Committee Hansard,* 14 September 2020, p. 16.

110 Mr Glen McCrea, Deputy Chief Executive Officer and Chief Policy Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, Canberra, 4 September 2020, p. 50.

111 Mr Michael Potter, Senior Policy Manager, Economics and Tax, Financial Services Council, *Committee Hansard,* Canberra, 4 September 2020, pp 46-47.

112 National Civic Council (NCC), *Submission 62,* p. 13, 11.

> fundamentally, a higher cost of capital means that there would be lower growth, there'd be less investment and, ultimately, fewer jobs as well.[113]

Co-investment

4.88 The AIC suggested that co-investment between government and industry, including superannuation funds, could assist in encouraging investment to stay in Australia.[114] The AIC further explained that co-investment programs could support innovation and stated:

> A meaningful and proven way that the government can work with the private sector to boost investment for Australian entrepreneurs and Australian businesses over the medium-term is to utilise co-investment funding programs. The timing is appropriate now to consider establishing a new co-investment fund that can support expansion of the funding pipeline for Australia's innovation ecosystem.[115]

4.89 The AIC highlighted that a public-private co-investment program to support high growth business was a 'well-tested policy response', and common in the US, the UK, Canada, New Zealand, Germany, France and other countries, and had been used in Australia at the state level.[116]

4.90 The ANU Energy Change Institute suggested that 'direct government investment and public-private partnerships to help kick-start industries with high growth potential is one way of ensuring Australians obtain lasting benefit from new export industries.' The ANU Energy Change Institute suggested further options for boosting domestic investment:

> The Government may also wish to consider measures to improve domestic savings rates coupled with domestic investment incentives, which would increase the amount of private Australian capital available for potential Australian-sourced private sector investment in Australia.[117]

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113 Dr Adam Triggs, private capacity, *Committee Hansard*, Canberra, 30 September 2020, pp 3-4.

114 Mrs Robyn Tolhurst, Public Affairs Manager, AIC, *Committee Hansard*, Canberra, 15 July 2020, p. 30.

115 AIC, *Submission 47*, p. 5.

116 AIC, *Submission 47*, p. 5.

117 ANU Energy Change Institute, *Submission 46*, p. 6.

National development bank

4.91 The Committee received a number of submissions supporting the creation of a national development bank to fund long-term infrastructure projects, rebuild domestic manufacturing capabilities and limit reliance on foreign investment.[118] Individuals such as Maria Sevo, for example, outlined that a national development bank could:

> … make crucial investments in reviving domestic manufacturing, which is the best way to diversify our trade both in terms of trading partners and in terms of trade complexity, ensuring only beneficial Free Trade Agreements, and successfully avoiding any geopolitical tensions and consequently trade wars.[119]

4.92 The Australian Citizens Party similarly outlined the potential benefits of a national development bank:

> A national development bank would both stimulate an expansion of manufacturing capacity in existing and new industries that would naturally find new export markets, which would diversify Australia's trade, and be able to harness the $3 trillion pool of Australian superannuation funds to invest in Australian economic development, reducing our dependence on costly foreign investment.[120]

4.93 The NCC highlighted that there were 400 development banks across the globe, representing 10 per cent of annual global investment. The NCC gave examples of countries with development banks, such as Germany, France, Spain, Italy, Austria, Russia, Japan, China, Singapore, South Korea, and India.[121]

4.94 Similarly, Dr McGovern suggested following the examples of the German development banks, the Asian Development Bank, the World Bank, and the revolving line of credit in the US, which have all contributed to funding development opportunities.[122]

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118 Ms Monica Mesch, *Submission 29*, pp. 2-3; NCC, *Submission 62*, pp 14-15; Alfred Leaver, *Submission 94*, p. 1; Kathryn Murray, *Submission 134*, p. 2.

119 Maria Sevo, *Submission 97*, p. 1.

120 Australian Citizens Party, *Submission 59*, p. 3.

121 NCC, *Submission 62*, p. 14.

122 Dr Mark McGovern, *Committee Hansard*, Canberra, 30 September 2020, p. 33.

Committee comment

4.95 Foreign investment has supported the growth of Australia's economy over many decades. Benefits of foreign investment that Australia has enjoyed include increased capital and employment; enhanced productivity and innovation; and support for Australia's exports.

4.96 The United States is, by far, the largest foreign investor in Australia. While China is smaller investor, the Committee heard evidence that its investment in Australia is growing rapidly. The Committee notes that the data on foreign investment is complex, but considers that more appropriate measures need to be used, especially in relation to ultimate owners, to better inform decision making about foreign investment proposals, as well as providing reassurance to the Australian people that accurate assessments are being made.

4.97 As Australia, and the global economy more broadly, looks to recover from the economic impact of COVID-19, competition for foreign investment will intensify. The Committee considers that Australia should continue to present as an attractive destination for foreign investment, to support economic and employment growth.

4.98 While recognising the economic benefits of foreign investment, the Committee heard concerns about potential risks posed by foreign investment to Australia's national security. A previous example of a security concern related to the Port of Darwin, which was leased to a private foreign company by the Northern Territory Government in 2015.

4.99 The Committee was pleased to hear about the Government's reforms to the *Foreign Acquisitions and Takeovers Act 1975*, which included a greater emphasis on protecting Australia's national interest and security. As these reforms only took effect on 1 January 2021, it is too early to assess their impact. The Committee will continue to consider this in the future.

4.100 The Committee believes that it is important that Australia's foreign investment framework has the support of the Australian people. This support will be more likely if the public can see that Australia's national interest is a key consideration in foreign investment decisions, particularly when it relates to investment in agriculture, real estate and critical infrastructure.

4.101 The Committee believes that there is a greater role for domestic investment in the Australian economy. Domestic investment opportunities include

Australia's superannuation savings, which could (with the right incentives from government), contribute to essential infrastructure and industry projects. A national development bank, which could reduce reliance on foreign investment and stimulate domestic economic activity, is another option that warrants consideration.

Recommendations

Recommendation 16

4.102 **The Committee recommends that the Australian Government establish a clear, consistent definition of national interest for the purposes of foreign investment. The Committee further recommends that the Australian Government issue clear guidance on how the national interest test is applied, to provide confidence to investors and the community that it is being applied consistently and in a way that meets community expectations and creates opportunities for Australian workers, businesses and communities. This could include specific guidance for foreign investment in property, business and strategic assets, and how the Foreign Investment Review Board considers investment from entities where the ultimate beneficiary is or has links to a foreign state.**

Recommendation 17

4.103 **The Committee recommends that the Australian Government consider implementing the international standards for measuring foreign direct investment, to ensure both the 'immediate' and 'ultimate' owners of an investment are recorded.**

Recommendation 18

4.104 **The Committee recommends that the Australian Government increase the quality and timeliness of economic intelligence, both in terms of domestic production and foreign trade markets.**

Recommendation 19

4.105 **The Committee recommends that the Australian Government provide a report on whether the 99-year lease of the Port of Darwin to a foreign company will be subject to the** ***Australia's Foreign Relations (State and Territory Arrangements) Act 2020*** **(the Act) and if so, consider taking**

measures to have the Port of Darwin brought back under Australian ownership if current arrangements are not deemed to be in the national interest. Further, the Committee recommends that other ports and strategic infrastructure owned by, or leased to, foreign corporations also be reviewed under the Act.

Recommendation 20

4.106 **The Committee recommends that the Australian Government investigate ways to incentivise domestic investment from Australian superannuation funds.**

Recommendation 21

4.107 **The Committee recommends that the Australian Government consider the establishment of a national development bank to assist in the development of Australian manufacturing capacity.**

Mr George Christensen MP
Chair

24 February 2021

A. Submissions

1 Dr John Coyne

2 CBH Group

3 China Policy Centre

4 METS Ignited

5 Queensland Seafood Industry Association

- 5.1 Supplementary to submission 5

6 Small Business Association of Australia

7 Pastoralists & Graziers Assn of WA (Inc.)

8 Australian Sugar Milling Council

9 Northern Territory Government of Australia

10 Australian Nut Industry Council

11 *Name Withheld*

12 *Name Withheld*

13 *Name Withheld*

14 Department of Agriculture, Water and the Environment

- 14.1 Supplementary to submission 14

15 Jon Smithson

16 Mr Greg Smith

17 Mr Simon JianDan

18 Henry Jackson Society

19 Professor Clive Hamilton

20 Professor James Laurenceson

21 GrainGrowers

- 21.1 Supplementary to submission 21

22 Peter Murray

23 WoolProducers Australia

- 23.1 Supplementary to submission 23

24 Mr Greg Scott

25 Mr Stephen Werner

26 Grain Trade Australia

27 Interactive Games & Entertainment Association (IGEA)

28 *Name Withheld*

29 Ms Monica Mesch

30 Dr Scott Waldron

31 Mr Paulus Wyns

32 CANEGROWERS

33 Dr Mark McGovern

- 33.1 Supplementary to submission 33
- 33.2 Supplementary to submission 33

34 Dr Alan Dupont AO, Cognoscenti Group

35 MUSIAD Sydney

36 Docklands Science Park Pty Ltd

37 Dr M. Shumi Akhtar

38 Department of Education, Skills and Employment

- 38.1 Supplementary to submission 38

39 Australian Grape and Wine

40 Australian Pork Limited

41 Australian Cotton Shippers Association

42 Institute for Integrated Economic Research - Australia

43 Department of Foreign Affairs and Trade

- 43.1 Supplementary to submission 43

44 Australian Productivity Council

45 Perth USAsia Centre

46 The Australian National University Energy Change Institute

- 46.1 Supplementary to submission 46

47 Australian Investment Council

48 ITS Global

49 Agsecure

50 Export Council of Australia

51 Australian Meat Industry Council

52 ADPF

53 CCIQ

54 Mercury International Consulting

55 Infant Nutrition Council

56 Australian Fresh Produce Alliance

57 Mr Leslie Harvey

58 Mr Ryan Kennealy

59 Citizens Party

60 Asialink Business

61 Department of Defence

62 National Civic Council

63 Tasmanian Government

64 Financial Services Council

- 64.1 Supplementary to submission 64

65 National Farmers' Federation

66 Australia Arab Chamber of Commerce & Industry

67 Advanced Manufacturing Growth Centre Ltd

68 Minerals Council of Australia

- 68.1 Supplementary to submission 68

69 Titomic Ltd

70 Phillip Webber

71 Dr Robert Massera

72 Keith Vagg

73 John Faust

74 Australia China Business Council

75 mr wayne crawford

76 Mr Rodney Clarke

77 Maria Fargher

78 Paul Wildman

79 Allan Clarke

80 Mr Damian O'Brien

81 Mr Desmond Whyte

82 Mr David Stow

83 Mrs Diane Finlay

84 Mr dennis pukallus

85 Mrs Ann Lawler

86 Garth Gilbert

87 Bernie Bourke

88 Jeanette Staehr

89 Mr James Dawson

90 Barrett Sheridan, PhD, MEd, BSc [UWA}

91 Keith Kerr

92 Lloyd Duggan

93 Eric Scroop

94 Alfred Leaver

95 Mr Torbi Soder

96 Hazel Kleinau

97 Maria Sevo

98 Mr Ian Barry

99 Adrian Collier

100 Mr Roger Foreman

101 Mrs Trudy Campbell

102 Robert Butler

103 Ms Katherine Beddoes-Eagles

104 MR Gregory Ferrara

105 Mr Ian Hegglun

106 Mr Dimitrios Karakatsanakis

107 *Name Withheld*

108 *Name Withheld*

109 Ms Patricia Warren

110 Robert Marotta

111 Sandra Neal

112 Rod Meyers

113 Kay Christensen

114 Jean Robinson

115 Department of Home Affairs

116 United States Studies Centre

117 Property Council of Australia

118 Department of Industry, Science, Energy and Resources

119 Grain Producers Australia

120 Institute for International Trade

121 The Association of Superannuation Funds of Australia Ltd

123 Barry Powell

124 Colleen Barrett

125 Louise Ackland

126 Ben Rees

127 David O'Brien

128 Standard Webform

129 Brenda Lennard

130 Colleen Addison

131 Grant Foreman

132 John Janetzki

133 Joshua Walkemeyer

134 Kathryn Murray

135 Kristy Goldstraw

136 Mark Poidevin

137 Matthew Joscelyne

138 Robyn Wharfe

139 Rod Barford

140 Scott MacGraw

141 Export Finance Australia

142 National Tertiary Education Union

143 CSIRO

- 143.1 Supplementary to submission 143
- 143.2 Supplementary to submission 143
- 143.3 Supplementary to submission 143
- 143.4 Supplementary to submission 143
- 143.5 Supplementary to submission 143
- 143.6 Supplementary to submission 143
- 143.7 Supplementary to submission 143

144 Graeme Tychsen

145 Neil Flannery

146 Mark Clark

147 Neil Allen

148 Douglas Back

149 Francesco Timpano

150 Patricia Halligan

151 International Coalition to End Transplant Abuse in China (ETAC)

152 Phil Litchfield

153 East West Line Parks Pty Ltd

154 Matt Mushalik

155 Rowell Walton

156 John Deller

157 Arrotex Pharmaceuticals

158 Alan Stuart-Watt

159 Greg Beckmann

160 Paul Musk

161 Ben Bruce

162 Brian Reynolds

163 *Name Withheld*

164 Drew Pavlou

B. Exhibits

1 Henry Jackson Society

‘Breaking the China Chain’ report, Henry Jackson Society, (18)

2 Dr Mark McGovern

On the Unimportance of Exports to Australian Agriculture, Australasian Journal of Regional Studies, 1999, Dr Mark McGovern, (33)

3 Dr Mark McGovern

Decomposition of exports and GDP into direct and indirect industry contributions, Guy West, Australasian Journal of Regional Studies, 2002, Dr Mark McGovern, (33)

4 Dr Mark McGovern

More on the Unimportance of Exports to Australian Agriculture, 25th Annual Conference of the Australian and New Zealand Section of the Regional Science Association International, October 2001, Dr Mark McGovern, (33)

5 Dr Mark McGovern

Beyond the Australian Debt Dreamtime: Recognising Imbalances. Economic Analysis and Policy, 2011, Dr Mark McGovern, (33)

6 Dr Mark McGovern

External Accounts and Wealth, Dr Mark McGovern, (33)

7 John Martin

How To Remove CO2, NOx and SOx From Flue Gases and Make A Profit, David Proctor, John Martin, and Matthew Fox, APCSEET, July 2011, John Martin, (36)

8 Australian Manufacturing Technology Institute Limited

Submission to the National COVID-19 Coordination Commission, May 2020

9 Bernie Bourke

No to currency restrictions, Bernie Bourke, Geelong Independent, 7 February 2020

10 Bernie Bourke

A New Public Credit System, the Commonwealth National Bank

C. Public Hearings

Tuesday, 14 July 2020 - Canberra

Department of Agriculture, Water and the Environment

- Mr David Hazlehurst, Deputy Secretary, Agriculture Trade and ABARES Group
- Mr Chris Tinning, First Assistant Secretary, Trade and Market Access Division
- Mr Peter Creaser, First Assistant Secretary, Biosecurity Plant Division
- Ms Fran Freeman, First Assistant Secretary, Export Division
- Ms Melissa Brown, First Assistant Secretary, AGVET Chemicals, Fisheries and Forestry Division
- Ms Melissa McEwen, Principal Regulatory Officer, Export Reform and Live Animal Exports Division
- Mr Jared Greenville, Assistant Secretary, Agricultural Forecasting and Trade

Agribusiness Australia

- Mr Mark Barber, Director

GrainGrowers

- Mr David McKeon, Chief Executive Officer
- Mr Brett Hosking, Chair
- Ms Amelia Shaw, Policy Manager

Australian Sugar Milling Council

- Mr David Pietsch, Chief Executive Officer
- Mr David Rynne, Director – Policy, Trade and Economics

Grain Trade Australia

- Mr Pat O'Shannassy, Chief Executive Officer

Queensland Seafood Industry Association

- Mr Eric Perez, Chief Executive Officer

Australian Meat Industry Council

- Dr Mary Wu, General Manager – Processor Group

Australian Dairy Industry Council

- Ms Janine Waller, Executive Director
- Mr Grant Crothers, Vice President
- Mr Peter Myers, Trade Program Transition Project Manager, Dairy Australia

Cooperative Bulk Handling Group

- Mr David Paton, Government and Industry Relations Manager
- Mr Jason Craig, Chief Marketing and Trading Officer

Australian Nut Industry Council

- Mr Brendan Sidhu, Chairman
- Mr Chris Joyce, Director, Trade and Market Access

Wool Producers Australia

- Ms Jo Hall, Chief Executive Officer
- Mr Ashley Cooper, General Manager

Wednesday, 15 July 2020 - Canberra

Export Council of Australia

- Mr Arnold Jorge, Executive Director, ECA Edge
- Ms Dianne Tipping, Chair
- Ms Tamara Oyarce, National Trade Policy and Research Manager

Australian Chamber of Commerce and Industry

- Mr Bryan Clark, Director, International Chamber of Commerce

Australia China Business Council

- Mr David Olsson, National President and Chairman

Council of Small Business Organisations Australia

- Mr Peter Strong, Chief Executive Officer

Australian Investment Council

- Mrs Robyn Tolhurst, Public Affairs Manager
- Mr Brendon Harper, Head of Policy and Research

Wednesday, 12 August 2020 - Canberra

Department of Industry, Science, Energy and Resources

- Mr Paul Trotman, Head of Resources Division
- Ms Marie Illman, General Manager, Offshore Resources Branch, Resources Division
- Mr Dan Quinn, A/g General Manager, Resources Strategy Branch, Resources Division
- Mr David Lawrence, General Manager, Onshore Minerals and Energy Branch, Resources Division
- Ms Allison Ball, A/g General Manager, Resources and Energy Insights Branch, Analysis and Insights Division
- Ms Jessica Robinson, General Manager, Critical Minerals Facilitation Office, Resources Division
- Mr David Thurtell, Manager, Resource Economics, Resources and Energy Insights Branch, Analysis and Insights Division

Advanced Manufacturing Growth Centre

- Dr Jens Goennemann, Managing Director

Property Council of Australia

- Mr Ken Morrison, Chief Executive

Energy Change Institute, Australian National University (ANU)

- Dr John Pye, Senior Lecturer
- Dr Lily O'Neill, Grand Challenge Fellow, Energy Change Institute and Research Fellow, Centre for Aboriginal Economic Policy Research
- Dr Matthew Stocks, Associate Professor
- Dr Emma Aisbett, Associate Director (Research) ANU Grand Challenge, Zero-Carbon Energy for the Asia-Pacific and Fellow, School of Regulation and Global Governance
- Dr Fiona J Beck, Senior Lecturer

- Dr Llewelyn Hughes, Associate Dean for Research, College of Asia and the Pacific

Innovative Manufacturing Cooperative Research Centre

- Mr David Chuter, Chief Executive Officer and Managing Director

Resource Industry Network

- Mr Dean Kirkwood, Manager, Mackay-Isaac-Whitsunday Mining Equipment Technical Services Export Hub

Australian Productivity Council

- Mr Craig Milne, Executive Director

Australian Manufacturing Technology Institute

- Mr Shane Infanti, Chief Executive Officer

East West Line Parks Pty Ltd

- Mr Shane Condon, Managing Director and Founder, Project Iron Boomerang
- Mr Stewart Hagan, General Manager, Business Development, Project Iron Boomerang
- Mr William Jefferies, private capacity

Friday, 4 September 2020 - Canberra

Department of Education, Skills and Employment

- Mr Rob Heferen, Deputy Secretary, Higher Education, Research and International
- Ms Karen Sandercock, First Assistant Secretary, International
- Ms Karen Welsh, Branch Manager, Access Branch
- Dr Carrie Kilpin, Director, International Strategy

Universities Australia

- Ms Catriona Jackson, Chief Executive
- Ms Anne-Marie Lansdown, Deputy Chief Executive Officer

TAFE Directors Australia

- Mr Craig Robertson, Chief Executive Officer

International Education Association of Australia

- The Hon. Phil Honeywood, Chief Executive Officer

Independent Tertiary Education Council Australia

- Mr Troy Williams, Chief Executive Officer
- Mr Felix Pirie, Director, Policy and Research

Minerals Council of Australia

- Mr Demus King, General Manager, Trade, Investment and Investor Relations
- Mr Sid Marris, General Manager, Strategy, State and Territory Relationships
- Mr John Barber, Senior Manager, Economic Analysis

Australian Tourism Export Council

- Ms Anna Taylor, National Manager, Membership and Policy

Financial Services Council

- Mr Blake Briggs, Deputy Chief Executive Officer
- Mr Michael Potter, Senior Policy Manager, Economics and Tax

Association of Superannuation Funds of Australia

- Mr Glen McCrea, Deputy Chief Executive Officer and Chief Policy Officer
- Mr Andrew Craston, Director, Economics
- Mr Ross Clare, Director, Research and Resource Centre

Monday, 14 September 2020 - Canberra

Australian Strategic Policy Institute

- Mr Michael Shoebridge, Director of Defence, Strategy and National Security Program

Chamber of Commerce and Industry Queensland

- Mr Gus Mandigora, Senior Policy Adviser

United States Studies Centre, University of Sydney

- Mr Jared Mondschein, Senior Advisor
- Mr Elliott Brennan, Research Associate

Institute for Integrated Economic Research – Australia

- Air Vice-Marshal John Blackburn AO (retired), Board Chair

Cognoscenti Group

- Dr Alan Dupont, Chief Executive Officer

Perth USAsia Centre

- Mr Hugo Seymour, Program Coordinator

Australia Grape and Wine

- Mr Tony Battaglene, Chief Executive

ITS Global

- Mr Khalil Hegarty, Director
- Mr Jon Berry, Director

Institute for International Trade, University of Adelaide

- Professor Peter Draper, Executive Director
- Mr Simon Lacey, Senior Lecturer in International Trade
- Dr Naoise McDonagh, Lecturer in International Trade
- Mr Michael Humphrey, Senior Trade Adviser

Wednesday, 30 September 2020 - Canberra

Professor Peter Drysdale, Private capacity

Dr Shiro Armstrong, Private capacity

Dr Adam Triggs, Private capacity

Asialink Business - University of Melbourne

- Ms Penny Burtt, Group Chief Executive Officer, Asialink
- Mr Mukund Narayanamurti, Chief Executive Officer

Dr Shumi Akhtar, Private capacity

Professor Fariborz Moshirian, Private capacity

Dr David Uren, Private capacity

Dr Mark McGovern, Private capacity

Institute for International Trade - University of Adelaide

- Professor Peter Draper, Executive Director
- Mr Simon Lacey, Senior Lecturer in International Trade
- Dr Naoise McDonagh, Lecturer in International Trade

National Tertiary Education Union

- Mr Paul Kniest, Director Policy and Research
- Dr Terri MacDonald, Research and Policy

Professor James Laurenceson, Private capacity

Professor Rory Medcalf, Private capacity

Thursday, 1 October 2020 - Canberra

Department of Foreign Affairs and Trade

- Ms Jennifer Gordon, First Assistant Secretary, Office of the Chief Economist
- Mr Ravi Kewalram, A/g Chief Trade Law Officer, Office of Trade and Investment Law
- Ms Elisabeth Bowes, First Assistant Secretary and Chief Negotiator, Regional Trade Agreements Division
- Mr Alan Copeland, Assistant Secretary, Trade and Investment Economics Branch, Office of the Chief Economist
- Ms Alice Cawte, Assistant Secretary, China Economic and Engagement Branch, North Asia Division
- Ms Amy Guihot, Assistant Secretary, Agriculture and Non-Tariff Barriers
- Mr Jonathan Kenna, Assistant Secretary, Investment Branch, Trade, Investment and Business Engagement Division
- Mr Angus MacKenzie, Assistant Secretary, Competitiveness and Business Engagement Branch
- Ms Emily Roper, A/g Assistant Secretary, Legal Division

- Mr Andrew Martin, Assistant Secretary, Goods and Market Access Branch, Office of Trade Negotiation

Australian Trade and Investment Commission (Austrade)

- Ms Sally-Ann Watts, A/g Deputy Chief Executive Officer, Global Client Services
- Ms Heather Cotching, A/g Chief Economist
- Ms Lynne Ashpole, Assistant General Manager, Policy and Coordination
- Mr Dan Tebbutt, Head of Investment

Export Finance Australia

- Ms Swati Dave, Managing Director and Chief Executive Officer
- Mr John Pacey, Chief Credit Officer
- Ms Cassandra Winzenried, Chief Economist

Tourism Australia

- Mr Andrew Hogg, Executive General Manager Eastern Markets and Aviation

Department of the Treasury

- Mr Roxanne Kelley, Deputy Secretary Corporate and Foreign Investment Group
- Mr Roger Brake, Division Head, Foreign Investment Division
- Mr Andrew Deitz, Branch Head, Foreign Investment Division
- Mr Tom Hamilton, First Assistant Secretary, Foreign Investment Division

Foreign Investment Review Board

- Mr David Irvine, Chair
- Mr Roger Brake, Executive Member

Productivity Commission

- Mr Jonathan Coppel, Commissioner
- Mr Ralph Lattimore, Executive Manager, Canberra Office

Professor Clive Hamilton, Private capacity

Department of Defence

- Mr Tony Dalton, Deputy Secretary, National Naval Shipbuilding

- Mr Peter Tesch, Deputy Secretary, Strategy, Policy and Industry
- Mr Tony Fraser, Deputy Secretary, Capability Acquisition and Sustainment Group
- Dr Peter Sawczak, First Assistant Secretary, Defence Industry Policy

Department of Home Affairs

- Dr Bradley Armstrong, Group Manager Customs, Australian Border Force
- Ms Anna Lutz, Assistant Secretary, Skilled and Family Visa Program Branch

Department of Industry, Science, Energy and Resources

- Mr Bruce Wilson, Head of Division, Industry Growth
- Mr Martin Squire, General Manager, Trade and International Branch, Strategic Policy Division
- Mr Geoff Whelan, A/g General Manager, Economic and Industry Analysis Branch, Analysis and Insights Division
- Mr Mark Weaver, A/g General Manager, Sectoral and Place Based Policy and Critical Manufacturing Branch, Industry Growth Division
- Ms Emma Greenwood, A/g Head of Division, AusIndustry – Support for Business

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

- Ms Judith Zielke, Chief Operating Officer
- Ms Kirsten Rose, Executive Director, Future Industries
- Dr Paul Savage, Science and Deputy Director, CSIRO Manufacturing

Additional comments - Labor members

1.1 It is important to identify the events and decisions that led to the Port of Darwin being leased to the Landbridge Group, a Chinese-owned company, in October 2015 for a period of 99 years.

1.2 These represent a catalogue of failures on behalf of both the Country Liberal Northern Territory Government and the Federal Liberal National Coalition Government.

1.3 The deal resulted in the Landbridge Group obtaining 100 per cent operational control of the port and 80 per cent ownership of the Darwin Port land, facilities of East Arm wharf including the marine supply base, and Fort Hill wharf.

1.4 The owner of the Landbridge Group, Ye Cheng, was named by the Chinese Government in 2013 as one of the top 10 "individuals caring about the development of national defence". The Landbridge Group was subsequently identified as having extensive connections to the Chinese Communist Party and the People's Liberation Army.

1.5 In 2016, Mr Ye was reported as saying that his firm's investment in the Port of Darwin would further his company's strategy of expanding its shipping and energy interests and serving China's One Belt, One Road foreign policy objective.

1.6 The actions of the Northern Territory Government in selling and leasing this critical infrastructure were not opposed by the Turnbull Coalition Government. Instead, Andrew Robb, Minister for Trade and Investment in the Turnbull Government and a member of the National Security Committee, welcomed the transaction.

1.7 When the agreement was concluded between the Country Liberal Northern Territory Government and the Landbridge Group, Mr Robb said that it was a "powerful sign of the enhanced commercial relationship between Australia and China flowing from the China-Australia Free Trade Agreement" and that "Landbridge's commitment to the growth of the Port of Darwin will be a huge spur to the development of Australia's north".

1.8 Andrew Robb entered into a consulting arrangement with the Landbridge Group worth $73 000 per month immediately upon leaving Parliament in 2016.

1.9 By contrast, the Northern Territory Labor Party identified the transaction as short-sighted and contrary to the Territory's long-term interests. The Federal Labor Party noted the anxiety within the Australian Defence Force created by the lease of such critical national infrastructure and the importance of conducting a proper and thorough review to identify the implications of the deal.

1.10 However, a 2016 Senate inquiry found that the transaction was not required to be subject to a full Foreign Investment Review Board (FIRB) assessment, because only around $100M of the total $506M involved the actual sale of assets. This was below the then-FIRB threshold of $248M.

1.11 Furthermore, Australian takeover law at the time deemed that the sale of an asset owned by a state or territory government did not require the approval of the FIRB. Then-Secretary of the Department of Defence, Dennis Richardson AC, recognised this as a "systemic issue" with the Foreign Acquisitions and Takeovers Act.

1.12 Then-Defence Minister Marise Payne said that she and the leadership of the Department of Defence were only informed that a Chinese entity had been awarded a 99-year lease on the Port of Darwin "a few hours" prior to the contract being signed on 13 October 2015.

1.13 The failures of this Liberal-National Government to recognise, understand or properly interrogate the risks associated with the long-term lease of the Port of Darwin, a sensitive asset with national strategic significance, are deeply regrettable.

1.14 Neither the Northern Territory Country Liberal Government, nor the Liberal-National Federal Government identified or properly considered the strategic implications or the long-term consequences of this deal for Australia's national security and sovereignty.

1.15 This avoidable fiasco was entirely of the making of the Liberal and National Parties. Their poor decision-making, incompetent governance and pursuit of short-term monetary gain has compromised Australia's long-term strategic security.

1.16 It is the view of Labor members that the Morrison Government has still not adequately addressed this failure. Despite the *Australian Foreign Relations (State and Territory Arrangements) Act 2020,* the Government has refused to explain whether the lease of the Port of Darwin is consistent with Australia's foreign policy. The Government must explain what action the Foreign Minister may or may not take under the Act in relation to the 99-year lease of the Port of Darwin to a Chinese company.

Ms Ged Kearney MP
Deputy Chair

Senator Tim Ayres

Dr Daniel Mulino MP

Senator Raff Ciccone