



AUSTRALIA'S  
INTERNATIONAL  
BUSINESS  
**SURVEY 2017**

# Australia's International Business Survey 2017







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## Glossary of terms

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
Austrade	Australian Trade and Investment Commission
ABS	Australian Bureau of Statistics
AMR	Advanced Marketing Research
ANZSIC	Australian and New Zealand Standard Industrial Classification
CBSI	Centre for Business and Social Innovation
CoO	Certificate of Origin
DFAT	Department of Foreign Affairs and Trade
ECA	Export Council of Australia
Efic	Export Finance and Insurance Corporation
FTA	Free Trade Agreement
GVCs	Global Value Chains
IP	Intellectual Property
LNG	Liquefied Natural Gas
MRA	Mutual Recognition Agreement
RoO	Rules of Origin
SMEs	Small to Medium Enterprises
UTS	University of Technology Sydney

## Executive summary

Australian businesses contribute significantly to economic growth through commercial activity in international markets. These areas of activity include: foreign direct investment, trade in goods and services, and other international activities – such as manufacturing products overseas through licensing, undertaking R&D overseas and employment of temporary staff.

Since 2014, Australia's International Business Survey (AIBS) has aided in the understanding of Australia's international business activity, as well in evaluating the impact of international economic trends on Australian businesses.

This year, the Export Council of Australia (ECA) commissioned the Centre for Business and Social Innovation (CBSI) at the University of Technology Sydney (UTS) to conduct the research study and produce the AIBS 2017 Report.

A total of 1068 Australian businesses were surveyed for AIBS 2017, of which 941 were engaged in international business activity. The remaining 127 respondents were not currently involved in international business activity, and instead responded by highlighting areas that could assist them in engaging in such activities.

This report analyses AIBS 2017 responses in the context of the following areas:

- 1) The diversity of Australia's international business activity
- 2) Australia's international business activity in focus
- 3) Innovation in Australia's international business activity, and future outlook



## Diversity of international business activity

When exploring the diversity of international business activity across the 941 internationally active businesses (IABs) who responded to the survey, key findings include:

### International activities:

- ▶ 93% of IABs are involved in exporting, 48% in importing, 23% involved in other international activities and 19% in two-way investment.
  - ▶ Of those exporting, 50% are exporting goods only, 33% export services only, and 17% export both goods and services.
  - ▶ Of those importing, 74% import goods only, 13% import services only and 13% import both goods and services.
  - ▶ Of those pursuing other international activities, these included undertaking R&D, licensing manufacturing of goods, and employing temporary foreign labour.
  - ▶ Of those involved in international investment activities, 54% are making outward investments only, 26% are receiving inward investment and 20% are doing both.
  - ▶ Direct export of final goods and services was the most important form of export, with over 70% of both goods exporters and services exporters reporting that this was essential or very important to them. Around 40% of both goods exporters and services exporters reports that exporting indirectly via an agent, and through a supply contract with a multinational, was essential or very important to them.

### When exploring international revenue:

- ▶ The top markets for revenue generation were China, the United States (US), and New Zealand.
- ▶ 19% of IABs surveyed earn more than 50% of their total revenue from international revenue.
- ▶ 35% of respondents earned international revenue from 6 or more countries.
- ▶ Respondents from the agriculture, fishing and forestry sector earned the largest average share of their revenue internationally (95% of total revenue), followed by respondents from the education and training sector (87% of total revenue).
- ▶ 35% of respondent firms are classified as 'born global' (earning international revenue within two years of establishment).

### When exploring international ambitions for the future:

- ▶ Around three-quarters of respondents engaged in international business activity are planning to do business in new countries over the next two years.

## Australia's international trade in focus

This study involved an in-depth exploration of how Australia's IABs engaged in international trade, including their access to finance, their use of FTAs and associated procedures, any barriers they have encountered along the way, and other areas, key findings include:

### Respondents seeking to access finance:

- ▶ A total of 58% of respondents did not apply for finance while 35% did.
  - ▶ Approximately 60% of respondents who applied for finance were successful while 40% were unsuccessful.
  - ▶ Accessing finance from owners/family/friends was the most important source of finance for those who did not apply for funding.
  - ▶ Respondents who were unsuccessful in obtaining finance attributed this to not having an adequate cash flow and that high levels of security were required to obtain funds.

### Respondents involved in FTA activity:

- ▶ 89% of respondents are exporting goods and/or services to countries with which Australia has an FTA in place ('FTA markets').
  - ▶ 61% are exporting goods to FTA markets and 66% are exporting services to FTA markets.
  - ▶ 23% are exporting goods only, 28% are exporting services only and 38% are exporting both goods and services to FTA markets.

### FTA export activity by industry:

- ▶ Respondents from the manufacturing sector were the largest sector to exporting both goods (46%) and services (25%) to FTA markets.
- ▶ The combined ASEAN region was the top FTA market destination for businesses in all sectors except two: agriculture, forestry and fishing, and wholesale trade. China was the top FTA market destination for businesses in both of these sectors.

### The benefits of FTAs:

- ▶ Respondents reported several benefits to Australia's FTA network beyond increased exports, including 'making sales not previously permitted' and 'recognising Australian standards'.
- ▶ 40% of respondents who are exporting to China and 31% who are exporting to Thailand were aware that the company's export sales benefited from the FTA.
- ▶ Most firms that reported they 'do not gain export sales benefit' from an FTA are not filling out paperwork to claim a benefit.
- ▶ Many respondents that 'don't know' whether they receive an export sales benefit from an FTA, are outsourcing their FTA documentation.
  - ▶ For example, 69% of respondents exporting goods to China and unaware of export sales benefits arising from the FTA, outsourced their FTA documentation.

### FTA documentation requirements:

- ▶ 64% of all goods exporters to FTA markets use a trade services provider or third party to handle FTA export paperwork.
- ▶ Exporters to Thailand and South Korea were the highest shares of goods exporters to provide FTA documentation, with 38% of respondents selling to Thailand providing FTA documentation to claim a preferential tariff, and 35% of those selling to South Korea providing FTA documentation.



### Rules of origin:

- ▶ 63% of respondents used Certificates of Origin (CoOs) to verify Australian products, mainly within the sectors of agriculture, fisheries and forestry (79%), manufacturing (68%), and wholesale trade (63%). Larger organisations, with a higher percentage of revenue, are more likely to use CoOs than smaller organisations.
- ▶ 35% of respondents did not use CoOs (26% of these reported a lack of understanding of the benefits).
- ▶ An authorised body is the main source for issuing certificates, with over 40% of those using CoOs using an authorised body to certify electronic and paper certificates. 28% of respondents used CoOs using self-certification processes.
- ▶ For those organisations that obtain CoOs through an 'authorised body', approximately 45% spend between A\$0 and A\$999 and 42% of respondents spend between A\$1000 and A\$9999.

### Respondents exporting services to FTA markets:

- ▶ The most important FTA markets for services exporters were China, the US, Singapore and New Zealand.
- ▶ Mode 1 (cross-border trade) and Mode 4 (movement of natural persons) are the most popular modes of services export into FTA markets.
- ▶ Of respondents involved in service exports and physically traveling overseas to provide the service, 9% reported they face restrictions around bureaucracy, visa controls and associated country regulations.

### Barriers to commencing international trade:

- ▶ A total of 127 respondents indicated they did not currently engage in international activity.
  - ▶ 26% of these respondents indicated they did not trade internationally due to a lack of international contracts, and 22% were uncertain of how to start exploring opportunities.
  - ▶ 46% of these respondents suggested a database of potential buyers/suppliers would help them start exporting.
  - ▶ 41% of these respondents suggested finance or grants would assist, and 34% said business mentoring.

## Innovation in international business activity and the outlook for export sales

AIBS 2017 surveyed companies on any innovative activities they have introduced to increase export sales, as well as businesses' attitudes towards the future. Findings are summarised below, key findings include:

### Innovation as a driver of export sales

- ▶ A total of 68% of companies involved in the above forms of innovation considered that innovations were very important or essential for driving international sales.
- ▶ 49% of respondents introduced product innovation, 32% marketing innovation, 23% organisational innovation and 27% process innovation to drive international sales. 10% of companies introduced other innovations (such as technological, digital and business model innovation).
- ▶ Younger companies are more likely to generate international revenue through intellectual property (IP) than older companies.

### Future outlook

- ▶ 87% of all respondents expect the financial outlook for their international operations to be the same or better over the next two years compared to the last two years.
- ▶ The industry sectors that indicated their future financial outlook is better than in the previous two years were agriculture, forestry and fishing, manufacturing, wholesale trade, professional services, and education and training services.

## 1 | Introduction

International business is essential to sustaining Australia's ongoing economic prosperity. Technological, political, social and cultural change, together with international trade, have made it easier for organisations, large and small, to increase their market share for products and services. A comprehensive understanding of the critical challenges, and success factors, that contribute to Australian business success in global markets is essential to deliver better strategies and support for Australian business.

This report aims to better understand the international business activity of Australian firms, through the results of an extensive survey of businesses trading with and in overseas markets.

Since 2014, Australia's International Business Survey (AIBS)<sup>1</sup> has highlighted key insights and issues for Australia's international business community, at the same time presenting overall economic trends. In 2017, the Export Council of Australia (ECA) has commissioned the Centre for Business and Social Innovation (CBSI) at the University of Technology Sydney (UTS) to produce the 2017 Australia's International Business Survey (AIBS Report).

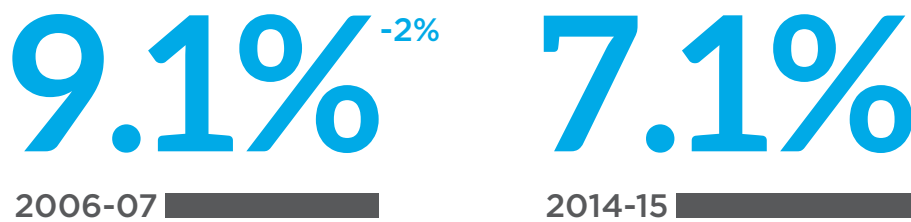




## Background

In 2014-15, the Australian Bureau of Statistics (ABS) reported the proportion of Australian businesses selling goods or services in overseas markets was 7.1%, a figure that has remained fairly stable over the last three AIBS survey periods, although the absolute number of exporters has increased over the same period. Nevertheless, the share of Australian firms undertaking international activity has declined over the past 10 years<sup>2</sup>.

Fig. 1.1. International activity in goods and services 2006-2015<sup>3</sup>



Building on international business literature, the UTS Business School has been commissioned by ECA with the support of partners, Austrade and Efic, to expand the reach of this fourth AIBS survey to generate a deeper insight and comprehensive understanding of the critical challenges and success factors contributing to Australian business success in international markets. This AIBS 2017 report addresses the critical research question:

## What are the international business activities of Australian businesses operating globally?

### Importance of international business research

Despite the growing pace and breadth of research, there is a need for further investigation that considers international firms as complete systems<sup>4</sup>. Much international business research to date either involves the study of an issue with little or no regard to differences between countries (or cultures), or it focuses on comparisons between countries and/or cultures across different nations. As the world's economies have become more integrated and international business more globalised, so have the trends in international business research. Examples include the rise of research into complex global management information systems, and international collaboration networks and alliances<sup>4</sup>. A 1990 survey of international management research needs identified research on international coalitions as possibly the single most important and challenging area for international business researchers<sup>2</sup>. Another, recent driver of research activity is international entrepreneurship and the internationalisation of small businesses<sup>2</sup>.

Traditionally firms have focused on growing their domestic markets before exploring international opportunities. However, evidence<sup>5</sup> suggests that some small, young firms, with very limited resources, begin to expand overseas not long after their establishment. These small and medium enterprises (SMEs), including start-ups, have an increasing presence in international business.

In this global environment, these entrepreneurs and small businesses are becoming less reliant on domestic trade and instead look to the international market. Such firms are known as 'born-global' firms<sup>3</sup>. Despite the emergence of these born-global firms, the more common route to internationalisation for traditional SMEs tends to be a gradual one – starting with sporadic international sales in the early stages to more systematic and deep engagement in foreign markets. In contrast, the 'born global' SMEs, are often internationally oriented from their creation and typically are so by exploiting the benefits of belonging to international networks to open opportunities to customers and potential foreign partners. Similarly, some SME firms are able to integrate into global value chains (GVCs) by selling either directly or indirectly through large firms situated in their home countries<sup>6</sup>. On the other hand, the issues of climate change and the transition to lower carbon economies continue to challenge traditional business models, raising concerns for the environment and providing a new unifying theme influencing international trade<sup>7</sup>.



There are, for example, joint ventures between Australian and international firms in research and development into renewable energy, biotechnologies (especially pharmaceuticals), precision electronics (computer chips), smart manufacturing and various agri-businesses, opening the door to potentially very profitable commercial opportunities for Australian businesses.

Despite the narrow focus of most international business research, the real challenge faced by businesses operating internationally now is integration of international activities<sup>8</sup>. As the products, production processes and markets of modern global management become increasingly diversified, integration of these activities grows in importance. John Dunning<sup>8</sup> notes the significance of this for international business researchers: 'Due to both exogenous and endogenous factors, the practice of international business is involving an increasing ratio of transaction to total costs. But in order to study and explain this phenomenon, international business scholars need not only to draw upon different disciplines but to do so in a coordinated way'. New modes of research study are needed that consider holistic and system-based approaches, including the interdisciplinary aspects of the international firms. Dynamic value chains, for example, are key to the integration and alignment of the needs of customers, consumers, end-users, suppliers and third parties through collaboration for creating and delivering<sup>9</sup>. A dynamic approach aims to develop new business models and networks<sup>9</sup> based on what international customers want. This is a change in mindset from functional specialisation towards embedding the principles and practices of the supply chain, and value-network thinking, within the philosophy of the firm.

## About this survey

This report analyses the international business responses of AIBS 2017 facilitated by AMR between April and June 2017. As a result, this report provides insights gathered from 941 Australian internationally-active businesses drawn from 19 industry sectors and operating across more than 90 international markets. These survey respondents were involved across a range of international trading settings including the export and import of goods and services, making outward investments, receiving inward investments, earning revenue from intellectual property and undertaking international research and development activities. Key features and highlights include:

- a) an examination of the importance of international markets and the diversity and types of international business activity,
- b) the key impacts of Australia's FTAs on export earnings and potential for growth in international markets,
- c) the changing nature of international business activity and its implications for the future of Australian businesses,
- d) the barriers to and opportunities for international business activities,
- e) the contribution that innovation makes to international business activity and trade, and
- f) the existing channels of support and assistance provided to international businesses when operating in international markets.

AIBS 2017 also captured 127 responses from businesses that are not currently engaged in international activities, mainly due to a lack of international business awareness and a current concentration on domestic operations. In this context, AIBS 2017 provides an in-depth understanding of the success factors and challenges experienced by Australian firms when engaging across multiple international settings.

AIBS 2017 is a critical contribution to providing insights into the 941 internationally active businesses who responded to the survey and the 127 respondents who are not engaged in international business activity. Whilst the above recommendations and suggestions aim to steer efforts towards assisting international businesses grow, further research could be undertaken on some of the critical trade influencing factors that underpin success for international businesses.

## Importance of facilitating international business activity

This report aims to provide an overview of current international business activity drawing from the results of the AIBS 2017. While current Australian Bureau of Statistics (ABS) trade data provides data collection on the value and volume of international business activities, this report draws on the individual experiences and practices of businesses not measured in national trade data. This unique contributing feature provides specific insights into the international business activities of Australian businesses.

The survey data provides an insightful perspective into Australian businesses' international trading behaviours, frictions limiting their likelihood of engaging in international business, as well as an appreciation of the difference in experiences across industries and size of organisations.

Fig. 1.2 AIBS report structure



### SECTION 2 ►

examines the activities in international markets and explores the diversity and types of international business activity reported by survey respondents.

### SECTION 3 ►

determines the essential financing requirements for undertaking international business activity, key impacts of Australia's FTAs and the barriers and opportunities affecting international business opportunities.

### SECTION 4 ►

examines the existing channels of support and assistance provided for international business, the effects of innovation on growing a global business, and expectations by Australian businesses of future international business activity.

# 2

The diversity of  
Australia's international  
business activity



# What the survey says

## International trade activity – Australia's internationally active businesses (IABs) are engaged in diverse sets of activities:

- ▶ 93%: are exporting
- ▶ 48%: importing
- ▶ 23%: involved in other international activities
- ▶ 19%: in inward or outward investment

### Exporting:

- ▶ Of the forms of international activity, exporting overseas is the main international activity for Australia business (36%), the second largest is both exporting and importing (27%)
- ▶ 46% of all respondents export goods only, 31% export services only and 6% export both goods and services
- ▶ Over 70% of goods and services exporters reported that direct export of final goods and services remains most important to them. However, indirect exporters via an agent or through a supply contract with a multinational are also important to around 40% of goods and services exporters

### Importing:

- ▶ 48% of respondents surveyed are involved in importing activity – 74% importing goods only and 13% importing services only
- ▶ Greater importance on importing materials, parts or components into product for subsequent export
- ▶ Undertaking R&D overseas enhances international trade activities

## International revenue from international activities

- ▶ China and the US are top two most important markets
- ▶ ASEAN is the top region for international revenue
- ▶ 81% of respondents earn less than 50% of total revenue internationally
- ▶ 64% of respondents earn international revenue from fewer than 5 countries

### International revenue by country and industry:

- ▶ Goods producing sectors are significant earners of services export revenue
- ▶ 43% of respondents selling to China earn over 50% of their international revenue from China
- ▶ The agriculture, fishing and forestry sector provided the most responses for exporting goods, while education and training sector provided most responses for exporting services
- ▶ 35% of respondents are 'born global' and a greater proportion in recent years

## International trade ambitions

- ▶ 74% of respondents are planning to do business in new countries
- ▶ 37% planning to do business with up to 3 new markets, 30% with between 4 and 10 new markets and 6% over 10 markets



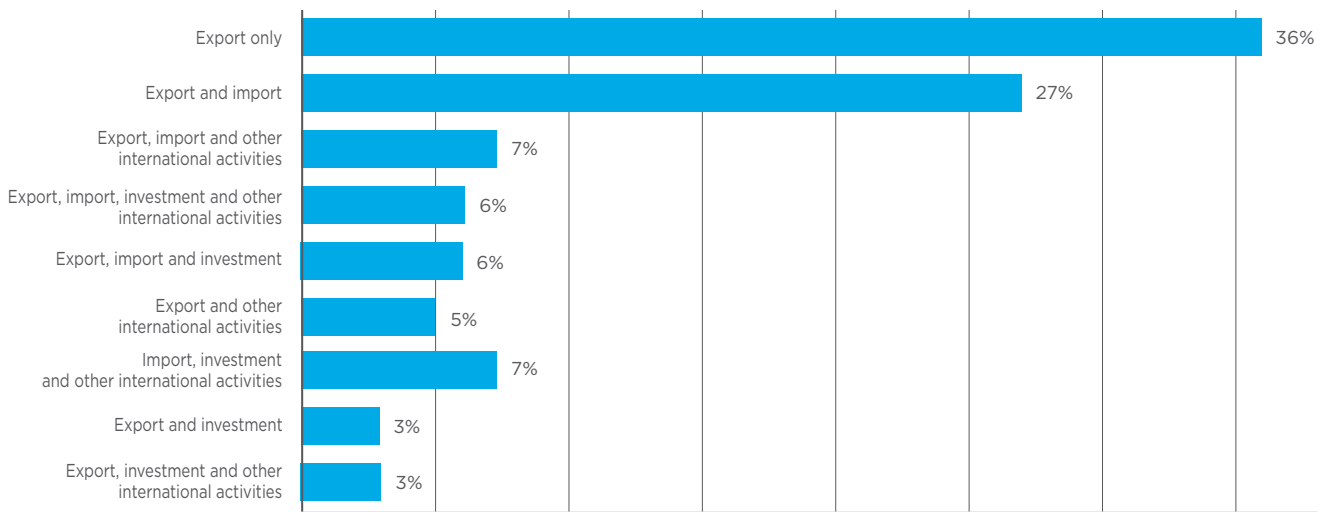
## 2.1 | International business activities

AIBS 2017 highlights, of the 1,068 organisations responding to the survey, 88% (n=941) are internationally active businesses (IABs) and 12% (n=127) are not<sup>10</sup>.

AIBS 2017 respondents engaged in international business are undertaking a wide range of activities.

Exporting is the most common component of their international engagement, with 93% of AIBS respondents undertaking this activity. 57% of respondents engaged in a mix of international activities<sup>11</sup> including export and any combination of import, investment and other international activities. Only 7% of survey respondents indicated that they were not involved in any exporting activities but were undertaking import, investment or other forms of international activity.

Fig. 2.1 International activities of AIBS 2017 respondents

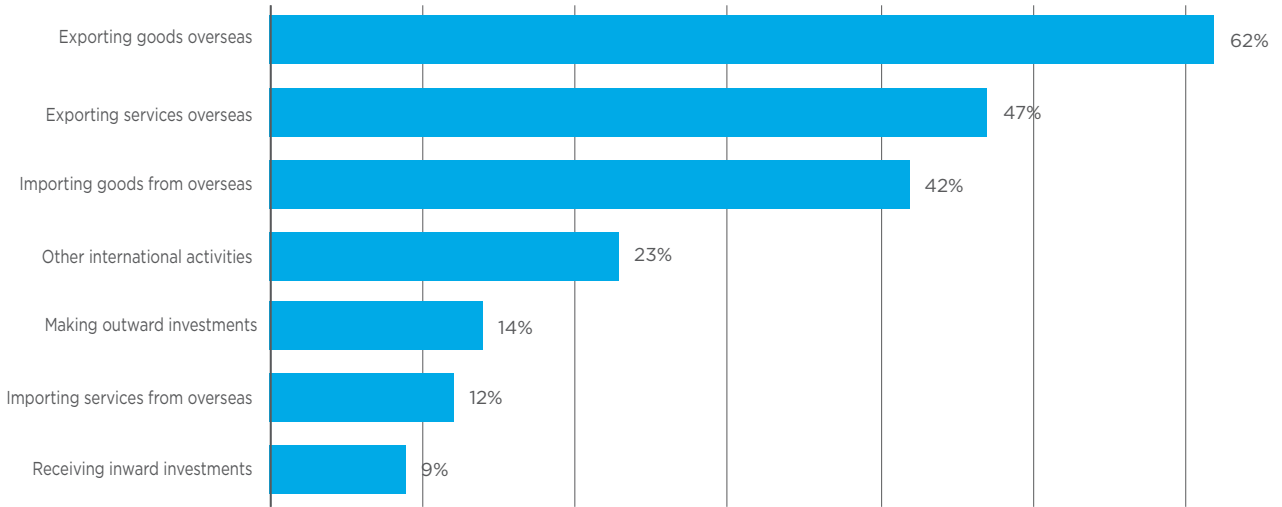


Source: AIBS 2017, Question 5. Note: n=941. ('None of these' and 'don't know' categories are included).

Across such diverse forms of international activity, approximately 62% of organisations were involved in exporting goods (as well as other activities) compared to 47% involved in exporting services (as well as other activities). Similarly, 42% of organisations were involved in importing goods from overseas compared to 12% importing services. A total of 23% of respondents were involved in other international activities, these included conducting research and development, employing temporary skilled labour and manufacturing products or parts of products overseas through licensing arrangements. Approximately 14% are making outward investments and 9% are receiving inwards investments. This result reflects the importance of the services sector in Australia, with a growing proportion of organisations involved in the exporting of service-related activities.



Fig. 2.2 Types of International activity

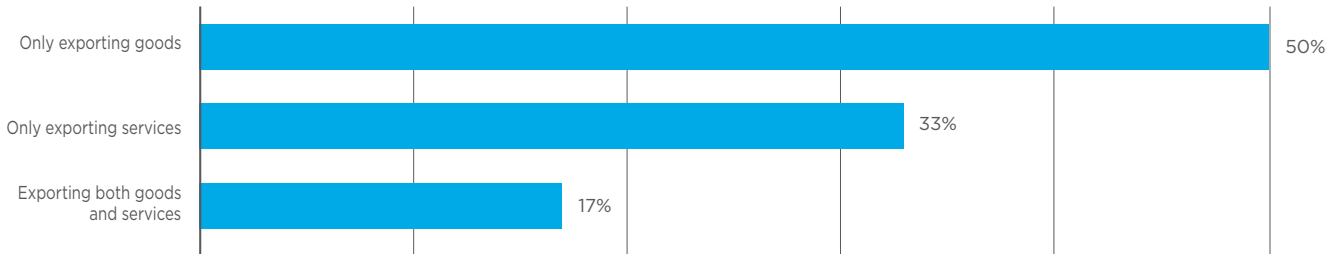


Source: AIBS 2017, Question 5. Note: n=941 (None of these and don't know categories are not included).

### 2.1.1 | Nature of exporting activity

Of the 93% (n=877) of organisations who are involved in exporting activity, 50% of companies are exporting only goods while 33% are exporting only services. 17% of organisations are exporting both goods and services.

Fig. 2.3 Exporting activity



Sources: AIBS 2017, Question 5. Note: n=877

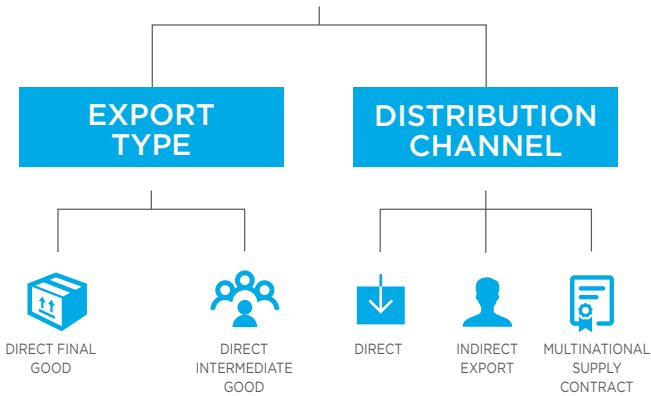
The export of goods and services are supported through a multi-channel distribution system that involves either supplying final goods directly to customers, supplying intermediate goods, supplying goods using an export agent (who deals with the country-specific documentation, marketing and contacts), or through arrangements involving multi-national corporations overseas.

Fig. 2.4 Multi channel distribution of goods and services\*



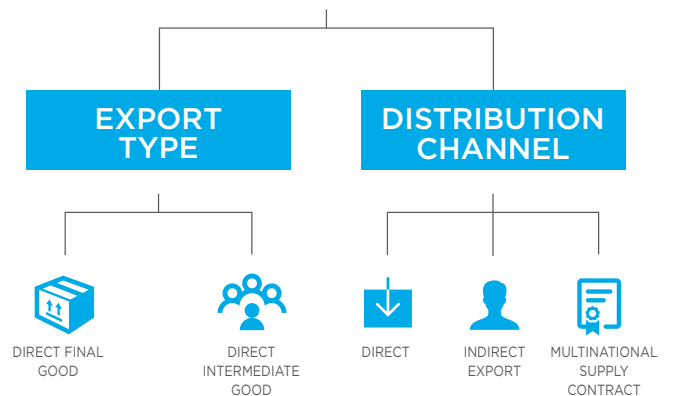
62%

ARE EXPORTING GOODS  
n=586

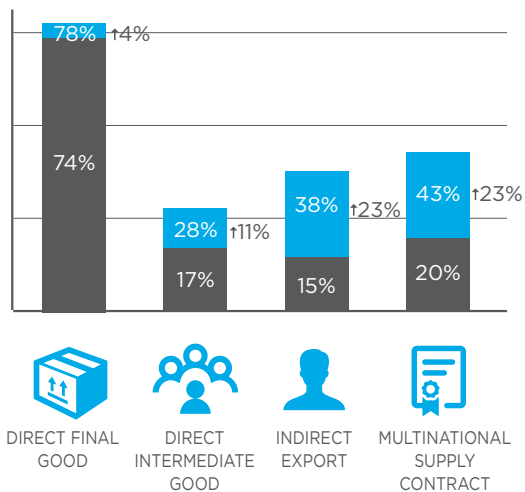


47%

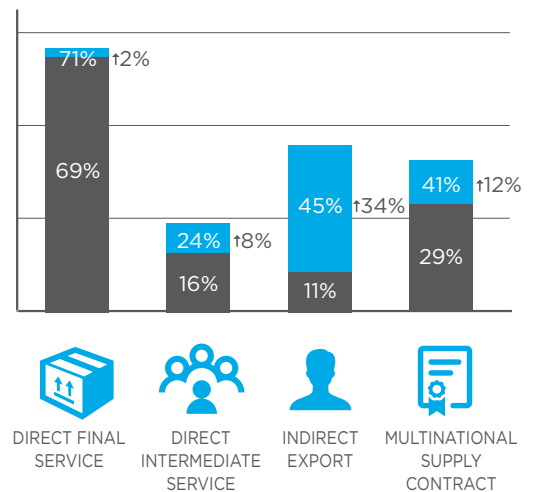
ARE EXPORTING SERVICES  
n=440



Importance of exporting goods



Importance of exporting services



Source: AIBS 2017, Questions 5-7, AIBS 2016 report. Note: 2016 and 2017 figures are sourced from AIBS datasets; Question 6 (n=586), Question 7 (n=440). Level of importance includes very important and essential; Direct involves both final and intermediate goods.



Services, and goods, can be distributed as either a final or intermediate good or service. However, final goods and services reach the customer through a variety of different distribution channels.

For the 93% of survey respondents who are exporting, exporting of final goods was the most common mode of exporting, with 78% of survey respondents indicating that final goods exports directly to customers was important in contributing to their international revenue, up from 74% in 2016<sup>12</sup>.

Dealing directly with customers to export final goods is a growing trend especially since customers are becoming increasingly accustomed to sourcing goods directly from overseas. This has enabled opportunities for 'smart' and innovative firms to provide services in support of these purchases. In addition, opportunities to build brands and deepen customer relationships through improved business intelligence and data analytics has become possible through the direct dealing with customers mode of distribution. Improved understanding of, and sharing of information about, the ways Australian firms are engaging directly with its customers, is critical to enabling more firms to expand their export markets.

Similarly, importing final services is the most common form for exporting services, where 71% of survey respondents indicated that final services exports directly to customers was very important in contributing to their international revenue. This figure is up from 69% in 2016. **(Note: whilst a comparison with AIBS 2016 highlights an increase in the proportion of respondents' importance, the organisational sample types differ from those of the 2017 survey).**

Using export agents as a distribution channel ranked third for distributing goods importance (38%) and second for distributing services importance (45%) in contributing to international earnings. An agent is generally paid by the exporter based on a commission of sales value generated<sup>13</sup>. Academic literature<sup>14</sup>, suggests organisations employ agents to overcome their "smallness", language issues and social problems that may be experienced when dealing in foreign countries.

Exporting goods using supply contracts involving overseas multinational companies was considered to be very important and essential by 43% of respondents (41% for services). This is an increase from AIBS 2016 of 23% for goods and 12% for services. With more companies engaging with multi-national corporations and drawing upon the services of agents, these indirect distribution channels are expected to play an increasingly significant role in supporting international business. Organisations divesting responsibilities to third parties will benefit through improved awareness and knowledge regarding market access, FTA arrangements and other relevant considerations involved in international transactions. The increasing involvement of multi-national corporations also signals potential opportunities for networking, collaboration and access into new markets.



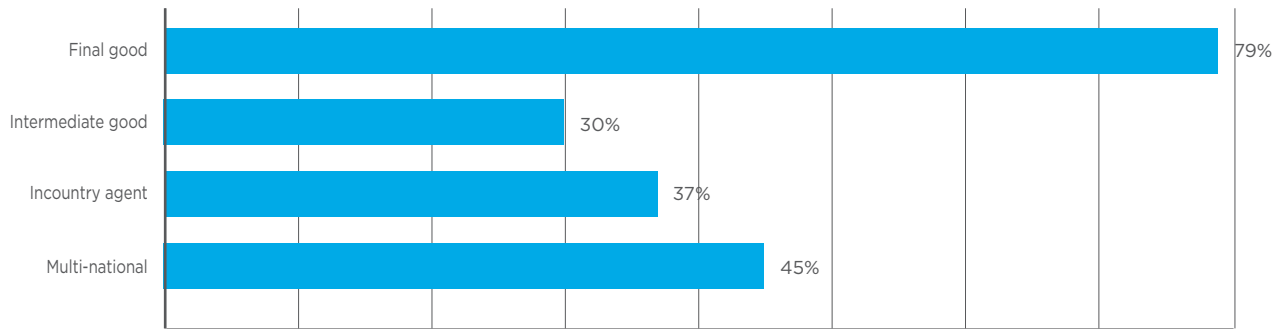
**Fig. 2.5 Distribution channels - manufacturing sector**

**Multi-channel distribution on goods and services – Focus on manufacturing sector**

Australian manufacturing firms produce both final and intermediate goods for the export market. Out of the total 941 firms who are involved in international business activity, 29% (n=274) are manufacturers who are exporting. Approximately, 79% of the manufacturing sector respondents expressed the importance of exporting final goods directly to the customer for generating international revenue and 30% classed exporting intermediate goods as important. The production of intermediate goods exported to overseas markets provides an indicator of the contribution Australian firms make to global value chains. Australia’s competitive advantage lies in a number of areas including the manufacturing of parts and components for aircrafts and associated equipment, earth moving and mineral processing machines and specialised automotive parts. The Australian advantage in the manufacture of final goods exists in the manufacture of medical and surgical equipment, light aircraft, measuring and scientific equipment and instruments for chemical analysis. This highlights that Australian firms make a significant contribution to technological capabilities and high-end research and development (R&D) in the global value chain.

Additionally, 37% of the manufacturing sector who are exporting regarded using the services of an export agent to distribute goods and services as important and 45% viewed distribution via a multi-national enterprise as important.

**Fig. 2.5 Importance of manufacturing distribution channels**

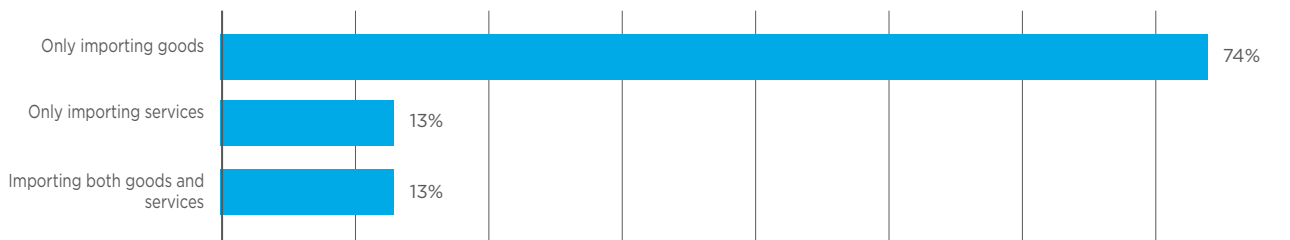


Source: AIBS 2017, Questions 6. Note: n=274.

**2.1.2 | Nature of importing activities**

Of the 48% (n=447) of organisations who are involved in importing activity, 74% of these are involved in importing goods ‘only’, whilst 13% import services only and 13% import both goods and services.

**Fig. 2.6 Importing activity**

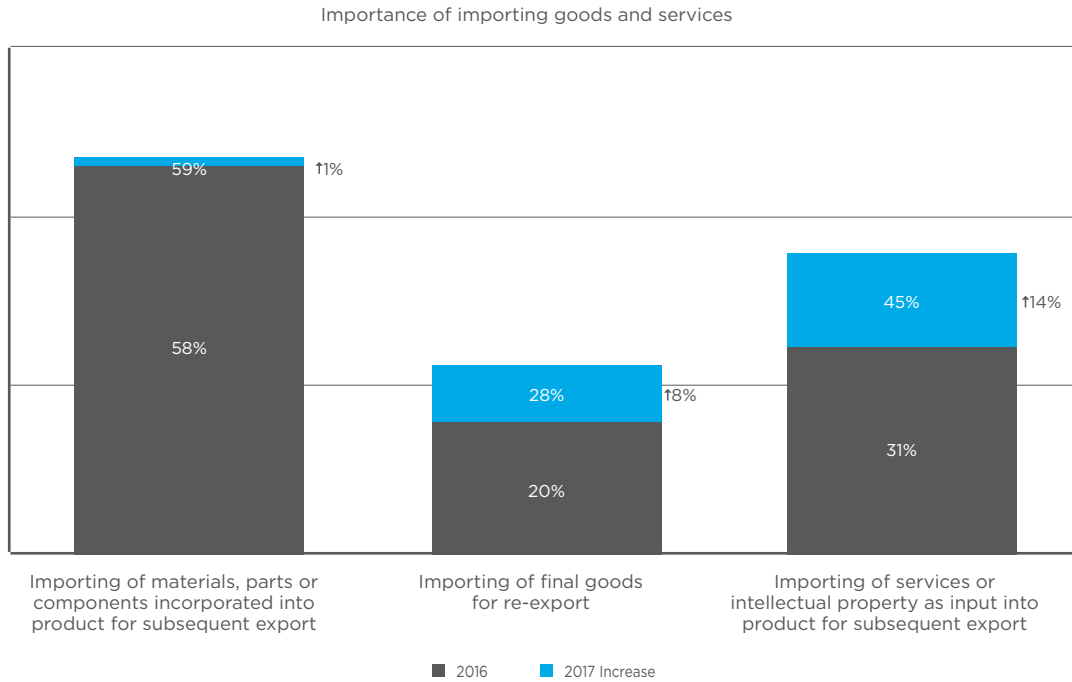


Source: AIBS 2017, Question 5. Note: n=447.

Of those companies that import goods from overseas for re-exporting, 59% (58% in AIBS 2016) rank the importing of materials, parts or components into products for subsequent export as important to their business.

On importing of services, 45% (31% in AIBS 2016) indicated that importing services or intellectual property as an input into production for subsequent export is important and importing of final goods for re-export is important for 28% of organisations, but less so than the other two forms of importing goods and services.

**Fig. 2.7 Distribution of importing activities**

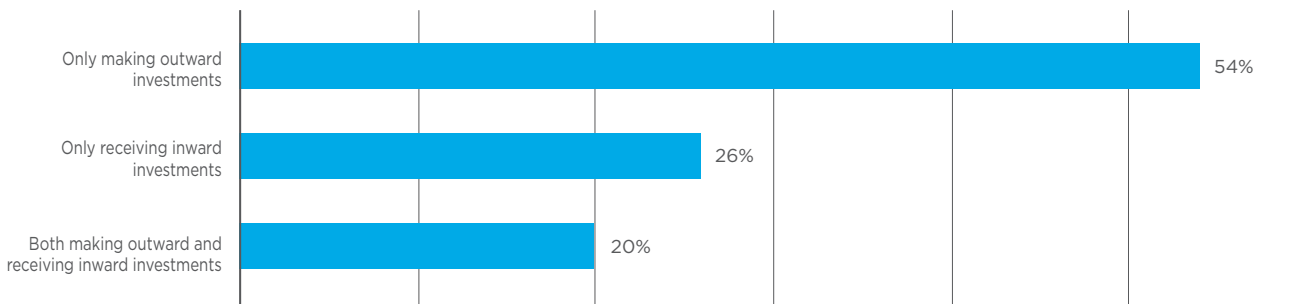


Source: AIBS 2017, Questions 8 and 9, AIBS 2016 report. Note Question 8, n=391; Question 9, n=116, Level of importance includes very important and essential, 2016 organisational sample type and size may differ to 2017.

### 2.1.3 | Inward and outward investment

Respondents were asked about outward investments into new or existing businesses or inward investments into their company by a foreign investor. Of the 19% (n=177) of organisations who are involved in investment activity, approximately 54% of organisations indicated that they make outwards investments only, whilst 26% receive inward investments and 20% are involved in both inward and outward investment activity.

**Fig. 2.8 Distribution of investment activities**



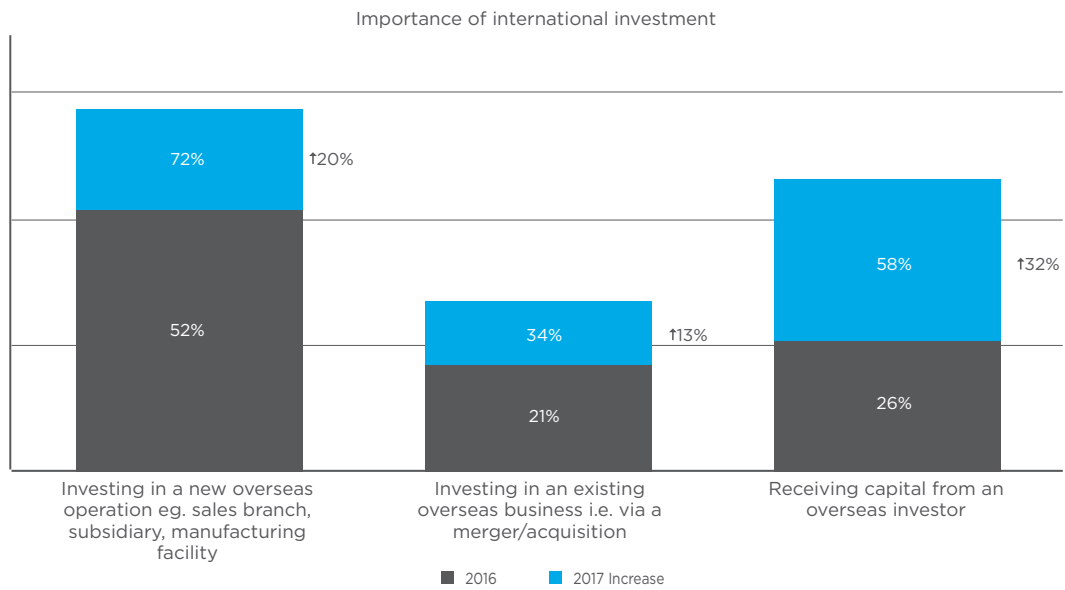
Source: AIBS 2017, Question 5. Note: n=177.

Of those organisations that are exporting, 14% are making outwards investments. These findings suggest that organisations pursuing market growth strategies overseas depend on securing investments abroad as a leverage point to lift their sales.

Of the 131 respondents receiving inward investments into their business by a foreign investor, 58% considered receiving capital from an overseas investor as important for generating international revenue compared to 26% in 2016.

Approximately, 72% of respondents investing in new overseas operations including sales branches, manufacturing facilities etc., rated this outward investment as important for generating international revenue compared to 52% for 2016. Investing in an existing overseas business via a merger or acquisition was also rated as important to their business by 34% of respondents.

**Fig. 2.9 Importance of investment activity in generating international revenue**



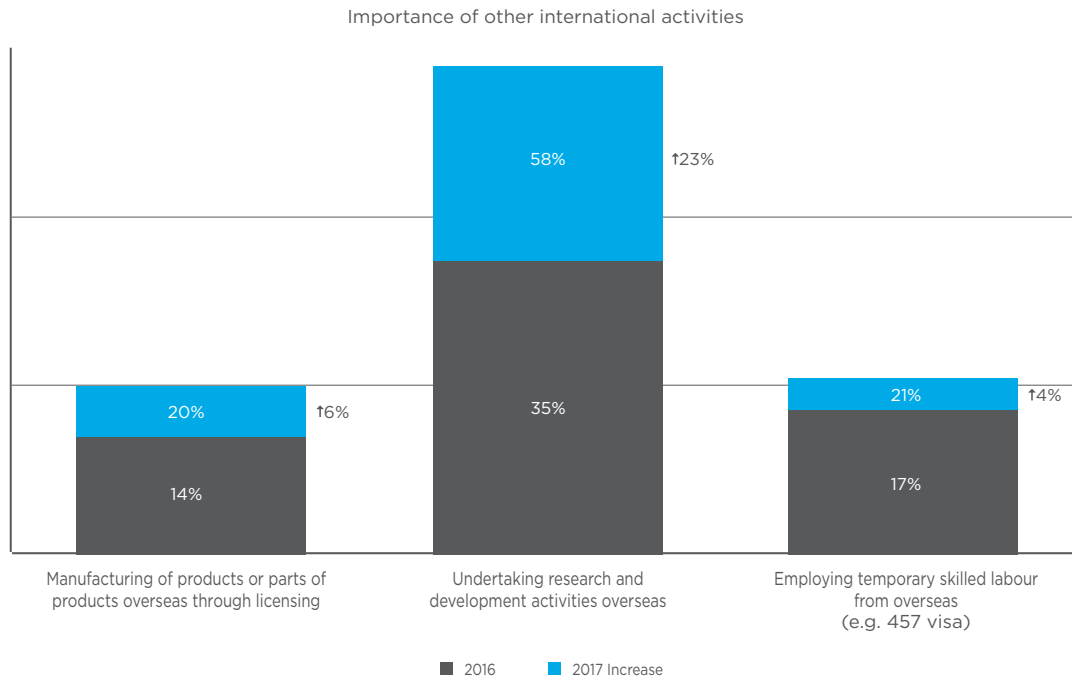
Source: AIBS 2017, Questions 10-12. Note: Question 10, n=131; Question 11, n=81. Level of importance includes very important and essential; 2016 data from AIBS 2016 report. 2016 organisational sample type and size may differ to 2017.



### 2.1.4 | Other international activity

A total of 23% of survey respondents indicated they were involved in other international activities. By far the largest of these activities was research and development activities overseas rated as important by 58% of respondents. Since the last AIBS survey in 2016, investment and R&D has become more important for supporting international business activities.

**Fig. 2.10 Importance of other international activity**



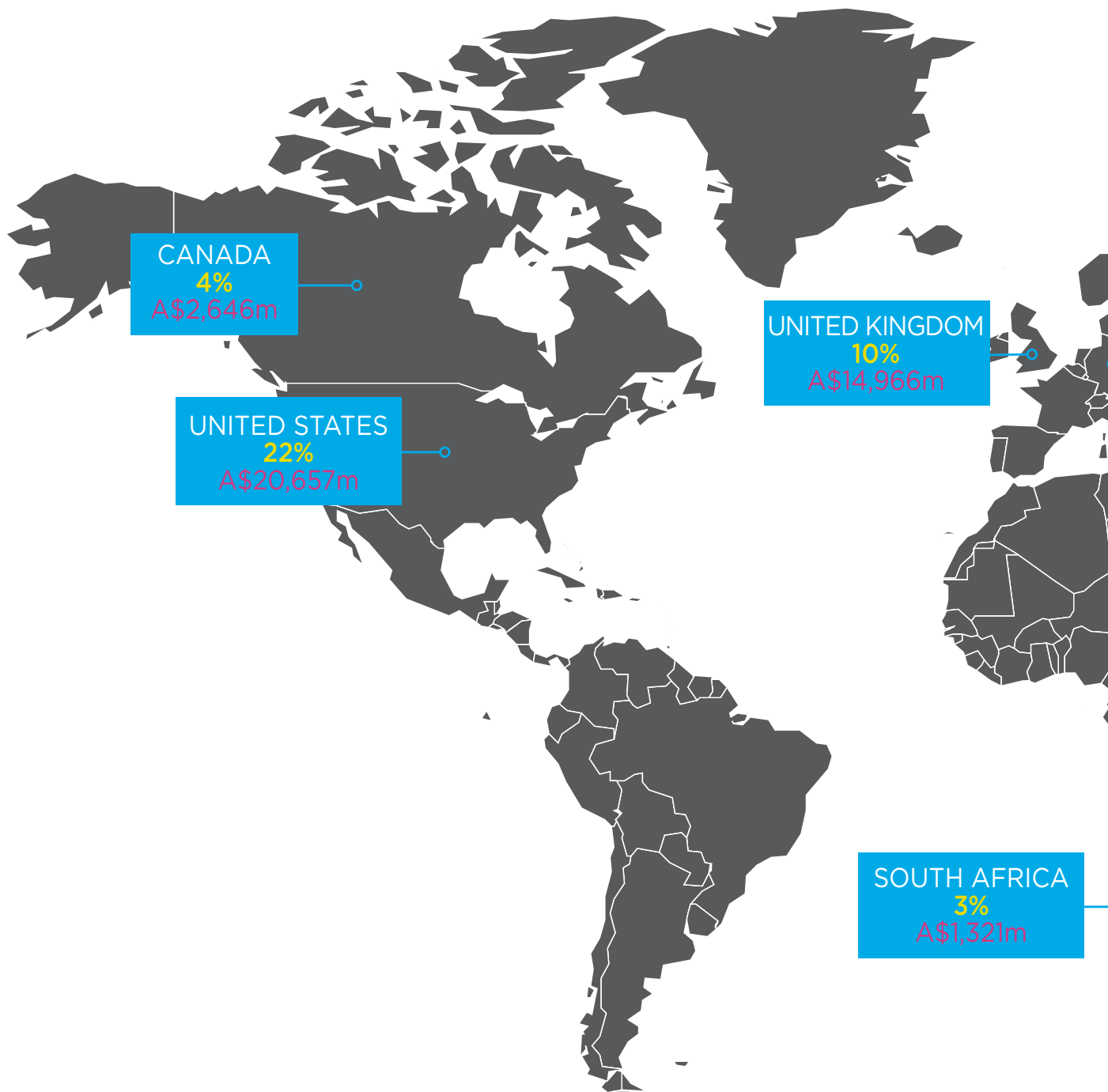
Source: AIBS 2017, Question 12. Note: Question 12, n=217. Level of importance includes very important and essential. 2016 organisational sample type and size may differ to 2017.



## 2.2 | International revenue from international activity

China (23%) and the United States (22%) were the most important individual top two markets

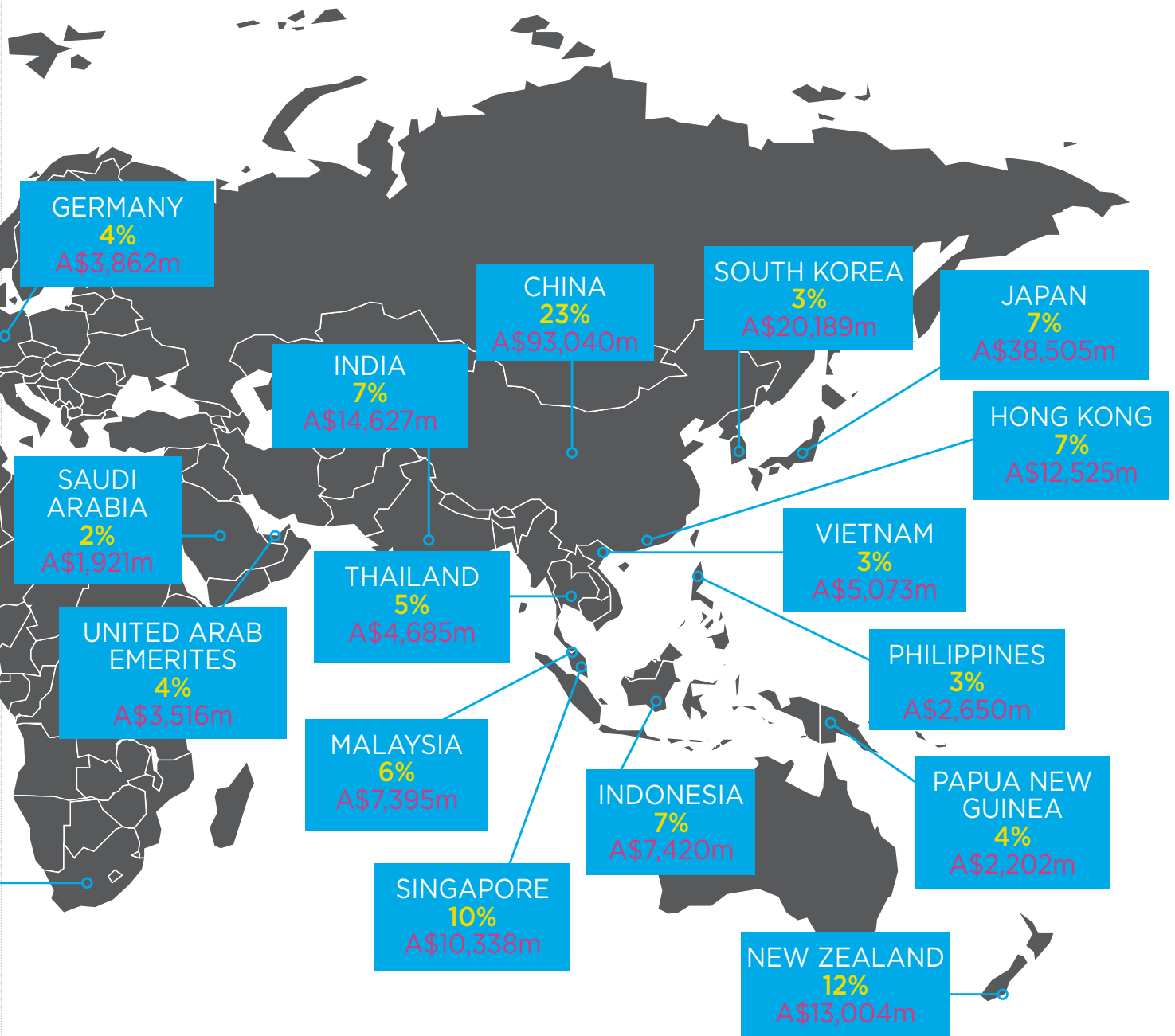
Fig. 2.11 Share of AIBS respondents identifying the market as a top revenue source





for AIBS respondents, followed by New Zealand (12%), Singapore (10%) and the United Kingdom (10%).

Source (%) and dollar value of total Australian exports to the market (\$m)



Source: AIBS 2017, Questions 21, 23-25. Note: n=will be 941 for top market, and another figure if top 2 markets is shown. Regions identified <http://dfat.gov.au/geo/pages/countries-and-regions.aspx> and Australia's trade in goods and services (\$Am) 2016 <http://dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2016.aspx>.

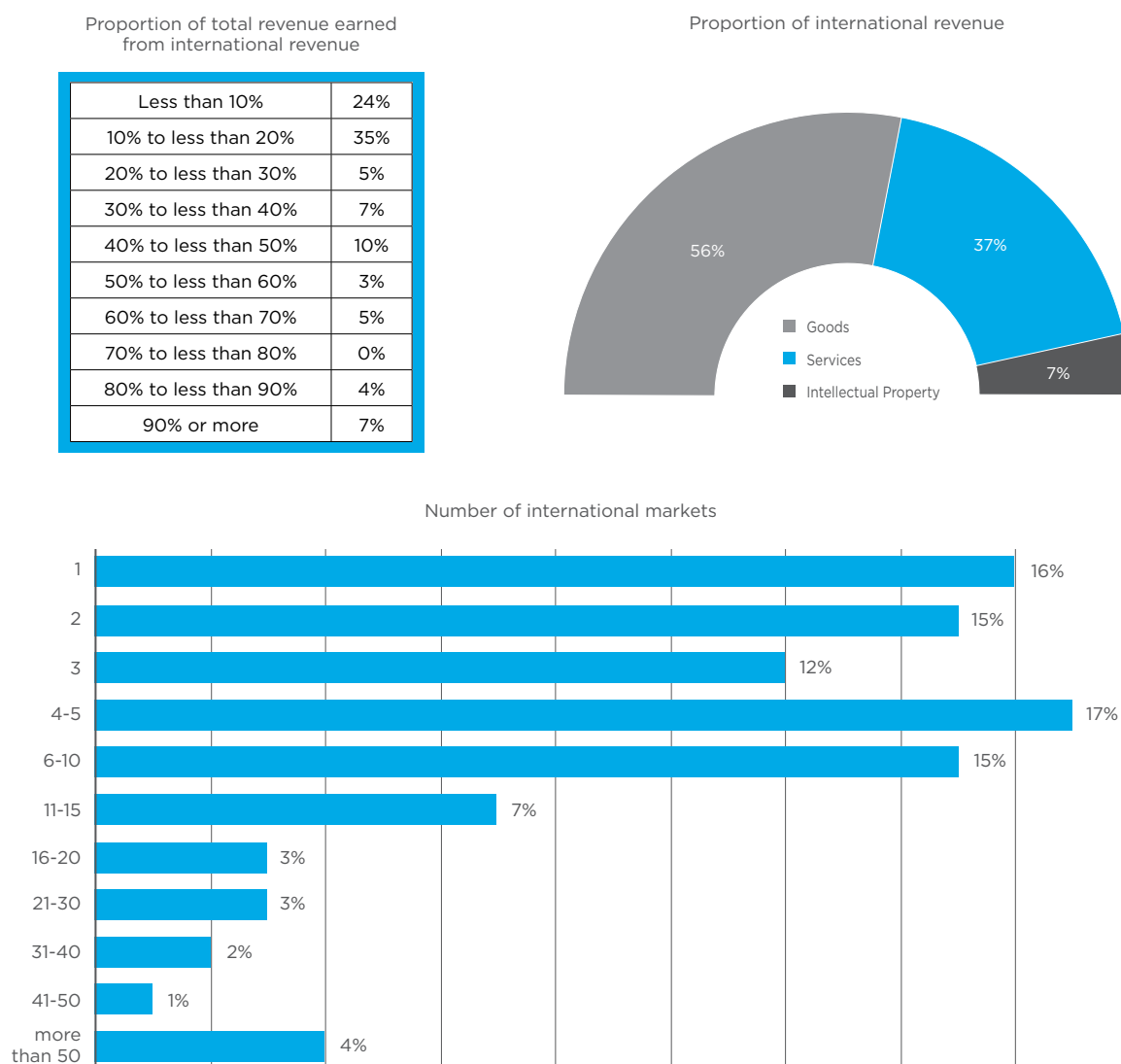
Additionally, AIBS 2017 highlights that by combining the ASEAN region countries of Brunei, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, Laos, Myanmar and Vietnam, these markets account for 29% of respondent's top two international revenues (based on top two markets) earned, exceeding the share of firms earning their highest revenues from China and the US respectively.

81% of respondents highlighted that they earn less than half of their total revenue from international activities, whilst 19% earn the majority (over 50%) of their total revenue from international revenue.

The number of international markets from which respondents have earned international revenue varies considerably. For example, the majority of respondents (60%) reported earning international revenue from five countries or fewer, while 15% reported between 6 to 10 countries, and 20% were earning revenue from more than 10 countries. Compared to AIBS 2016, companies trading with more than 10 countries rose by 11%.

International revenue is generated from either the exporting of goods, services or intellectual property (IP). On average, organisations earn 56% of international revenue from goods sales, 37% of international revenue from services sales and 7% from IP (to be discussed further in Section 4).

**Fig. 2.12 Number of international markets generating international revenue**



Source: AIBS 2017. Note: Question 21/56, n=766 (don't know and invalid responses not calculated); Question 13, n=891 (50 don't know and invalid responses nor calculated); Question 22, n=941.)



## 2.2.1 | International revenue by country

Survey respondents highlighted the concentration of activity within particular countries that make up their highest international revenue sources. For example, 43% of respondents earning their highest revenue from China, indicated that they earn 50% or more of their international revenue from China. Almost one-in-five of these earn 100% of their revenue with China. A total of 42% of organisations earning their highest revenues in the US earn over 50% of international revenue from the US, 41% from New Zealand, 21% from Singapore and 23% from Japan.

While there are risks involved in relying on a single market, the positives are allowing a company to invest more of its resources into attracting a particular type of customer with a niche value proposition.

**Fig. 2.13 International revenue by country**

Top 20 plus focused countries	1-25%	26-50%	51-75%	75-99%	100%
China	27%	31%	13%	12%	18%
United States	23%	34%	16%	16%	10%
New Zealand	24%	35%	14%	16%	11%
United Kingdom	42%	36%	5%	9%	7%
Singapore	43%	36%	9%	9%	3%
Hong Kong	36%	33%	7%	9%	16%
Indonesia	40%	39%	9%	4%	9%
Japan	47%	30%	12%	9%	2%
India	43%	30%	8%	13%	6%
Malaysia	41%	28%	15%	7%	9%

*Source: AIBS 2017, Questions 23-25. Note: China, n=216; United States, n=206; New Zealand, n=111; United Kingdom, n=96; Singapore, n=90; Hong Kong, n=70; Indonesia, n=70; Japan, n=66; India, n=63, Malaysia, n=54. All countries with <50 sample size have not been included.*

## 2.2.2 | International revenue by industry

Analysis of international revenue by industry is possible through AIBS 2017. When analysed by industry sector, 43% of the agriculture, forestry and fishing sector identified China as a top market for international revenue, which is the largest single proportion by any of the AIBS 2017 industry sectors. At a firm level, China is also an important market for the education and training sector at 39%. Within the ASEAN countries, both Singapore and Indonesia feature as important, with Singapore featuring as important for the agriculture, forestry and fishing, education and training, and the manufacturing sector. Indonesia is an important earner for the professional, scientific and technical services sector and other services.

Fig. 2.14 Highest revenue markets at a firm level by industry



AGRICULTURE, FORESTRY & FISHING

CHINA	43%
JAPAN	14%
UNITED STATES	12%
SINGAPORE	10%



EDUCATION & TRAINING

CHINA	39%
INDIA	19%
HONG KONG	12%
SINGAPORE	9%



MANUFACTURING

UNITED STATES	25%
NEW ZEALAND	19%
CHINA	18%
SINGAPORE	13%



PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES

UNITED STATES	21%
UNITED KINGDOM	14%
CHINA	13%
INDONESIA	10%



OTHER SERVICES

CHINA	25%
UNITED STATES	23%
UNITED KINGDOM	15%
INDONESIA	13%



WHOLESALE TRADE

CHINA	33%
UNITED STATES	17%
NEW ZEALAND	16%
JAPAN	11%

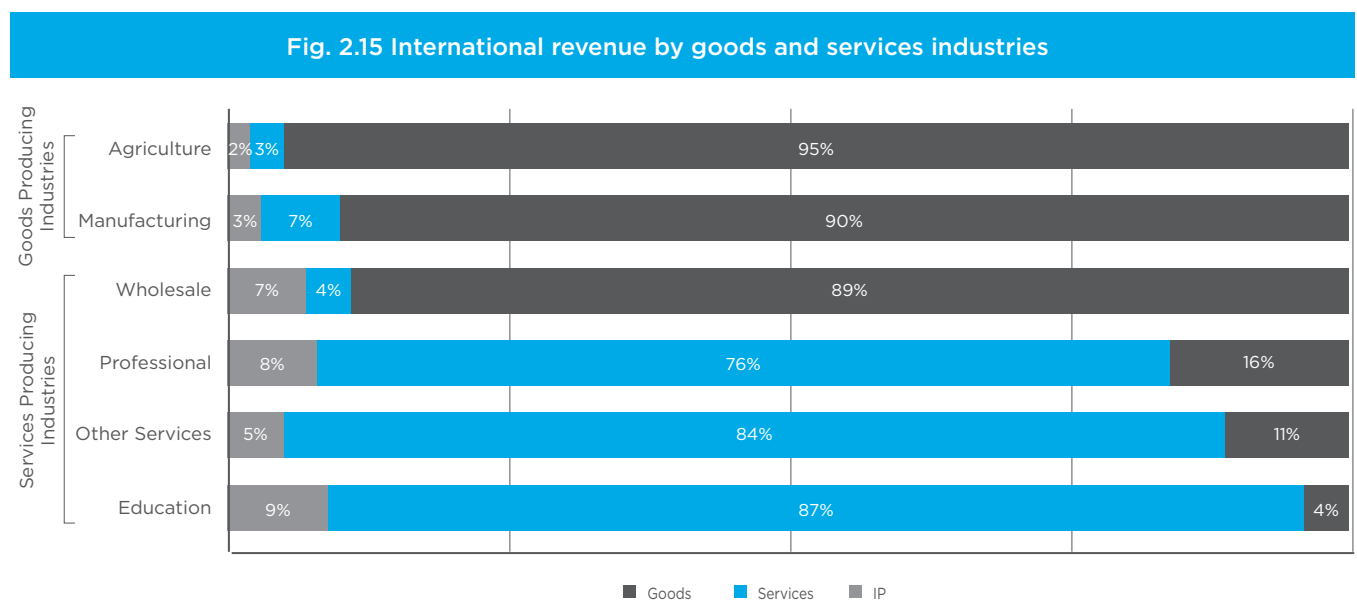
Source: AIBS 2017, Questions 52 and 23 and 24. Note: Ag, n=83; Edu, n=85; Manu, n=284; Prof, n=124, Other Services, n=80; Wholesale, n=83.

These results were then grouped into goods producing industries (this is producing tangible goods for export) and service producing industries (delivering intangibles<sup>15</sup>). (Service industries are defined as all industries other than goods-producing industries (agriculture, forestry and fishing; mining; manufacturing; electricity, gas, water and waste services; and construction)).<sup>15</sup>

The top goods producing industries are agriculture, forestry and fishing, and manufacturing, with both sectors earning over 90% of their international revenue from goods exports. The manufacturing sector also generates 7% of its international revenue from services and 3% from the creation of IP.

The wholesale sector as a service industry generates 89% of its international revenue from exporting goods and only 4% from services exports.

The education and training sector is the top service producing sector for Australia, generating 87% of its international revenue from services exports and 9% from the creation of IP.



Source: AIBS 2017, Question 52 and Q13 - average proportion of IR made up of G, S or IP. Note: Manufacturing, n=269, Agriculture, n=72, Professional, n=110, Wholesale, n=74, Education, n= 72, Other Services, n=71. Don't know category not included.

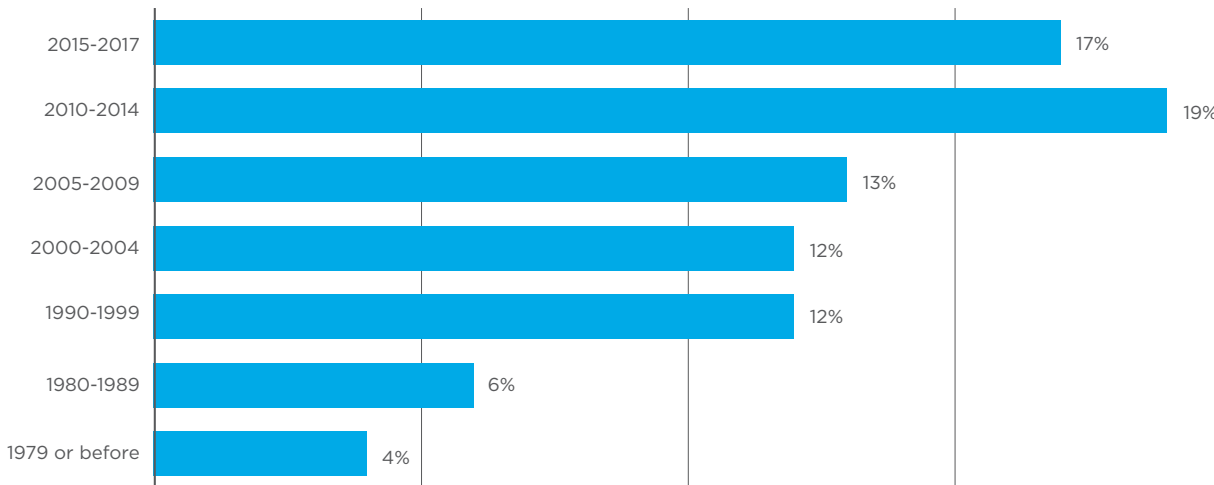
Manufacturing is now a diverse sector, not solely positioned as 'production on the factory floor', but a sector that includes increasing service-related activities such as operational maintenance, contract management and consulting, and it uses more service outputs. Similarly, the Australian agricultural sector is heavily involved in the development of agri-tech and other related technologies. The perception of traditional models of goods producing sectors needs to shift in line with more agile and flexible movement.

It should be noted that the tourism industry is a key service-exporting sector. However, due to the structure of the Australian and New Zealand Standard Industry Classification codes, the sector classifications are fragmented and the industry is not represented as a distinct industry sector.

### 2.2.3 | Born global companies

Almost half of survey respondents earning international revenue, after 2005. Approximately 35% began earning international revenue between 2010 and 2017 and 13% began earning international revenue, between 2005 and 2009.

Fig. 2.16 Date earning international revenue



Source: AIBS 2017, Question 20. Note: n=773, don't know category not included.

Organisations are becoming internationally active much earlier in their operational lifecycle than in the past, supporting the 'born global' theory of trade. Traditional international business models assume that firms grow in their domestic markets before they start to export extensively. However, evidence from the survey suggests that small, young firms, endowed with very limited resources, begin to export very early - these are the growing number of 'born-global' companies.

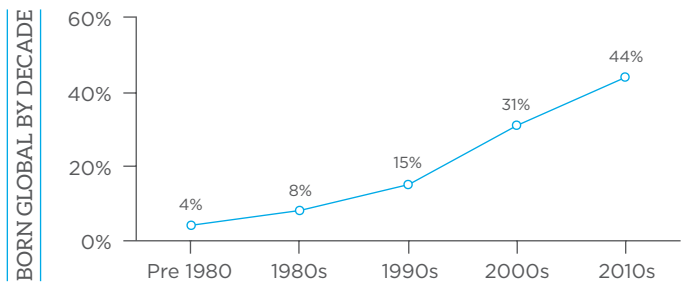
For the purpose of AIBS 2017, a born global organisation is a firm who has deliberately ventured overseas soon after their establishment (within two years)<sup>16</sup>. Examples of well-known born global firms include Viator (destination services), Wiggles (creative industries), MYOB (accounting software), TNA Pty Ltd (packaging solutions), BEELINE (global positioning systems technology for hands-free Steering Assist™ in agricultural vehicles) and Cochlear (medical devices). These are all Australian start-up firms that were born global through focusing on overseas markets rather than just domestic<sup>17</sup>. The greater proportion of companies today who are born global, suggest this is facilitated by ease of trade and technology.

Fig. 2.17 Born global organisations



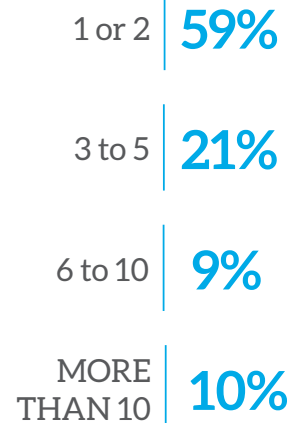
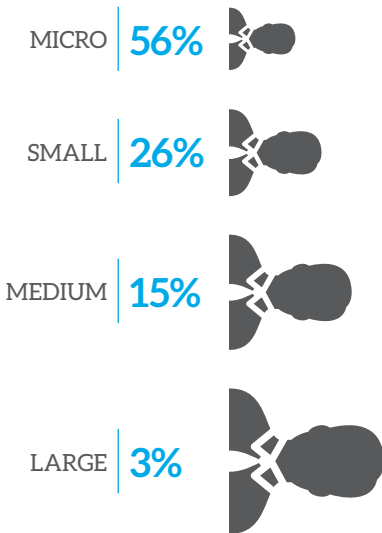
**35%**

OF THE SAMPLE ARE BORN GLOBAL COMPANIES

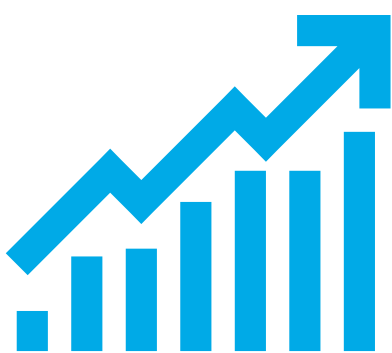


## BORN GLOBAL COMPANIES STARTING OPERATION IN 2010-2017

### ORGANISATION SIZE



### NUMBER OF MARKETS



### TOP INDUSTRIES



**6% EARN ALL TOTAL REVENUE FROM INTERNATIONAL**, while **58%** are earning **10% OR LESS** of their revenue off international revenue.

**54%** are earning less than \$1 million in total revenue

Source: AIBS 2017, Questions 20, 21, 22, 52, 55 and 56. Note: n=941 for overall, 2010-2017 (n=145); classed as born global if they began trading internationally within two years of beginning their operation.



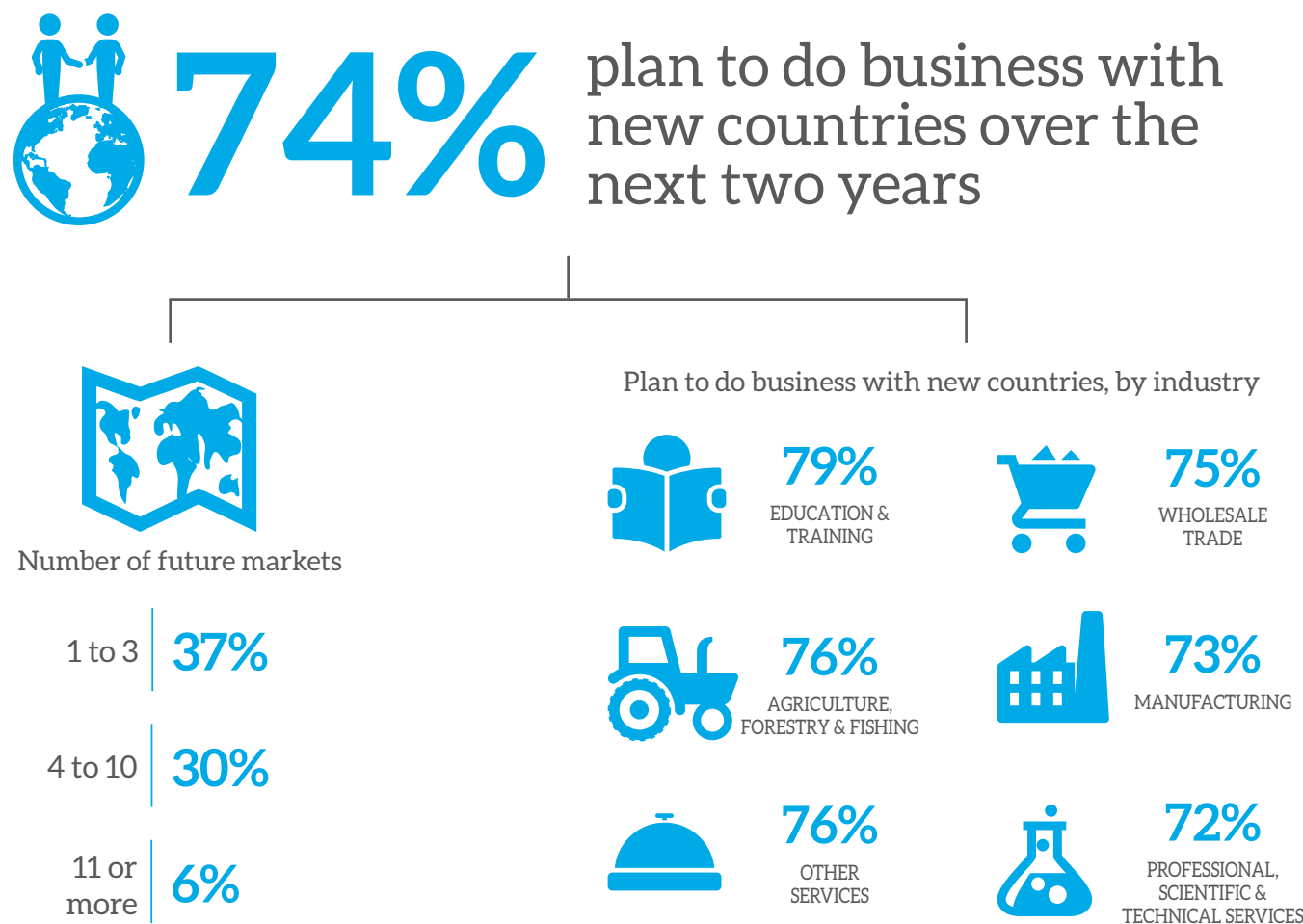
Born global survey respondents total 35% of the sample (n=941). When this figure is distributed across several decades, findings indicate that the highest proportion of born global companies operated in the 2010s, that is to say that they earned international revenue within the first two years of operation. Born global respondents are found across the various industry sectors but were more prominent in manufacturing, professional services and wholesale trade sectors. Most born global organisations are micro-sized organisations employing between 0 and 4 people and that 58% of these earn less than A\$1million in total revenue.

### 2.3 | International trade ambitions

Just under three-quarters (74%) of survey respondents indicated that their company was planning to do business in new countries in the next two years. Of these, 37% are aiming for 1 to 3 new markets, 30% for 4 to 10 new markets and 6% for 11 or more new markets.

When comparing the larger industry sectors who are planning to enter new markets, each sector is fairly equal in its distribution, with the highest (79%) of the education and training sector planning on entering new markets and the lowest (72%) of the professional, scientific and technical services sector planning to enter new markets.

**Fig. 2.18 Trade ambitions**



Source: AIBS 2017. Notes: Question 50 and 52, n=914 overall; by industry: Education, n=85; Agriculture, n=83; Other Services, n=80; Wholesale, n=83; Manufacturing, n=284; Professional, n=124. Don't know category not included.



Australia's internationally active businesses are not only engaged in exports and imports of goods and services, but are also active in outward investment and receiving investments. Undertaking research and development overseas is a common activity for Australian businesses and with support, these investments can be transformed into niche commercial activity, contributing to the growth of international business partnerships and collaboration. However, whilst this section analyses existing international business activity, future markets and doing business in new and multiple countries are also in the sights of Australian businesses, contributing towards the future growth of Australia's international economy.



# 3

Australia's international  
business activity in  
focus



# What the survey says

## Access to additional finance

- ▶ 58% did not apply for any finance, 35% did
- ▶ Overall 27% of large firms secured additional finance (32% applied) and 18% of small secured finance (35% applied)
- ▶ 60% of those applying for additional finance were successful, 40% unsuccessful
- ▶ Funding sources from owners/family/friends, overseas investor and retained earnings important
- ▶ Reasons that companies cited unsuccessful access to additional finance were due to inadequate cash flow and high security requirements

## Australia's FTA activity

- ▶ 89% are exporting goods and/or services to FTA markets
- ▶ 38% are exporting both goods and services to FTA markets
- ▶ 23% are exporting only goods to FTA markets
- ▶ 28% are exporting only services to FTA markets

## FTA export activity by industry

- ▶ Largest share of exporters of goods and services to FTA markets in manufacturing sector, followed by professional, scientific and technical services
- ▶ ASEAN is a top FTA market for all sectors

## FTA 'goods' export activity

- ▶ ASEAN region is most common goods export market, 40%, followed by New Zealand, US and China
- ▶ China was the biggest FTA market for agriculture, forestry and fishing (goods), and wholesale trade, New Zealand for manufactured goods, the US for professional services and Malaysia for education and training services

## Benefits of FTAs

- ▶ 40% respondents exporting to China and 31% to Thailand said FTAs benefited their export sales
- ▶ 13% gained additional FTA benefits including 'recognised Australian standards' and 'allowed organisation to make sales not previously permitted'

## FTA documentation requirements

- ▶ 64% of all goods exporters to FTA markets use a trade services provider or third party to handle FTA export paperwork
- ▶ Exporters to Thailand and South Korea reported the highest shares of goods exporters providing FTA documentation with 38% of respondents selling to Thailand providing FTA documentation to claim a preferential tariff, and 35% of those selling to South Korea

## Negotiating rules of origin

- ▶ 63% of respondents used Certificates of Origin (CoOs) to verify Australian products, mainly within the sectors of agriculture, fisheries and forestry (79%) manufacturing (68%) and wholesale trade (63%). Larger organisations are more likely to use CoOs than smaller organisations
- ▶ 35% of respondents did not use CoOs and 26% of these highlighted this was due to a lack of understanding of the benefits
- ▶ An authorised body is the main source for issuing certificates, with over 40% of those using CoOs using an authorised body to certify electronic and paper certificates. 28% of respondents using CoOs use self-certification processes
- ▶ For those organisations that obtain CoOs through an 'authorised body', approximately 45% between A\$0 and A\$999 and 42% of respondents spend between A\$1000 and A\$9999

### FTA 'Services' activity

- ▶ Most popular FTA service export markets are the ASEAN region, China, US, Singapore and New Zealand
- ▶ Mode 1, servicing overseas markets via call centres etc. and Mode 4 by travelling overseas are most significant
- ▶ 9% of those that travel overseas faced restrictions

### Barriers to commencing international trade

- ▶ Of those companies that do not engage in international activity, 26% report this is due to a lack of international leads and 22% are uncertain how to begin
- ▶ 46% suggested a database of potential buyers/suppliers would help start, 41% suggested grants, 34% mentoring

### Key trade factors influencing international revenue

- ▶ Significant factors correlating to higher export intensity include: more years engaged in international trade, smaller organisations, in larger markets, and the using of FTAs.





## Introduction

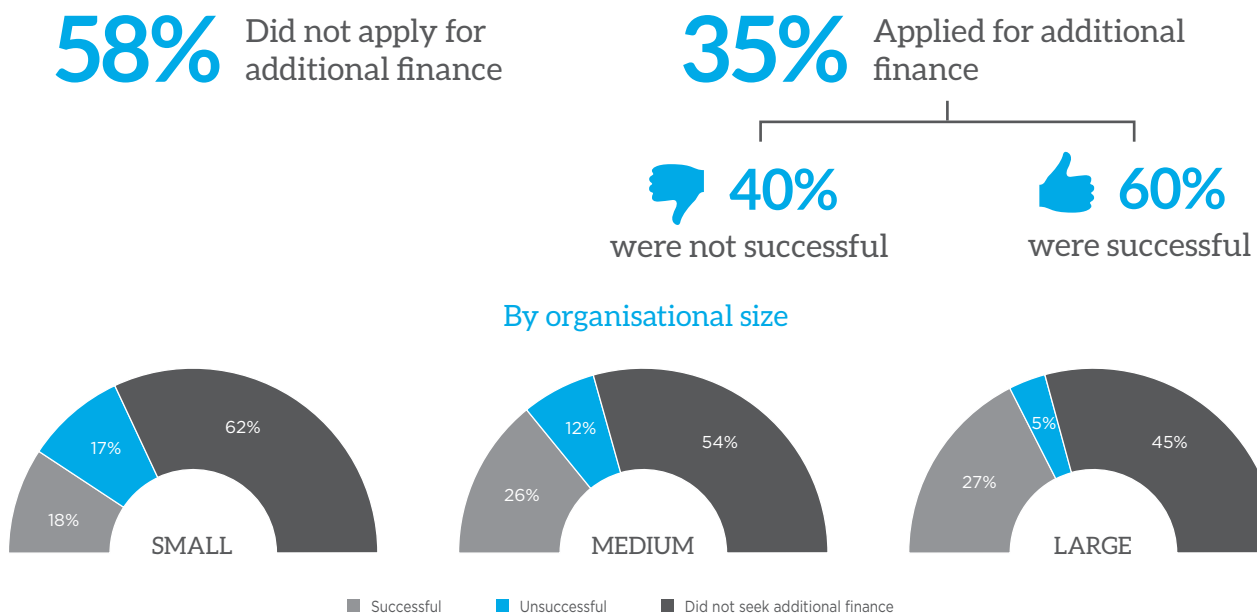
International trade is a key driver of jobs growth, productivity, innovation and long-term economic growth. Hence, developing an understanding of the drivers of trade is critical in developing Australia's long-term domestic economic policy settings. Section 3 seeks to identify some of these drivers through closer analysis of AIBS 2017 responses regarding:

- ▶ Access to finance,
- ▶ Australia's free trade agreement (FTA) activity and processes,
- ▶ Barriers experienced by firms who are not currently undertaking international business activity, and
- ▶ Trade factors influencing international revenue.

### 3.1 | Access to finance

Survey respondents reported accessing a range of different funding sources to finance their export operations. Access to additional finance plays a critical role in the support of international trade. Whilst a total of 58% of respondents did not apply for any finance to support international business activity, 35% of companies did seek additional finance. Approximately 60% of these indicated they were successful in obtaining finance while the remaining 40% indicated they were unsuccessful. Of the large businesses that applied for additional finance, 84% of them were successful. The proposition was 51% for small businesses. Smaller organisations are seeking overseas finance because they find it difficult to access funding from within Australia as lenders here are generally risk averse to lending to small organisations and see these firms having poor cash-flow systems. Access to funding for global expansion of Australian SMEs supports growth of both domestic and international market share, provides economies of scale, develops skills and capabilities for improvement in business management, and provides increased resilience<sup>10</sup>.

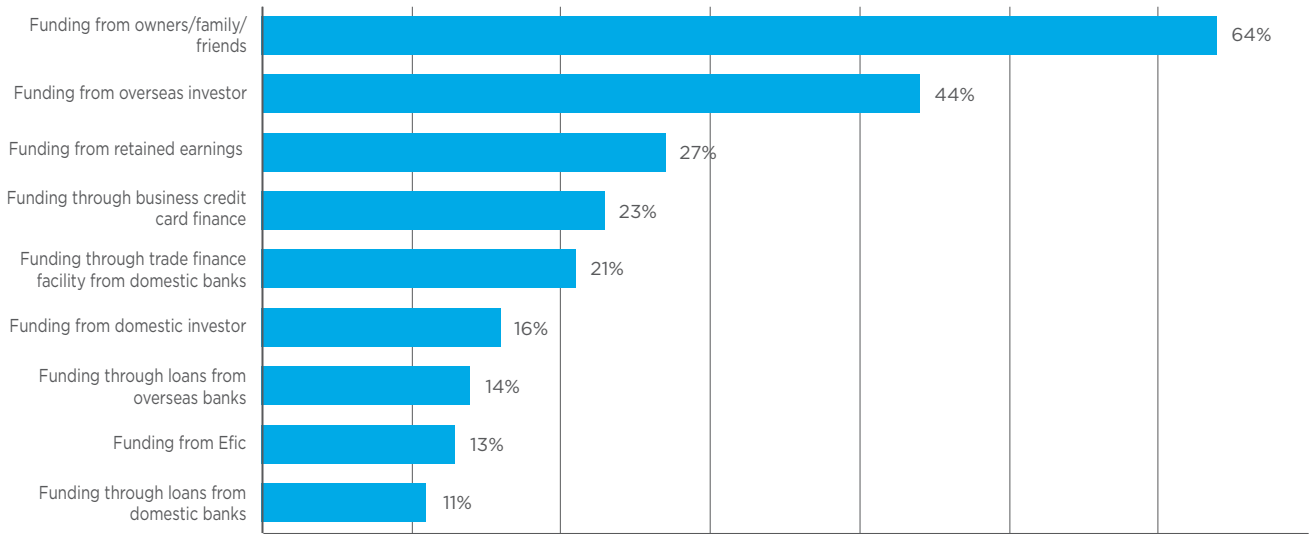
Fig. 3.1 Accessing additional finance



Source: AIBS 2017, Questions 44 Note: n=941, by organisation employee size, small (0 - 19), n=566, medium (20-199), n=250, large (200 or more), n=113; 7% who selected 'don't know' not included in figure

The importance of additional finance options for financing export operations to service overseas markets was canvassed across the survey participant sample. A total of 64% of respondents preferred that the main source of finance is through owners/family/friends rather than grants or financial institutions. Approximately 44% of respondents considered funding from an overseas investor as important, while 27% of respondents considered financing activities using retaining earnings as important. 21% and 11% of respondents found trade finance and loans (respectively) from domestic banks important, loans from an overseas bank was important for 14% and funding from Efic was important for 13%.

**Fig. 3.2 Importance of additional finance option**

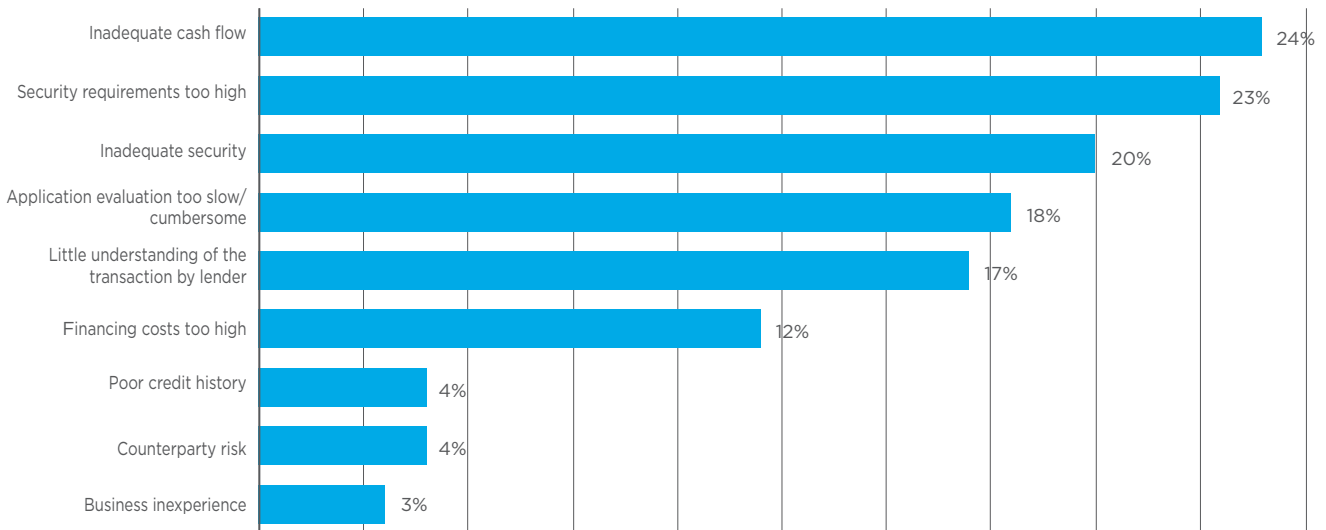


Source: AIBS 2017 Question 43. Note: N=941; importance included very important and essential.

Of those organisations that were unsuccessful in gaining additional finance, the reasons these respondents gave included having an inadequate cash flow (24%), the requirements for loan security were too high (23%) and being unable to provide the level of loan security arrangements needed (20%). These findings indicate the limited level of risk tolerance of lenders and financiers.

When asked about other potential reasons, a total of 18% perceived the application process to be too time consuming and cumbersome, arguably associated with their current operational status, lack of time and resources, or the timing of the application opening and closing dates.

**Fig. 3.3 Accessing additional finance**



Source: AIBS 2017, Question 45, Notes: n=131

For those respondents that did not seek additional finance, 68% highlighted that they did not need it, 8% expressed concerns that they did not seek finance based on past experiences and 4% suggested a lack of business experience prevented them from seeking additional finance.

**Fig. 3.4 Reasons for not accessing additional finance**



*Source: AIBS 2017, Question 46, Notes: n=543, 'other' and 'none of these' categories not included in figure*

### Finance made easy

Of those organisations that applied for additional finance, whether successful or not, the ease of sourcing finance was explored. Approximately 27% of those that applied highlighted that the process was the same for international and domestic business opportunities, 27% said it was easier to source finance for domestic business opportunities, whereas, 19% said it was much easier to source finance for international business opportunities.

**Fig. 3.5 Ease of sourcing additional Finance**



*Source: AIBS 2017, Question 47. Note: Answered by those who applied, successful or not - international versus domestic opportunities N=329.*

Overall, it is easier to source finance for domestic business opportunities than it is to source finance for international activity and whilst survey respondents representing smaller organisations highlight difficulties in sourcing finance, the difference is not significantly different when compared to a large organisation.

## 3.2 | Australia's free trade agreement (FTA) activity

An FTA is an international treaty which aims to remove barriers and facilitate stronger trade and commercial ties, contributing to increased economic integration between participating countries<sup>18</sup>. FTAs can cover entire regions (Regional Free Trade Agreements or RTAs), with multiple members or be bilateral between two economies<sup>18</sup>.

There is an expanding global network of FTAs, with Australia's current FTA policy aimed at maximising the economic benefits flowing to Australia from the negotiation of trade agreements<sup>18</sup>. Australia currently has nine bilateral FTAs, namely those with Thailand, Singapore, the US, Japan, China, Chile, South Korea, Malaysia and New Zealand.

The 10 countries of the ASEAN region include Indonesia, the Philippines, Cambodia, Vietnam, Malaysia, Thailand, Laos, Brunei, Singapore and Myanmar, and are included in the ASEAN-Australia-New Zealand FTA. All FTA markets combined account for 67% of Australia's total two-way international trade<sup>18</sup>.

Australia is engaged in several FTA, RTA and multilateral negotiations, which include:

- ▶ Australia-European Union Free Trade Agreement,
- ▶ Australia-Gulf Cooperation Council (GCC) FTA,
- ▶ Australia-Hong Kong Free Trade Agreement,
- ▶ Australia-India Comprehensive Economic Cooperation Agreement,
- ▶ Comprehensive and Progressive Agreements on Trans-Pacific Partnership
- ▶ Environmental Goods Negotiations,
- ▶ Indonesia-Australia Comprehensive Economic Partnership Agreement,
- ▶ Pacific Alliance Free Trade Agreement,
- ▶ Regional Comprehensive Economic Partnership, and
- ▶ Trade in Services Agreement,

There are many benefits of the FTA arrangements for Australia<sup>17</sup>. An FTA can:

- ▶ Foster freer trade flows and create stronger ties with global trading partners,
- ▶ Eliminate tariffs and address behind-the-border barriers that impede the flow of goods and services between parties,
- ▶ Encourage investment, enhance cooperation, address intellectual property, e-commerce and government procurement issues,
- ▶ Increase Australia's productivity and contribute to higher GDP growth by allowing domestic businesses access to cheaper inputs,
- ▶ Introduce new technologies and foster competition and innovation,
- ▶ Promote regional economic integration and build shared approaches to trade and investment, including adopting common Rules of Origin (RoO) and broader acceptance of product standards,
- ▶ Enhance the competitiveness of Australian exports in the international partner market and add to the attractiveness of Australia as an investment destination, and
- ▶ Deliver enhanced trading opportunities that contribute to the sustainable economic growth of less-developed economies.

However, despite ongoing facilitation and implementation of direct and regional FTA policy, barriers for international businesses in expanding international business activities continue to exist, for exporters<sup>18</sup>. Such complexities include:

- ▶ Cultural and social barriers, and
- ▶ Political and regulatory barriers such as tariffs and standards.

Shifting economic circumstances also influence Australia's relative international competitiveness and affects the ability to attract foreign direct investment (FDI) into Australia - thereby shaping the general operating environment for Australian businesses and institutions conducting international business activities. These issues will be explored later in this report.

### 3.2.1 | Overall goods and services to FTA markets

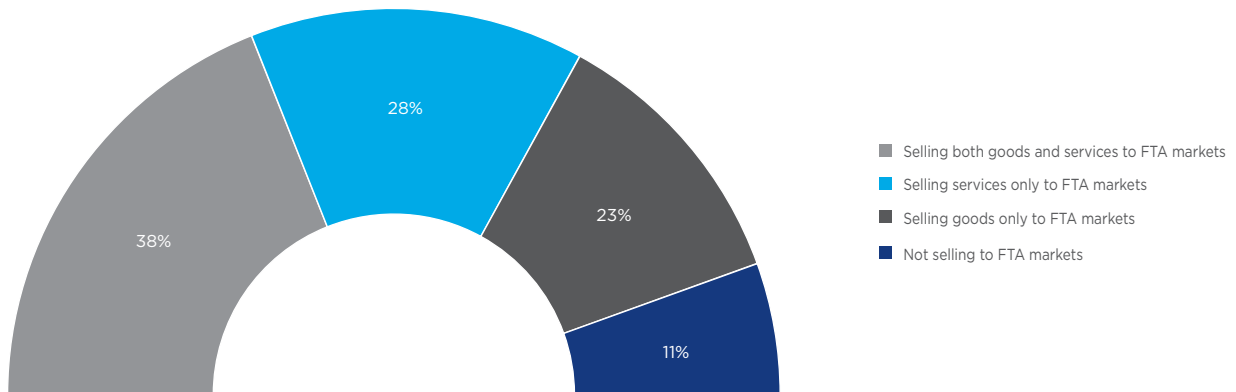
Australia has actively pursued FTAs for goods and services exports and these have resulted in favourable market access for Australian businesses involved in trading intermediate and/or final goods and services. While the FTAs have focussed primarily on agricultural and merchandise goods, the database of the General Agreement on Trade in Services (GATS) identifies Australia's agreements with Chile, Japan, Singapore and United States as including significant commitments for the services sector.

Approximately 89% of AIBS respondents (n=941) are exporting goods and/or services to FTA markets. From within the survey sample (n=941), 61% of respondents are exporting goods to FTA markets (either goods only, or a combination of goods and services) and 66% are exporting services (either services only, or a combination of services and goods).





**Fig. 3.6 Respondents undertaking export to FTA markets (% share)**



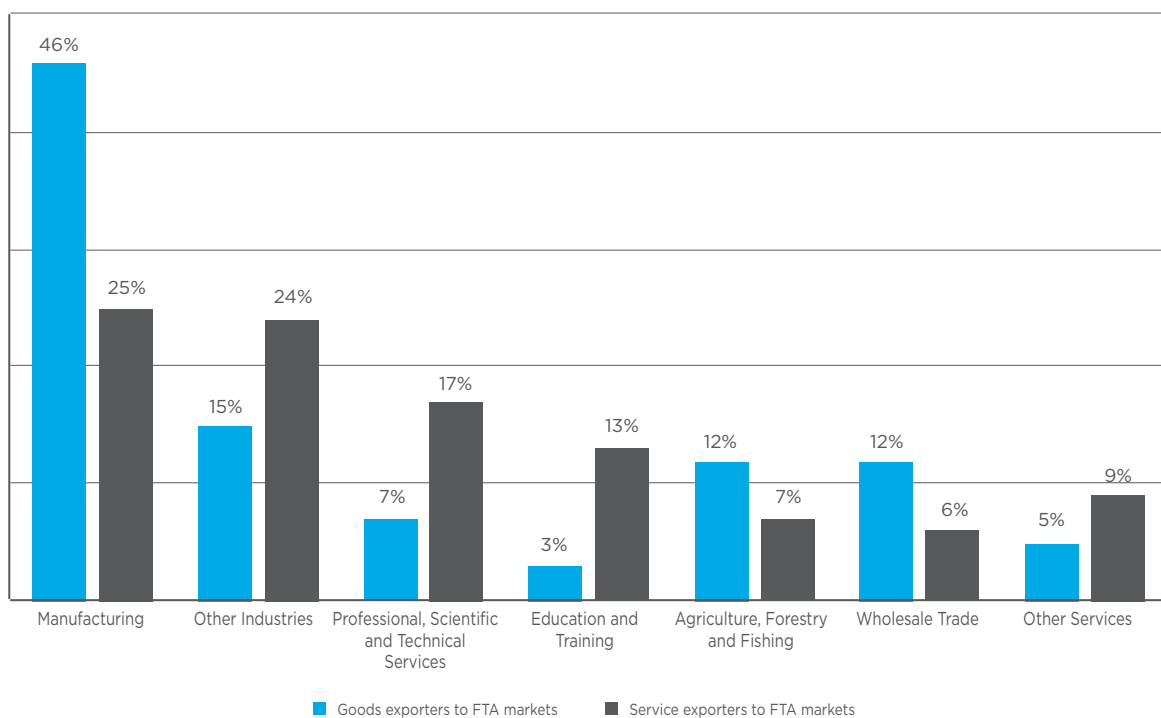
Source: AIBS 2017, Question Export activities to FTA markets - Q26 and Q36, Note: n=941.

By examining the trade-related factors (in section 3.4) that influence international revenue, survey respondents highlight that the greater proportion of countries that have an FTA with Australia, and that Australian organisations trade with, impacted positively on earnings from international trade.

### Exporting goods and/or services to FTA countries by industry sectors

AIBS 2017 enabled insights to be gained into individual industry’s share of all FTA goods and services export activity (Figure 3.7). For example, the industry with the largest share of exporters of goods to FTA markets is the manufacturing sector (46%). The manufacturing sector has the largest share of service exporters (25%) to FTA markets within the survey sample. The Professional, Scientific and Technical Services (17%) and Education and Training are important services exporters to FTA markets, whilst the Agriculture, Forestry and Fishing and Wholesale Trade are significant goods exporters to FTA markets.

**Fig. 3.7 Industry share of FTA exporters, by goods/services export %**

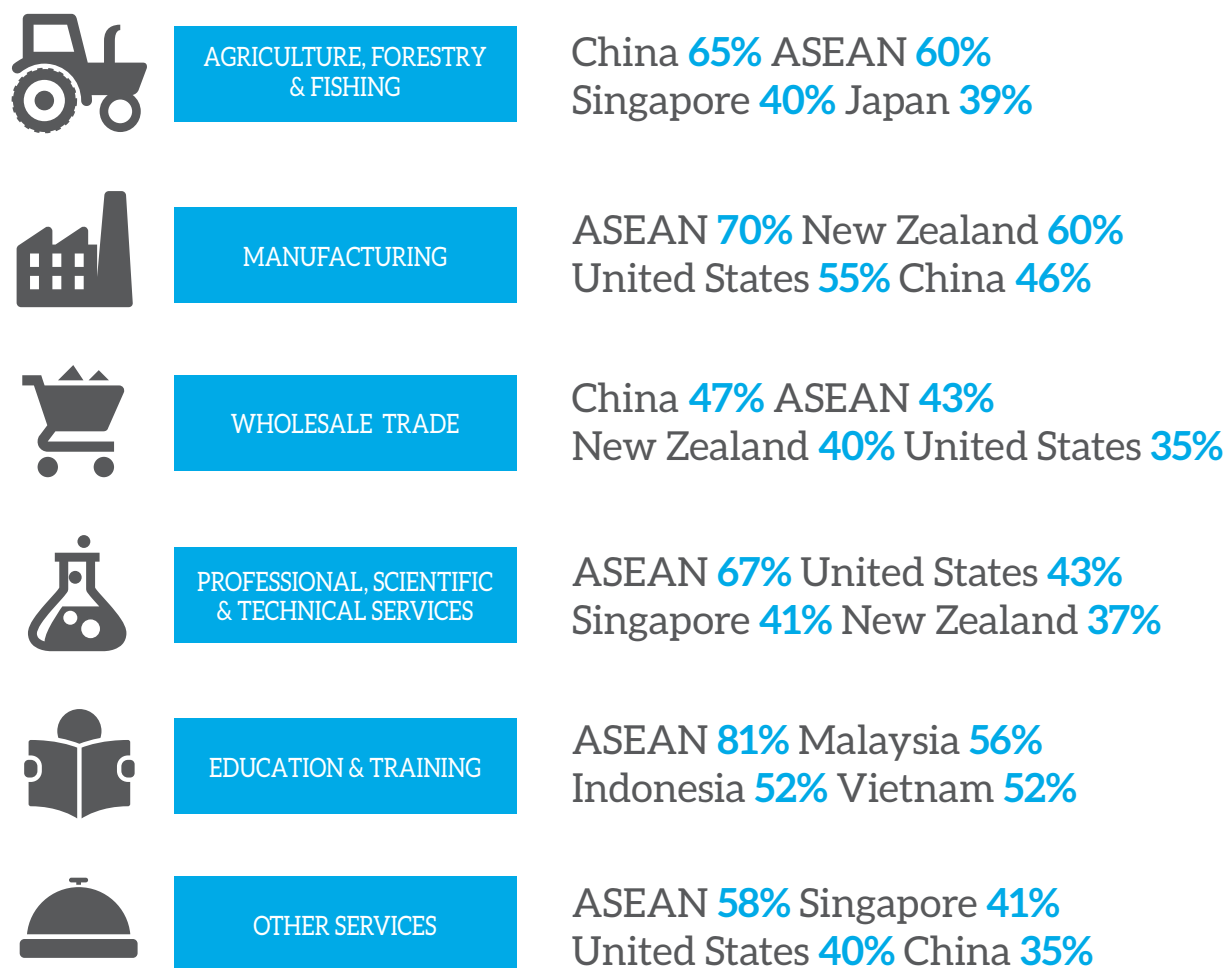


Source: AIBS 2017, Questions 26, 36 and 52. Note: Goods exporters, n=571; Service exporters, n= 618.



The survey results also indicated which FTA markets were most popular to exporters from specific industries (Figure 3.8). For example, market and industry analysis shows the top FTA markets for the sample of firms from the agriculture, forestry and fishing (65%) and wholesale trade industry sectors (47%) is China, followed by 60% and 43% for the ASEAN region markets respectively. For the manufacturing sector, the ASEAN region (70%) followed by New Zealand (60%) and the US (55%) are the most popular. For the professional, scientific and technical services (67%), Education and Training (81%) and other services (58%) sectors, the top FTA market is the ASEAN region.

**Fig. 3.8 Top markets by industry of FTA exporters, by goods/services export %**



Source: AIBS 2017, Questions 26, 36 and 52. Note: Agriculture, Forestry and Fishing, n=83; Manufacturing, n=284; Wholesale Trade, n=83; Professional, Scientific and Technical Services, n=124; Education and Training, n=85; Other Services, n=80. ASEAN includes firm level data for 10 member states including Singapore, Malaysia etc (also shown separately)..

### 3.2.2 | Goods exports to FTA markets

Overall, FTA arrangements have improved survey respondents' achievements and ability to generate revenue from international activities, highlighting this factor as a significant influence for generating international activity.

Figure 3.9 shows New Zealand was identified by survey respondents as the most common goods FTA export market (30%) for Australia. While its smaller market size is a limitation, the close geographic proximity of New Zealand, its low institutional distance<sup>19</sup>, and the mutual recognition of goods and occupations through the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)<sup>20</sup>, makes it an attractive option for Australian firms engaged in international business.

In addition, the combined ASEAN region is an important FTA market for Australia, with 40% of survey respondents exporting goods to the market.

Fig. 3.9 Most popular FTA markets for goods exports

ASEAN <b>40%</b>	New Zealand <b>30%</b>	United States <b>29%</b>
China <b>28%</b>	Singapore <b>24%</b>	Malaysia <b>20%</b>
Indonesia <b>18%</b>	Japan <b>18%</b>	South Korea <b>17%</b>
Thailand <b>16%</b>	Vietnam <b>13%</b>	Philippines <b>12%</b>
Chile <b>5%</b>	Brunei <b>4%</b>	Myanmar <b>3%</b>
Cambodia <b>3%</b>	Laos <b>2%</b>	

Source: AIBS 2017, Question 26. Note: n= 941. ASEAN region also included for comparison.

### 3.2.3 | Benefits of FTAs

Earlier international and Australian surveys<sup>21,22</sup> have suggested that Australian businesses have only a limited understanding of FTAs, based on questions about awareness and use of FTAs by firms exporting to the market.

Previous analysis by Austrade has noted that while business surveys can inform us about the views or sentiment with regard to FTAs, they tell us much less about the effectiveness of FTAs and how much they are being utilised<sup>23</sup>.

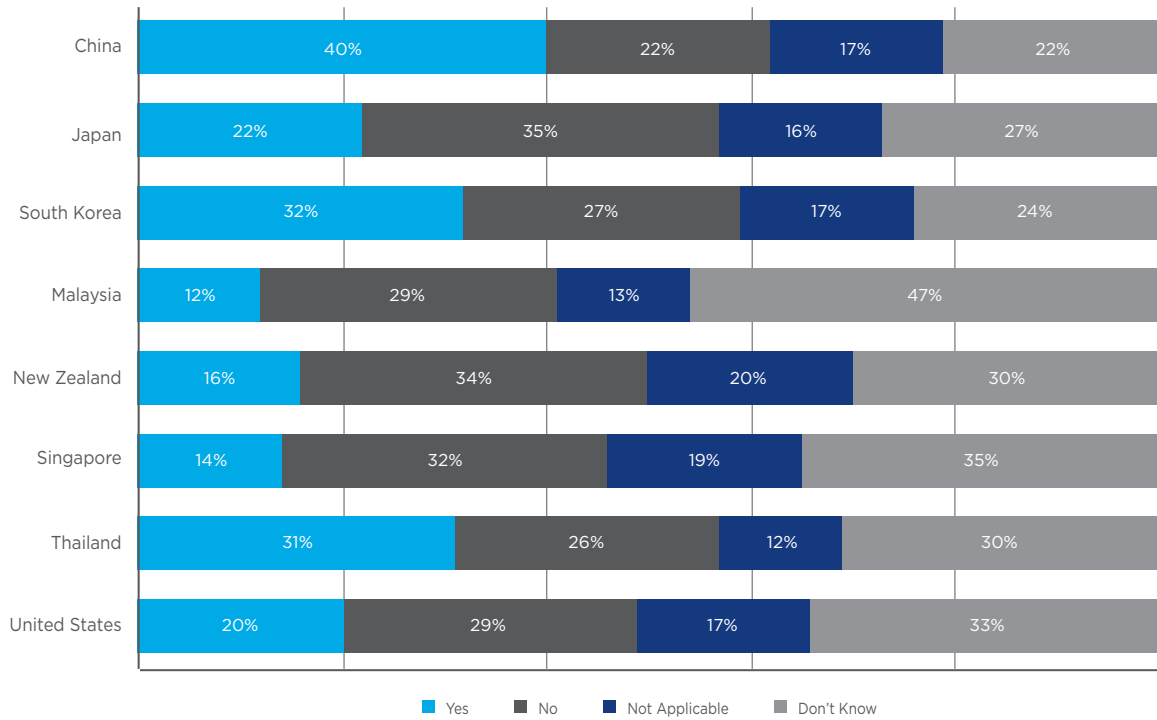
The most accurate measure of effectiveness of an FTA in boosting exports is a measure of utilisation rates, which measures the ratio of goods imported (by a trade partner) using FTA preferences, relative to goods that are eligible for FTA preferences.

Other measures - such as firm use of FTAs as measured by surveys - can underestimate the impact of FTAs on local business for a range of reasons. They do not take into account goods already under a zero-tariff rate, are an unweighted measure of the impact on export value, or alternately only consider the beneficial export and not the beneficial import impact of FTA on local firms.

With FTA effectiveness difficult to measure by survey, AIBS this year investigated firm behaviour related to documentation around FTAs to gain further perspective on the topic of firm awareness of FTAs, particularly when claiming a preferential tariff or if using a third party to handle paperwork.

Survey responses highlighted the share of exporters aware of FTA export sales benefits (Figure 3.10). For example, 40% of survey respondents selling to China suggested that as a result of the FTA arrangements with China, their export sales benefited, compared to 22% who indicated no benefit from export sales. Similarly, survey respondents exporting to South Korea (32%) and Thailand (31%) highlighted that their exports benefited as a result of the FTA arrangements. For all other key FTA countries, findings indicated that a smaller share of survey respondents were aware of export benefits from FTAs as compared to those who did not perceive benefits. For example, 34% of respondents suggested they did not receive export benefits with New Zealand compared to those that did (16%), and this may reflect zero or low tariff rates.

Fig. 3.10 Firm awareness of export sales benefits of FTA by country



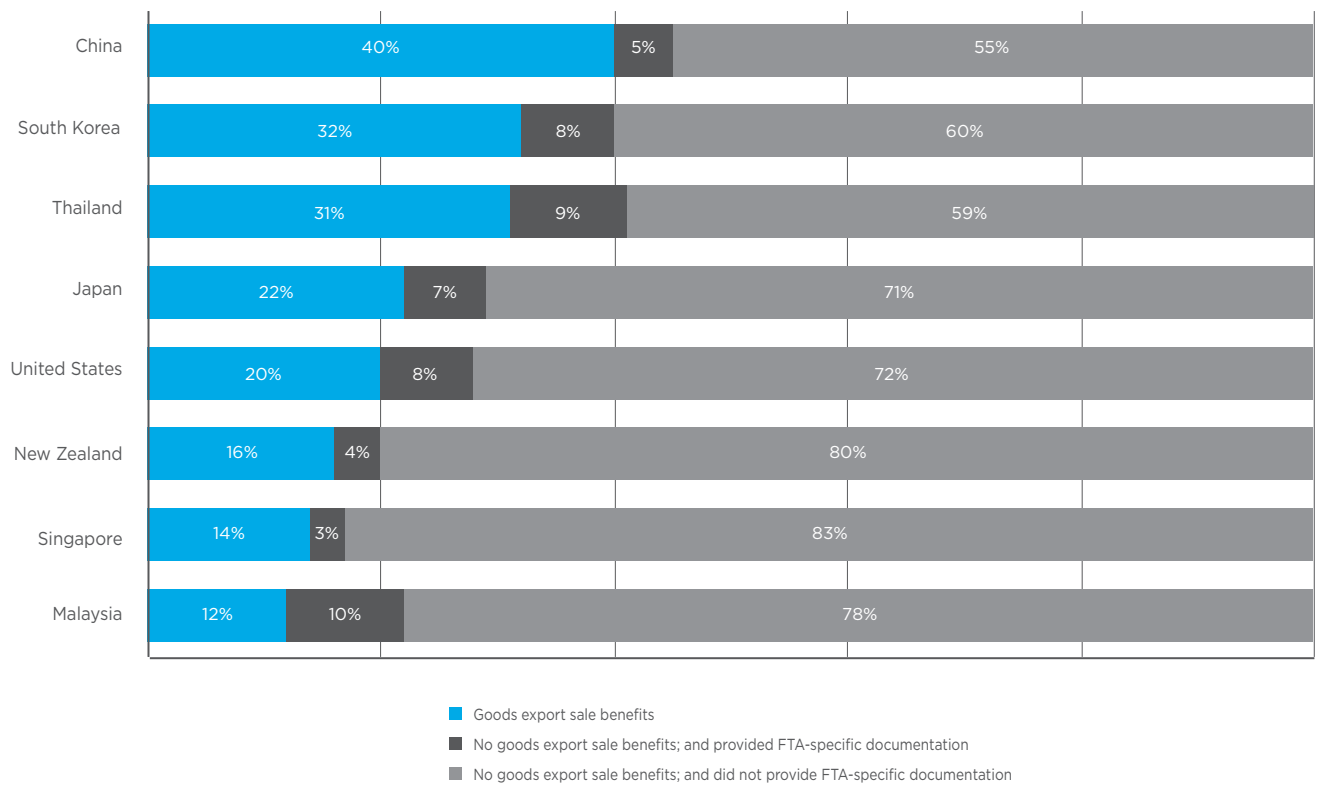
Source: AIBS 2017, Question 31. Note: Export sales benefits of FTA, China, n=166; Indonesia, n=102; Japan, n=141; South Korea, n=132; Malaysia, n=77; New Zealand, n=128; Singapore, n=128; Thailand, n=106; United States, n=166.

Further analysis that cross-references the documentation practices of firms, show that those firms that are not aware of export sales benefits (i.e. respondents that answered no, not applicable or don't know), are in the majority of cases not filling out FTA-specific documentation. For the key FTA markets, exporters to Singapore accounted for the highest rate of survey respondents that did not fill out FTA specific documentation (83%), followed by New Zealand (80%).





**Fig. 3.11 Views of respondents on FTA access by market**



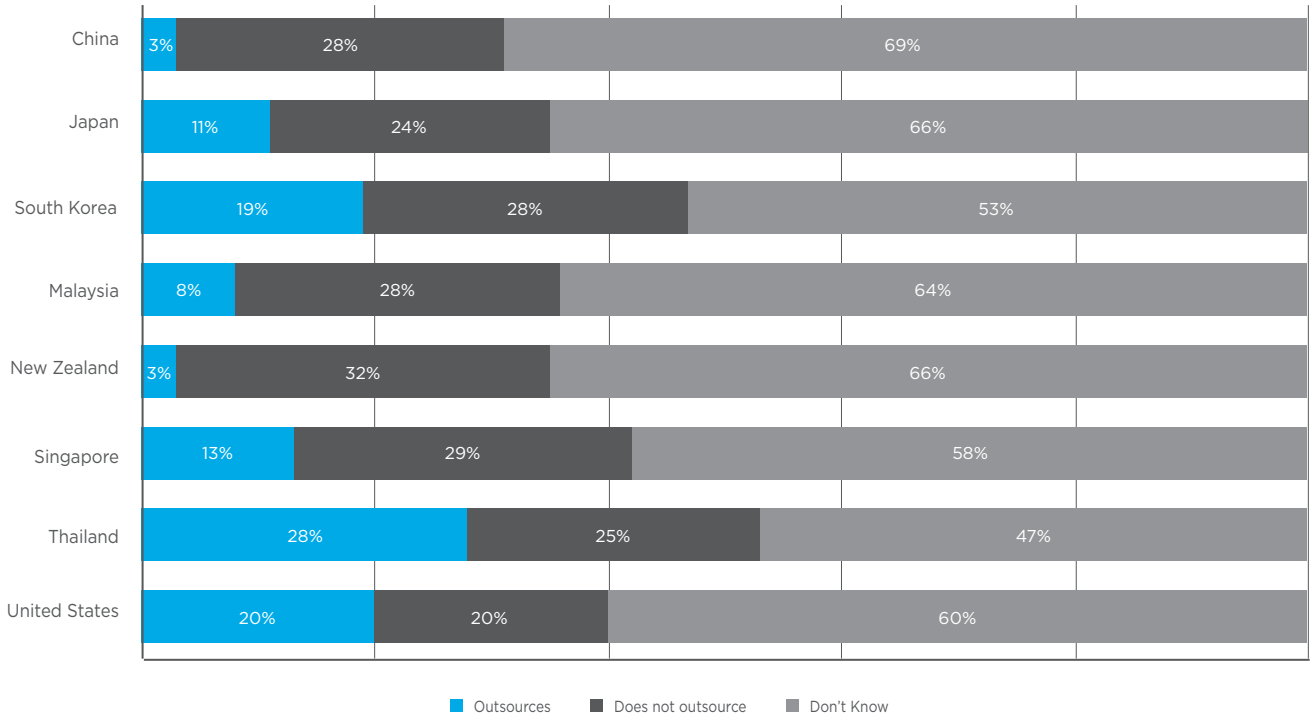
Source: AIBS 2017, Question 31 and 27. Note: China, n=166; South Korea, n= 132; Thailand, n= 106; Japan, n=141; United States, n=16. 'No' includes 'no', 'not applicable' and 'don't know'.

However, as indicated above, survey questions based on firm awareness are not an accurate way of measuring applicability of an FTA, and in this case 'no benefit' responses may well indicate firms to which FTA provisions simply do not apply.

In addition, further analysis of responses including 'Don't know if their goods export sales benefited or not' highlight that a significant number of survey respondents are outsourcing their documentation to third parties and therefore survey respondents may not be aware how the FTA is contributing to their sales. For example, 69% of those respondents exporting goods to China, that have responded that they don't know if their goods exports sales benefited or not, outsource their paperwork and logistics to a customs broker, freight forwarder, consolidator or a similar trade service provider.



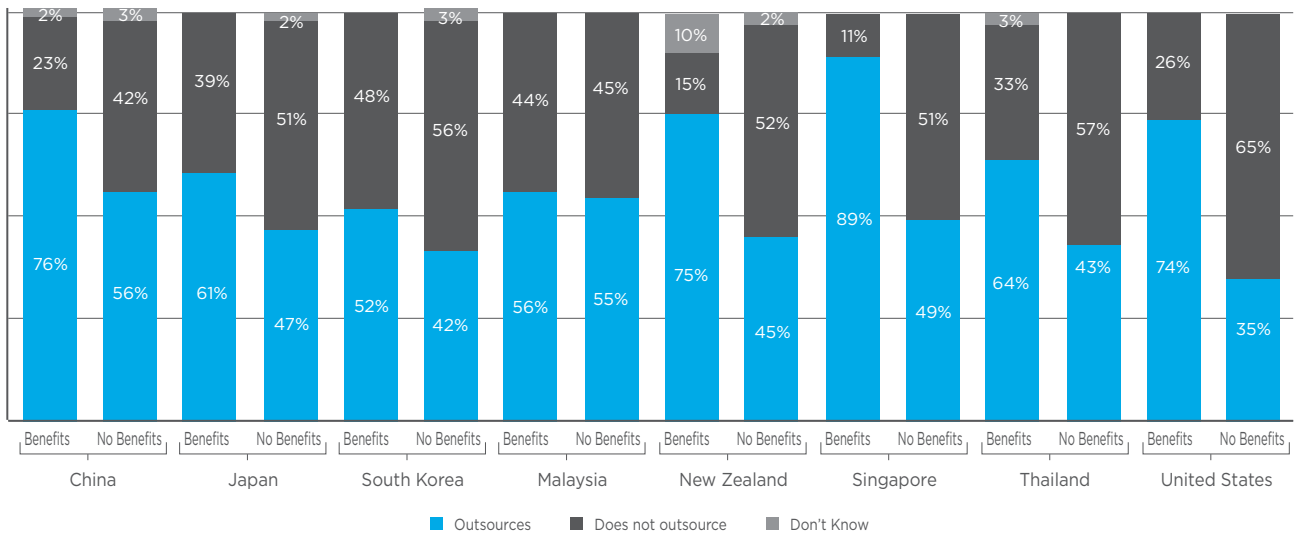
Fig. 3.12 Rate of outsourcing undertaken by respondents that 'don't know' benefits of FTA



Source: AIBS 2017, Question Cross tab of Q31 'don't know' (goods export sales benefits) by Q29 (outsourcing). Note: China, n=36; Indonesia, n=41; Japan, n=38; South Korea, n=32; Malaysia, n=36; New Zealand, n=38; Singapore, n=45; Thailand, n=32; United States, n=55.

Figure 3.13 shows, that firms outsourcing documentation most commonly perceive that their goods export sales benefit from FTAs. This indicates service providers play an important role educating exporters.

Fig. 3.13 Rate of outsourcing undertaken by respondents (aware and unaware of FTA benefits)




Source: AIBS 2017, Question Cross tab of Q31 'yes' and 'no' (goods export sales benefits) by Q29 ('outsourcing') - 'don't knows' for Q29 included). Note: China, n=166; Indonesia, n=102; Japan, n=141; South Korea, n=132; Malaysia, n=77; New Zealand, n=128; Singapore, n=128; Thailand, n=106; United States, n=166.

For 13% of respondents exporting goods to FTA markets, respondents highlighted that the FTA provided additional benefits (Figure 3.14). These are benefits such as 'recognising Australian standards' and 'the ability to make sales that had previously not been possible prior to the FTA' over and above the ability to access FTA preferential tariffs.

19% of respondents received additional FTA benefits when exporting goods to China and 16% of respondents when exporting goods to South Korea. In these firms, respondents indicated that the FTA recognised Australian standards and this led to increased trade activity. Such increased trade activity and the higher rate of exporters aware of additional benefits suggests that FTAs gave Australian firms confidence to enhance partnership arrangements with countries in the Asia-Pacific region, despite the cultural and institutional differences.

**Fig. 3.14 FTA additional benefits**

**13%** of firms perceived additional benefits from utilising FTAs from at least one FTA market

**19%**   
of firms exporting to  
China

**16%**   
of firms exporting to  
South Korea

### ADDITIONAL BENEFITS

- 55%** | Recognised Australian standards and/or accreditation
- 46%** | Allowed us to make sales we were not previously permitted to make
- 39%** | Allowed us to structure our business in a simpler way than before
- 32%** | Provided better visa conditions
- 29%** | Allowed data to be stored in Australia

*Source: AIBS 2017. Note: Question 34: (n=571); China, n=166; South Korea, n= 132, Question 35: (n=82), % of firms whom noted additional benefit for at least one of the 1-3 FTA markets they are exporting goods to.*

Whilst the research team have attempted to analyse the benefits of FTAs for participating firms, capturing these benefits is difficult as there is limited current data on the applicability of FTAs to firms exporting to the market and surveys are limited in their ability to measure benefits.

## Outsourcing behaviour

One of the possible explanations for the lack of FTA documentation used by firms exporting goods to FTA markets is the reliance on a broker or third party to complete the paperwork.

Survey findings highlight that 64% of firms exporting goods to an FTA market use an agent or broker to handle paperwork and logistics for goods exports (Figure 3.17). Overall, 363 of 571 companies exporting to FTA markets used a third party to handle paperwork and logistics for the purposes of FTA goods exports.

Of these, 28% left all paperwork requirements related to the facilitation of a trade preference to a broker or trade service provider, who did not consult the company. A total of 24% said they were responsible for providing their broker with FTA origin documentation; and 12% said they would provide origin documentation to their broker if they knew how to arrange it.

Of those firms exporting goods to China, 65% of them were using a third party to organise paperwork, 57% exporting to Japan were using a third party to organise paperwork and 57% exporting to Malaysia.

For many firms, AIBS 2017 findings also indicate there is a lack of awareness amongst exporters as to the use and requirements of FTA documentation, and the benefits that can be obtained from the agreements. It appears to be the case that many Australians do not comprehend the required processes and documentation that need to be completed to access the benefits from the FTA. .

Fig. 3.15 Business processes related to documentation



## BUSINESS PROCESSES RELATING TO DOCUMENTATION

- 28% | We leave the paperwork to our broker/forwarder, who does not consult us in relation to accessing FTA preferences
- 24% | We provide FTA origin documentation to our broker/forwarder
- 17% | We leave the paperwork to our broker/forwarder, who consults us on accessing FTA preferences in our export market(s)
- 12% | We would provide origin documentation to our broker/forwarder if we knew how to arrange it
- 10% | We instruct our broker/forwarder to arrange the FTA origin documentation for us

Source: AIBS 2017, Questions 29 and 30. Note: Q29 (n=571); China, n=166; Japan, n=141; Malaysia, n=77 Question 30: (n=363); percent of firms whom outsource for at least one of the 1-3 FTA markets they are exporting goods to





### 3.2.4 | Certificates of origin

In international business, it is very common for goods to be processed in multiple countries using materials from both foreign and domestic sources. There is a need to determine the origin of a good when importing into many countries. The rules of origin can vary and there is a difference between preferential and non-preferential certificates of origin<sup>24</sup>.

Preferential certificates of origin:

- ▶ Used for goods governed by special arrangements such as free and preferential trade agreements,
- ▶ Certify if goods meet the criteria to qualify for preferential treatment such as reduced or eliminated duty rates,
- ▶ Ensure that only goods moved between countries with agreements receive preferential treatment, and
- ▶ Establish origin by demonstrating that the good is an 'originating product'.


Non-preferential certificates of origin:

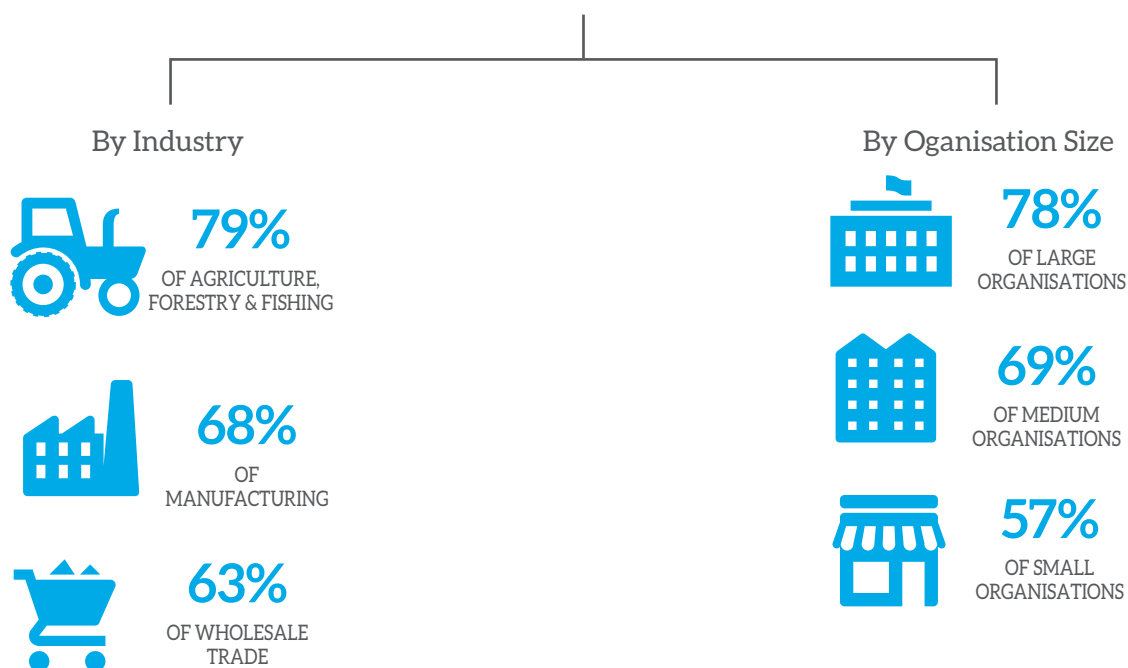
- ▶ Apply to trade that is not governed by special trading arrangements,
- ▶ Certify origin for certain purposes such as quotas, anti-dumping, statistics or labelling,
- ▶ Establish origin based upon either being wholly obtained or produced in one country or having undergone substantial transformation, and
- ▶ Mark the goods origin for importation.

Overall, 63% of businesses who indicated they exported goods overseas, whether to an FTA market or other market, used CoOs to verify that their product was from Australia (Figure 3.18). This was particularly the case for companies from the agriculture, forestry and fishing sector (79%), manufacturing sector (68%) and wholesale trade sector (63%). Larger organisations (78%) rather than smaller ones (57%) were more likely to use CoOs to verify their products were from Australia. Survey respondents indicated that the higher the revenue of the company, the more likely they are to use CoOs. This could be attributed to the cost of administering certificates and the time and resources required to prepare documentation. It could also be attributed to larger firms exporting more often than smaller firms and in large quantities.



Fig. 3.16 Use of CoOs

 **63%** of companies used Certificates of Origin to verify their product was from Australia



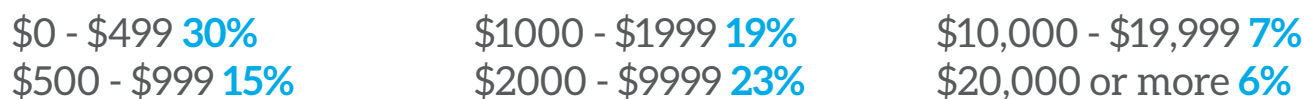
Source: AIBS 2017, Questions 14, 52 and 55. Note: N=586 (those who indicated they export goods overseas in Q5), large organisations, n=54; medium organisations, n=170; small organisations, n=354; Agriculture, Forestry and Fishing, n=77; Manufacturing, n=274; Wholesale Trade, n= 75.

Within wholesale trade, warehousing and transport industries use CoOs regularly as a process associated with the sector to address cabotage (the practice of providing access to domestic transport markets by foreign operators)<sup>25</sup> on Australian products.

Australia's reputation as a producer of safe and high-quality products (especially in agriculture and food) is a key driver for global demand<sup>4</sup>. It is therefore important to protect the country of origin advantage. However, CoOs are only one of several ways to prove origin. Other ways of providing evidence of origin, include providing copies of invoices, a bill of lading, a letter of credit or a statutory declaration.

There is a large difference in the amount companies pay for the use of CoO documentation (Figure 3.19). Authorised Certificates of Origin (CoOs) cost between \$12 and \$55 per certificate, they may need to be couriered to and from the authorisor, and they take time to process. For those organisations who obtain CoOs through 'an authorised body' approximately, 42% of respondents spend between \$1,000 and \$9,999 on CoOs, and 45% spend between \$0 and \$999.

Fig. 3.17 Cost of CoOs



Source: AIBS 2017, Question 17. Note: N=136, don't knows not included in calculations.

Of those organisations using CoOs, 57% of them use preferential certificates (allows the buyer to pay lower or no customers duty when exporting goods under a FTA<sup>26</sup>) for FTAs, while 38% use non-preferential (an ordinary certificate of origin that is a trade document to identify the origin of the good) (Figure 3.20). A total of 50% use certificates to export to some countries and not others depending on the requirement for origin status.

**Fig. 3.18 Preferential use of CoOs**



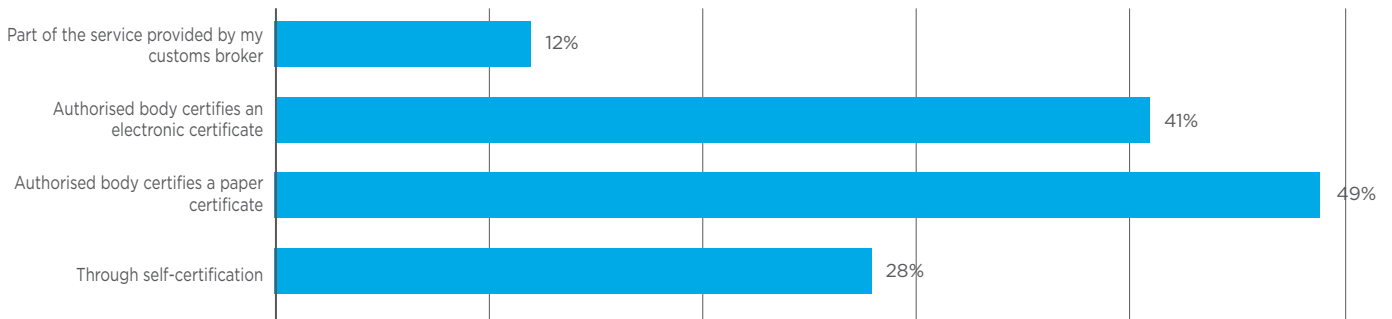
**57%** Preferential certificates **38%** Non-preferential certificates  
**50%** Used to export to some countries but not others

Source: AIBS 2017, Question 15, Note: n=366. Multiple selections possible, so percentage will not add up to 100%.

Authorised bodies such as chambers of commerce, are the most frequently used sources to obtain both preferential and non-preferential paper certificates (41% use electronic certificates issues by an authorised body, and 49% use paper certificates) (Figure 3.21).

The least used source for obtaining certificates of origin was as part of the service provided by a customs broker (12%). However, self-certification is also a common method for issuing certificates used by 28% of respondents using the CoO.

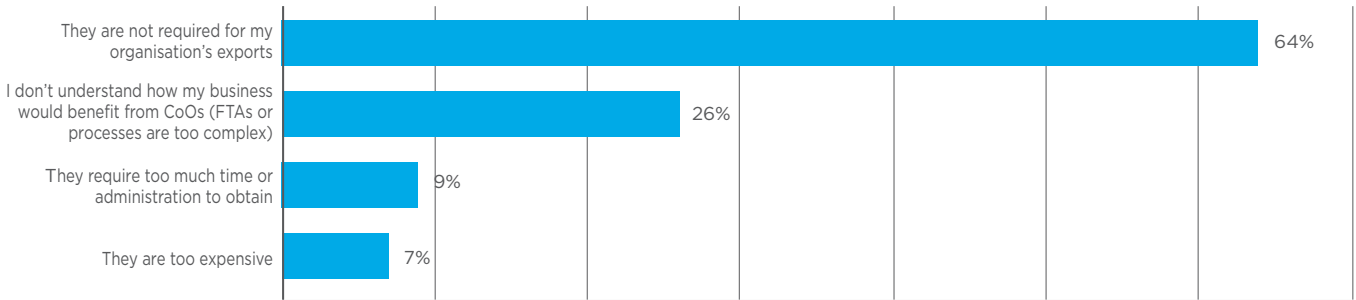
**Fig. 3.19 Issuing of CoOs**



Source: AIBS 2017, Question 16. Note: n=366. Multiple selections possible as markets and products have different requirements - so percentages will not add up to 100%.

A total of 35% of survey respondents exporting goods do not use CoOs. Of these, 64% indicated that they are not actually required to supply certificates for exports, and 26% stated that they do not use CoOs because they do not understand how it could benefit their business. These findings suggest that while most survey respondents do not need to use CoOs nor do they see a benefit given the cost and time to prepare the documentation, many survey respondents also require support in further understanding of the advantages of FTAs.

Fig. 3.20 Non-use of CoOs



Source: AIBS 2017, Question 19. Note: n=198, 'Don't know' and 'other reasons' are included for calculation.

Figure 3.22 shows it is confusing for these exporters to determine what CoO template to use (with 26% of businesses that are not using CoOs “not understanding how their business would benefit (FTAs or processes too complex)”). The lack of a harmonised approach to non-preferential RoO means there is no international instrument to handle documentary evidence in the domain of non-preferential origin. This has impeded efforts to make advanced determinations on the origin of goods.

Some of the themed ‘positive and negative’ comments provided by respondents to the use of CoOs is highlighted. Whilst respondents identify advantages, there are also clearly many impediments to the use of CoOs, including the lengthy timeframes for issuing certificates and the additional costs for individual businesses.

Fig. 3.21 Non-use of CoOs



Source: Question 18



### 3.2.5 | Service activity for FTA market clients

The growth of the Australian services sector is one of the reasons for Australia's interest in the Trade in Services Agreement (TiSA), currently being negotiated. The agreement is aimed at opening up markets and improving rules in professional services, maritime transport and other related areas.

Whilst 66% of the respondent sample are exporting services to FTA markets, the main FTA market focus of respondents are the ASEAN region (47%), China (34%), the US (31%), Singapore (29%) and New Zealand (28%).

**Fig. 3.22 Most popular FTA markets for services exports**

ASEAN <b>47%</b>	China <b>34%</b>	United States <b>31%</b>
Singapore <b>29%</b>	New Zealand <b>28%</b>	Malaysia <b>23%</b>
Indonesia <b>22%</b>	Thailand <b>20%</b>	Japan <b>18%</b>
Vietnam <b>18%</b>	South Korea <b>17%</b>	Philippines <b>16%</b>
Chile <b>8%</b>	Cambodia <b>6%</b>	Myanmar <b>6%</b>
Laos <b>5%</b>	Brunei <b>5%</b>	

Source: AIBS 2017, Question 36. Note: n= 941.

#### 3.2.5.1 | Mode of service delivery

The trade in services has four modes of delivery. The definition of each of the modes is described in the General Agreement on Trade in Services (GATS) and depends on the territorial presence of the consumer in relation to the supplier at the time of the transaction. The four modes are defined as follows along with their visualisation showing the flow across the four modes of delivery:

##### Mode 1 – cross border trade A

User in country A receives services from overseas through its telecommunications or postal infrastructure. Such suppliers may include consultancy or market research, tele-health advice, distance training or architectural drawings.

##### Mode 2 – consumption abroad (movement of people)

Nationals of country A travel overseas as tourists, students or patients to consume respective services.

##### Mode 3 – Commercial presence

The service is provided within Country A by a locally established affiliate, subsidiary or representative office of a foreign owned and controlled company.

##### Mode 4 – Presence of natural persons (movement of people)

A foreign national provides a service within country A as an independent supplier (eg consultant, health worker or educator) or employee of a service supplier.

The presence of these 4 modes in each market was examined using the survey data. For survey respondents selling to FTA markets, Mode 1 and Mode 4 are the most common forms of service delivery (Figure 3.25). (Note: calculated on a firm basis – if a respondent uses mode 1 for four countries, it has the same count towards mode 1 (1) as a respondent who provides mode 1 to just one country).

Mode 1 involves 37% of respondents servicing overseas markets via call centres, internet websites or some other electronic means. Main markets serviced from Australia include 57% exporting services to New Zealand and 45% to Malaysia.

Mode 4 involves 44% of respondents providing services overseas by actually travelling to deliver those services within the host country. The main markets that respondents who export services overseas travel to, include Indonesia (59%) and South Korea (40%).

It is well known and accepted that Mode 2, the movement of people from overseas to Australia to consume goods and services in Australia, is important to a growing services economy, but is the least common mode for service exporters in the survey sample (20%).



For example, the tourism and education sector deliver A\$44.8 billion in 2015-2016 to Australia's economy, up by more than eight per cent or by A\$3.4 billion over the previous year<sup>27</sup>.

In 2016, international education was ranked the largest service export industry and the third largest export industry overall, and tourists (personal travel) visiting Australia was ranked the second largest service industry and sixth industry overall<sup>28</sup>. However, as tourism is not a recognised industry within the ANZSIC business industry codes, this industry sector is not reflected in the survey data. For those respondents exporting services overseas where the client travelled directly to Australia, the top market by share of services exports to the market is China (37%).

**Fig. 3.23 Mode of delivering services**

<b>37%</b> Originating from Australia	<b>20%</b> Client travelled to Australia
<b>26%</b> Via a commercial presence	<b>44%</b> Travelled overseas

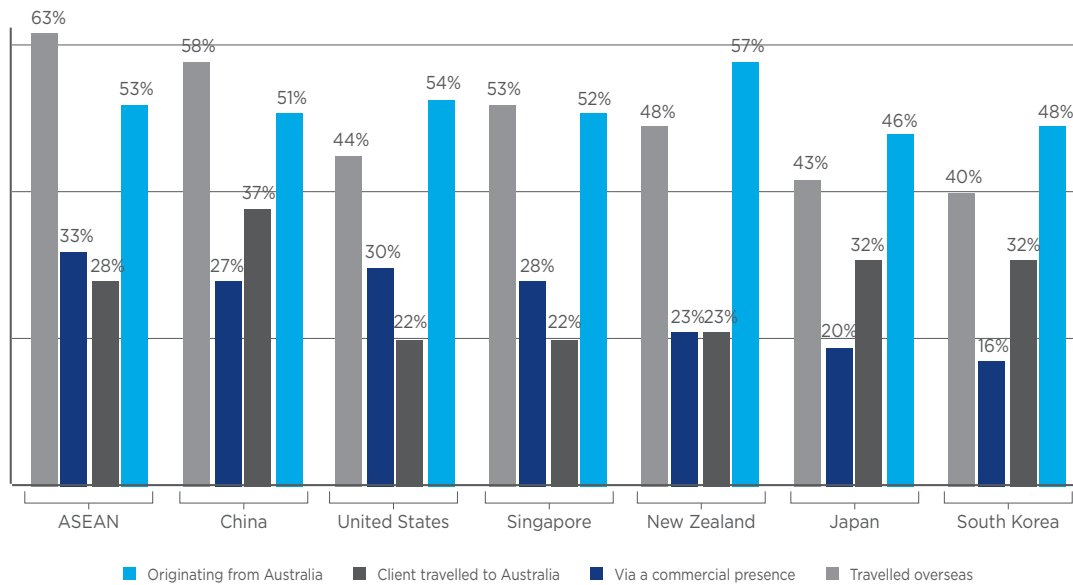


Sources: AIBS 2017, Question 36. Note: Overall n=941, New Zealand, n=266; Malaysia, n=220; United States, n= 288; China, n= 317; South Korea, n=161; Indonesia, n=208; countries with n<100 excluded.

Mode 3 involves Australian business having a commercial presence in the country of operation. This mode of exporting services represents 26% of survey respondents exporting services overseas. Of those, the main markets for establishing a commercial presence include the US (30% of services exporters to the US use this mode) and Singapore (27%).

At the same time, of those survey respondents who are exporting to each country, findings highlight within the ASEAN region and China, approximately 60% are travelling overseas to deliver services, whereas, in the US, New Zealand and Japan approximately 45% were using Mode 1 and servicing the markets from within Australia (Figure 3.26).

Fig. 3.24 Mode of services delivery (% of market respondents, by market)



Source: AIBS 2017, Question 36. Note: Overall n=941, ASEAN, n=438; China, n=317; United States, n=288; Singapore, n=273; New Zealand, n=266; Japan, n=169; South Korea, n=161.


However, Australia does not gather data on foreign affiliates. Given Australia's geographic isolation, overseas offices are more important to Australian service providers than other countries (the exception would be offices in NZ and, to a degree, Singapore). This is particularly the case compared with other OECD countries (most notably European ones), which have multiple trading partners on their doorstep with similar languages, levels of development and regulatory systems. While many industry sectors are compelled to establishing overseas offices due to regulation, it's also good business practice.



### 3.2.6 | Restrictions when providing services to FTA markets

Of the 66% of organisations that provide services to FTA markets, 28% of these respondents experienced difficulties exporting services to China, 21% to Vietnam and 20% to Indonesia. The main types of restrictions were associated with bureaucracy and country regulations, particularly in Vietnam (42%).

**Fig. 3.25 Restrictions when providing services overseas**

**28%**  of firms exporting services to China faced restrictions or barriers

9% Visa issues	10% Cultural differences
11% Red tape / bureaucracy	16% Customs / import restrictions
27% Local standards / regulations	

**21%**  of firms exporting services to Vietnam faced restrictions or barriers

6% Cultural / language	8% Local content issues
17% Australia red tape / visas	42% Bureaucracy / corruption / red tape

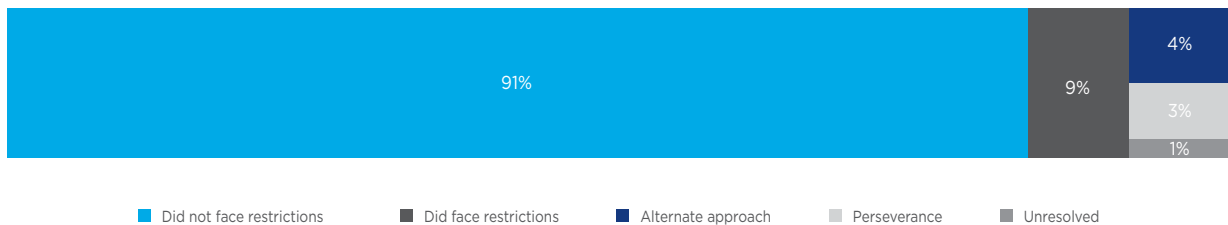
**20%**  of firms exporting services to Indonesia faced restrictions or barriers

5% Import restrictions	5% Culture / language	14% Corruption
19% Inability to engage local presence	31% Regulations / red tape	

Source: AIBS 2017, Question 37. Note: China, n=371; Open theming, n=91; Vietnam, n=169; Open theming, n=36; Indonesia, n=208; Open theming, n=42.

An average of 10% of respondents travel overseas to provide services locally in FTA markets, with higher volumes of travel in the markets of China (19%), Singapore (15%), the US (13%), New Zealand (13%) and Indonesia (13%). An average of 9% of these organisations said that they experience restrictions to travel.

**Fig. 3.26 Restrictions on travel**



Source: AIBS 2017 Question 40 and 42.





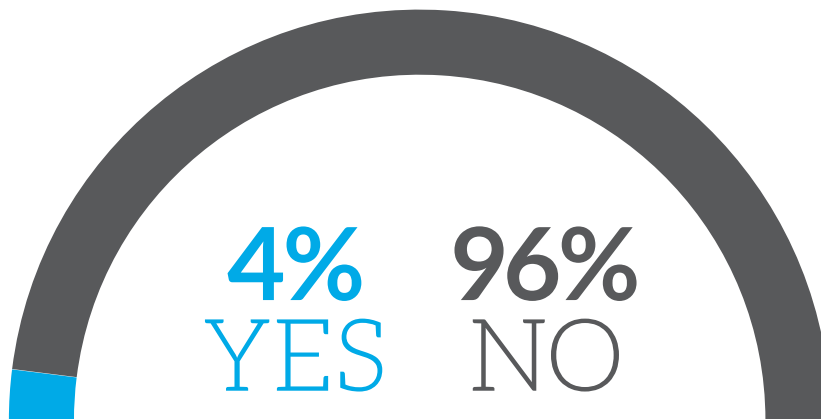
## Mutual recognition arrangements

The General Agreement on Trade in Services (GATS) Mode 4 relates to the presence of natural persons. The movement of professionals across borders is covered under this mode, and countries commit to whether they will permit or restrict the entry of individuals into their territory to work. One of the technical barriers under this mode is the mutual recognition of qualification and experience<sup>29</sup>.

Equivalency for skills and experience is determined by professional services bodies in the host country and may require membership of local organisations. The services sector has historically not been covered under FTAs, and there is a lack of clarity about mutual recognition. The mutual recognition of professional qualification and prior experience between countries can help address some of the barriers associated with Mode 4 supply. In particular, the role of professional bodies in assessing qualifications and setting minimum standards for mutual recognition of skills and knowledge<sup>30</sup>. However, the growth of the services sector and increased movement of professionals are drivers for including services in FTAs. Australia and other economies are addressing the issue of regulations in negotiations around the Trade in Services Agreement (TiSA).

A mutual recognition agreement (MRA) is an international agreement by which two or more countries agree to recognise one another's conformity assessments. It enables conformity assessment of the following services - testing, inspection and certification<sup>5</sup>. Of the 26% of respondent companies providing services to FTA countries via a commercial presence overseas, 4% use MRAs to conduct Mode 3 services export.

Fig. 3.27 Do you use mutual recognition agreements?

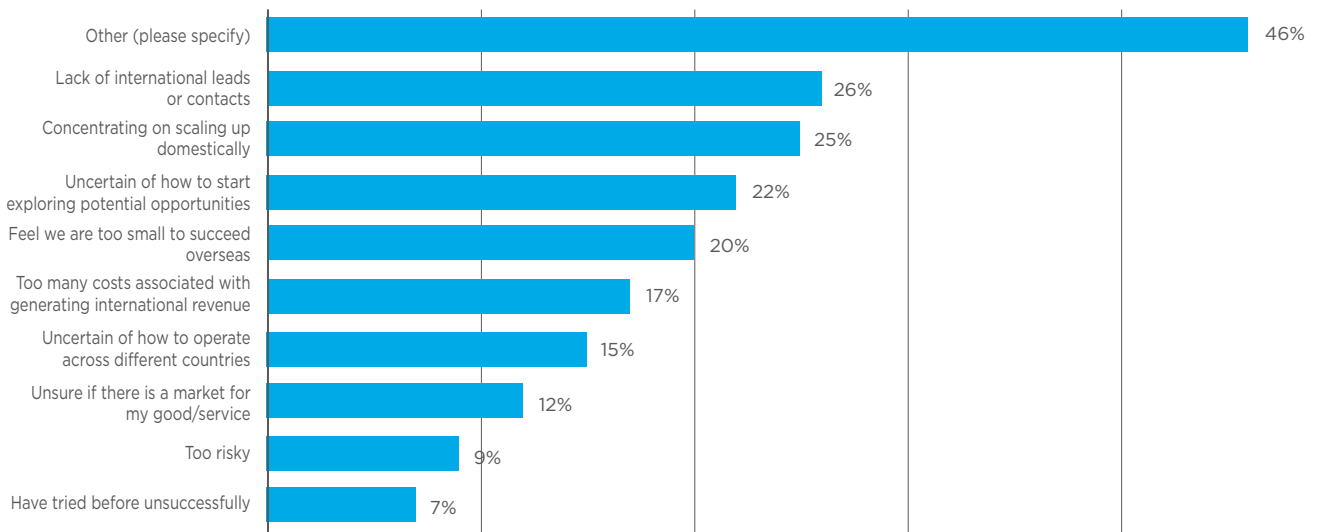


Source: AIBS 2017, Question 39. Note: n=241

## 3.3 | Barriers to commencing international trade

In addition to organisations who are currently active in international markets, an additional 127 survey respondents indicated that they did not engage in international business activity. Approximately 26% of these organisations noted that they did not take part in international activity due to a lack of access to international leads or contracts, and 22 per cent were uncertain of how to start exploring international opportunities or how to operate across different countries. With support and assistance, these aspiring international businesses could potentially begin exploring overseas opportunities.

**Fig. 3.28 Reasons not undertaking international business activity**



Source: AIBS 2017, Question 2.

Almost half of all the 127 survey respondents nominated other reasons for not undertaking international businesses activity. These included companies suggesting that ‘they were not ready to export’ or were ‘still in the process of setting up their business’ and others ‘had difficulty with communications technology’.

**Fig. 3.29 Other reasons for not undertaking international activity**

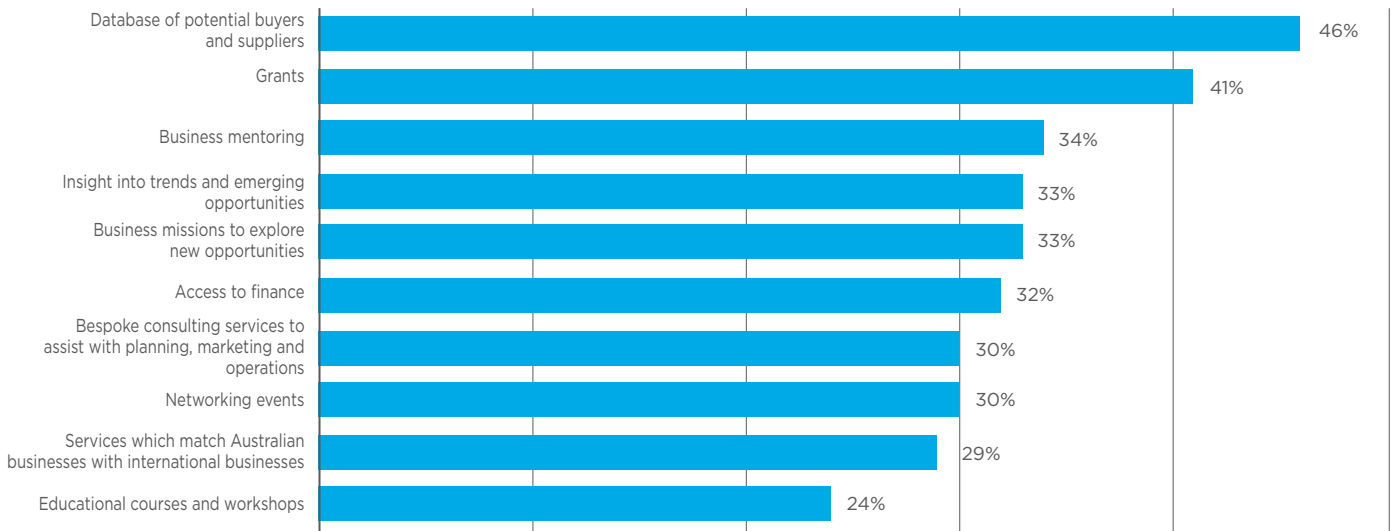
<b>34%</b> Stage of business	<b>9%</b> Change of business activity
<b>4%</b> Supplier diversification	<b>2%</b> Monetary
<b>24%</b> Political	<b>4%</b> Tariff and trade restriction
<b>4%</b> Access to market	<b>11%</b> Infrastructure/Technology issues
<b>4%</b> Standards	<b>4%</b> Lack of understanding

Source: AIBS 2017 Question 2. Note: n=47.

Of the 127 survey respondents that indicated they did not engage in international activity, 46% suggested that a database of potential buyers and suppliers would be useful to them in exploring international business activity. Approximately 41% suggested that grant availability would assist and 34% suggested business mentoring would contribute to them exploring opportunities in international business markets.



**Fig. 3.30 Support for exploring future international activity**



Source: AIBS 2017 Question 3, Note: n=217

### 3.3.1 | Other sentiments on international business activity

In a similar vein, those businesses currently conducting international activity had the opportunity to comment on their trade business experience internationally. Of the 5% of organisations who responded, 61% recognised challenges or negative experiences, with only 7 per cent providing positive feedback. Challenges included, accessing government support and finance in a timely manner to assist with market access, reducing ‘red-tape’, becoming better informed about FTAs and further assistance for those companies exporting services. Countries that were difficult to do business with included China and Indonesia.

**Fig. 3.31 Comments on international business experience**

<b>7%</b> Positive sentiment	<b>19%</b> Negative sentiment
<b>42%</b> Challenging	<b>32%</b> Neutral (general comment)

Source: AIBS 2017 Question 76 Note: n=43

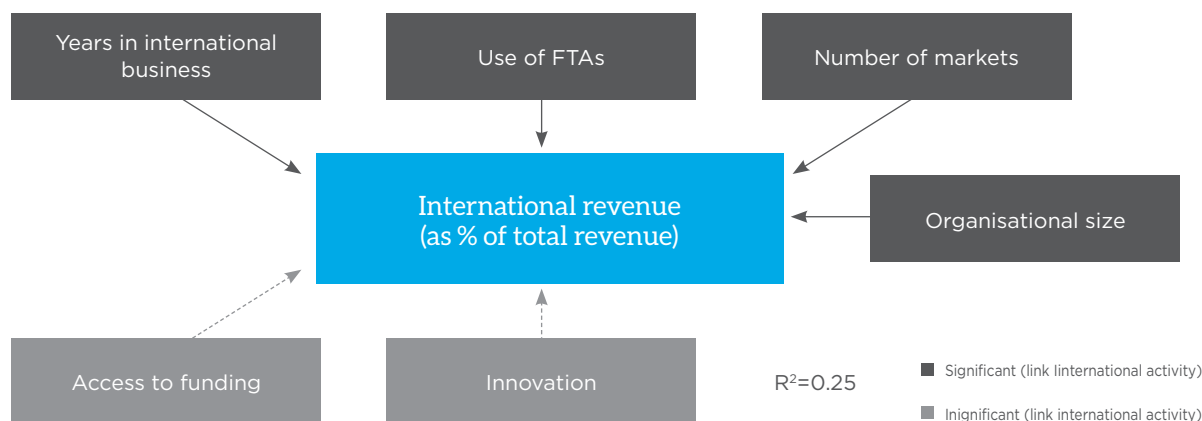


### 3.4 | Trade-related factors correlated with international revenue

Several factors were found to influence international earnings (measured as a proportion of total revenue). These results are indicative only given that they are based on a subset of the international market which is reported by the respondent. Nevertheless, the results provide some insight into which factors are most likely

correlated to international revenue arising from trade activities. The use of FTAs years engaged in international business, the number of international markets in which the organisation is engaged, and the inverse of the size of the organisation are significantly correlated with proportions of intellectual revenue. Figure 3.34 illustrates their relationship with an organisation's total international revenue (measured as a proportion of total revenue). The ratio of international revenue to total revenue (i.e. the degree of trade intensiveness for an Australian organisation) provides a measure of the relative commercial importance, and the firm's priority on foreign and domestic markets. The dark grey shading represents the variables that are statistically significant in their influence on the degree of trade intensiveness, while the light grey shading represents the variables (statistically insignificant) that weakly explain the organisation's degree of intensiveness. The combined effect of the four significant variables is represented by the coefficient of determination ( $R^2$ ) is 0.25. An  $R^2$  of zero means the variables explain none of the correlation, an  $R^2$  of one means they explain all of the correlation. A considerable degree of variation is unaccounted for and may be due to several factors including the limited information on country specific revenue (only reported for the top two trading markets) and the value versus volume of goods and services being traded. Considering specific country effects (e.g. economic growth at the time of trade) for the two top international markets did not change the results substantially.

**Fig. 3.32 Variables impacting international revenue**



Source: AIBS 2017. Note: Question: multiple across the survey.

#### Significant factors for a high proportion of export revenue

- ▶ Years in International Business - the more years an organisation has been involved in international trade activities is linked to a greater proportion of its total revenue coming from overseas. This suggests that the more established a company is in international markets, the more likely it invests in opening trade opportunities,
- ▶ Use of FTAs – organisations that have taken advantage of FTA arrangements tend to have a greater share of their overall revenue from international activities,
- ▶ Number of markets – the number of markets is important as expected. The greater the number of countries in which company is trading, the more likely it is that it will have a larger share of revenue from international revenue, and
- ▶ Organisational size - the larger the firm, the less likely it will have a large proportion of total revenue coming from international revenue compared to smaller firms.

## Not statistically significant factors

- ▶ Innovation - innovations that may affect the volume of trade within selected organisations surveyed did not occur in sufficient critical mass to help explain the organisation's revenue from international activity. It is possible however that investment in supporting innovation may open new market opportunities that encourage and support new international business activity, masking the overall effect of innovations significant in the longer term, and
- ▶ Access to funding - in this model, access to funding (whether successful or not) is not significant.

Australia has been active in negotiating FTAs with strategic economic partners in the region and the largest economies in the world. The survey indicates that many Australian businesses are availing the benefits of these FTAs, and increasing their international business activities. However, the findings also suggest that Australian businesses continue to face certain barriers in their attempts to internationalise. These may include the lack of management awareness about how the FTA would benefit their organisation, the restrictions on movement of individuals across borders, mutual recognition of products and qualifications and specific access to finance issues.

The survey findings highlight that the Australian Government's efforts to negotiate FTAs have had a positive correlation with the internationalisation of Australian firms. In the current circumstances where there is uncertainty about trade policies in many countries, negotiating multiple FTAs seems to be an effective strategy. This is particularly true in the aftermath of Brexit, where Australia is considering potential FTAs with United Kingdom (UK) and the European Union, and the withdrawal of the US from the Trans-Pacific Partnership (TPP) agreement. Discussions about future bilateral FTAs with the GCC, India and other important economies should be a positive sign for Australian business intending to enter or extend their current market presence globally.

However, barriers for those organisations not operating internationally also exist and prevent future growth for international trade. These barriers include a lack of leads for new firms to enter markets, a lack of confidence and uncertainty on how to begin international business trade, despite the increasing share of born global firms.



# 4

Innovation in Australia's  
international business  
activity, and future  
outlook



# What the survey says

## Innovative trade activity and export sales

- ▶ 49% introduced production innovation -32% marketing innovation -27% process innovation
- ▶ Other innovations pursued (10%) include technological, digital and business model innovation
- ▶ 68% of firms innovating stated innovations very important or essential for driving export sales
- ▶ Younger companies more likely to generate international revenue through intellectual property (IP)
- ▶ Greater intensity of IP activity in last 10 – 15 years

## International operations - future outlook

- ▶ Most respondents optimistic about the next two years
- ▶ Top 6 industry sectors indicate financial outlook is better
- ▶ Companies formed between 2010 and 2017 are more financially optimistic
- ▶ Majority of respondents indicated that their company was planning to do business in new countries over the next two years





## 4.1 | Innovation business activity and export sales

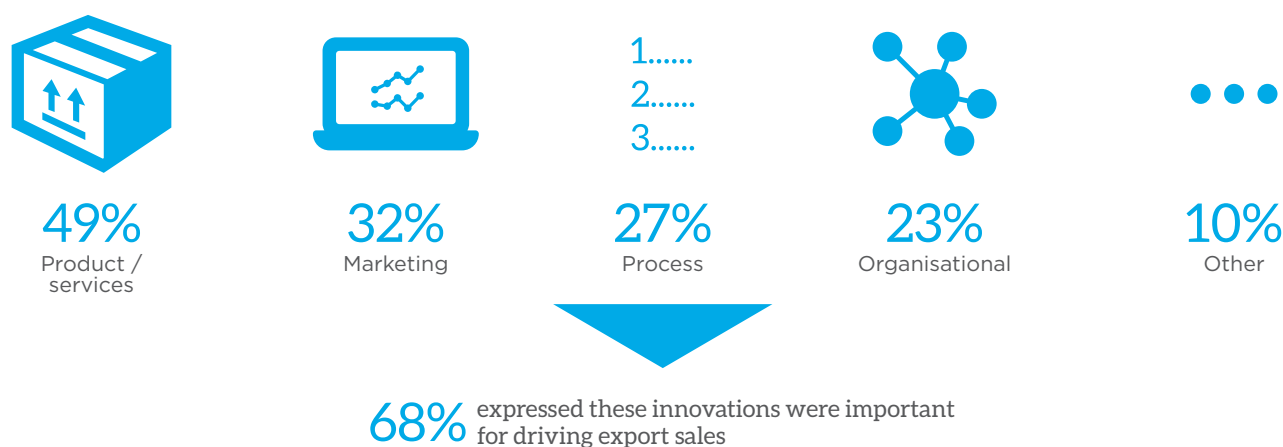
To succeed in a globalised economy and to achieve a competitive advantage, companies need to innovate<sup>31</sup>. Innovation is a key driver of economic growth, with firms introducing innovative activity that generates improved quality products and services, including new production processes, more efficient and clean (environmental) management systems, improved models of business, and modern management methods of employment. Companies innovate to increase market share, capture new markets, improve product quality or choice of products, replace outdated products and reduce environmental impact. Underpinning the definition of innovation, the Oslo Manual<sup>32</sup> identifies four main types of innovation. These are:

- product innovation (introducing a good or service that is new or significantly improved)
- process innovation (implementing a new or significantly improved method of production, for example, new manufacturing processes or technology flows or a new method of delivery improved in terms of their characteristics or intended uses)
- marketing innovation (implementing a new marketing method involving significant changes in product design or packaging, new sales methods, product placement, product promotion or pricing on the policy); and
- organisational innovation (implementing a new way of organising the company's business practices in employment organization or external company's relations)<sup>33</sup>.

### 4.1.1 | Types of innovation activity and export sales

A total of 49% of survey respondents (n=470) indicated that they had introduced product or service innovation to improve exporting of goods and services. In addition, 32% of firms introduced marketing innovation activities, 27% process innovation, 23% organisational innovation, and 10% 'other' types of innovation included technological, business model and digital innovation. Whilst the innovation literature suggests the importance of traditional innovative techniques, the changing global, digital and technological marketplace requires firms to innovate in new and expanding ways. This is reflected in the firms' responses where 68% stated different types of innovations were very important or essential in terms of driving their international sales.

Fig. 4.1 Different types of innovations and international sales

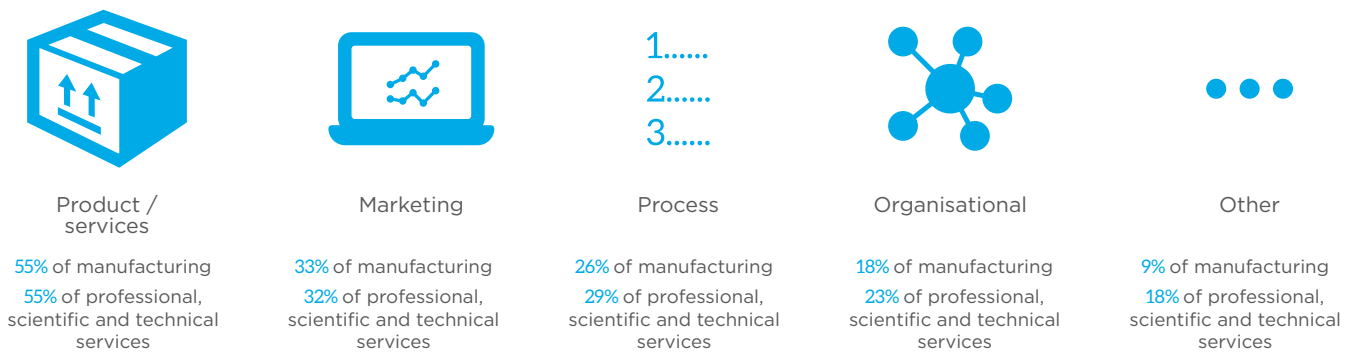


Source: AIBS 2017, Questions 69 and 70. Note: Question 69, n=490; question 70, n=340. Level of importance includes 'very important' and 'essential'.

When analysed by industry sector and matched with corresponding product or service innovation type, during the last 12 months, both the manufacturing and professional, scientific and technical services sectors are equally active in creating product/services innovation and marketing innovation, with the largest share of businesses undertaking this type of innovation. Additionally, the Scientific and professional services sector was slightly more active in process, organisational and other (digital, technological, business model) innovation.



Fig. 4.2 Types of industry innovation activity



Source: AIBS 2017, Questions 69 and 52. Note: Manufacturing, n=145, Professional, n=73.

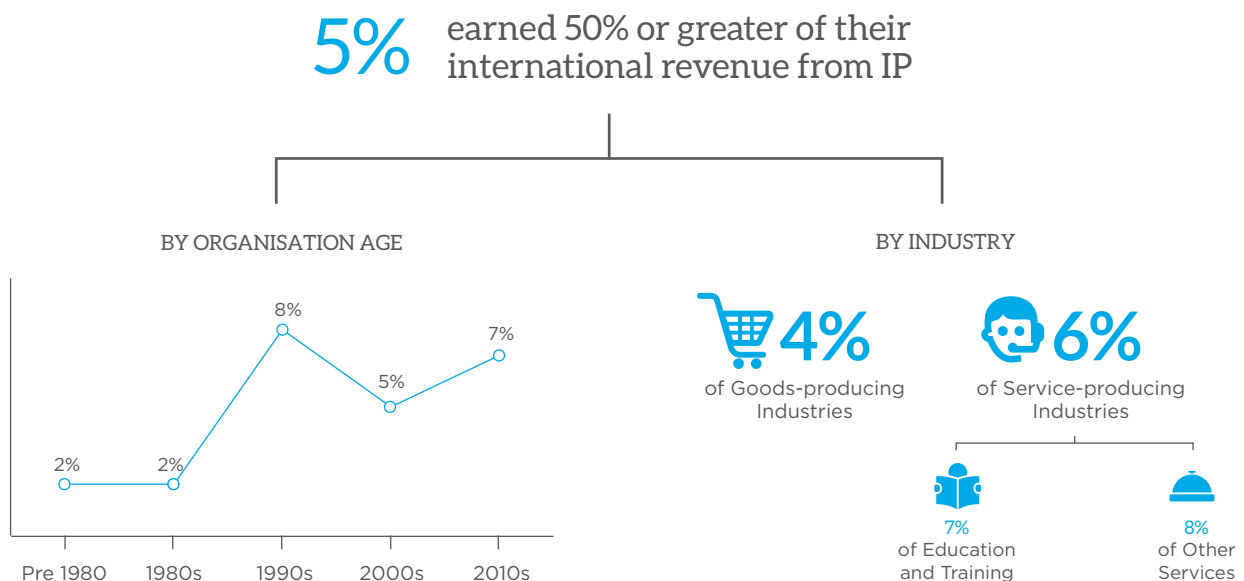
### 4.1.2 | Value creation through intellectual property

The development of intellectual property (IP) is one measure of a firm’s innovative capability. For example, 5% of survey respondents earned 50% or more of their international revenue as a result of generating IP from innovative activity undertaken by the firm.

In particular, research findings suggest that younger companies are more likely to be innovative and generating increased amounts of revenue from IP, resulting in substantial growth and productivity improvements.

Importantly, for innovation active companies, younger companies established in the 2000s and later were more likely to earn higher levels of international revenue from IP than their older counterparts established a decade or so earlier. For example, as shown in the figure below, companies that began to trade internationally after the 1990s have generated increasing levels of international revenue through IP creation. Of the 5% of respondents earning 50% or more in international revenue from the creation of IP, 4% of respondents are from goods producing industries and 6% are from service producing industries. Of the service producing industries, 7% are from the education and training sector and 8% are from other services.

Fig. 4.3. IP and innovation



Source: AIBS 2017, Question 13, 52 and 71. Note: N=941 Pre-1980s, n=136, 1980s, n=101, 1990s, n=159, 2000s, n=237, 2010s, n=206. Goods-producing, n= 422, Service producing, n=516, Other services, n=80, Education, n=85.

The survey results highlight the importance of innovation as a way to open up opportunities in international markets. The Australian Innovation Systems (AIS) report highlights the following benefits from a more innovating culture amongst firms:

- ▶ It facilitates business growth and spurs productivity improvements
- ▶ Businesses that innovate ten or more times per year are almost twice as likely to use some type of IP protection compared to businesses that innovate less than three times a year
- ▶ Innovative international businesses are twice as likely to invest in IP compared to non-innovative international businesses
- ▶ Improving IP protection and enforcement in destination countries increases Australia's exports to those countries, and
- ▶ There is a significant correlation between IP protection and research and development (R&D), and new-to-market innovation around the world.

## 4.2 | International operations – future outlook

Respondents were asked to visualise their future outlook and if it was projected to be more optimistic over the next two years than the previous two years. Overall, respondents were more optimistic about their international operations for the upcoming two years with 59% of respondents indicating the next two years financial outlook seems better than the past two years, 28% indicating that it will be the same, and 6% suggesting that the outlook is likely to be worse in the future.

Fig. 4.4 Future Outlook of Business

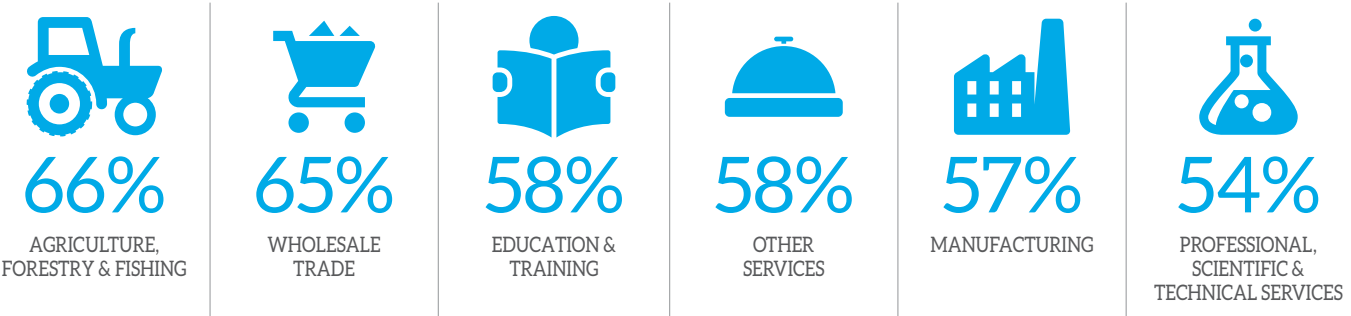


Source: AIBS 2017, Question 49. Note: n=941.

Responses from the top six industry sectors also suggest the financial outlook over the next two years is better than when compared to the last two years. Agriculture, forestry and fishing organisations (66%) and wholesale trade organisations (65%) were the most optimistic sectors, followed by education and training organisations (58%), other services (58%), manufacturing (57%) and professional, scientific and technical services organisations (54%).



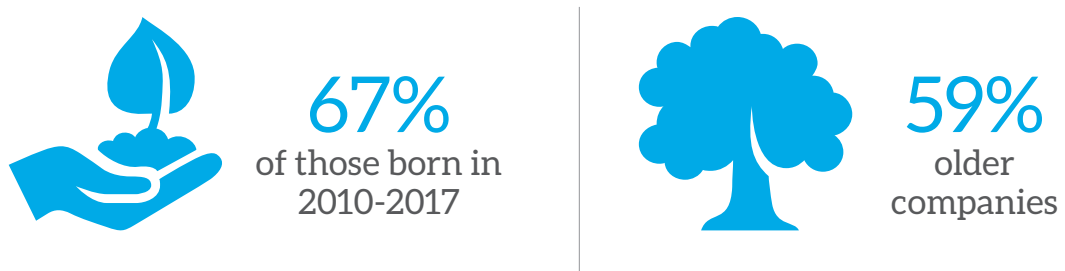
**Fig. 4.5 Industry Sector financial outlook over next two years**



Source: AIBS 2017, Questions 49 and 52. Note: N=941, Agriculture, n= 83, Wholesale, n= 83, Education, n= 85, Other Services, n= 80, Manufacturing, n= 284, Professional, n= 124.

The more financially optimistic companies were the younger companies, established between 2010 and 2017 with 67% stating that their financial outlook for international operations is better today than in the previous two years. This contrasts to 59% for older companies. However, all companies are more optimistic than pessimistic about their future international business financial outlook, which is a positive sign.

**Fig. 4.6 Optimistic v Pessimistic outlook of firms**



Source: AIBS 2017, Questions 49 and 57. Note: 2010-2017, n=194; Older companies (pre-1980s), n=128).

Overall, this optimistic picture painted by survey respondents aligns with the fact that the value of Australia's goods and services exports has continued to grow strongly.

Whilst the majority of survey respondents are optimistic about their future international business outlook and their positioning towards greater market share in new countries, overall, Australia's innovation economy is weaker than that of other OECD economies. 68% of respondents suggest that innovation contributes positively to their overall international sales but the amount of product, process and marketing innovation remains small in comparison to the 'want' of firms to be innovative. Internationally active businesses need to be supported across all levels of system improvement, including innovation. As such, in addition to support through mentoring, grants and access to buyers and networks, innovative capability building would improve the capacity of organisations to respond to a changing global market place.

A

Appendix



## Appendix A – AIBS Methodology

AIBS 2017 was compiled across three stages as shown below. The UTS Business School worked closely with ECA, and its partner organisations Australian Market Research (AMR), Austrade and Efic to review and design the survey questionnaire, which was subsequently conducted by AMR. Upon businesses completing the survey, the full data set was successfully provided to UTS for quantitative and qualitative analysis and interpretation, forming the AIBS 2017 report.

To compile AIBS 2017, the following research methodology was conducted:

### a) Data preparation

The survey data provided to UTS by ECA was anonymised and coded. The data was separated into two groups based on the response to Question 1 which served as a screening question. Respondents that answered YES were included in a group, referred to as businesses that undertook international activities. Those that answered NO were included in a separate group referred to as aspirational international businesses. Respondents that answered NOT SURE were terminated from the questionnaire and therefore not included in the survey results.

### b) Quantitative analysis

A number of questions included a 5-point scale ranging from: not at all important, not very important, somewhat important, very important and essential. Two other categories were included for respondents to increase the accuracy of the responses, these were: (97) not applicable, none of these or prefer not to answer and (99) don't know. This is in line with the 'missing at random approach' and where the data can be fully accounted for by variables where there is complete information. The result of implementing such an approach is a reduced effective sample size for each question.

For this reason the main report and the appendices have identified the sample size of the data for every survey question except for instances when the small sample size was excluded in high level figures in the main report ( $n < 15$ ) and the industry/country templates ( $n < 50$ ).

### c) Qualitative analysis

Open-ended questions were included in the survey to allow respondents to provide their input without restriction. Table 1 shows the question number and the area of examination.

Question	Area of examination	No of responses
Q18	Further comments regarding experience of using CoO	160
Q19	Other reason (response 96) why CoOs are not used	23
Q37	Restrictions and barriers when providing services overseas	177
Q42	How was the issue of travel restrictions dealt with	41
Q45	Other reasons (response 96) reasons for unsuccessfully obtaining finance	30
Q46	Other reasons (response 96) reasons for not seeking additional finance	48
Q48	Comments about ease of sourcing additional debit finance	34
Q73	Cost and efficiency providing three areas for improvement	325
Q74	Import/export laws and procedures, changes related to reducing costs	194
Q76	Comments about the survey	91

**Table 1 – List of open ended questions**

Where responses to open-ended questions were high, the responses were analysed by the research team to identify key themes and incorporated into the reported accordingly.

#### d) Grouping respondents and cross tabs analysis

Data was grouped to enable effective cross tab analysis, provide higher level analysis on the factors that were important or not important, group the years companies began earning international revenue into progressive maturity levels, and to align to themes for not using FTA-specific documentation.

#### e) Firm size

In some instances data was recorded as group responses. For example, firm size was determined by numbers of employees as small, medium and large using the Australian Bureau of Statistics definition of number of employees:

- ▶ Small firms included 0-4 and 5-19
- ▶ Medium firms included 20-49, 50-99 and 100-199
- ▶ Large firms 200-499 and 500 or more
- ▶ Don't know responses

(Q55, How many employees does your company have?)

The 'Don't know' responses were excluded from the cross tab analysis which included firm size as a variable.

#### f) Importance

Importance questions grouped as: essential and very important to provide an overall importance score. Somewhat important and not at all important and not very important were grouped into a 'not important group'.

#### g) Firm maturity

Respondents provided information on what year their company began operating. Primarily, company age was recoded into the decade they began operations (e.g. pre 1980s, 1980s, 1990s, 2000s, 2010s). 'Older companies' refers to those who began operating prior to 1980.

Analysis also looked into 'born globals', which were classified by those who started undertaking international activity within two years of beginning operations.

#### h) Reasons for not using FTA-specific documentation

The reasons for not providing FTA-specific documentation were grouped into the following categories:

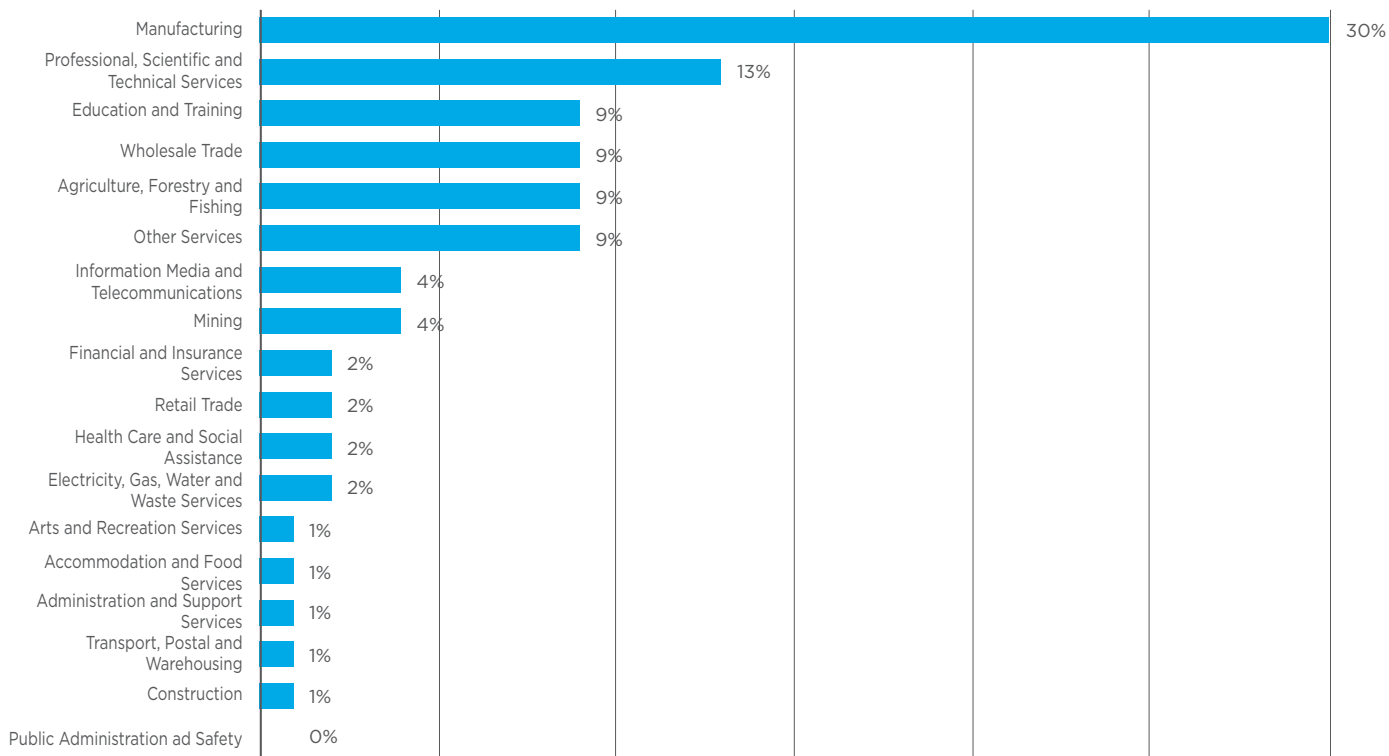
- ▶ Lack of knowledge
  - We did not know there was an FTA
  - We did not know that an FTA tariff preference may exist in that market
  - We did not know a certificate was required to access the FTA tariff preference
  - Don't know
- ▶ Little/no benefit
  - Our product was eligible for an FTA tariff preference, but the preference was not commercially significant
- ▶ Preference ineligibility
  - Our product was ineligible for a FTA tariff preference because it did not meet the rules of origin
  - There was no preferential tariff available under the relevant FTA
- ▶ No documentation was required to access the FTA preference for our product



## Appendix B - Who responded?

A total of 941 internationally active businesses responded to AIBS 2017. Each respondent was invited to classify their business according to the Australian and New Zealand Standard Industrial Classification (ANZSIC) scheme published by the Australian Bureau of Statistics. Approximately, 30% of companies classified themselves as belonging to the manufacturing industry sector, representing the single largest group of respondents. The manufacturing sector is categorised by a range of sub-sectors. The Australian manufacturing industry includes businesses engaged in the physical or chemical transformation of materials into new products. This includes diverse activities ranging from as cheese making, metal smelting and the production of medical equipment.

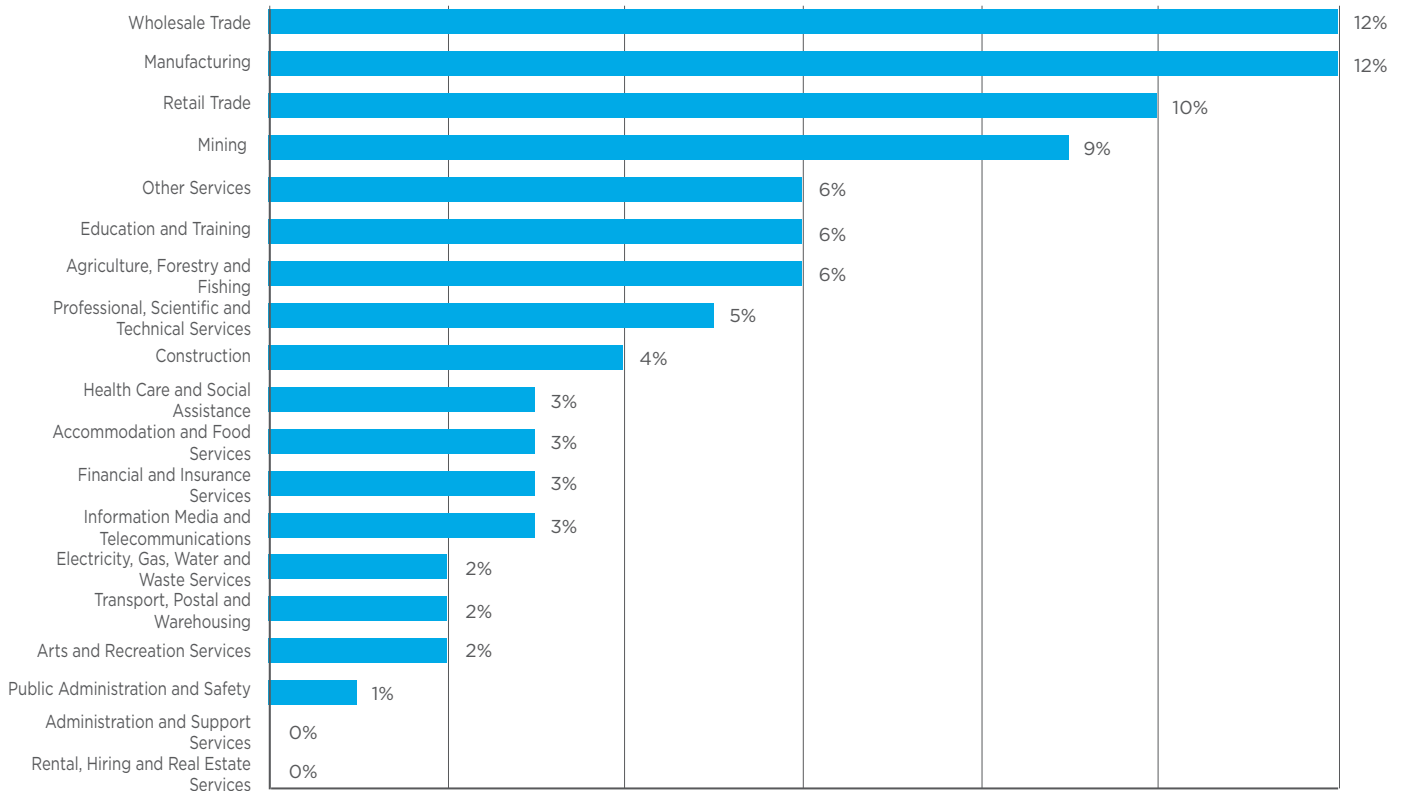
### B.1. Main industry sector



Source: AIBS 2017, Question 52. Note: n=941.

Respondents also sell their products and services to other businesses operating in a variety of industry sectors. The top business customers identified are firms engaged in wholesale trade and manufacturing, both at 12%, with retail trade (10%) and mining (9%) following.

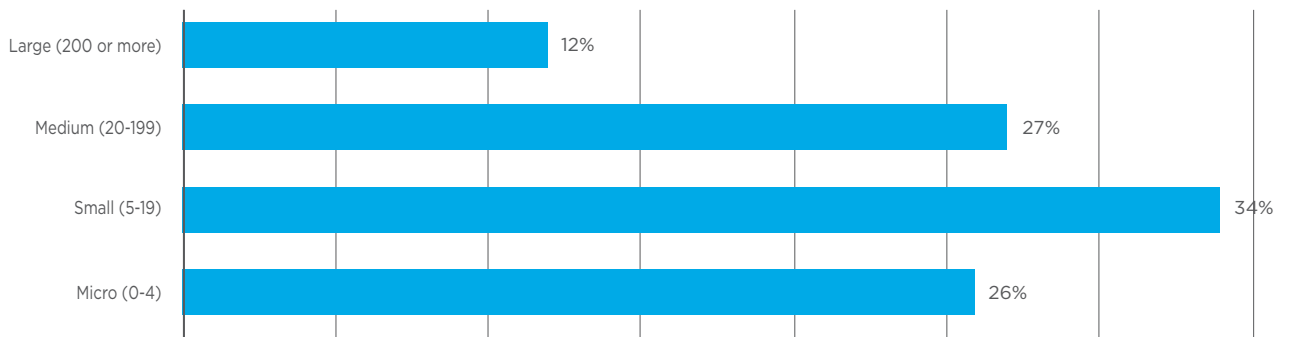
## B-2. Industry sector of buyers



Source: AIBS 2017, Question 54. Note: 941.

Approximately 34% of respondents reported having between 5 and 19 employees, with 26% employing fewer than four employees. Almost 50% of respondents employed fewer than 20 employees. This is in contrast to 2016 with more respondents (31%) employing less than four employees and 27.6% had 1-4 employees, 9.2% had 5-19 employees as per Australian business counts 2017<sup>36</sup>. Almost 27% employed between 20 and 199 employees compared to 22% from 2016 and 2.3% as per ABS 2017. Respondents employing 200 or more staff accounted for 12% of the survey, compared to 9 per cent in 2016 survey and 0.2% of businesses in AIBS 2016.

## B-3. Number of employees

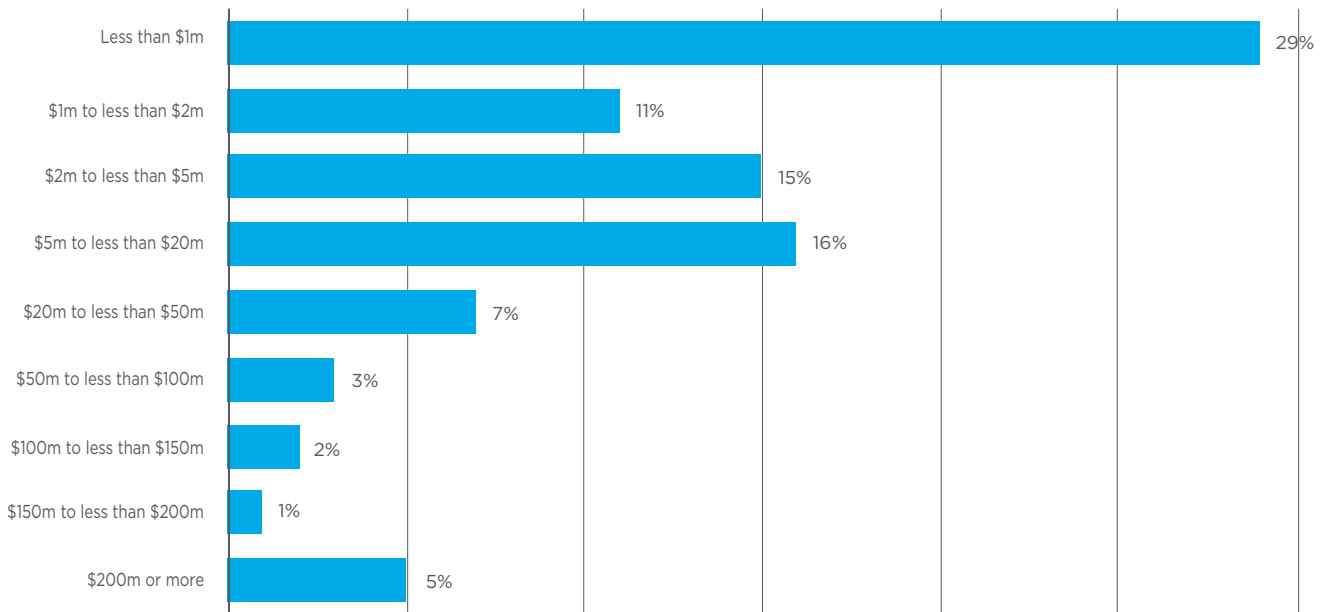


Source: AIBS 2017, Question 55. Note: n=941.



The majority (30% of respondents) earned less than \$1 million in total revenue in the 2015/2016 financial year. This amount is the same as the 2016 survey. The ABS<sup>34</sup> highlight that in 2016, 59.3% of actively trading businesses had annual turnover of less than \$200K with business entry as highest for businesses with annual turnover of between \$50K and less than \$200K (20.2%) and lowest for businesses with annual turnover of \$2 million or more (3.4%). Survey respondents indicating that they earn less than \$2 million but more than \$1 million is 11% and those earning between \$2 million and \$5 million at 15%. The ABS indicated that the higher the turnover of a business in June 2012, the more likely it was to survive and the higher the turnover of a business which began operating in 2012-13, the more likely it was to survive.

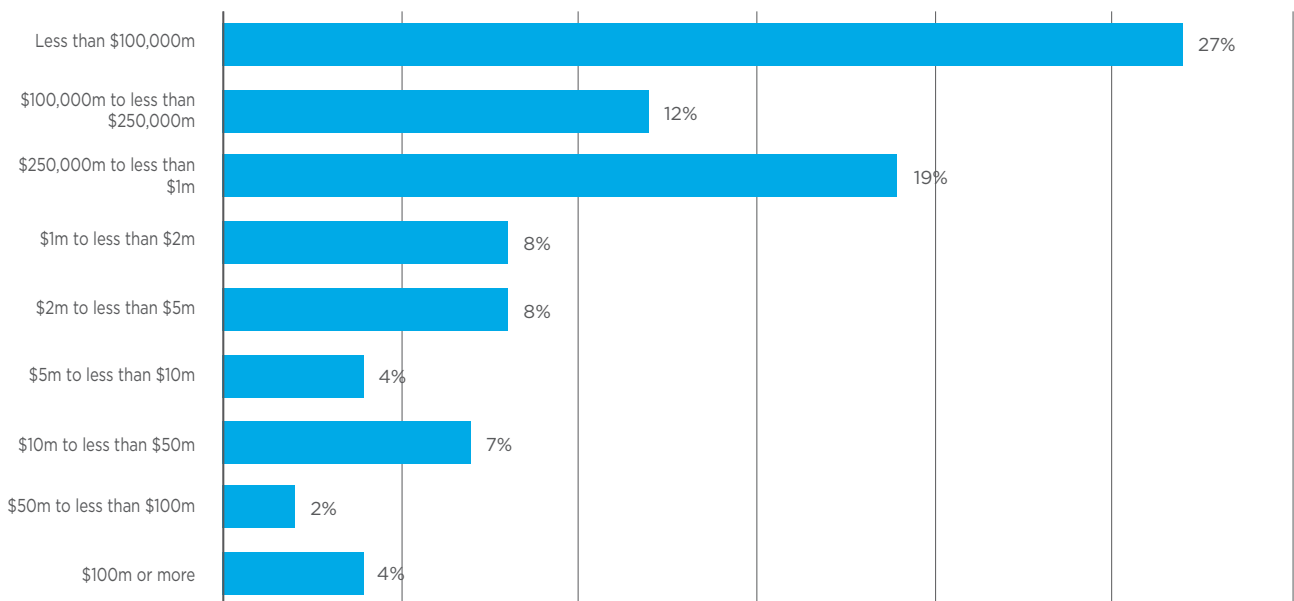
### B-4. Company's total revenue



Source: AIBS 2017, Question 56. Note: n=941.

Close to 60% of respondents reported that international revenue contributed up to \$1 million to total company revenue last financial year, same as 2016 survey. This figure comprised of 27% of respondents earning less than \$100K and 13% of respondents earning between \$100K and \$250K. Only 4% of respondents stated that international revenue contributed more than \$100 million to total company revenue last financial year.

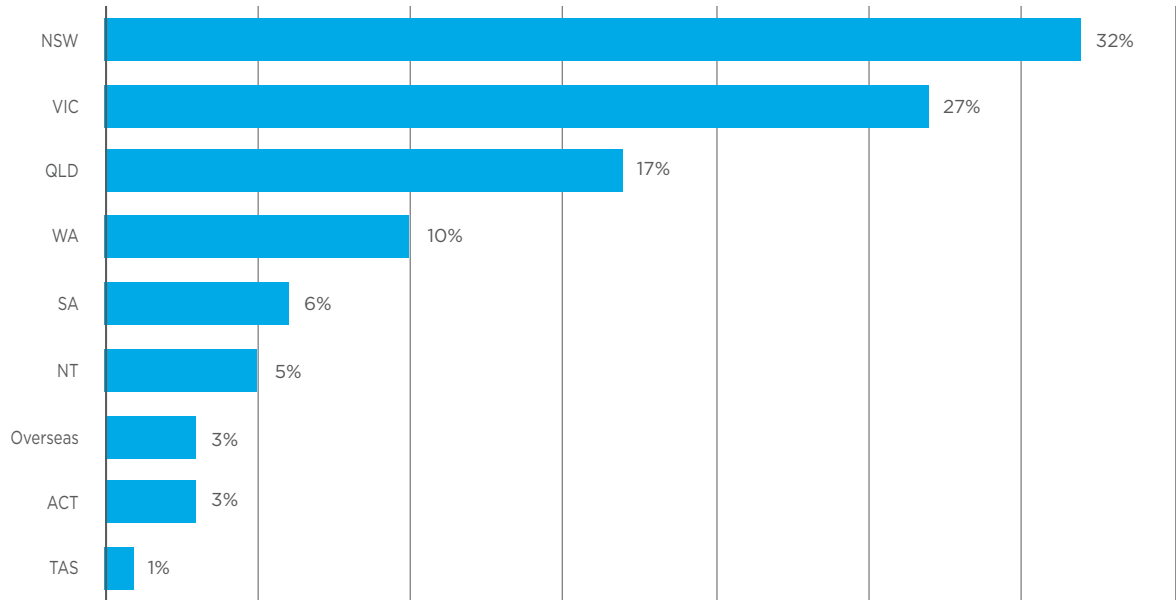
### B-5. Company's total international revenue



Source: AIBS 2017, Question 21. Note: n=941.

Close to 80% of respondents were businesses with head-quarters from the three largest states including 32% from New South Wales, 26% from Victoria and 17% from Queensland. Business head-quarters located in South Australia totalled 6%, Western Australia 10%, Canberra 3% and Northern Territory and Tasmania both 1% respectively.

### B-6. Location of company's head office



Source: AIBS 2017, Question 58. Note: n=941.

More than 90% of respondent companies were wholly or majority Australian-owned companies, with only 8% of respondents reporting being wholly or majority foreign owned.

### B-7. Ownership status of company

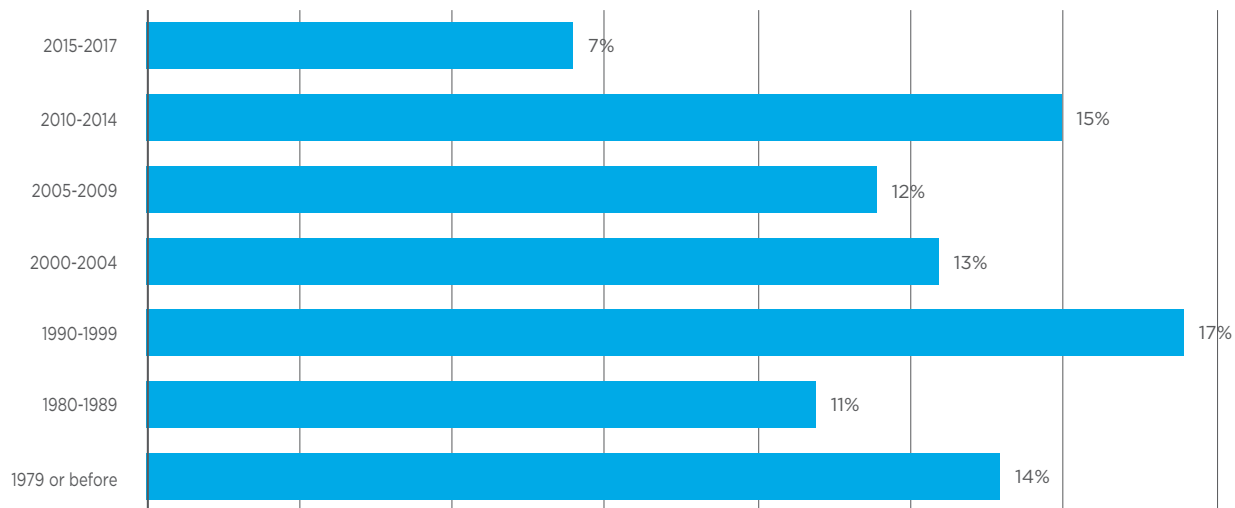


Source: AIBS 2017, Question 72. Note: n= 489.



Approximately, 50% of responding companies were classified as small-medium sized. Just under 50% of these firms are highly experienced and have been operating for more than 20 years. Only 8% of respondents have been operating for two years, 17% for six years, 14% for 12 years and 14% since the year 2000.

### B-8. Company trading date



Source: AIBS 2017, Question 57. Note: n=941.



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- 11 Other international activities may include undertaking R&D overseas, manufacturing products overseas through licensing or temporary employment of foreign staff etc.
- \* The overarching '93% undertaking exporting activities' in Figure 2.4 have been included. However, the breakdown of the figure and write up around 'importance' is split into goods and services - rather than the combined 93% - as Q6 and Q7 each have a focus, goods and services respectively.
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## SURVEY PARTNERS



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