

TASMANIA'S PLACE IN THE ASIAN CENTURY

Submission on Issues Paper
Tasmanian Chamber of Commerce and Industry

August 2012



Context

The Tasmanian Chamber of Commerce and Industry (TCCI) is the State's peak body representing businesses and employers, with a diverse membership base covering all industry sectors and businesses of all sizes. The TCCI's policy advocacy is founded on the principle that freely competitive markets, subject to appropriate regulation, will maximise economic opportunities.

The TCCI welcomes the Government's commitment to proceed with a detailed investigation of the opportunities presented by growth in markets in Asia for Tasmanian goods and services. This submission is a response to the Issues Paper released by the Department of Premier and Cabinet. It focuses on the policy issues of the role of government and demographics, and highlights the focus needed on ensuring Tasmanian businesses can be competitive in offshore markets.

A number of additional comments are also included to address specific issues and questions raised in the Issues Paper.

Role of Government

There is a risk that the State overplays its hand in the opportunities presented by growing Asian economies, such that it could follow a modern day form of picking winners at great cost of both financial and human resources with few clear benefits to the private sector in Tasmania.

Businesses need to take the lead in identifying export opportunities, with the State Government playing a supporting role. This extends to the role of Government businesses, which need to act commercially and should not become arms of the Government in seeking offshore markets for themselves or other Tasmanian companies without a clear commercial rationale, risk management plan and exit strategy.

The TCCI considers that, at a high level, the appropriate roles for the State Government are focused on enabling opportunities for the private sector, and enhancing the State's human capital so that the private sector has the ability to compete with other jurisdictions seeking to exploit the same market opportunities. In both cases, ongoing reforms that enhance productivity and competitiveness are essential.

The challenge for the Government is highlighted by the necessity of facilitating growth for any Tasmanian business. At a time that resource security and foreign investment are being threatened, it is critical that the Government provides leadership to ensure that formal approval processes and independent experts are supported. The TCCI acknowledges that the State Government is a strong supporter of foreign investment in Tasmania.

Tasmanian businesses seek to export into offshore markets for a wide range of reasons, including:

- as part of a well-planned diversification strategy;
- when the business has outgrown local and national markets;
- opportunistically when market conditions, including exchange rates and competitor supply constraints, are favourable; or
- they require the scale offered by international markets in the start-up phase, particularly in the internet, communications and technology sector. In effect, these businesses, or entrepreneurs, are 'born global'.

Nevertheless, it is national markets that provide greater opportunities that cannot be overlooked. In 2010-11, international exports of goods (including bulk commodities) and services comprised 12.8 per cent and 1.4 per cent of GSP respectively. Around 85 per cent of freight into the Port of Melbourne from Tasmania is destined for the national market. Export growth should also be encouraged, but the Government's role needs to maintain a balance, particularly given export growth into new markets is more difficult with the challenges such as exchange rate exposures, value chain management, cultural conflict and intellectual property protection.

Of course, the human capital issue is nothing new. Tasmania has below average education, skills and health outcomes despite above average public spending.

However, the urgency of improving human capital through better educational outcomes, skills attainment and public health is highlighted by the risk that Tasmania will be left further behind by a lack of progress.



While health reforms are at an early stage of implementation, including a focus on efficiency and measurable outcomes within new institutional arrangements, urgent action and a clear reform path is needed in education – instead of retrograde and piecemeal policies – from the State Government. It is not acceptable to wait for national reforms, with potentially inadequate funding, to bear fruit.

Without effective reforms, it is harder for Tasmania to compete at a macro level with a lower skill base, when other States and countries are seeking opportunities in the same markets, and this poses a risk that export growth will be stunted.

At a micro level, better education outcomes and skill levels are needed for Tasmanian businesses to consistently outperform their competitors. While there are many successful Tasmanian exporters, improving management skills and international business acumen will allow a broader mindset and focus on export markets, which differ markedly from domestic markets and require innovation in product development, business management and international marketing and value chain management.

Demographics and skilled migration

The issues paper highlights a key aspect of this human capital development which is specifically related to trade with Asia, being the relatively low level of Asian language and cultural awareness in the Tasmanian population. As noted, Asian languages can be a proxy for this awareness, and in Tasmania only around 2,000 people (or 0.4 per cent of the Tasmanian population) speak Mandarin at home, as a second language, compared to around 336,000 (or 1.6 per cent) in the whole of Australia. While this is to be expected given Tasmania's narrow ethnic mix and lack of Asian language skills, it will be a long term effort for Tasmania to merely catch up to where the rest of the country is now.

Two drivers can improve this situation – a sustained effort in the education system, and demographic change.

It needs to be recognised that any efforts within the education system ultimately involve trade-offs, which is very difficult given the current poor performance of the system in basic literacy and numeracy, which must improve before serious consideration can be given to the ability of Tasmanian students to acquire Asian language skills and cultural awareness, even at a basic level. This is a critical issue for the State Government.

On the demographic front, the potential drivers to increase the proportion of residents with an Asian cultural background are limited in the short to medium term. Interstate migration is often considered to be more reflective of economic conditions, particularly in the labour market, and it is hard to see any significant reason that interstate migration would be heavily weighted to those of Asian ancestry.

Tasmania has the highest humanitarian intake, on a proportional basis, of the Australian States. While broadening Tasmania's ethnic and cultural profile, the opportunities for refugees to deliver economic outcomes in the short term are usually limited by language and cultural issues, let alone make a material contribution to meeting opportunities from growth in other Asian countries.

Humanitarian refugees usually congregate in small areas within larger cities, although the second or third generations are more likely to spread out into other areas, again likely to be in response to labour market conditions reflecting their skill levels attained in the respective education systems. Nevertheless, over time, the national humanitarian intake will have a marginal influence on Tasmania's demographic mix.

The one area that offers opportunities is skilled migration, which can offer multiple benefits depending on the relevant target areas. There is obvious potential to attract Asian immigrants to fill skill shortages, including Asian language teachers, which has the additional benefits of expanding (at the margin) Tasmania's demographic profile. This could also be a spillover effect from international education conducted within Tasmania, or marketing to external University of Tasmania students.

However, much broader opportunities that contribute to Tasmania's trade capacity with Asia are easily overlooked, which involve filling other shortages of staff with necessary skills (and experience) required to meet Asian demand for Tasmania's goods and services. For instance, the dairy industry requires a significant boost in its skilled workforce, estimated to be up to 500 people, along with more cows and more capital to increase milk production by 40 per cent within three years. Much of this production will be sold in



export markets, particularly Asia, even though the staff might be attracted from countries such as New Zealand with extensive dairy sectors.

In contrast to the humanitarian intake, Tasmania has the lowest proportion of skilled migrants in Australia. The role of skilled migration is understated in the Economic Development Plan, and the TCCI is deeply concerned that skilled migration is being neglected by the Tasmanian Government.

The TCCI understands that at most three FTEs are dedicated to skilled migration with no scope for marketing or offshore activities. While acknowledging the current budget situation imposes constraints, this should be a higher priority than other areas of spending that deliver questionable benefits. Adequate resources are required to enable closely-targeted and cost-effective campaigns to attract skilled migrants into key sectors, based on detailed evidence and marketing strategies coordinated with Skills Tasmania.

The Government should also consider moving responsibility for skilled migration to either the Department of Premier and Cabinet or Skills Tasmania, with the latter requiring a strong signal from Cabinet that skilled migration must receive adequate resources once it is amalgamated with the Department of Education from 2013-14.

The TCCI already has close relationships with the Australian Department of Immigration and Citizenship, including through the dedicated part-time services of a regional outreach officer, and would be willing to work with the Government on connections between skilled migration programs and private sector employers.

Specific comments

Section 1

In principle, Tasmania should consider itself part of Asia. However, this needs to be realistic, and acknowledge that Asia itself is far from homogeneous. It would be better to consider that Asia is actually a series of deeply interconnected markets, including a number of internal markets within China, with more loosely connected trading partners such as Australia.

Defining an appropriate scope for the White Paper is challenging. As the scope of the White Paper widens, it is more difficult to maintain relevance and depth. On the other hand, many parts of the Middle East offer growth rates comparable to China and stronger parallels with Australia such as legal systems.

Together, these points highlight the need for the Tasmanian White Paper to focus on genuine opportunities to develop trade in sectors/products where there are opportunities at a regional (or subregional) level. In other words, detailed market and competitor intelligence must inform both the State and commercial activities, rather than a high level perspective of pursuing poorly defined opportunities arising from Asia's growth.

Also, much of the Issues Paper focuses on export opportunities. This overlooks inbound investment as a key part of the relationship with Asia. In some cases, this investment will support growth in merchandise exports, although in others (such as Guohua's investment in Hydro Tasmania's wind farms) it is a relatively passive portfolio investment.

Section 2

As noted above, the role for Government needs to be constrained to facilitating opportunities for the private sector. Consequently, it is generally not appropriate for the State to determine the key opportunities for growth in Asian economies, and it is better that this be informed by market forces combined with expert assistance, such as Austrade and its programs.

For instance, the potential to export fruit into Asia is often raised as a key growth opportunity. However, even if the quality of Tasmanian produce exceeds overseas competitors, such as Chile, it must be price competitive. The TCCI understands that the landed price of cherries in Chinese markets is double that of Chilean producers. Maintaining cost competitiveness is a key challenge, given costs embedded in the supply chain including freight and quarantine. Further, in a labour-intensive industry, high wages and an inflexible labour market inevitably increase costs for Tasmanian growers.



Similarly, many seafood product markets are intensely price sensitive. Another case study is the abalone industry, which is highly sensitive to the Australian dollar, and exporters are effectively competing with very active grey and black markets. The TCCI welcomes the Australian Government's investment in developing more sustainable supply chains, and legal strategies, for live abalone exports into China.

The TCCI fully supports efforts to access the opportunities provided by climate change and increasing demand for higher-value food in Asia. However, there are very few sectors where Tasmania has sufficient scale to become a bulk supplier, and hence the opportunities will generally be in niche markets. Therefore, at a general level, opportunities for Tasmania must be based on a case-by-case assessment of capabilities at an industry or business level. Further, it is only from developing these capabilities that sustainable competitive advantages can emerge.

This supports our broader comments on the role of government – it will ultimately be unsuccessful if the State identifies opportunities without a detailed consideration of whether any Tasmanian business has the necessary capability, or potential volumes, to exploit the market opportunities.

Chapter 3

The TCCI acknowledges that services exports present a clear opportunity for Tasmania, particularly as freight costs and logistical challenges are less of an issue. However, as services (including tourism) involve a closer relationship with customers, the human capital issues identified earlier could be more of an impediment to growth in services exports compared to merchandise goods where this can be addressed through the supply chain and other relationships.

Consistent with the comment in section 2, the TCCI suggests that any targets for inbound tourism and international education should be based on rigorous market analysis. On the latter, it is likely that the University of Tasmania is best placed to assess its opportunities, and this should not be a role for the Government.

Chapter 4

The discussion of freight issues affecting Tasmanian exporters is well-framed, and the TCCI supports the comment that commercial freight decisions by major container exporters will drive the viability of freight routes. However, these commercial decisions will, in some cases, reflect legacy arrangements (such as long-term contracts) rather than economically or environmentally optimal outcomes.

The loss of an international shipping service has caused sea freight exporters (including prospective) to bear significant additional costs as a consequence of shipping through the Port of Melbourne. Many companies cannot absorb this cost as they are price takers in international markets.

However, while this is an impediment to some current and potential exporters, it is not clear that this has affected Tasmania's competitiveness at an aggregate level or that it means that overall freight costs are uncompetitive on the basis of comparable distances to key ports. The key issue with an international run for containerised exports is that it needs to be commercially viable as the shipping industry evolves.

It is also an open question whether port rationalisation will lower freight costs for Tasmanian businesses.

These are some of the issues that the TCCI will be exploring through its Freight and Transport Logistics Committee, which will commence in the near future following a forum of interested parties that was held on 1 November 2012. The priority for the Committee is establishing a rigorous evidence base on the costs embedded in the Tasmanian freight and logistics supply chain, which can be used to frame sound policies for both the Federal and State Governments to consider.

In the meantime, the TCCI's position is that the Tasmanian Freight Equalisation Scheme must be preserved, and options to extend it to exporters are welcome but should be considered as part of the broader policy options given a finite amount of public funding available to support Tasmanian interstate and international trade flows.

The capacity for export growth is spread across the Tasmanian economy. As noted above, any assessment of growth areas needs to be considered in the context of all markets, including local and national markets. I draw your attention to the paragraph on energy intensive mineral processing, which suggests the scope



for growth is limited by energy supply. This is not the case, as there is currently an excess supply situation in the Tasmanian market, reflecting the currently high storage levels, potential to increase output from the Tamar Valley Power Station combined cycle gas turbine and outlook for very modest growth in demand. Ultimately the price of energy in Tasmania, set in the context of a national market and the renewable energy base, will determine whether there is scope to grow energy intensive industries.

Aquaculture is also mentioned as a substantial market opportunity. However, the TCCI understands that the national market is the primary target for the increased capacity from Macquarie Harbour, and exports are currently viewed opportunistically. Again, this is a case where a top-down perspective can be misleading and analysis must be informed by detailed market intelligence.

It is essential that all governments facilitate free and open capital flows, subject to FIRB approval. The benefits of foreign investment are extensive, and well-known. The Tasmanian community generally has a good understanding of these benefits, and opposition to projects is usually based on their (actual or perceived) environmental impacts rather than ownership. In this context, current processes are likely to be adequate, and external threats cannot be allowed undermine these flows. However, the White Paper could usefully consider the processes for facilitating new inbound investment, whether sourced from domestic or international markets, with some anecdotal comments suggesting project approvals processes in Tasmania are complex and fragmented.



Further Information

For information please contact TCCI Chief Economist, Phil Bayley.

Tasmanian Chamber of Commerce & Industry
Industry House
30 Burnett Street
GPO Box 793
Hobart TAS 7001

t > 03 6236 3600
f > 03 6231 1278
e > economics@tcci.com.au

w > www.tcci.com.au

@tcci

