



SUBMISSION

BCA Submission to the
Foreign Policy White Paper
Taskforce

MARCH 2017

www.bca.com.au

Contents

About this submission	2
Key recommendations	2
Context for the White Paper	3
International engagement underwritten by economic strength	5
The international trade and investment environment	7
Indo-Pacific: Australia's home and future	8
Beyond our region: the importance of enhanced engagement	12
Regional and international rules-based system	13
Regional and global security	14
Development assistance: development, stability, governance	14
Whole-of-Australia: national cooperation, including with non-federal government actors	15

Figures

Figure 1: We live in a trade intensive world	5
Figure 2: Australia is the third largest net capital importer	6
Figure 3: Asia's middle class will make a strong contribution to growth	9

The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

About this submission

The Business Council welcomes this opportunity to provide a submission on the Foreign Policy White Paper. In today's increasingly globalised economy, the Australian business sector regards international stability and predictability as vital to prosperity of nations, including Australia. And increased engagement between countries of the region and across the globe does more than just increase trade; it promotes innovation, which rarely flourishes in isolation within one country's borders, and builds positive patterns of behaviour that reinforce political stability and security.

The development of the Foreign Policy White Paper is a timely opportunity to think strategically about Australia's interests and region and the significant changes that are shaping it. While there are strong elements of continuity that promote a favourable environment for Australia, challenges including rapid technological change, geopolitical instability, mass movements of people, slow global economic growth, and rising dissatisfaction with existing narratives and institutions, require a re-evaluation of existing policy settings, and recommitment to Australia's core values and the institutions that embody them.

This submission outlines the Business Council's suggestions for actions and advocacy that can contribute to Australia's prosperity and security, and counter the emerging protectionist narrative. These suggestions include promoting the benefits of trade and investment liberalisation, enhancing Australia's engagement with regional partners and institutions, and encouraging the WTO to increase its relevance to trading requirements of the 21st century through pursuing agreements on investment, non-tariff barriers and services trade liberalisation. Given the complexity of contemporary international engagement, the Business Council encourages the Australian Government to take a whole-of-Australia approach, and build open and inclusive mechanisms for consultation with the range of Australian stakeholders that can contribute to promoting Australia's interests internationally.

Key recommendations

- ▶ Australia should undertake domestic economic reforms to underpin competition and openness which are not only in its own interests but also allow us to lead international reform by example and to enhance the credibility of our international advocacy of reform, including:
 - greater clarity for investors and the Australian community, including reversal of the recently introduced lower thresholds for foreign investment in agribusiness
 - reduction of the regulatory burden for trade-exposed industries
 - greater regulatory consistency across jurisdictions
 - maintaining an internationally open labour market
 - reduction of the company tax rate and broader tax reform.
- ▶ Australia should review its bilateral FTA negotiation program to ensure it is effectively focused on services liberalisation, and to add weight and gain support for the counter narrative to protectionism.

- ▶ Australia should expand its engagement with regional forums such as Asia–Pacific Economic Co-operation (APEC) and the Indian Ocean Rim Association (IORA).
- ▶ Australia should work within the G20 and APEC to implement the WTO Trade Facilitation Agreement (TFA), and build substantive elements that would contribute to an eventual Free Trade Area of the Asia–Pacific.
- ▶ Australia should promote the contemporary relevance of the WTO through new trade agreements that support e-commerce and the production model of global value chains.
- ▶ The Comprehensive Strategic Partnership agreement with Singapore should be used as a model for deepening and broadening Australia's relations with key partners, including PNG, India and Indonesia.
- ▶ Australia and China should establish an Australia–China Commission that is well-resourced, operates independently of government to promote policy, research, scientific, technology, education, cultural and people-to-people exchanges between the two countries.
- ▶ Australia should enhance its links with other middle powers in the region to enhance its regional influence with the region's significant powers.
- ▶ Australia should 'double down' on its engagement with Asia and enhance its links with countries and regions beyond the Indo–Pacific, including Europe, Latin America, the Middle East, and Africa.
- ▶ Australia should work towards the development of a regional security forum or mechanism in the Asia–Pacific, focused, in the first instance, on disaster prevention and relief, and confidence building measures.
- ▶ The Australian Government should encourage the US to continue its rebalance to Asia through enhancing political, people-to-people, and economic links with the region, as well as bolstering its significant regional military presence.
- ▶ Australia's development assistance budget should not fall below current levels, and should increase as Australia's budgetary position improves.
- ▶ The implementation of the TFA should be a priority for the development assistance program as a means of alleviating poverty.
- ▶ DFAT's mandate should be expanded to ensure DFAT's input to domestic issues that are relevant to our international interests.
- ▶ DFAT's resources should be assessed to ensure they are adequate for it to respond effectively to the myriad international challenges and to better anticipate and shape international developments.
- ▶ DFAT should take a whole-of-Australia approach by cooperating with other stakeholders, including state and territory governments, regional authorities, business groups, educational institutions and civil society, in promoting Australia's interests internationally.

Context for the White Paper

Australia continues to benefit from its location in the Asia–Pacific, the major contributor to global economic growth and increasing centre of global economic weight, and from its proximity to Asian markets.

Prolonged peace and stability, underwritten by an engaged, militarily dominant US, provided the basis for the Asia–Pacific's prosperity.

While elements of continuity favour Australia, developments, such as Brexit, the recent US election, and the rise of parties with narrow, nationalist agendas, signal a seismic shift in sentiment internationally. This is reflected in the questioning of the merits of globalisation, migration, innovation, and the value and virtues of technology. And yet they are the very things that have driven international, and Australian, prosperity.

At a societal level, these developments signal widespread loss of faith in institutions that have been central to economic growth and prosperity – government, organised religions, business, and modern democratic institutions. These institutions are viewed as no longer capable of managing the economy or society for the benefit of the wider community.

Globally, these developments could also presage the potential loss of US leadership in trade reform; the prospect of the US using its significant leverage to renegotiate existing trade agreements; and, for Australia, reconsideration of who is ‘like-minded’.

Furthermore, public commentary of an increasingly assertive China, strategic competition between China and Japan, tensions between the US and China, and the uncertain level and manner of US engagement in the region, raises questions about the future stability and security of Australia’s region.

Australia faces a much more complex world than previously, where trade was governed by WTO and FTA rules, with trade liberalisation as the dominant narrative and championed by the US, and where regional security was underwritten by a massively predominant US and its web of alliances.

This shift is unlikely to be tactical or transitory, but rather a strategic redrawing of important elements that shape Australia’s environment.

In response, Australia must continue to encourage the US to be a stabilising influence in the Asia-Pacific. We share values, history and, in many areas, attitudes. The US has been a major trade and investment partner, as well as security ally, for Australia. The US rebalance to Asia was substantive, with increased US resources in enhancing political, people-to-people, and economic links with the region, as well as bolstering its significant regional military presence. The US rebalance to Asia reflected US interests, as well as those of the region. Encouraging the US to continue with its rebalance to Asia should be a priority for the Australian Government.

Australia has a record it can be proud of in promoting its interests, which have regularly included its interest in being a good international citizen. Australia will need to be strong and resourceful in responding to these challenges. In doing so, it is vital that Australia stands up for values that are the foundation of its prosperity and national identity, such as liberal democracy, respectful open debate, free trade, free enterprise, competition and open markets, the rule of law, good global citizenship, human rights and civil liberties.

Accordingly, the Business Council believes the White Paper needs to clearly demonstrate how Australia will articulate these values in a way that generates support, not just with governments, but with citizens across the region and further afield.

The White Paper must also show how Australia will operationalise these values through the prosecution of issues and by building coalitions.

Australia must patiently and persistently explain why it has a view on an issue.

Equally, Australia must explain why it disagrees with some views, such as protectionism.

Australia must be prepared to lead when familiar champions of our shared values may no longer take that role.

Australia must be nimble and pragmatic in the current environment where effective coalitions of 'like-minded' may have some new members, and be minus some familiar ones.

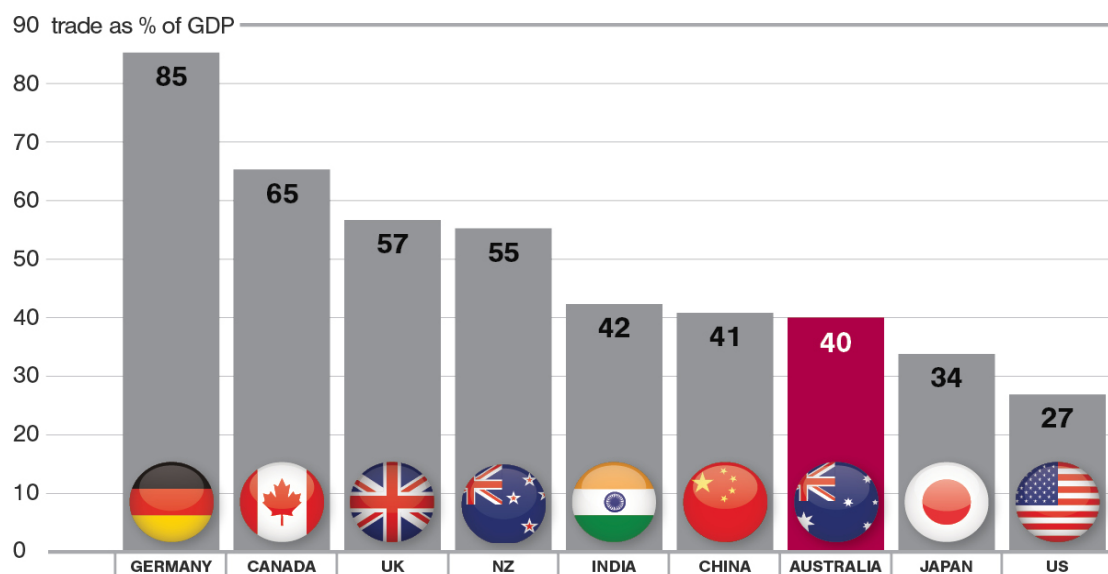
International engagement underwritten by economic strength

Australia's ability to engage internationally and to exercise the influence that it does and should, is dependent on the strength of its domestic economy. It is that which underwrites Australia's participation in the G20 and enables Australia to have a credible voice at regional and international forums.

The soundness of Australia's economy goes to both the resources required to advocate our interests internationally, and our ability to impact issues where our vital national interests are engaged.

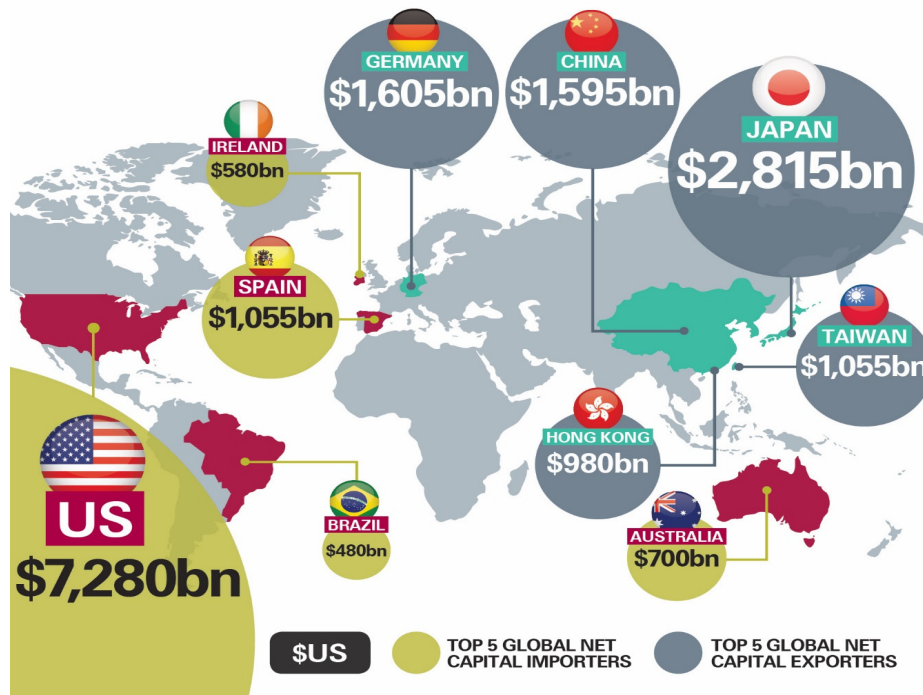
Australia's ability to trade with other countries and attract foreign investment directly impacts its economic growth. Accordingly, our international engagement and competitiveness is more important than that of many other nations that are less reliant on foreign investment and trade, particularly as our savings continue to be inadequate to fund the projects and infrastructure required for a sound and sustainable economy.

Figure 1: We live in a trade intensive world



Source: OECD

NB. All data is for 2015-16 except for China which is 2015 data.

Figure 2: Australia is the third largest net capital importer

Source: IMF, International Investment Position statistics, 2016

Australia's exposure to both trade and foreign investment has made the Australian economy strong and competitive. Being open to both has not been an option, but rather a necessity. Our future is no less demanding, and the protectionist sentiment emerging in some other countries is not an option for Australia.

Domestic reforms in the 1980s and 1990s, and the resources investment boom, have underpinned 25 consecutive years of economic growth. As a result, Australia is a confident middle power capable of influencing regional and global developments in partnership with like-minded countries.

For the White Paper to be meaningful, in that Australia is capable of resourcing and delivering on the ambitions it contains for Australia's international engagement, domestic reform must keep pace with Australia's changing requirements and the global developments in trade and investment.

In particular, Australia must have a competitive domestic industry for success as an exporter. Australia's world-leading service providers should have the opportunity to compete fairly in markets overseas where their intellectual property is protected. And foreign investors considering investing in Australia must have confidence in the processes around their potential investment.

Domestic reform to keep Australia strong and internationally relevant

Although this is a foreign policy White Paper submission, the distinction between domestic and international is artificial and potentially detrimental to achieving foreign policy objectives. Accordingly, Australia should undertake important economic reforms domestically. Doing so would be a powerful statement of Australia's values, ensure it is

capable of prosecuting its interests overseas, and enhance the credibility of its international advocacy. It would also make Australia more attractive to foreign investment.

- Foreign direct investment is critical for Australia's growth and productivity improvement. The foreign direct investment regime can be improved through providing greater clarity and consistency for investors and the Australian community.
 - The Business Council believes that recently introduced lower screening thresholds for foreign investment in agribusiness send the wrong signal, negatively impact on investment in agribusiness and Australia's reputation as a destination for investment, and should be reversed.
- To promote consistency and reflect the full national interests at stake with foreign investment, a Foreign Investment Advisory Council integrating both the investment attraction and investment regulation arms of government at Secretary level should be established.
- The regulatory burden on trade-exposed industries should be reduced. Australia's cumbersome and expensive systems for approving major projects – from railways to university campuses to iron ore mines – should be streamlined.
- Domestic regulatory reforms including greater consistency across jurisdictions would facilitate domestic and foreign investment and trade in key services industries including transport, professional services and international education.
- Australia should maintain an internationally open labour market, including the use of 457 visas, to access skilled labour where there are skill shortages and mutual recognition of qualification of foreign professionals.
- One of the strongest levers government has to boost our attractiveness to global investment is the company tax rate which, at 30 per cent, is dissuading foreign and domestic investors from new investments

The international trade and investment environment

The benefits of the globalisation of trade, investment and innovation have become contentious. Trade and investment are increasingly seen as the cause of slowing growth and job losses. There is a disconnect between popular appreciation of access to increasingly useful and inexpensive appliances and gadgets, and negative sentiment about the foundations from which these benefits are generated.

The Business Council sees three related but distinct challenges:

1. Undertaking further trade and economic reform will become more difficult.
2. Maintaining current levels of openness will come under pressure, perhaps significantly.
3. Protectionist sentiment could see innovative approaches to the introduction of trade restrictive regimes.

Australia must, and is well placed to, provide leadership in countering these challenges and in promoting trade and investment liberalisation, as it did with the Cairns Group. Australia is tied to values that have promoted its prosperity, and institutions which have preserved it.

Australia has a good reputation as an advocate of trade and investment liberalisation: a position strengthened by a history of courageous economic reform at home. In the current

environment, the well-known messages of the benefits of trade and investment liberalisation have lost traction with significant portions of the population in some of our key trading partners.

Brexit and the recent US election demonstrate that the current messaging on the benefits of trade and investment liberalisation are ineffective with these populations and, further, that the very institutions associated with the messages are discredited. Winning back the trust of these populations, and developing a narrative that resonates with them, will require new thinking: a reimagining of the citizens' compact. People should not only welcome the benefits of trade and investment liberalisation as improving their lives, but also feel included and valued in the setting of national priorities.

Australia should review the regional and international trade and investment architecture to see where it can be strengthened, and where doing so can help counter emerging protectionist measures.

This could include strengthening and expanding Australia's bilateral Free Trade Agreements (FTAs) to promote services liberalisation. In the face of protectionist pressures, low hanging fruit, such as an FTA with Hong Kong, the United Kingdom and others, would underscore Australia's commitment to free trade and support a trading partner committed to openness. It would add weight to the counter narrative to protectionism.

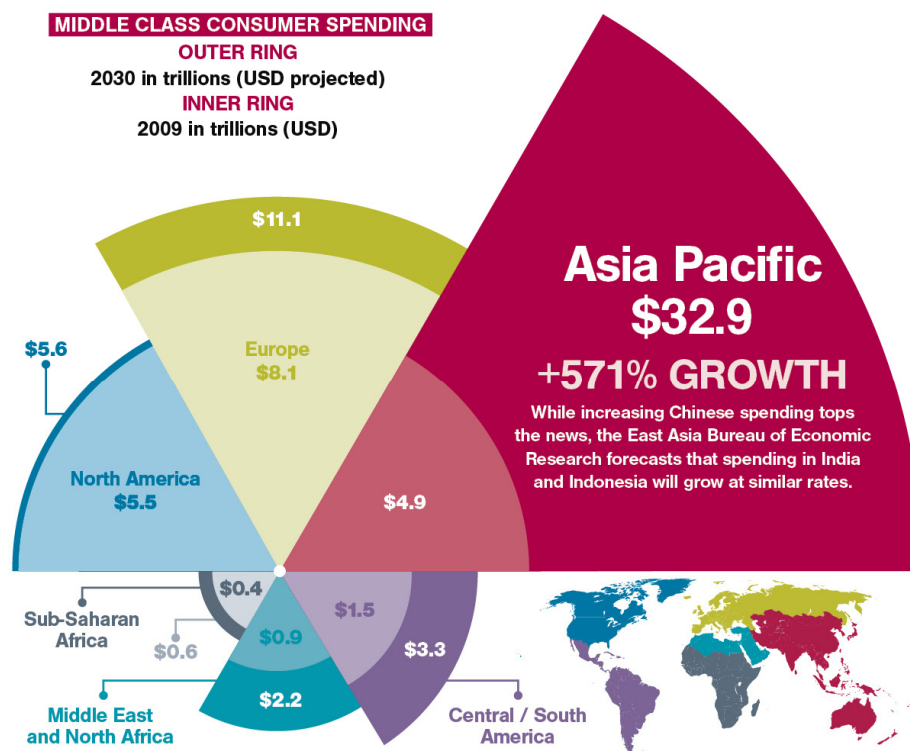
Australia's FTAs could also be made more accessible to the average business. Efforts towards the harmonisation of rules of origin across multiple FTAs, increased use of electronic certification and mutual recognition of standards/certifying authorities, can make it easier to do business across borders, and increase the uptake of existing FTAs.

Indo-Pacific: Australia's home and future

The shift of economic and political power to the Indo-Pacific (broadly encompassing India, South East Asia, North East Asia, Australia and the Pacific countries) is unparalleled in history. In the past 30 years, nearly one billion people have been lifted out of poverty, with China accounting for approximately 680 million of those people.

The rise of Asia's middle class, with its increasing economic weight, presents both challenges and opportunities for Australia.

Figure 3: Asia's middle class will make a strong contribution to growth



Further change driven by technology and the rise of Asia's wealth and political power will lead to an increasingly integrated global economic architecture with Asia at its centre. For Australia, leveraging Asia's rise will be vital to promoting our own economic growth and wellbeing.

For Australia's industry, as a high-level skills, high-wage, high-productivity country, creativity to add the high-end value of innovation to economic activity, and frameworks to facilitate interaction with Asia will be key to Australia's ability to embrace and benefit from these historic changes.

Closer, deeper relations with regional partners

It is not just economic growth that marks the rise of the Indo-Pacific. Increasingly, world class innovation originates in the region.

In the 2016 Global Innovation Index, China ranked 25th overall, and 17th for innovation quality. Singapore's economic and social success has been built around innovation as a central pillar. The public research and development budget has grown from SGD\$2 billion (AUD\$1.5 billion) under the 1991 five-year national technology plan to SGD\$19 billion (AUD\$14 billion) in the latest 2020 plan. Openness to foreign investment and talent have complemented Singapore's investment in innovation.

Singapore

In this context, the Business Council welcomes the 2016 Comprehensive Strategic Partnership (CSP) with Singapore. Singapore is a valuable partner for Australia. The CSP provides bilateral agreement to a 10-year plan to enhance strategic, trade, economic, defence, and people-to-people links, and deepen collaboration in all areas of bilateral cooperation and enhance the integration of our economies, including through mutual recognition of professional services and financial services.

The CSP is a useful model for engaging other countries/economies of our region.

China

Australia has benefited significantly from China's economic rise. China is the largest market for Australia's agricultural products and education services, and the key market for growth for Australia's important services industry. Over 200,000 Australian jobs are directly tied to exports to China, and the average Australian household benefit from trade with China rose from \$3,400 in 2009, to nearly \$17,000 in 2013.

While bilateral relations have improved and deepened, the White Paper is an opportunity to rethink our engagement with China to ensure that we provide a framework that actively enhances opportunities for Australian engagement and trade with China.

Valuable guidance on how we can do that is contained in the *Partnership for Change: Australia – China Joint Economic Report* (the report), by the East Asian Bureau of Economic Research, and the China Centre for International Economic Exchange. The Business Council welcomes the report's many specific recommendations, including boosting the level and range of policy, research, scientific, technology, education, cultural and people-to-people exchanges between the two countries through establishing a statutory entity such as an Australia–China Commission that is well resourced and operates independently of government.

The report's proposals for greater alignment between Australian and Chinese programs on issues such as innovation, provides a basis to redesign and redevelop the bilateral architecture to ensure that it optimises the value of each country's strengths through effective frameworks for bilateral interaction.

Indonesia

Other partners also offer potentially significant benefits from closer, more strategic engagement. Indonesia is one of Australia's nearest neighbours. It is expected to be the fourth largest economy in the world by 2050 (Australia to be the 28th). Over one million Australians visited Indonesia in 2014.

Indonesia, along with India, is an important partner for Australia in the promotion of regional stability and prosperity. While the Comprehensive Strategic Partnership reflects Australia's and Singapore's mature economies, the Business Council would welcome the same thinking being applied to our relations with India and Indonesia, with the aim of institutionalising, broadening and deepening the level of bilateral engagement. The timely completion of bilateral trade agreements would be a strongly positive step.

PNG

Australia's nearest neighbour, Papua New Guinea, is also vital to Australia's national interests. While rich in resources, PNG is facing economic, security and governance challenges. Australia is well placed to engage constructively and respectfully with the PNG Government and other stakeholders to promote stability and prosperity. Australia should elevate its relations with PNG through a Comprehensive Strategic Partnership agreement that reflects the capacity and needs of both parties, and promotes greater economic integration of PNG with the region.

The Business Council welcomes efforts to enhance Australia's engagement with significant regional parties. The recently announced Summit with the Association of South East Asian Nations (ASEAN) to be held in 2018 is an important step in building strong bonds between the region's middle powers, and complements efforts to continually strengthen engagement with Indonesia.

Strategic engagement with regional and multilateral architecture

Greater gains are likely to come from broader-based agreements. Regionally, Australia should continue and even expand its valuable contribution to the work of Asia-Pacific Economic Cooperation (APEC) and the emerging Indian Ocean Rim Association (IORA).

APEC in particular provides a valuable platform for promoting trade and investment liberalisation and supporting important institutions, such as the WTO. Because of, rather than despite, the voluntary and non-binding basis of APEC commitments, APEC has been successful in building confidence between member economies and enhancing transparency, efficiency and cost saving in regional trade.

APEC can make a significant contribution to implementing the WTO's Trade Facilitation Agreement. Indeed, APEC is already leading the way in encouraging the TFA's implementation. Furthermore, through region-wide norm setting, including on aspects of the TFA, APEC can provide substantive elements of cooperation that could, in the future, contribute to a Free Trade Area of the Asia-Pacific (FTAAP).

In the context of regional trade and investment liberalisation, it would be a setback if the Trans-Pacific Partnership agreement (TPP) were to be completely abandoned. Its carefully negotiated elements reflected high ambition and a commitment to address 21st century challenges. The Business Council encourages the Australian Government, in concert with like-minded governments, to try to preserve TPP advances.

Given the difficulties with TPP, the Australian Government's commitment to participation in the Regional Comprehensive Economic Partnership (RCEP) negotiations was strategic and insightful. Australia's participation bolsters both RCEP's ambition and capacity to assist other parties achieve that level of ambition. In addition to the trade and investment liberalisation benefits, RCEP's membership ensures the agreement will be an important strategic engagement for Australia.

With its 21 member states and seven dialogue partners, IORA is an important grouping for Australia's regional engagement centred on the Indian Ocean. Its work program, including on maritime security and trade and investment facilitation, provides a valuable platform for Australia to engage with a wide range of regional countries on issues important to

Australia. Australia's deeper engagement can make IORA an even more effective organisation in the management of regional issues.

Australia should continue and enhance its constructive engagement on trade and investment liberalisation in other forums, including the G20, the East Asia Summit (EAS) and the MIKTA grouping (Mexico, Indonesia, Republic of Korea, Turkey, Australia).

Particular focus should remain on ensuring that Australia plays a vital and influential role in the G20. Full utilisation of our membership should include thought-leadership and influence on the mechanisms to support global economic growth.

Beyond our region: the importance of enhanced engagement

Australia's interests are global and they must be prosecuted globally. While the Indo-Pacific is a natural trade and security focus for Australia, Australia's international engagement needs to be more than just regional.

As a country largely composed of immigrant stock, Australia's people-to-people links are strong with countries across the globe.

Europe, despite its challenges, continues to be one of the leading economic actors in the world. European countries contribute greatly to Australia through investment and innovation. Australia is similarly engaged in Europe, providing a strong basis for further enhancing our political and economic engagement.

Australia should enhance links with Latin American countries and encourage their increased involvement in the Asia-Pacific. Latin American countries have much to offer the region, including through bold trade liberalisation such as the Pacific Alliance, and additional middle power weight that may be valuable in negotiating with larger regional powers.

The Middle East too often features as an Australian priority when there is a difficulty to be addressed. The reality is the Middle East has much to offer, as the strategic relationship between Qantas and Emirates Airlines has demonstrated. The Gulf States in particular offer politically stable, economically dynamic and innovative partnerships for Australia in creating trade opportunities throughout the Middle East and central Asia, and enhanced understanding of and ability to respond to contemporary challenges, such as nuclear proliferation and religious extremism.

Similarly, Africa is too often seen in the context of an aid recipient, rather than a continent of growing economic importance, with natural wealth and an increasingly informed and dynamic citizenry. Africa is also an important part of Australia's strategic engagement with Indian Ocean rim countries.

Australian companies are looking in these challenging markets for growth. Australian foreign policy practitioners need to understand these challenges and help prepare the ground for successful expansion of Australian economic interests.

Regional and international rules-based system

The WTO embodies the best principles of trade and investment liberalisation – a commitment to non-discrimination and rule setting with an enforcement mechanism. However, the DOHA Round has tarnished the WTO's reputation and demonstrated the inherent difficulty with multilateral trade negotiations. The WTO has also struggled to remain relevant to the changing patterns and realities of international trade.

This is not to ignore the vital contribution the WTO continues to make through its dispute settlement mechanism: a rule-enforcing capability that is almost absent elsewhere at the multilateral level.

The potential for meaningful trade outcomes through the TFA is also encouraging. In an environment where trade concessions are viewed with suspicion by significant populations, the TFA with its emphasis on efficiency and cost-saving is a timely development. Realising the tremendous benefits that can flow from the TFA will require rigorous implementation, especially by developing countries. Australia should be at the forefront of encouraging that, and lending practical assistance where appropriate. Australia can lead through its own implementation and rally partners to do the same.

In addition to overcoming what seem to be significant systemic difficulties, to become truly relevant, the WTO must respond to the trade challenges of the 21st century.

The WTO is largely geared to the fading international paradigm of global trade of localised production within the boundaries of individual countries. By contrast, the contemporary model of global value chains and e-commerce entail new patterns of production, marketing and distribution. This requires a new set of international instruments if the contemporary models of trade are to flourish free of behind-the-border barriers.

The first instrument would be a multilateral agreement on investment that provided for transparent, stable and predictable long-term cross-border investment.

The second would be an agreement that addressed non-tariff barriers, providing for consistency, predictability and transparency in standards, certification, customs procedures, packaging requirements, food safety and health requirements.

Another agreement, central to the requirements of international trade in the 21st century, is an agreement on services trade liberalisation.

A further instrument would facilitate e-commerce. Provisions would include enhanced SME access to the internet and related services, including through the removal of regulatory impediments to trade in telecommunications, harmonised tariff codes for low-value items, mandatory *de minimis* thresholds, and provisions to encourage the use of electronic payments for customs duties, and cross-border consumer and data protection standards¹.

The Business Council recognises these are significant challenges for the WTO and its member states. However, until they are addressed, the global economy of today and the

¹ International Chamber of Commerce: SMEs and e-commerce: recommendations for a new WTO Agreement.

future will underperform compared to its potential, and citizens everywhere will be denied the full economic benefits.

Regional and global security

While the Business Council is appropriately focused on issues of the domestic and international economy, it is conscious that Australia's economic prosperity was built on a prolonged period of regional peace and stability. A threat to regional security is a threat to Australia's prosperity. Accordingly, the security of Australia's region is of critical importance to the Business Council's membership.

Perhaps the greatest contribution to promoting regional peace and stability would be the development of a regional security forum or mechanism. Despite the obvious difficulties, the potential consequences of its continued absence require a committed effort to bring one about.

Noting the cautious nature of the countries and economies of the region, an APEC-like forum offers the best prospects. The code of voluntary and non-binding undertakings gives comfort to parties adverse to solid commitments. The forum could focus on soft security issues in the first instance, such as disaster prevention and relief, and confidence-building measures. It can make a valuable contribution by engaging regional parties and fostering habits of cooperation in security, just as APEC has done in trade and investment.

In the meantime, the continued engagement of the US is vital for regional stability and security. The US has long been a Pacific power, reflecting its own geography and interests, as well as the interests of the region. The US rebalance to Asia is important for US interests as well the region's. Australia, with its history of bilateral trade and investment, and security alliance with the US, should be resolute in encouraging the US to continue its broad-based, substantive engagement with the region that has come to define its rebalance to Asia.

Development assistance: development, stability, governance

The most impressive gains in development have been made through lifting people out of poverty, thereby providing them with the capacity to anticipate and plan for difficulties and even crises, and affording them increased options when responding. The positive role of trade in achieving these outcomes is increasingly recognised.

Australia's development assistance program could be improved with a significant 'repurposing' and the adoption of a mindset focused on investment in the foundations of market-led growth, sound institutions, and proper governance. Australia's immediate region would benefit. Support for the economy, including the institutions and accompanying governance, would contribute to Indonesia's and PNG's national objectives, and promote broader prosperity and stability.

Support for the implementation of the TFA could also make a significant contribution to the realisation of development goals, particularly as it is developing countries which stand to reap the biggest economic rewards. Support for the implementation of the TFA is not the sole answer, but it is an illustration of a new way of achieving aid outcomes.

Australia's commitment to development assistance must be real and sustained. The current development assistance budget of \$4 billion, down from a peak of \$5.6 billion in 2012-13, should represent the lower end of the Australian Government's commitment. As Australia's budgetary position improves, so should the development assistance budget. While the Business Council is not prescribing a particular percentage of gross national income, it is worth noting that projections for this year of 0.22 per cent of gross national income is low by comparison to other countries, such as the United Kingdom, which recently reached 0.7 per cent.

Whole-of-Australia: national cooperation, including with non-federal government actors

Department of Foreign Affairs and Trade

The White Paper must address the challenge of developing and operationalising foreign, trade, investment and development policy in the 21st century.

The international landscape is increasingly complex. Borders are barely material to internet-empowered consumers. Trade is increasingly less about selling a product to a market, than it is about contributing to a global value chain process. Innovation would be stifled if confined within any border, no matter how advanced the country. Non-state actors reach across the globe as opportunities arise. Climate change, financial stability and the mass movement of people fleeing insecurity are issues that cannot be addressed effectively by a single country.

It asks a great deal of any single organisation to understand the full range of international issues and prosecute Australia's national interests in an informed and strategic way. This is particularly so where Australia's international effectiveness is strongly influenced by domestic developments and decisions.

Accordingly, the Business Council supports the expansion of DFAT's mandate to have a voice where domestic issues relevant to our international interests are involved, and the reassessing of DFAT's resources to ensure it can not only respond effectively to the myriad challenges, but also better develop its capacity to anticipate and shape international developments.

But even with these enhancements, DFAT will need support from, and to better cooperate with, other Australian actors.

Sub-national actors

Australia is a federation of sovereign states. While the constitution describes the division of state and federal responsibilities, in the international arena there is significant overlap and, therefore, opportunity to harness existing resources and activities for better national effect through increased cooperation. States are significant actors in their own right. For example, Western Australia has significant exposure to and engagement with Africa and the countries of the Indian Ocean rim. And Victoria, with its ambitious China focus, has more offices in China than does DFAT. Other states and territories similarly have assets and understandings of our region that can contribute to the national good.

Regional Australia is also important to our national effort and should be engaged by DFAT. Local authorities, often in cooperation with universities or primary producers, have positive relations with their counterparts in other countries.

There would be value in DFAT conducting an annual coordination meeting with states and relevant regional authorities to promote Australia's interests overseas.

The private sector

The Business Council has an active program of international engagement involving many of the world's most significant and influential companies. The Business Council operates at bilateral, regional and multilateral levels and is looking to further enhance that engagement.

Separately, Business Council members operate at senior levels with many governments, and often play important roles in the economies of other countries.

Other business organisations, universities and civil society actors also have an international footprint. In particular, the bilateral business chambers and councils play an important role in promoting bilateral and regional trade. They can contribute to Australia's national interests through enhanced coordination. Again, there would be value in DFAT developing a regular, open and inclusive mechanism for coordinating with these actors.

A whole-of-Australia approach would deliver significant benefits in prosecuting Australia's international interests by drawing on the contributions of the many actors that are now a natural part of Australia's international engagement.

BUSINESS COUNCIL OF AUSTRALIA

42/120 Collins Street Melbourne 3000 T 03 8664 2664 F 03 8664 2666 www.bca.com.au

© Copyright March 2017 Business Council of Australia ABN 75 008 483 216

All rights reserved. No part of this publication may be reproduced or used in any way without acknowledgement to the Business Council of Australia.

The Business Council of Australia has taken reasonable care in publishing the information contained in this publication but does not guarantee that the information is complete, accurate or current. In particular, the BCA is not responsible for the accuracy of information that has been provided by other parties. The information in this publication is not intended to be used as the basis for making any investment decision and must not be relied upon as investment advice. To the maximum extent permitted by law, the BCA disclaims all liability (including liability in negligence) to any person arising out of use or reliance on the information contained in this publication including for loss or damage which you or anyone else might suffer as a result of that use or reliance.